SOUTH STATE Corp
Form 10-Q
August 04, 2016
Table of Contents

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

OR

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

For the transition period from to

Commission file number 001-12669

SOUTH STATE CORPORATION

(Exact name of registrant as specified in its charter)

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

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

(800) 277-2175

(Registrant's telephone number, including area code)

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

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

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

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

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

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

Class	Outstanding as of July 31, 2016
Common Stock, $2.50 par value	24,210,496

Table of Contents

South State Corporation and Subsidiary

June 30, 2016 Form 10-Q

INDEX

		Page
PART I — FINANCIAL INFORMATION		
Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets at June 30, 2016, December 31, 2015 and June 30, 2015	3
	Condensed Consolidated Statements of Income for the Three and Six Months Ended June 30, 2016 and 2015	4
	Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2016 and 2015	5
	Condensed Consolidated Statements of Changes in Shareholders' Equity for the Six Months Ended June 30, 2016 and 2015	6
	Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2016 and 2015	7
	Notes to Condensed Consolidated Financial Statements	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	50
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	74
Item 4.	Controls and Procedures	74
PART II — OTHER INFORMATION		
Item 1.	Legal Proceedings	75
Item 1A.	Risk Factors	75
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	75
Item 3.	Defaults Upon Senior Securities	75
Item 4.	Mine Safety Disclosures	75

Item 5.	Other Information	75
Item 6.	Exhibits	76

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

South State Corporation and Subsidiary

Condensed Consolidated Balance Sheets

(Dollars in thousands, except par value)

	June 30, 2016 (Unaudited)	December 31, 2015 (Note 1)	June 30, 2015 (Unaudited)
ASSETS			
Cash and cash equivalents:			
Cash and due from banks	$ 182,875	$ 178,664	$ 155,881
Interest-bearing deposits with banks	8,055	218,883	273,273
Federal funds sold and securities purchased under agreements to resell	290,982	298,247	164,228
Total cash and cash equivalents	481,912	695,794	593,382
Investment securities:			
Securities held to maturity (fair value of $8,231, $9,723 and $10,114, respectively)	7,921	9,314	9,659
Securities available for sale, at fair value	989,610	1,009,541	841,661
Other investments	9,529	8,893	9,031
Total investment securities	1,007,060	1,027,748	860,351
Loans held for sale	48,926	41,649	73,055
Loans:			
Acquired credit impaired (covered of $0, $98,459 and $113,158, respectively; non-covered of $658,835, $635,411 and $710,823, respectively), net of allowance for loan losses	658,835	733,870	823,981
Acquired non-credit impaired (covered of $0, $8,047 and $8,059, respectively; non-covered of $941,886, $1,041,491 and $1,163,613, respectively)	941,886	1,049,538	1,171,672
Non-acquired	4,816,875	4,220,726	3,788,399
Less allowance for non-acquired loan losses	(36,939)	(34,090)	(34,782)
Loans, net	6,380,657	5,970,044	5,749,270
FDIC indemnification asset	—	4,401	11,035
Other real estate owned (covered of $0, $5,751 and $8,172, respectively; non-covered of $22,427, $24,803 and $26,870, respectively)	22,427	30,554	35,042
Premises and equipment, net	177,950	174,537	171,582
Bank owned life insurance	102,815	101,588	100,363
Deferred tax assets	25,915	37,827	45,911

Mortgage servicing rights	22,350	26,202	25,325
Core deposit and other intangibles	43,629	47,425	45,260
Goodwill	338,340	338,340	317,688
Other assets	72,012	61,239	56,720
Total assets	$ 8,723,993	$ 8,557,348	$ 8,084,984
LIABILITIES AND SHAREHOLDERS’ EQUITY			
Deposits:			
Noninterest-bearing	$ 2,117,246	$ 1,976,480	$ 1,844,973
Interest-bearing	5,046,680	5,123,948	4,822,555
Total deposits	7,163,926	7,100,428	6,667,528
Federal funds purchased and securities sold under agreements to repurchase	341,064	288,231	287,903
Other borrowings	55,254	55,158	55,055
Other liabilities	59,406	54,147	50,719
Total liabilities	7,619,650	7,497,964	7,061,205
Shareholders’ equity:			
Preferred stock - $.01 par value; authorized 10,000,000 shares; no shares issued and outstanding	—	—	—
Common stock - $2.50 par value; authorized 40,000,000 shares; 24,195,226, 24,162,657 and 24,197,531 shares issued and outstanding, respectively	60,488	60,407	60,494
Surplus	703,445	703,929	704,625
Retained earnings	333,900	298,919	260,591
Accumulated other comprehensive income (loss)	6,510	(3,871)	(1,931)
Total shareholders’ equity	1,104,343	1,059,384	1,023,779
Total liabilities and shareholders’ equity	$ 8,723,993	$ 8,557,348	$ 8,084,984

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

Table of Contents

South State Corporation and Subsidiary

Condensed Consolidated Statements of Income (unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest income:				
Loans, including fees	$ 77,154	$ 79,406	$ 154,408	$ 158,254
Investment securities:				
Taxable	4,477	3,822	9,270	7,484
Tax-exempt	992	1,072	2,008	2,150
Federal funds sold and securities purchased under agreements to resell	756	464	1,508	875
Total interest income	83,379	84,764	167,194	168,763
Interest expense:				
Deposits	1,368	1,737	2,969	3,740
Federal funds purchased and securities sold under agreements to repurchase	137	105	281	201
Other borrowings	475	646	944	1,497
Total interest expense	1,980	2,488	4,194	5,438
Net interest income	81,399	82,276	163,000	163,325
Provision for loan losses	2,727	3,144	5,286	3,963
Net interest income after provision for loan losses	78,672	79,132	157,714	159,362
Noninterest income:				
Fees on deposit accounts	21,539	17,699	41,663	34,192
Mortgage banking income	5,620	7,089	9,818	13,715
Trust and investment services income	4,911	5,051	9,697	9,985
Securities gains, net	—	—	122	—
Amortization of FDIC indemnification asset, net	(4,427)	(2,042)	(5,901)	(5,249)
Other	4,475	2,285	6,761	3,945
Total noninterest income	32,118	30,082	62,160	56,588
Noninterest expense:				
Salaries and employee benefits	40,537	39,754	81,969	80,741
Net occupancy expense	5,541	5,046	10,900	10,283
Information services expense	5,083	4,382	10,117	8,340
Furniture and equipment expense	3,072	2,762	5,923	5,907
OREO expense and loan related	874	2,019	2,648	5,033
Bankcard expense	3,040	2,285	5,919	4,265
Amortization of intangibles	1,892	1,964	3,795	3,980
Supplies, printing and postage expense	1,757	1,430	3,565	3,042
Professional fees	1,576	1,585	2,906	2,994
FDIC assessment and other regulatory charges	1,017	1,253	2,161	2,437
Advertising and marketing	858	1,009	1,502	1,864

Branch and conversion related expense	1,573	2,237	2,531	2,237
Other	7,034	5,803	11,947	10,891
Total noninterest expense	73,854	71,529	145,883	142,014
Earnings:				
Income before provision for income taxes	36,936	37,685	73,991	73,936
Provision for income taxes	12,420	12,813	24,981	25,138
Net income	$ 24,516	$ 24,872	$ 49,010	$ 48,798
Earnings per common share:				
Basic	$ 1.02	$ 1.04	$ 2.04	$ 2.04
Diluted	$ 1.01	$ 1.03	$ 2.02	$ 2.02
Dividends per common share	$ 0.30	$ 0.24	$ 0.58	$ 0.47
Weighted average common shares outstanding:				
Basic	23,995	23,981	23,977	23,947
Diluted	24,237	24,258	24,205	24,214

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

Table of Contents

South State Corporation and Subsidiary

Condensed Consolidated Statements of Comprehensive Income (unaudited)

(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	$ 24,516	$ 24,872	$ 49,010	$ 48,798
Other comprehensive income:				
Unrealized gains on securities:				
Unrealized holding gains (losses) arising during period	4,631	(8,226)	16,551	(2,953)
Tax effect	(1,766)	3,100	(6,311)	1,090
Reclassification adjustment for gains included in net income	—	—	(122)	—
Tax effect	—	—	46	—
Net of tax amount	2,865	(5,126)	10,164	(1,863)
Unrealized losses on derivative financial instruments qualifying as cash flow hedges:				
Unrealized holding gains (losses) arising during period	(46)	29	(198)	(92)
Tax effect	18	(11)	75	35
Reclassification adjustment for losses included in interest expense	68	64	142	140
Tax effect	(26)	(24)	(54)	(53)
Net of tax amount	14	58	(35)	30
Change in pension plan obligation:				
Reclassification adjustment for changes included in net income	204	225	408	450
Tax effect	(78)	(86)	(156)	(171)
Net of tax amount	126	139	252	279
Other comprehensive income (loss), net of tax	3,005	(4,929)	10,381	(1,554)
Comprehensive income	$ 27,521	$ 19,943	$ 59,391	$ 47,244

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

Table of Contents

South State Corporation and Subsidiary

Condensed Consolidated Statements of Changes in Shareholders' Equity (unaudited)

Six months ended June 30, 2016 and 2015

(Dollars in thousands, except for share data)

	Preferred Stock		Common Stock				Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Surplus	Retained Earnings	Income (Loss)	Total
Balance, December 31, 2014	—	$ —	24,150,702	$ 60,377	$ 701,764	$ 223,156	$ (377)	$ 984,920
Comprehensive income:								
Net income	—	—	—	—	—	48,798	—	48,798
Other comprehensive loss, net of tax effects	—	—	—	—	—	—	(1,554)	(1,554)
Total comprehensive income								47,244
Cash dividends declared on common stock at $0.47 per share	—	—	—	—	—	(11,363)	—	(11,363)
Employee stock purchases	—	—	3,366	8	199	—	—	207
Stock options exercised	—	—	30,060	76	863	—	—	939
Restricted stock awards	—	—	30,605	76	(76)	—	—	—
Common stock repurchased	—	—	(17,202)	(43)	(1,032)	—	—	(1,075)
Share-based compensation expense	—	—	—	—	2,907	—	—	2,907
Balance, June 30, 2015	—	—	24,197,531	60,494	704,625	260,591	(1,931)	1,023,779
Balance, December 31,	—	—	24,162,657	60,407	703,929	298,919	(3,871)	1,059,384

2015 Comprehensive income:								
Net income	—	—	—	—	—	49,010	—	49,010
Other comprehensive income, net of tax effects	—	—	—	—	—	—	10,381	10,381
Total comprehensive income								59,391
Cash dividends declared 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)
Share-based compensation expense	—	—	—	—	3,164	—	—	3,164
Balance, June 30, 2016	—	$ —	24,195,226	$ 60,488	$ 703,445	$ 333,900	$ 6,510	$ 1,104,343

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

Table of Contents

South State Corporation and Subsidiary

Condensed Consolidated Statements of Cash Flows (unaudited)

(Dollars in thousands)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	$ 49,010	$ 48,798
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,565	10,531
Provision for loan losses	5,286	3,963
Deferred income taxes	5,515	(2,320)
Gain on sale of securities, net	(122)	—
Share-based compensation expense	3,164	2,907
Amortization of FDIC indemnification asset	3,566	5,249
Accretion of discount related to performing acquired loans	(2,795)	(3,211)
(Gain) Loss on disposals of premises and equipment	(33)	301
Gain on sale of OREO	(1,483)	(766)
Net amortization of premiums on investment securities	2,707	2,210
OREO write downs	2,943	4,314
Fair value adjustment for loans held for sale	(665)	(189)
Originations and purchases of mortgage loans for sale	(328,899)	(506,532)
Proceeds from mortgage loans sales	322,286	495,506
Net change in:		
Accrued interest receivable	(1,108)	(277)
Prepaid assets	(1,248)	(972)
FDIC indemnification asset	3,177	5,877
Miscellaneous other assets	(7,797)	(666)
Accrued interest payable	(541)	(1,822)
Accrued income taxes	3,187	12,861
Miscellaneous other liabilities	6,138	(4,231)
Net cash provided by operating activities	72,853	71,531
Cash flows from investing activities:		
Proceeds from sales of investment securities available for sale	137	—
Proceeds from maturities and calls of investment securities held to maturity	1,395	—
Proceeds from maturities and calls of investment securities available for sale	234,765	96,497
Proceeds from calls of other investment securities	—	1,392
Proceeds from sales of other investment securities	24	95
Purchases of investment securities available for sale	(201,130)	(136,554)
Purchases of other investment securities	(660)	—
Net increase in loans	(421,134)	(83,652)
Payment to terminate FDIC Loss Share Agreements	(2,342)	—
Recoveries of loans previously charged off	1,646	1,598

Purchases of premises and equipment	(12,381)	(7,431)
Proceeds from sale of OREO	14,209	16,855
Proceeds from sale of premises and equipment	—	25
Net cash used in investing activities	(385,471)	(111,175)
Cash flows from financing activities:		
Net increase in deposits	63,510	206,483
Net increase in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings	52,833	66,361
Repayment of other borrowings	(11)	(46,395)
Common stock issuance	227	207
Common stock repurchase	(4,602)	(1,075)
Dividends paid on common stock	(14,029)	(11,363)
Stock options exercised	808	939
Net cash provided by financing activities	98,736	215,157
Net increase (decrease) in cash and cash equivalents	(213,882)	175,513
Cash and cash equivalents at beginning of period	695,794	417,869
Cash and cash equivalents at end of period	$ 481,912	$ 593,382
Supplemental Disclosures:		
Cash Flow Information:		
Cash paid for:		
Interest	$ 4,735	$ 7,259
Income taxes	$ 16,676	$ 14,410
Schedule of Noncash Investing Transactions:		
Real estate acquired in full or in partial settlement of loans (covered of $0 and $3,554, respectively; and non-covered of $7,542 and $9,165, respectively)	$ 7,542	$ 12,719

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

Table of Contents

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, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

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

Note 2 — Summary of Significant Accounting Policies

The information contained in the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the Securities and Exchange Commission (the "SEC") on February 24, 2016, should be referenced when reading these unaudited condensed consolidated financial statements. Unless otherwise mentioned or unless the context requires otherwise, references herein to "South State," the "Company" "we," "us," "our" or similar references mean South State Corporation and its consolidated subsidiaries. References to the "Bank" means South State Corporation's wholly owned subsidiary, South State Bank, a South Carolina banking corporation.

Note 3 — Recent Accounting and Regulatory Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments: ("ASU 2016-13"). ASU 2016-13 requires an entity to utilize a new impairment model known as the current expected credit loss ("CECL") model to estimate its lifetime "expected credit loss" and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in earlier recognition of credit losses. ASU 2016-13 also requires new disclosures for financial assets measured at amortized cost, loans and available-for-sale debt securities. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is currently assessing the impact of the new guidance on the Company's consolidated financial statements.

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

Table of Contents

December 15, 2016. The Company is currently evaluating the provisions of ASU 2016-09 to determine the potential impact the new standard will have to the Company's consolidated financial statements.

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

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

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

not have a material impact on the Company's consolidated financial statements.

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

Table of Contents

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

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

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

In February 2015, the FASB issued Accounting Standards Update ASU 2015-02, Amendments to the Consolidation Analysis (“ASU 2015-02”). This ASU affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments: (i) modify the evaluation of whether limited

partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities; (ii) eliminate the presumption that a general partner should consolidate a limited partnership; (iii) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (iv) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. ASU No. 2015-02 became effective for interim and annual reporting periods beginning after December 15, 2015. ASU 2015-02 became effective for the Company on January 1, 2016 and did not have a significant impact on the Company's consolidated financial statements.

In November 2014, the FASB issued ASU 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity, a consensus of the FASB Emerging Issues Task Force ("ASU 2014-16"). This ASU clarifies how current U.S. GAAP should be interpreted in subjectively evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. ASU 2014-16 is effective for public business entities for annual periods and interim periods within those annual periods, beginning after December 15, 2015. ASU 2014-16

Table of Contents

became effective for the Company on January 1, 2016 and did not have a significant impact on the Company's consolidated financial statements.

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

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

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

Note 4 — Mergers and Acquisitions

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

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

“FDIC purchase and assumption agreement” means that only certain assets and liabilities were acquired by the bank from the FDIC. A “whole bank acquisition” means that the two parties in the transaction agreed to the transaction, and there was no involvement of the FDIC. A “whole bank acquisition with FDIC purchase and assumption agreements” means that the two parties in the transaction agreed to the merger, and there were existing FDIC purchase and assumption agreements. A “branch acquisition” means that the Company purchased specific branches, including certain deposits and

loans associated with such branches, from the seller at an agreed upon price. We refer to the loans acquired by the Bank upon the completion of mergers and acquisitions as “acquired loans.”

Southeastern Bank Financial Corporation Proposed Acquisition

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

Under the terms of the merger agreement, SBFC common shareholders will receive aggregate consideration of approximately 4,929,958 shares of SSB common stock. The common stock consideration is based upon a fixed exchange ratio of 0.7307 shares of SSB common stock for each of the outstanding shares of SBFC common stock.

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

Branch Acquisition

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

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

Table of Contents

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

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

Explanation of fair value adjustments

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

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

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

Note 5 — Investment Securities

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2016:				
State and municipal obligations	$ 7,921	$ 310	$ —	$ 8,231
December 31, 2015:				
State and municipal obligations	$ 9,314	$ 409	$ —	$ 9,723
June 30, 2015:				
State and municipal obligations	$ 9,659	$ 455	$ —	$ 10,114

Table of Contents

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, 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
December 31, 2015:				
Government-sponsored entities debt*	$ 163,577	$ 39	$ (1,109)	$ 162,507
State and municipal obligations	127,293	4,185	(114)	131,364
Mortgage-backed securities**	710,816	4,063	(3,030)	711,849
Corporate stocks	3,673	440	(292)	3,821
	$ 1,005,359	$ 8,727	$ (4,545)	$ 1,009,541
June 30, 2015:				
Government-sponsored entities debt*	$ 132,071	$ 140	$ (1,376)	$ 130,835
State and municipal obligations	133,921	3,199	(421)	136,699
Mortgage-backed securities**	566,625	5,740	(1,443)	570,922
Corporate stocks	3,161	497	(453)	3,205
	$ 835,778	$ 9,576	$ (3,693)	$ 841,661

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

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

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2016:				
Federal Home Loan Bank stock	$ 7,887	$ —	$ —	$ 7,887
Investment in unconsolidated subsidiaries	1,642	—	—	1,642

	$ 9,529	$ —	$ —	$ 9,529
December 31, 2015:				
Federal Home Loan Bank stock	$ 7,251	$ —	$ —	$ 7,251
Investment in unconsolidated subsidiaries	1,642	—	—	1,642
	$ 8,893	$ —	$ —	$ 8,893
June 30, 2015:				
Federal Home Loan Bank stock	$ 7,389	$ —	$ —	$ 7,389
Investment in unconsolidated subsidiaries	1,642	—	—	1,642
	$ 9,031	$ —	$ —	$ 9,031

The amortized cost and fair value of debt securities at June 30, 2016 by contractual maturity are detailed below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay

Table of Contents

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.

(Dollars in thousands)	Securities Held to Maturity Amortized Cost	Securities Held to Maturity Fair Value	Securities Available for Sale Amortized Cost	Securities Available for Sale Fair Value
Due in one year or less	$ 1,928	$ 1,988	$ 9,110	$ 9,207
Due after one year through five years	2,984	3,127	114,456	115,614
Due after five years through ten years	3,009	3,116	160,581	165,836
Due after ten years	—	—	684,852	698,953
	$ 7,921	$ 8,231	$ 968,999	$ 989,610

Information pertaining to the Company’s securities with gross unrealized losses at June 30, 2016, December 31, 2015 and June 30, 2015, 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, 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
December 31, 2015:				
Securities Available for Sale				
Government-sponsored entities debt	$ 717	$ 88,224	$ 392	$ 17,598
State and municipal obligations	9	3,755	105	2,650
Mortgage-backed securities	2,600	347,380	430	23,772
Corporate stocks	—	—	292	1,450
	$ 3,326	$ 439,359	$ 1,219	$ 45,470
June 30, 2015:				
Securities Available for Sale				
Government-sponsored entities debt	$ 513	$ 47,096	$ 863	$ 32,112
State and municipal obligations	203	21,044	218	4,162
Mortgage-backed securities	971	123,935	472	22,240
Corporate stocks	—	—	453	1,779

	$ 1,687	$ 192,075	$ 2,006	$ 60,293

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, 2016 continue to perform as scheduled. All equity securities available for sale in an unrealized loss position as of June 30, 2016 continue to pay dividends. As part of the Company's evaluation of its intent and ability to hold investments for a period of time sufficient to allow for any anticipated recovery in the market, the Company considers its investment strategy, cash flow 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, 2016.

Table of Contents

Management continues to monitor all of these securities with a high degree of scrutiny. There can be no assurance that the Company will not conclude in future periods that conditions existing at that time indicate some or all of these securities may be sold or are other than temporarily impaired, which would require a charge to earnings in such periods.

Note 6 — Loans and Allowance for Loan Losses

The following is a summary of non-acquired loans:

(Dollars in thousands)	June 30, 2016	December 31, 2015	June 30, 2015
Non-acquired loans:			
Commercial non-owner occupied real estate:			
Construction and land development	$ 533,219	$ 401,979	$ 368,954
Commercial non-owner occupied	586,828	487,777	351,524
Total commercial non-owner occupied real estate	1,120,047	889,756	720,478
Consumer real estate:			
Consumer owner occupied	1,109,667	1,018,984	906,973
Home equity loans	345,957	319,255	300,074
Total consumer real estate	1,455,624	1,338,239	1,207,047
Commercial owner occupied real estate	1,083,051	1,033,398	975,701
Commercial and industrial	611,901	503,808	448,247
Other income producing property	181,703	175,848	163,441
Consumer	272,957	233,104	209,544
Other loans	91,592	46,573	63,941
Total non-acquired loans	4,816,875	4,220,726	3,788,399
Less allowance for loan losses	(36,939)	(34,090)	(34,782)
Non-acquired loans, net	$ 4,779,936	$ 4,186,636	$ 3,753,617

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, 2016	December 31, 2015	June 30, 2015
FASB ASC Topic 310-20 acquired loans:			
Commercial non-owner occupied real estate:			
Construction and land development	$ 12,516	$ 13,849	$ 17,762
Commercial non-owner occupied	36,904	40,103	43,123

Total commercial non-owner occupied real estate	49,420	53,952	60,885
Consumer real estate:			
Consumer owner occupied	466,479	518,107	574,697
Home equity loans	177,946	190,968	210,734
Total consumer real estate	644,425	709,075	785,431
Commercial owner occupied real estate	32,267	39,220	49,334
Commercial and industrial	15,598	25,475	31,762
Other income producing property	44,873	51,169	58,987
Consumer	155,303	170,647	185,273
Total FASB ASC Topic 310-20 acquired loans	$ 941,886	$ 1,049,538	$ 1,171,672

The unamortized discounted related to the acquired non-credit impaired loans totaled $14.0 million, $16.8 million, and $20.2 million at June 30, 2016, December 31, 2015, and June 30, 2015, respectively.

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

Table of Contents

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, 2016	December 31, 2015	June 30, 2015
FASB ASC Topic 310-30 acquired loans:			
Commercial loans greater than or equal to $1 million-CBT	$ 11,260	$ 12,628	$ 15,373
Commercial real estate	225,460	255,430	288,756
Commercial real estate—construction and development	48,274	54,272	59,819
Residential real estate	285,518	313,319	348,687
Consumer	64,114	70,734	77,083
Commercial and industrial	27,961	31,193	38,894
Single pay	—	—	58
Total FASB ASC Topic 310-30 acquired loans	662,587	737,576	828,670
Less allowance for loan losses	(3,752)	(3,706)	(4,689)
FASB ASC Topic 310-30 acquired loans, net	$ 658,835	$ 733,870	$ 823,981

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, 2016, December 31, 2015 and June 30, 2015 are as follows:

(Dollars in thousands)	June 30, 2016	December 31, 2015	June 30, 2015
Contractual principal and interest	$ 861,401	$ 968,857	$ 1,093,583
Non-accretable difference	(23,294)	(29,743)	(64,121)
Cash flows expected to be collected	838,107	939,114	1,029,462
Accretable yield	(175,520)	(201,538)	(200,792)
Carrying value	$ 662,587	$ 737,576	$ 828,670
Allowance for acquired loan losses	$ (3,752)	$ (3,706)	$ (4,689)

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

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

	Six Months Ended June 30,	
(Dollars in thousands)	2016	2015
Balance at beginning of period	$ 733,870	$ 919,402
Net reductions for payments, foreclosures, and accretion	(74,989)	(98,097)
Change in the allowance for loan losses on acquired loans	(46)	2,676
Balance at end of period, net of allowance for loan losses on acquired loans	$ 658,835	$ 823,981

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

	Six Months Ended June 30,	
(Dollars in thousands)	2016	2015
Balance at beginning of period	$ 201,538	$ 306,826
Accretion	(39,522)	(51,220)
Reclass of nonaccretable difference due to improvement in expected cash flows	13,146	15,401
Other changes, net	358	(70,215)
Balance at end of period	$ 175,520	$ 200,792

Table of Contents

In the second quarter of 2016, the accretable yield balance declined by $19.2 million as loan accretion (income) was recognized. This was partially offset by improved expected cash flows of $5.9 million.

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

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

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

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

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

Table of Contents

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

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

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

(Dollars in thousands)	Non-acquired Loans	Acquired Non-Credit Impaired Loans	Acquired Credit Impaired Loans	Total
Three Months Ended 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	—	—	—	—
Total 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
Three Months Ended June 30, 2015:				

Balance at beginning of period	$ 33,538	$ —	$ 4,717	$ 38,255
Loans charged-off	(1,680)	(558)	—	(2,238)
Recoveries of loans previously charged off (1)	548	25	—	573
Net charge-offs	(1,132)	(533)	—	(1,665)
Provision	2,376	533	236	3,145
Benefit attributable to FDIC loss share agreements	—	—	—	—
Total provision for loan losses charged to operations	2,376	533	236	3,145
Provision for loan losses recorded through the FDIC loss share receivable	—	—	—	—
Reduction due to loan removals	—	—	(264)	(264)
Balance at end of period	$ 34,782	$ —	$ 4,689	$ 39,471

Table of Contents

(Dollars in thousands)	Non-acquired Loans	Acquired Non-Credit Impaired Loans	Acquired Credit Impaired Loans	Total
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
Six Months Ended June 30, 2015:				
Balance at beginning of period	$ 34,539	$ —	$ 7,365	$ 41,904
Loans charged-off	(2,676)	(2,369)	—	(5,045)
Recoveries of loans previously charged off (1)	1,598	50	—	1,648
Net charge-offs	(1,078)	(2,319)	—	(3,397)
Provision	1,321	2,319	302	3,942
Benefit attributable to FDIC loss share agreements	—	—	21	21
Total provision for loan losses charged to operations	1,321	2,319	323	3,963
Provision for loan losses recorded through the FDIC loss share receivable	—	—	(21)	(21)
Reduction due to loan removals	—	—	(2,978)	(2,978)
Balance at end of period	$ 34,782	$ —	$ 4,689	$ 39,471

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

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

nds)	Construction & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	Other Loans
led									
n									
	$ 4,482	$ 3,923	$ 8,179	$ 7,345	$ 3,097	$ 3,951	$ 1,802	$ 1,785	$ 551

1,									
	(159)	—	(59)	(129)	(324)	(20)	(7)	(859)	—
	442	15	14	17	87	55	35	216	—
)	(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	$ —
	$ 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	$ —
	529,126	585,609	1,076,079	1,105,700	343,780	611,134	176,703	272,829	91,592
d									
	$ 533,219	$ 586,828	$ 1,083,051	$ 1,109,667	$ 345,957	$ 611,901	$ 181,703	$ 272,957	$ 91,592
led									
n									
1,									
	$ 5,399	$ 3,131	$ 7,871	$ 7,041	$ 2,785	$ 3,460	$ 1,980	$ 1,422	$ 449
	(55)	(72)	(546)	(44)	(122)	(116)	(11)	(714)	—
	94	21	9	20	67	67	55	215	—
)	(440)	(42)	1,350	108	138	572	(5)	685	10
2015	$ 4,998	$ 3,038	$ 8,684	$ 7,125	$ 2,868	$ 3,983	$ 2,019	$ 1,608	$ 459
y									
	$ 591	$ 27	$ 81	$ 118	$ 1	$ 19	$ 472	$ 2	$ —
	$ 4,407	$ 3,011	$ 8,603	$ 7,007	$ 2,867	$ 3,964	$ 1,547	$ 1,606	$ 459
y									
	$ 5,110	$ 2,610	$ 10,971	$ 6,322	$ 234	$ 1,011	$ 4,789	$ 69	$ —
	363,844	348,914	964,730	900,651	299,840	447,236	158,652	209,475	63,941
d									
	$ 368,954	$ 351,524	$ 975,701	$ 906,973	$ 300,074	$ 448,247	$ 163,441	$ 209,544	$ 63,941

20

Table of Contents

(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	Othe Loan
Six Months Ended June 30, 2016									
Allowance for loan losses:									
Balance, December 31, 2015	$ 4,116	$ 3,568	$ 8,341	$ 7,212	$ 2,929	$ 3,974	$ 1,963	$ 1,694	$ 29
Charge-offs	(159)	—	(101)	(129)	(767)	(327)	(7)	(1,786)	—
Recoveries	607	31	21	98	175	103	39	571	—
Provision (benefit)	101	1,057	(258)	349	811	519	(183)	1,535	54
Balance, June 30, 2016	$ 4,665	$ 4,656	$ 8,003	$ 7,530	$ 3,148	$ 4,269	$ 1,812	$ 2,014	$ 84
Six Months Ended June 30, 2015									
Allowance for loan losses:									
Balance, December 31, 2014	$ 5,666	$ 3,154	$ 8,415	$ 6,866	$ 2,829	$ 3,561	$ 2,232	$ 1,367	$ 44
Charge-offs	(100)	(83)	(552)	(44)	(208)	(255)	(13)	(1,421)	—
Recoveries	134	29	16	45	110	666	66	532	—
Provision (benefit)	(702)	(62)	805	258	137	11	(266)	1,130	10
Balance, June 30, 2015	$ 4,998	$ 3,038	$ 8,684	$ 7,125	$ 2,868	$ 3,983	$ 2,019	$ 1,608	$ 45

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

rs in thousands)	Construction & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	Total
Months Ended									
0, 2016									
ance for loan									
e at beginning od	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
e-offs	—	—	—	—	(42)	(4)	—	(186)	(232)
eries	1	—	—	3	24	—	—	23	51
on (benefit)	(1)	—	—	(3)	18	4	—	163	181
e, June 30, 2016	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

individually ted for ment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
collectively ted for ment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
individually ted for ment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
collectively ted for ment	12,516	36,904	32,267	466,479	177,946	15,598	44,873	155,303	941,8
acquired edit impaired	$ 12,516	$ 36,904	$ 32,267	$ 466,479	$ 177,946	$ 15,598	$ 44,873	$ 155,303	$ 941,8
Months Ended 0, 2015									
ance for loan									
e at beginning od	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
e-offs	—	—	—	(39)	(331)	(10)	—	(178)	(558)
eries	1	—	—	—	14	10	—	—	25
ion (benefit)	(1)	—	—	39	317	—	—	178	533
e, June 30, 2015	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
individually ted for ment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
collectively ted for ment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
individually ted for ment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
collectively ted for ment	17,762	43,123	49,334	574,697	210,734	31,762	58,987	185,273	1,171
acquired edit impaired	$ 17,762	$ 43,123	$ 49,334	$ 574,697	$ 210,734	$ 31,762	$ 58,987	$ 185,273	$ 1,171

21

Table of Contents

(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, 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	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Six Months Ended June 30, 2015									
Allowance for loan losses:									
Balance, December 31, 2014	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Charge-offs	—	—	—	(367)	(1,381)	(113)	(4)	(504)	(2,369)
Recoveries	2	—	—	5	17	15	1	10	50
Provision (benefit)	(2)	—	—	362	1,364	98	3	494	2,319
Balance, June 30, 2015	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

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

(Dollars in thousands)	Commercial Loans Greater Than or Equal to $1 Million-CBT	Commercial Real Estate	Commercial Real Estate-Construction and Development	Residential Real Estate	Consumer	Commercial and Industrial	Single Pay	Total
Three Months Ended June 30, 2016								
Allowance for loan losses:								
Balance, March 31, 2016	$ —	$ 46	$ 154	$ 2,863	$ 606	$ 208	$ —	$ 3,877
Provision for loan losses before benefit attributable to FDIC loss share agreements	—	—	—	(165)	217	(5)	—	47
	—	—	—	—	—	—	—	—

Benefit attributable to FDIC loss share agreements								
Total provision 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
Three Months Ended June 30, 2015								
Allowance for loan losses:								
Balance , March 31, 2015	$ (64)	$ 549	$ 400	$ 3,320	$ 244	$ 219	$ 49	$ 4,717
Provision for loan losses before benefit attributable to FDIC loss share agreements	—	—	1	2	233	—	—	236
Benefit attributable to FDIC loss share agreements	—	—	—	—	—	—	—	—
Total provision for loan losses charged to operations	—	—	1	2	233	—	—	236
Provision for loan losses recorded through the FDIC loss share receivable	—	—	—	—	—	—	—	—
Reduction due to loan removals	(2)	(17)	(57)	(138)	(28)	(22)	—	(264)

Balance, June 30, 2015	$ (66)	$ 532	$ 344	$ 3,184	$ 449	$ 197	$ 49	$ 4,689
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	$ (66)	$ 532	$ 344	$ 3,184	$ 449	$ 197	$ 49	$ 4,689
Loans:*								
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	15,373	288,756	59,819	348,687	77,083	38,894	58	828,670
Total acquired credit impaired loans	$ 15,373	$ 288,756	$ 59,819	$ 348,687	$ 77,083	$ 38,894	$ 58	$ 828,670

Table of Contents

(Dollars in thousands)	Commercial Loans Greater Than or Equal to $1 Million-CBL	Commercial Real Estate	Commercial Real Estate- Construction and Development	Residential Real Estate	Consumer	Commercial and Industrial	Single Pay	Total
Six Months Ended June 30, 2016								
Allowance for loan losses:								
Balance, December 31, 2015	$ —	$ 56	$ 177	$ 2,986	$ 313	$ 174	$ —	$ 3,706
Provision 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 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
Six Months Ended June 30, 2015								
Allowance for loan losses:								
Balance, December 31, 2014	$ 135	$ 1,444	$ 336	$ 4,387	$ 275	$ 718	$ 70	$ 7,365
Provision for loan losses before benefit attributable to FDIC loss share agreements	—	3	10	21	391	(122)	(1)	302
Benefit attributable to FDIC loss share agreements	—	—	—	—	(107)	127	1	21
Total provision for loan losses charged to operations	—	3	10	21	284	5	—	323
Provision for loan losses recorded through the FDIC loss share receivable	—	—	—	—	107	(127)	(1)	(21)
	(201)	(915)	(2)	(1,224)	(217)	(399)	(20)	(2,978)

Reduction due to loan removals								
Balance, June 30, 2015	$ (66)	$ 532	$ 344	$ 3,184	$ 449	$ 197	$ 49	$ 4,689

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

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

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

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

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

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

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

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

	Construction & Development			Commercial Non-owner Occupied			Commercial Owner Occupied		
thousands)	June 30, 2016	December 31, 2015	June 30, 2015	June 30, 2016	December 31, 2015	June 30, 2015	June 30, 2016	December 31, 2015	Ju 20
	$ 518,537	$ 382,167	$ 344,314	$ 569,815	$ 471,466	$ 331,279	$ 1,041,512	$ 994,442	$
ntion	9,230	13,633	16,561	14,859	13,912	16,885	31,631	29,478	
d	5,452	6,179	8,079	2,154	2,399	3,360	9,908	9,478	

—	—	—	—	—	—	—	—	
$ 533,219	$ 401,979	$ 368,954	$ 586,828	$ 487,777	$ 351,524	$ 1,083,051	$ 1,033,398	$

23

Table of Contents

	Commercial & Industrial			Other Income Producing Property			Commercial Total		
	June 30, 2016	December 31, 2015	June 30, 2015	June 30, 2016	December 31, 2015	June 30, 2015	June 30, 2016	December 31, 2015	June 30 2015
	$ 596,879	$ 497,572	$ 442,354	$ 167,122	$ 163,975	$ 149,937	$ 2,893,865	$ 2,509,622	$ 2,195
l									
n	13,441	4,472	4,497	12,039	8,047	9,331	81,200	69,542	82,24
ndard	1,581	1,764	1,396	2,542	3,826	4,173	21,637	23,646	30,05
ful	—	—	—	—	—	—	—	—	—
	$ 611,901	$ 503,808	$ 448,247	$ 181,703	$ 175,848	$ 163,441	$ 2,996,702	$ 2,602,810	$ 2,307

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,	Ju
thousands)	2016	2015	2015	2016	2015	2015	2016	2015	20
	$ 1,078,749	$ 984,780	$ 870,005	$ 330,270	$ 304,744	$ 286,603	$ 271,253	$ 231,294	$
ntion	17,814	17,777	18,679	8,341	8,171	7,634	752	771	
rd	13,104	16,427	18,289	7,346	6,318	5,815	952	1,039	
	—	—	—	—	22	22	—	—	
	$ 1,109,667	$ 1,018,984	$ 906,973	$ 345,957	$ 319,255	$ 300,074	$ 272,957	$ 233,104	$

	Other			Consumer Total		
	June 30, 2016	December 31, 2015	June 30, 2015	June 30, 2016	December 31, 2015	June 30, 2015
Pass	$ 91,592	$ 46,573	$ 63,941	$ 1,771,864	$ 1,567,391	$ 1,428,513
Special mention	—	—	—	26,907	26,719	27,207
Substandard	—	—	—	21,402	23,784	24,790
Doubtful	—	—	—	—	22	22
	$ 91,592	$ 46,573	$ 63,941	$ 1,820,173	$ 1,617,916	$ 1,480,532

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

	Total Non-acquired Loans		
	June 30,	December 31,	June 30,
(Dollars in thousands)	2016	2015	2015
Pass	$ 4,665,729	$ 4,077,013	$ 3,624,075

Special mention	108,107	96,261	109,455
Substandard	43,039	47,430	54,847
Doubtful	—	22	22
	$ 4,816,875	$ 4,220,726	$ 3,788,399

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		
(Dollars in thousands)	June 30, 2016	December 31, 2015	June 30, 2015	June 30, 2016	December 31, 2015	June 30, 2015	June 30, 2016	December 31, 2015	June 30, 2015
Pass	$ 11,432	$ 12,935	$ 16,454	$ 30,621	$ 33,485	$ 36,441	$ 31,739	$ 38,623	$ 49,217
Special mention	230	109	118	371	637	408	222	377	78
Substandard	854	805	1,190	5,912	5,981	6,274	306	220	39
Doubtful	—	—	—	—	—	—	—	—	—
	$ 12,516	$ 13,849	$ 17,762	$ 36,904	$ 40,103	$ 43,123	$ 32,267	$ 39,220	$ 49,334

	Commercial & Industrial			Other Income Producing Property			Commercial Total		
	June 30, 2016	December 31, 2015	June 30, 2015	June 30, 2016	December 31, 2015	June 30, 2015	June 30, 2016	December 31, 2015	June 30, 2015
Pass	$ 14,645	$ 24,621	$ 30,641	$ 43,869	$ 49,783	$ 57,578	$ 132,306	$ 159,447	$ 190,331
Special mention	129	166	384	279	592	439	1,231	1,881	1,427
Substandard	824	688	737	725	794	970	8,621	8,488	9,210
Doubtful	—	—	—	—	—	—	—	—	—
	$ 15,598	$ 25,475	$ 31,762	$ 44,873	$ 51,169	$ 58,987	$ 142,158	$ 169,816	$ 200,968

Table of Contents

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			
in thousands)	June 30, 2016	December 31, 2015	June 30, 2015	June 30, 2016	December 31, 2015	June 30, 2015	June 30, 2016	December 31, 2015	Jun 201
	$ 463,107	$ 514,817	$ 569,080	$ 168,079	$ 180,472	$ 197,804	$ 152,399	$ 167,399	$ 1
nention	744	557	1,518	5,330	4,202	5,482	600	729	6
ard	2,628	2,733	4,099	4,537	6,294	7,448	2,304	2,519	2
	—	—	—	—	—	—	—	—	-
	$ 466,479	$ 518,107	$ 574,697	$ 177,946	$ 190,968	$ 210,734	$ 155,303	$ 170,647	$ 1

	Consumer Total		
	June 30, 2016	December 31, 2015	June 30, 2015
Pass	$ 783,585	$ 862,688	$ 949,138
Special mention	6,674	5,488	7,614
Substandard	9,469	11,546	13,952
Doubtful	—	—	—
	$ 799,728	$ 879,722	$ 970,704

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, 2016	December 31, 2015	June 30, 2015
Pass	$ 915,891	$ 1,022,135	$ 1,139,469
Special mention	7,905	7,369	9,041
Substandard	18,090	20,034	23,162
Doubtful	—	—	—
	$ 941,886	$ 1,049,538	$ 1,171,672

The following table presents the credit risk profile by risk grade of acquired credit impaired loans (identified as credit-impaired at the time of acquisition), net of the related discount (this table should be read in conjunction with the

allowance for acquired credit impaired loan losses table found on page 22):

	Commercial Loans Greater Than or Equal to $1 million-CBT			Commercial Real Estate			Commercial Real Estate—Construction and Development		
ars in thousands)	June 30, 2016	December 31, 2015	June 30, 2015	June 30, 2016	December 31, 2015	June 30, 2015	June 30, 2016	December 31, 2015	June 3 2015
	$ 9,891	$ 11,238	$ 11,134	$ 168,431	$ 177,656	$ 188,260	$ 21,729	$ 26,308	$ 27,
al mention	1,014	1,018	1,044	32,446	37,607	31,654	14,194	14,532	12,
andard	355	372	3,195	24,583	40,167	68,842	12,351	13,432	19,
tful	—	—	—	—	—	—	—	—	—
	$ 11,260	$ 12,628	$ 15,373	$ 225,460	$ 255,430	$ 288,756	$ 48,274	$ 54,272	$ 59,

	Residential Real Estate			Consumer			Commercial & Industrial		
	June 30, 2016	December 31, 2015	June 30, 2015	June 30, 2016	December 31, 2015	June 30, 2015	June 30, 2016	December 31, 2015	June 30, 2015
Pass	$ 152,575	$ 166,309	$ 174,893	$ 9,379	$ 10,703	$ 6,099	$ 19,296	$ 22,358	$ 23,956
Special mention	56,845	63,341	68,017	21,401	23,331	27,079	4,598	2,549	2,428
Substandard	76,098	83,669	105,777	33,334	36,700	43,905	4,067	6,286	12,510
Doubtful	—	—	—	—	—	—	—	—	—
	$ 285,518	$ 313,319	$ 348,687	$ 64,114	$ 70,734	$ 77,083	$ 27,961	$ 31,193	$ 38,894

Table of Contents

	Single Pay			Total Acquired Credit Impaired Loans		
	June 30, 2016	December 31, 2015	June 30, 2015	June 30, 2016	December 31, 2015	June 30, 2015
Pass	$ —	$ —	$ 43	$ 381,301	$ 414,572	$ 432,162
Special mention	—	—	—	130,498	142,378	142,888
Substandard	—	—	15	150,788	180,626	253,620
Doubtful	—	—	—	—	—	—
	$ —	$ —	$ 58	$ 662,587	$ 737,576	$ 828,670

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

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

(Dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
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
December 31, 2015						
Commercial real estate:						
Construction and land development	$ 323	$ 136	$ 915	$ 1,374	$ 400,605	$ 401,979
Commercial non-owner occupied	867	—	184	1,051	486,726	487,777
Commercial owner occupied	1,269	608	1,530	3,407	1,029,991	1,033,398

Consumer real estate:						
Consumer owner occupied	1,503	308	3,149	4,960	1,014,024	1,018,984
Home equity loans	899	1,046	598	2,543	316,712	319,255
Commercial and industrial	173	166	234	573	503,235	503,808
Other income producing property	241	207	275	723	175,125	175,848
Consumer	351	136	395	882	232,222	233,104
Other loans	48	43	64	155	46,418	46,573
	$ 5,674	$ 2,650	$ 7,344	$ 15,668	$ 4,205,058	$ 4,220,726
June 30, 2015						
Commercial real estate:						
Construction and land development	$ 230	$ 88	$ 1,345	$ 1,663	$ 367,291	$ 368,954
Commercial non-owner occupied	1,058	430	1,604	3,092	348,432	351,524
Commercial owner occupied	2,061	724	4,211	6,996	968,705	975,701
Consumer real estate:						
Consumer owner occupied	1,523	1,290	2,733	5,546	901,427	906,973
Home equity loans	803	62	480	1,345	298,729	300,074
Commercial and industrial	156	241	274	671	447,576	448,247
Other income producing property	31	196	716	943	162,498	163,441
Consumer	265	22	243	530	209,014	209,544
Other loans	79	31	41	151	63,790	63,941
	$ 6,206	$ 3,084	$ 11,647	$ 20,937	$ 3,767,462	$ 3,788,399

Table of Contents

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, 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
December 31, 2015						
Commercial real estate:						
Construction and land development	$ —	$ 21	$ 48	$ 69	$ 13,780	$ 13,849
Commercial non-owner occupied	—	—	—	—	40,103	40,103
Commercial owner occupied	120	176	44	340	38,880	39,220
Consumer real estate:						
Consumer owner occupied	694	4	688	1,386	516,721	518,107
Home equity loans	897	412	482	1,791	189,177	190,968
Commercial and industrial	1	1	5	7	25,468	25,475
Other income producing property	—	—	7	7	51,162	51,169
Consumer	257	270	797	1,324	169,323	170,647
	$ 1,969	$ 884	$ 2,071	$ 4,924	$ 1,044,614	$ 1,049,538
June 30, 2015						
Commercial real estate:						
Construction and land development	$ 1	$ 39	$ —	$ 40	$ 17,722	$ 17,762
Commercial non-owner occupied	—	—	—	—	43,123	43,123
Commercial owner occupied	380	—	39	419	48,915	49,334
Consumer real estate:						
Consumer owner occupied	826	105	2,300	3,231	571,466	574,697
Home equity loans	591	164	577	1,332	209,402	210,734
Commercial and industrial	4	—	220	224	31,538	31,762

Other income producing property	109	—	89	198	58,789	58,987
Consumer	427	112	598	1,137	184,136	185,273
	$ 2,338	$ 420	$ 3,823	$ 6,581	$ 1,165,091	$ 1,171,672

27

Table of Contents

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, 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
Single pay	—	—	—	—	—	—
	$ 6,401	$ 2,329	$ 14,517	$ 23,247	$ 639,340	$ 662,587
December 31, 2015						
Commercial loans greater than or equal to $1 million-CBT	$ —	$ —	$ —	$ —	$ 12,628	$ 12,628
Commercial real estate	1,118	426	5,624	7,168	248,262	255,430
Commercial real estate—construction and development	784	367	2,162	3,313	50,959	54,272
Residential real estate	4,705	1,155	8,095	13,955	299,364	313,319
Consumer	1,756	380	2,085	4,221	66,513	70,734
Commercial and industrial	272	137	846	1,255	29,938	31,193
Single pay	—	—	—	—	—	—
	$ 8,635	$ 2,465	$ 18,812	$ 29,912	$ 707,664	$ 737,576
June 30, 2015						
Commercial loans greater than or equal to $1 million-CBT	$ —	$ —	$ 2,630	$ 2,630	$ 12,743	$ 15,373
Commercial real estate	1,617	120	11,590	13,327	275,429	288,756
Commercial real estate—construction and development	1,900	300	4,941	7,141	52,678	59,819
Residential real estate	4,458	1,929	11,802	18,189	330,498	348,687
Consumer	1,696	775	2,332	4,803	72,280	77,083
Commercial and industrial	748	277	4,894	5,919	32,975	38,894
Single pay	—	—	—	—	58	58
	$ 10,419	$ 3,401	$ 38,189	$ 52,009	$ 776,661	$ 828,670

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

(Dollars in thousands)	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Gross Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
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 loans	—	—	—	—	—
Total	$ 37,246	$ 10,019	$ 14,304	$ 24,323	$ 1,507
December 31, 2015					
Commercial real estate:					
Construction and land development	$ 9,931	$ 1,004	$ 5,276	$ 6,280	$ 615
Commercial non-owner occupied	2,909	233	1,219	1,452	34
Commercial owner occupied	11,516	4,134	3,591	7,725	101
Consumer real estate:					
Consumer owner occupied	9,001	3,505	4,044	7,549	138
Home equity loans	483	186	123	309	3
Commercial and industrial	2,641	273	1,214	1,487	279
Other income producing property	5,763	112	4,779	4,891	422
Consumer	155	—	102	102	3
Other loans	611	—	423	423	12
Total	$ 43,010	$ 9,447	$ 20,771	$ 30,218	$ 1,607
June 30, 2015					
Commercial real estate:					
Construction and land development	$ 7,728	$ 1,721	$ 3,389	$ 5,110	$ 591
Commercial non-owner occupied	3,987	1,649	961	2,610	27
Commercial owner occupied	15,589	7,301	3,670	10,971	81
Consumer real estate:					
Consumer owner occupied	7,157	3,738	2,584	6,322	118
Home equity loans	347	198	36	234	1
Commercial and industrial	1,903	309	702	1,011	19
Other income producing property	5,620	122	4,667	4,789	472
Consumer	117	—	69	69	2

Total	$ 42,448	$ 15,038	$ 16,078	$ 31,116	$ 1,311

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

Table of Contents

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

	Three Months Ended June 30,			
	2016		2015	
(Dollars in thousands)	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
Commercial real estate:				
Construction and land development	$ 5,182	$ 8	$ 5,258	$ 30
Commercial non-owner occupied	1,177	11	3,188	13
Commercial owner occupied	7,337	6	9,634	134
Consumer real estate:				
Consumer owner occupied	5,805	—	6,707	25
Home equity loans	2,680	4	242	1
Commercial and industrial	822	6	959	11
Other income producing property	5,197	23	4,728	43
Consumer	135	—	66	—
Other loans	423	—	—	—
Total Impaired Loans	$ 28,758	$ 58	$ 30,782	$ 257

	Six Months Ended June 30,			
	2016		2015	
(Dollars in thousands)	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
Commercial real estate:				
Construction and land development	$ 5,187	$ 57	$ 4,981	$ 54
Commercial non-owner occupied	1,335	26	3,110	25
Commercial owner occupied	7,348	80	10,065	166
Consumer real estate:				
Consumer owner occupied	5,758	46	4,644	53
Home equity loans	1,243	12	132	3
Commercial and industrial	1,127	85	960	18
Other income producing property	4,946	30	5,143	79
Consumer	115	1	65	1
Other loans	211	2	—	—
Total Impaired Loans	$ 27,270	$ 339	$ 29,100	$ 399

30

Table of Contents

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

(Dollars in thousands)	June 30, 2016	December 31, 2015	June 30, 2015
Commercial non-owner occupied real estate:			
Construction and land development	$ 1,080	$ 1,090	$ 1,976
Commercial non-owner occupied	528	184	1,145
Total commercial non-owner occupied real estate	1,608	1,274	3,121
Consumer real estate:			
Consumer owner occupied	6,705	7,766	6,398
Home equity loans	2,386	1,769	1,198
Total consumer real estate	9,091	9,535	7,596
Commercial owner occupied real estate	2,242	3,056	3,421
Commercial and industrial	360	515	497
Other income producing property	1,007	746	922
Consumer	763	659	337
Restructured loans	2,851	2,662	8,193
Total loans on nonaccrual status	$ 17,922	$ 18,447	$ 24,087

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, 2016	December 31, 2015	June 30, 2015
Commercial non-owner occupied real estate:			
Construction and land development	$ 99	$ 37	$ —
Commercial non-owner occupied	—	—	100
Total commercial non-owner occupied real estate	99	37	100
Consumer real estate:			
Consumer owner occupied	1,056	976	2,346
Home equity loans	1,607	1,103	1,082
Total consumer real estate	2,663	2,079	3,428
Commercial owner occupied real estate	306	44	39
Commercial and industrial	1	1	226
Other income producing property	153	168	302
Consumer	1,216	1,435	1,078
Total loans on nonaccrual status	$ 4,438	$ 3,764	$ 5,173

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

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

Table of Contents

Note 7—FDIC Indemnification Asset

The following table provides changes in FDIC indemnification asset:

	Six Months Ended June 30,	
(Dollars in thousands)	2016	2015
Balance at beginning of period	$ 4,401	$ 22,161
Decrease in expected losses on loans	(23)	(21)
Additional recoveries on OREO	(1,736)	(2,430)
Reimbursable expenses	71	587
Amortization of discounts and premiums, net	(1,475)	(5,249)
Payments to (from) FDIC	853	(4,013)
Termination of Loss Share Agreement	(2,091)	—
Balance at end of period	$ —	$ 11,035

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 for the three and six months ended June 30, 2016.

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 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. As of the termination date, covered loans totaled $87.4 million and covered other real estate owned 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,					
	2016			2015		
(Dollars in thousands)	OREO	Covered OREO	Total	OREO	Covered OREO	Total
Beginning balance	$ 24,803	$ 5,751	$ 30,554	$ 26,499	$ 16,227	$ 42,726
Additions	5,391	2,151	7,542	9,165	3,554	12,719
Transfers	4,222	(4,222)	—	2,245	(2,245)	—
Writedowns	(812)	(2,131)	(2,943)	(1,517)	(2,797)	(4,314)
Sold	(11,177)	(1,549)	(12,726)	(9,522)	(6,567)	(16,089)
Ending Balance	$ 22,427	$ —	$ 22,427	$ 26,870	$ 8,172	$ 35,042

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

At June 30, 2016, there were a total of 103 properties included in OREO of which none were covered. This compares to 162 properties included in OREO, with 133 uncovered and 29 covered by loss share agreements with the FDIC, at June 30, 2015. At June 30, 2016, the Company had $2.7 million in residential real estate included in OREO and $6.7 million in residential real estate consumer mortgage loans in the process of foreclosure.

Table of Contents

Note 9 — Deposits

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

(Dollars in thousands)	June 30, 2016	December 31, 2015	June 30, 2015
Certificates of deposit	$ 962,759	$ 1,092,750	$ 1,137,553
Interest-bearing demand deposits	3,307,292	3,293,942	2,994,228
Non-interest bearing demand deposits	2,117,246	1,976,480	1,844,973
Savings deposits	772,463	735,961	687,292
Other time deposits	4,166	1,295	3,482
Total deposits	$ 7,163,926	$ 7,100,428	$ 6,667,528

At June 30, 2016, December 31, 2015, and June 30, 2015, the Company had $95.5 million, $114.9 million, and $136.3 million in certificates of deposits of $250,000 and greater, respectively. At June 30, 2016, December 31, 2015, and June 30, 2015, the Company had $5.5 million, $18.9 million and $19.4 million, in traditional, out-of-market brokered deposits, respectively.

Note 10 — Retirement Plans

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

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

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

Six Months Ended

(Dollars in thousands)	Three Months Ended June 30, 2016	2015	June 30, 2016	2015
Interest cost	$ (283)	$ (254)	$ (566)	$ (508)
Expected return on plan assets	534	517	1,068	1,034
Recognized net actuarial loss	(204)	(225)	(408)	(450)
Net periodic pension benefit	$ 47	$ 38	$ 94	$ 76

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

Under the provisions of Internal Revenue Code Section 401(k), electing employees are eligible to participate in the employees' savings plan after attaining age 21. Plan participants elect to contribute portions of their annual base compensation as a before tax contribution. Employer contributions may be made from current or accumulated net profits. Participants may elect to contribute 1% to 50% of annual base compensation as a before tax contribution. Employees participating in the plan receive a 100% matching of their 401(k) plan contribution, up to 5% of their salary. Effective January 1, 2015, employees are eligible for an additional 1% discretionary matching contribution contingent upon achievement of the Company's 2015 financial goals and payable the first quarter of 2016. The Company expensed $1.4 million and $1.3 million for the 401(k) plan during the three months ended June 30, 2016 and 2015, respectively. The Company expensed $2.8 million and $2.6 million for the 401(k) plan during the six months ended June 30, 2016 and 2015, respectively.

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

Table of Contents

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)	2016	2015	2016	2015
Basic earnings per common share:				
Net income	$ 24,516	$ 24,872	$ 49,010	$ 48,798
Weighted-average basic common shares	23,995	23,981	23,977	23,947
Basic earnings per common share	$ 1.02	$ 1.04	$ 2.04	$ 2.04
Diluted earnings per share:				
Net income	$ 24,516	$ 24,872	$ 49,010	$ 48,798
Weighted-average basic common shares	23,995	23,981	23,977	23,947
Effect of dilutive securities	242	277	228	267
Weighted-average dilutive shares	24,237	24,258	24,205	24,214
Diluted earnings per common share	$ 1.01	$ 1.03	$ 2.02	$ 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)	2016	2015	2016	2015
Number of shares	72,480	46,798	72,480	47,865

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

Note 12 — Share-Based Compensation

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

Stock Options

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

Table of Contents

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.

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:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Yrs.)	Aggregate Intrinsic Value(000's)
Outstanding at January 1	285,405	$ 38.85		
Granted	25,682	63.79		
Exercised	(23,573)	33.45		
Forfeited	(1,025)	35.20		
Outstanding at June 30	286,489	41.54	4.76	$ 7,597
Exercisable at June 30	225,712	36.18	3.71	$ 7,194
Weighted-average fair value of options granted during the year	$ 25.19			

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

As of June 30, 2016, there was $1.2 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 1.6 years as of June 30, 2016. The total fair value of shares vested during the six months ended June 30, 2016 was $455,000.

Restricted Stock

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

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

Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1 2016	218,282	$ 44.56
Granted	40,256	67.06
Vested	(63,100)	36.97
Forfeited	(700)	47.18
Nonvested at June 30, 2016	194,738	51.74

As of June 30, 2016, there was $6.2 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 2.48

Table of Contents

years as of June 30, 2016. The total fair value of shares vested during the six months ended June 30, 2016 was $2.5 million.

Restricted Stock Units

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

Nonvested RSUs for the six months ended June 30, 2016 is summarized in the following table.

Restricted Stock Units	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2016	79,789	$ 64.66
Granted	68,842	65.23
Nonvested at June 30, 2016	148,631	64.93

As of June 30, 2016, there was $5.6 million of total unrecognized compensation cost related to nonvested RSUs granted under the plan. This cost is expected to be recognized over a weighted-average period of 1.69 years as of June 30, 2016. The total fair value of RSUs vested during the six months ended June 30, 2016 was $1.8 million. On January 20, 2016, 35,903 vested restricted stock units were issued to the participants in the 2013 Long-Term Incentive Plan.

Note 13 — Commitments and Contingent Liabilities

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

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

Note 14 — Fair Value

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

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

Table of Contents

nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

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

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

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

Investment Securities

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

Mortgage Loans Held for Sale

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

Loans

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

Other Real Estate Owned (“OREO”)

Typically non-covered OREO, consisting of properties obtained through foreclosure or in satisfaction of loans, is reported at fair value, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources, adjusted for estimated selling costs (Level 2). However, both non-covered and covered OREO are considered Level 3 in the fair value hierarchy because management has qualitatively applied a discount due to the size, supply of inventory, and the incremental discounts applied to the appraisals. Management also considers other factors, including changes in absorption rates, length of time the property has been on the market and anticipated sales values, which have resulted in adjustments to the collateral value estimates indicated in

Table of Contents

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.

Table of Contents

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, 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	$ —
December 31, 2015:				
Assets				
Derivative financial instruments	$ 1,415	$ —	$ 1,415	$ —
Loans held for sale	41,649	—	41,649	—
Securities available for sale:				
Government-sponsored entities debt	162,507	—	162,507	—
State and municipal obligations	131,364	—	131,364	—
Mortgage-backed securities	711,849	—	711,849	—
Corporate stocks	3,821	2,596	1,225	—
Total securities available for sale	1,009,541	2,596	1,006,945	—
Mortgage servicing rights	26,202	—	—	26,202
	$ 1,078,807	$ 2,596	$ 1,050,009	$ 26,202
Liabilities				
Derivative financial instruments	$ 838	$ —	$ 838	$ —
June 30, 2015:				
Assets				
Derivative financial instruments	$ 2,574	$ —	$ 2,574	$ —
Loans held for sale	73,055	—	73,055	—

Securities available for sale:				
Government-sponsored entities debt	$ 130,835	$ —	$ 130,835	$ —
State and municipal obligations	136,699	—	136,699	—
Mortgage-backed securities	570,922	—	570,922	—
Corporate stocks	3,205	2,980	225	—
Total securities available for sale	841,661	2,980	838,681	—
Mortgage servicing rights	25,325	—	—	25,325
	$ 942,615	$ 2,980	$ 914,310	$ 25,325
Liabilities				
Derivative financial instruments	$ 1,228	$ —	$ 1,228	$ —

Table of Contents

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, 2016. A reconciliation of the beginning and ending balances of Level 3 assets and liabilities recorded at fair value on a recurring basis for the six months ended June 30, 2016 and 2015 is as follows:

(Dollars in thousands)	Assets	Liabilities
Fair value, January 1, 2016	$ 26,202	$ —
Servicing assets that resulted from transfers of financial assets	2,393	—
Changes in fair value due to valuation inputs or assumptions	(4,476)	—
Changes in fair value due to increased principal paydowns	(1,769)	—
Fair value , June 30, 2016	$ 22,350	$ —
Fair value, January 1, 2015	$ 21,601	$ —
Servicing assets that resulted from transfers of financial assets	3,921	—
Changes in fair value due to valuation inputs or assumptions	1,539	—
Changes in fair value due to increased principal paydowns	(1,736)	—
Fair value, June 30, 2015	$ 25,325	$ —

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

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

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

	Quoted Prices In Active Markets	Significant Other	Significant

(Dollars in thousands)	Fair Value	for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
June 30, 2016:				
OREO	$ 22,427	$ —	$ —	$ 22,427
Non-acquired impaired loans	3,515	—	—	3,515
December 31, 2015:				
OREO	$ 30,554	$ —	$ —	$ 30,554
Non-acquired impaired loans	13,355	—	—	13,355
June 30, 2015:				
OREO	$ 35,042	$ —	$ —	$ 35,042
Non-acquired impaired loans	10,079	—	—	10,079

Quantitative Information about Level 3 Fair Value Measurement

			Weighted Average		
	Valuation Technique	Unobservable Input	June 30, 2016	December 31, 2015	June 30, 2015
Nonrecurring measurements:					
Non-acquired impaired loans	Discounted appraisals	Collateral discounts	6 %	6 %	4 %
OREO	Discounted appraisals	Collateral discounts and estimated costs to sell	17 %	16 %	18 %

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, 2016, December 31, 2015 and June 30, 2015. Such amounts have not been revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

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

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

Investment Securities — Securities held to maturity are valued at quoted market prices or dealer quotes. The carrying value of FHLB stock approximates fair value based on the redemption provisions. The carrying value of the Company's investment in unconsolidated subsidiaries approximates fair value. See Note 5—Investment Securities for additional information, as well as page 36 regarding fair value.

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

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

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

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

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

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

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

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

Table of Contents

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, 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
FDIC receivable for loss share agreements	—	—	—	—	—
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	—
Standby letters of credit and financial guarantees	—	—	—	—	—
December 31, 2015					
Financial assets:					
Cash and cash equivalents	$ 695,794	$ 695,794	$ 695,794	$ —	$ —
Investment securities	1,027,748	1,028,157	11,489	1,016,668	—
Loans held for sale	41,649	41,649	—	41,649	—

Loans, net of allowance for loan losses	5,970,044	6,068,252	—	—	6,068,252
FDIC receivable for loss share agreements	4,401	(2,452)	—	—	(2,452)
Accrued interest receivable	17,083	17,083	—	3,883	13,200
Mortgage servicing rights	26,202	26,202	—	—	26,202
Other derivative financial instruments (mortgage banking related)	1,415	1,415	—	1,415	—
Financial liabilities:					
Deposits	7,100,428	6,785,911	—	6,785,911	—
Federal funds purchased and securities sold under agreements to repurchase	288,231	288,231	—	288,231	—
Other borrowings	55,158	49,762	—	49,762	—
Accrued interest payable	2,190	2,190	—	2,190	—
Interest rate swap - cash flow hedge	718	718	—	718	—
Other derivative financial instruments (mortgage banking related)	120	120	—	120	—
Off balance sheet financial instruments:					
Commitments to extend credit	—	23,927	—	23,927	—
Standby letters of credit and financial guarantees	—	—	—	—	—
June 30, 2015					
Financial assets:					
Cash and cash equivalents	$ 593,382	$ 593,382	$ 593,382	$ —	$ —
Investment securities	860,351	860,806	12,011	848,795	—
Loans held for sale	73,055	73,055	—	73,055	—
Loans, net of allowance for loan losses	5,749,270	5,805,702	—	—	5,805,702
FDIC receivable for loss share agreements	11,035	2,615	—	—	2,615
Accrued interest receivable	16,643	16,643	—	3,605	13,038
Mortgage servicing rights	25,325	25,325	—	—	25,325
Interest rate swap - non-designated hedge	156	156	—	156	—
Other derivative financial instruments (mortgage banking related)	2,418	2,418	—	2,418	—
Financial liabilities:					
Deposits	6,667,528	6,372,390	—	6,372,390	—
Federal funds purchased and securities sold under agreements to repurchase	287,903	287,903	—	287,903	—
Other borrowings	55,055	50,714	—	50,714	—
Accrued interest payable	2,489	2,489	—	2,489	—
Interest rate swap - cash flow hedge	806	806	—	806	—
Interest rate swap - non-designated hedge	156	156	—	156	—
Other derivative financial instruments (mortgage banking related)	266	266	—	266	—

Off balance sheet financial instruments:					
Commitments to extend credit	—	31,401	—	31,401	—
Standby letters of credit and financial guarantees	—	—	—	—	—

42

Table of Contents

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, 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 (loss)	126	—	42	168
Net comprehensive income	126	2,865	14	3,005
Balance at June 30, 2016	$ (5,763)	$ 12,752	$ (479)	$ 6,510
Three Months Ended June 30, 2015				
Balance at March 31, 2016	$ (5,175)	$ 8,730	$ (557)	$ 2,998
Other comprehensive income (loss) before reclassifications	—	(5,126)	18	(5,108)
Amounts reclassified from accumulated other comprehensive income (loss)	139	—	40	179
Net comprehensive income (loss)	139	(5,126)	58	(4,929)
Balance at June 30, 2015	$ (5,036)	$ 3,604	$ (499)	$ (1,931)
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
Six Months Ended June 30, 2015				
Balance at December 31, 2014	$ (5,315)	$ 5,467	$ (529)	$ (377)
Other comprehensive loss before reclassifications	—	(1,863)	(57)	(1,920)
Amounts reclassified from accumulated other comprehensive income (loss)	279	—	87	366
Net comprehensive income (loss)	279	(1,863)	30	(1,554)
Balance at June 30, 2015	$ (5,036)	$ 3,604	$ (499)	$ (1,931)

Table of Contents

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	2016	2015	2016	2015	Income Statement Line Item Affected
Losses on cash flow hedges:					
Interest rate contracts	$ 68	$ 64	$ 142	$ 140	Interest expense
	(26)	(24)	(54)	(53)	Provision for income taxes
	42	40	88	87	Net income
Gains on sales of available for sale securities:					
	$ —	$ —	$ (122)	$ —	Other noninterest income
	—	—	46	—	Provision for income taxes
	—	—	(76)	—	Net income
Amortization of defined benefit pension:					
Actuarial losses	$ 204	$ 225	$ 408	$ 450	Salaries and employee benefits
	(78)	(86)	(156)	(171)	Provision for income taxes
	126	139	252	279	Net income
Total reclassifications for the period	$ 168	$ 179	$ 264	$ 366	

Note 16 — Derivative Financial Instruments

Cash Flow Hedge of Interest Rate Risk

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

The Company recognized an after-tax unrealized gain on its cash flow hedge in other comprehensive income of $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. This compares to an unrealized gain of $58,000 and $30,000 for the three and six months ended June 30, 2015, respectively. The Company recognized a $776,000 cash flow hedge liability in other liabilities on the balance sheet at June 30, 2016, compared to an $806,000 liability recognized at June 30, 2015. There was no ineffectiveness in the cash flow hedge during the three and six months ended June 30, 2016 and 2015.

Credit risk related to the derivative arises when amounts receivable from the counterparty (derivatives dealer) exceed those payable. The Company controls the risk of loss by only transacting with derivatives dealers that are national market makers whose credit ratings are strong. Each party to the interest rate swap is required to provide collateral in the form of cash or securities to the counterparty when the counterparty’s exposure to a mark-to-market replacement value exceeds certain negotiated limits. These limits are typically based on current credit ratings and vary with ratings changes. As of June 30, 2016 and 2015, the Company provided $850,000 of collateral, which is included in cash and cash equivalents on the balance sheet as interest-bearing deposits with banks. Also, the Company has a netting agreement with the counterparty.

Mortgage Banking

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

Table of Contents

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, 2016, the Company had derivative financial instruments outstanding with notional amounts totaling $120.0 million related to mortgage servicing rights, compared to $91.0 million on June 30, 2015. The estimated net fair value of the open contracts related to the mortgage servicing rights was recorded as a gain of $1.8 million at June 30, 2016, compared to a loss of $266,000 at June 30, 2015.

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, 2016	December 31, 2015	June 30, 2015
Mortgage loan pipeline	$ 129,570	$ 87,486	$ 114,782
Expected closures	97,177	65,615	86,087
Fair Value of mortgage loan pipeline commitments	3,257	1,415	1,319
Forward sales commitments	120,000	73,000	124,000
Fair value of forward commitments	(1,437)	(21)	1,099

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.

Table of Contents

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

	Actual		Minimum Capital Required - Basel III Phase-In Schedule		Minimum Capital Required - Basel III Fully Phased In		Required to be Considered Well Capitalized	
(Dollars in thousands)	Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
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 %	395,808	6.00 %	560,728	8.50 %	527,744	8.00 %
South State Bank (the Bank)	766,183	11.62 %	395,674	6.00 %	560,539	8.50 %	527,566	8.00 %
Total capital to risk-weighted assets:								
Consolidated	834,102	12.64 %	527,744	8.00 %	692,665	10.50 %	659,681	10.00 %
South State Bank (the Bank)	807,084	12.24 %	527,566	8.00 %	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 %
December 31, 2015:								
Common equity Tier 1 to risk-weighted assets:								
Consolidated	$ 711,577	11.84 %	$ 270,432	4.50 %	$ 420,762	7.00 %	$ 390,624	6.50 %
South State Bank (the Bank)	740,532	12.33 %	270,354	4.50 %	420,550	7.00 %	390,511	6.50 %
Tier 1 capital to risk-weighted assets:								

Consolidated	763,590	12.71	%	360,576	6.00	%	510,817	8.50	%	480,768	8.00	%
South State Bank (the Bank)	740,532	12.33	%	360,471	6.00	%	510,668	8.50	%	480,629	8.00	%
Total capital to risk-weighted assets:												
Consolidated	801,745	13.34	%	480,768	8.00	%	631,009	10.50	%	600,961	10.00	%
South State Bank (the Bank)	778,538	12.96	%	480,629	8.00	%	630,825	10.50	%	600,786	10.00	%
Tier 1 capital to average assets (leverage ratio):												
Consolidated	763,590	9.31	%	328,085	4.00	%	328,085	4.00	%	410,107	5.00	%
South State Bank (the Bank)	740,532	9.03	%	327,854	4.00	%	327,854	4.00	%	409,818	5.00	%
June 30, 2015:												
Common equity Tier 1 to risk-weighted assets:												
Consolidated	$ 695,107	12.16	%	$ 257,546	4.50	%	$ 400,628	7.00	%	$ 372,011	6.50	%
South State Bank (the Bank)	725,545	12.68	%	257,452	4.50	%	400,480	7.00	%	371,874	6.50	%
Tier 1 capital to risk-weighted assets:												
Consolidated	745,570	13.03	%	343,395	6.00	%	486,476	8.50	%	457,860	8.00	%
South State Bank (the Bank)	725,545	12.68	%	343,269	6.00	%	486,297	8.50	%	457,692	8.00	%
Total capital to risk-weighted assets:												
Consolidated	785,245	13.72	%	457,860	8.00	%	600,941	10.50	%	572,325	10.00	%
South State Bank (the Bank)	765,221	13.38	%	457,692	8.00	%	600,720	10.50	%	572,115	10.00	%
Tier 1 capital to average assets (leverage ratio):												
Consolidated	745,570	9.68	%	308,071	4.00	%	308,071	4.00	%	385,089	5.00	%
South State Bank (the Bank)	725,545	9.43	%	307,881	4.00	%	307,881	4.00	%	384,851	5.00	%

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

Note 18—Goodwill and Other Intangible Assets

The carrying amount of goodwill was $338.3 million at June 30, 2016. The Company’s other intangible assets, consisting of core deposit intangibles, noncompete intangibles, and client list intangibles are included on the face of

the balance sheet. The following is a summary of gross carrying amounts and accumulated amortization of other intangible assets:

(Dollars in thousands)	June 30, 2016	December 31, 2015	June 30, 2015
Gross carrying amount	$ 82,154	$ 82,154	$ 75,354
Accumulated amortization	(38,525)	(34,729)	(30,094)
	$ 43,629	$ 47,425	$ 45,260

Table of Contents

Amortization expense totaled $1.9 million and $3.8 million for the three and six months ended June 30, 2016, respectively, compared to $2.0 million and $4.0 million for the three and six months ended June 30, 2015. Other intangibles are amortized using either the straight-line method or an accelerated basis over their estimated useful lives, with lives generally between two and 15 years. Estimated amortization expense for other intangibles for each of the next five quarters is as follows:

Quarter ending:	
September 30, 2016	$ 1,891
December 31, 2016	1,890
March 31, 2017	1,810
June 30, 2017	1,798
September 30, 2017	1,797
Thereafter	34,443
	$ 43,629

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

As of June 30, 2016, December 31, 2015, and June 30, 2015, the portfolio of residential mortgages serviced for others, which is not included in the accompanying balance sheets, was $2.6 billion, $2.6 billion, and $2.5 billion, respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts and disbursing payments to investors. The amount of contractually specified servicing fees earned by the Company during the three and six months ended June 30, 2016 and June 30, 2015 was $1.8 million and $3.4 million, and $1.5 million and $3.0 million, respectively. Servicing fees are recorded in mortgage banking income in the Company's consolidated statements of income.

At June 30, 2016, December 31, 2015, and June 30, 2015, mortgage servicing rights ("MSRs") were $22.3 million, $26.2 million, and $25.3 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, 2016 and June 30, 2015 were losses of $1.9 million and $4.5 million, compared with gains of $2.4 million and $1.5 million, respectively. Since the merger with FFHI, the Company has used various free standing derivative instruments to mitigate the income statement effect of changes in fair value due to changes in market value adjustments and to changes in valuation inputs and assumptions related to MSRs.

See Note 14 — Fair Value page 41 for the changes in fair value of MSRs. The following table presents the changes in the fair value of the offsetting hedge.

(Dollars in thousands)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Increase (decrease) in fair value of MSRs	$ (1,870)	$ 2,374	$ (4,476)	$ 1,539
Decay of MSRs	(990)	(899)	(1,769)	(1,736)
Gains (losses) related to derivatives	$ 1,968	$ (1,092)	$ 5,013	$ 430
Net effect on statements of income	$ (892)	$ 383	$ (1,232)	$ 233

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.

Table of Contents

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

(Dollars in thousands)	June 30, 2016		December 31, 2015		June 30, 2015	
Composition of residential loans serviced for others						
Fixed-rate mortgage loans	99.5	%	99.4	%	99.3	%
Adjustable-rate mortgage loans	0.5	%	0.6	%	0.7	%
Total	100.0	%	100.0	%	100.0	%
Weighted average life	5.60	years	7.05	years	7.38	years
Constant Prepayment rate (CPR)	12.7	%	9.6	%	9.0	%
Weighted average discount rate	9.8	%	9.8	%	9.7	%
Effect on fair value due to change in interest rates						
25 basis point increase	$ 2,106		$ 1,562		$ 1,335	
50 basis point increase	3,977		2,950		2,490	
25 basis point decrease	(2,334)		(1,866)		(1,567)	
50 basis point decrease	(4,492)		(4,021)		(3,313)	

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 $19.2 million and $17.8 million at June 30, 2016 and June 30, 2015, respectively.

Mandatory cash forwards and whole loan sales were $179.5 million and $315.4 million for the three and six months ended June 30, 2016, respectively, compared to $259.0 million and $455.0 million for the three and six months ended June 30, 2015, respectively. For the three and six months ended June 30, 2016, $150.2 million and $243.5 million, or 83.7% and 77.2%, respectively, were sold with the servicing rights retained by the company, compared to $204.0 million and $351.1 million, or 78.8% and 77.2%, for the three and six months ended June 30, 2015, respectively.

Loans held for sale have historically been comprised of residential mortgage loans awaiting sale in the secondary market, which generally settle in 15 to 45 days. Loans held for sale, which consists primarily of residential mortgage loans to be sold in the secondary market, were $48.9 million, $41.6 million, and $73.1 million at June 30, 2016, December 31, 2015, and June 30, 2015, respectively.

Note 20 – Investments in Qualified Affordable Housing Projects

The Company has investments in qualified affordable housing projects (“QAHPs”) that provide low income housing tax credits and operating loss benefits over an extended period. The tax credits and the operating loss tax benefits that are generated by each of the properties are expected to exceed the total value of the investment made by the Company. For the six months ended June 30, 2016, tax credits and other tax benefits of $1.2 million and amortization of $729,000 were recorded. For the six months ended June 30, 2015, the Company recorded tax credits and other tax benefits of $918,000 and amortization of $655,000. At June 30, 2016 and 2015, the Company’s carrying value of QAHPs was $27.6 million and $12.7 million, respectively, with an original investment of $35.8 million. The Company has $15.5 million and $1.1 million in remaining funding obligations related to these QAHPs recorded in liabilities at June 30, 2016 and 2015, respectively. None of the original investment will be repaid. The investment in QAHPs is being accounted for using the equity method.

Note 21 – Repurchase Agreements

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

Table of Contents

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

At June 30, 2016, December 31, 2015 and June 30, 2015, the Company's repurchase agreement totaled $272.6 million, $219.9 million, and $228.7 million, respectively. All of the Company's repurchase agreements were overnight or continuous (until-further-notice) agreements at June 30, 2016, December 31, 2015 and June 30, 2015. These borrowings were collateralized with government, government-sponsored enterprise, or state and political subdivision-issued securities with a carrying value of $272.6 million, $219.9 million and $228.7 million at June 30, 2016, December 31, 2015 and June 30, 2015, respectively. Declines in the value of the collateral would require the Company to increase the amounts of securities pledged.

Note 22 – Subsequent Events

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.

Table of Contents

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

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

Overview

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

At June 30, 2016, we had approximately $8.7 billion in assets and 2,032 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, 2016 as compared to the three and six months ended June 30, 2015 and also analyzes our financial condition as of June 30, 2016 as compared to December 31, 2015 and June 30, 2015. Like most financial institutions, we derive most of our income from interest we receive on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on which we may pay interest. Consequently, one of the key measures of our success is the amount of our net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing

liabilities.

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

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

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

Recent Events

Southeastern Bank Financial Corporation Acquisition

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

Under the terms of the merger agreement, SBFC common shareholders will receive aggregate consideration of approximately 4,929,958 shares of SSB common stock. The common stock consideration is based upon a fixed exchange ratio of 0.7307 shares of SSB common stock for each of the outstanding shares of SBFC common stock.

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

Branch Initiatives

During the fourth quarter of 2015, the Company announced the planned consolidation of 11 locations during the second, third and fourth quarters of 2016. Nine locations will be consolidated and two branches will be converted to drive-thru only locations. Cost savings are expected to total $3.0 million in 2017; however, these resources are expected to be deployed to support the continued growth of South State as we approach $10.0 billion in total assets. One-time costs are expected to total $3.0 million from this initiative. During the second quarter of 2016, eight of these branches were consolidated and the company incurred $1.6 million in cost.

Critical Accounting Policies

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

Allowance for Loan Losses

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

Table of Contents

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, 2016, December 31, 2015 and June 30, 2015, the balance of goodwill was $338.3 million, $338.3 million, and $317.7 million, respectively. Goodwill has an indefinite useful life and is evaluated for impairment annually or more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. The goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit's estimated fair value to its carrying value, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is not considered to be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment, if any.

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

Our stock price has historically traded above its book value. As of June 30, 2016, book value was $45.64 per common share. The lowest trading price during the first six months of 2016, as reported by the NASDAQ Global Select Market, was $59.19 per share, and the stock price closed on June 30, 2016 at $68.05 per share, which is above book value. In the event our stock was to consistently trade below its book value during the reporting period, we would consider performing an evaluation of the carrying value of goodwill as of the reporting date. Such a circumstance would be one factor in our evaluation that could result in an eventual goodwill impairment charge. We evaluated the carrying value of goodwill as of April 30, 2016, our annual test date, and determined that no impairment charge was necessary. Additionally, should our future earnings and cash flows decline and/or discount rates increase, an impairment charge to goodwill and other intangible assets may be required.

Core deposit intangibles, client list intangibles, and noncompetition ("noncompete") intangibles consist of costs that resulted from the acquisition of other banks from other financial institutions. Core deposit intangibles represent the estimated value of long-term deposit relationships acquired in these transactions. Client list intangibles represent the value of long-term client relationships for the wealth and trust management business. Noncompete intangibles represent the value of key personnel relative to various competitive factors such as ability to compete, willingness or likelihood to compete, and feasibility based upon the competitive environment, and what the Bank could lose from

competition. These costs are amortized over the estimated useful lives, such as deposit accounts in the case of core deposit intangible, on a method that we believe reasonably approximates the anticipated benefit stream from this intangible. The estimated useful lives are periodically reviewed for reasonableness.

Income Taxes and Deferred Tax Assets

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

Table of Contents

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, 2016, there were no accruals for uncertain tax positions and no accruals for interest and penalties. The Company and its subsidiary file a consolidated United States federal income tax return, as well as income tax returns for its subsidiary in the states of South Carolina, Georgia, North Carolina, Florida, Virginia, Alabama, and Mississippi. Federal tax returns for 2014 and subsequent tax years remain subject to examination by taxing authorities as of June 30, 2016. State tax returns for 2012 and subsequent tax years remain subject to examination by taxing authorities as of June 30, 2016.

Other Real Estate Owned

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

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

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

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

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

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

Table of Contents

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

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

Results of Operations

We reported consolidated net income of $24.5 million, or diluted earnings per share ("EPS") of $1.01, for the second quarter of 2016 as compared to consolidated net income of $24.9 million, or diluted EPS of $1.03, in the comparable period of 2015. The $356,000 decrease in consolidated net income was the net result of the following items:

- A decrease in interest income of $1.4 million which resulted from $9.4 million in lower acquired loan interest income partially offset by $7.5 million in higher non-acquired loan interest income and $575,000 in higher investment securities interest income;
- Lower interest expense of $508,000 which resulted from both the repricing of $20.6 million of trust preferred debt from a fixed rate of 5.92% to a variable rate of three month LIBOR plus 159 basis points in the third quarter of 2015, and lower interest paid on deposits as rates have remained at historic lows;
- Lower provision for loan losses by $418,000 which mainly resulted from a $541,000 decline in the provision for loan losses within the acquired loan portfolio due to the improvement in asset quality;
- Higher noninterest income of $2.0 million which resulted from $3.8 million improvement in fees of deposit accounts and a $2.2 million increase in other income partially offset by a $2.4 million increase in amortization of the FDIC indemnification asset due to the early termination of all FDIC loss share agreements and a $1.5 million decline in mortgage banking income;
- Higher noninterest expense of $2.3 million in the second quarter of 2016 to $73.8 million compared to the same period in 2015 of $71.5 million. The largest increase was in other noninterest expense of $1.2 million, salaries and employee benefits expense of $783,000, bankcard expense of $755,000, and information services expense of $701,000, partially offset by lower OREO and loan related expense of $1.1 million; and
- A decrease in the provision for income taxes of $393,000 due to lower pre-tax income and a lower effective tax rate.

Diluted EPS was $1.01 compared to $1.03 in the comparable period in 2015. The decline was due to a 1.4% decrease in net income.

Our asset quality related to non-acquired loans continues to improve from the end of 2015 and the end of the first quarter in 2016. Non-acquired nonperforming assets declined from $27.0 million at March 31, 2016 to $25.2 million

at June 30, 2016, a decline of $1.8 million. Compared to the balance of nonperforming assets at June 30, 2015, nonperforming assets decreased $5.3 million due to a reduction in nonperforming loans of $6.3 million. This reduction was partially offset by an increase in non-acquired OREO of $1.0 million. Our non-acquired OREO decreased by $868,000 from March 31, 2016 to $6.8 million at June 30, 2016. Annualized net charge-offs for the second quarter of 2016 were 0.06%, or $676,000, down from net charge-offs in the second quarter of 2015 of 0.12%, or $1.1 million, and down from net charge offs in the first quarter of 2016 of 0.09%, or $955,000.

The allowance for loan losses decreased to 0.77% of total non-acquired loans at June 30, 2016, down from 0.79% at March 31, 2016 and 0.92% at June 30, 2015. The allowance provides 2.01 times coverage of non-acquired nonperforming loans at June 30, 2016, an increase from 1.83 times at March 31, 2016, and 1.41 times at June 30, 2015. The Company continues to show improvement in its asset quality numbers and ratios.

During the second quarter of 2016, the Company had net charge-offs related to "acquired non-credit impaired loans" which totaled $181,000, or 0.07% annualized, and accordingly, recorded a provision for loan losses equal to the net charge off for the same amount. Additionally, we have $4.4 million in nonperforming loans from this loan portfolio, up from $3.9 million at March 31, 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. The overall credit mark for these loans continued to decline, partially from charge offs and partially from net improvement in expected cash flow. Below is a summary of the second quarter of 2016 assessment of the impact acquired loan portfolio:

· Removals from the loan pools due to repayments, charge offs, and transfers to OREO or other assets owned through foreclosures resulted in a decline in acquired loan interest income of $2.2 million from the first quarter of 2016, and a decline of $9.4 million compared to the second quarter of 2015. This resulted from both a decline in the acquired loan balances and a decline in the loan yield to 7.94% from 8.03% in the first quarter of 2016 and from 8.18% in the second quarter of 2015; and
· The amortization of the indemnification asset was higher this quarter due to the early termination with the FDIC of all loss share agreements. This resulted in a $4.4 million charge compared to $1.5 million, in the first quarter of 2016 and compared to $2.0 million in second quarter of 2015. The year over year decline was primarily the result of the early termination amount paid to the FDIC of $2.3 million during the second quarter of 2016.

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

	Three Months Ended		Six Months Ended	
(Dollars in thousands)	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Average balances:				
Acquired loans, net of allowance for loan losses	$ 1,645,263	$ 2,053,501	$ 1,690,437	$ 2,123,275
Non-acquired loans	4,623,448	3,659,674	4,477,109	3,586,745
Total loans, excluding held for sale	$ 6,268,711	$ 5,713,175	$ 6,167,546	$ 5,710,020
Interest income:				
Noncash interest income on acquired performing loans	$ 1,174	$ 1,616	$ 2,730	$ 3,158
Acquired loan interest income	31,297	40,283	64,407	81,659
Total acquired loans	32,471	41,899	67,137	84,817
Non-acquired loans	44,366	36,885	86,928	72,401
Total loans, excluding held for sale	$ 76,837	$ 78,784	$ 154,065	$ 157,218

Non-taxable equivalent yield:								
Acquired loans	7.94	%	8.18	%	7.99	%	8.06	%
Non-acquired loans	3.86	%	4.04	%	3.90	%	4.07	%
Total loans, excluding held for sale	4.93	%	5.53	%	5.02	%	5.55	%

Compared to the balance at March 31, 2016, our non-acquired loan portfolio has increased $344.2 million, or 31.0% annualized, to $4.8 billion, driven by increases in most categories. Consumer real estate lending increased by $69.1 million, or 20.0% annualized; consumer non real estate lending by $25.4 million, or 41.4% annualized; commercial owner occupied loans by $22.5 million, or 8.5% annualized; commercial and industrial by $58.4 million, or 42.4% annualized; and commercial non-owner occupied increased $147.2 million, or 60.9% annualized. The acquired loan portfolio decreased by $91.1 million in the second quarter of 2016 due to continued payoffs, charge-offs, and transfers to OREO. Since June 30, 2015, the non-acquired loan portfolio has grown by $1.0 billion, or 27.1%, driven by increases in every loan category. Consumer real estate loans and commercial non-owner occupied real estate loans have led the way and have increased by $248.6 million, or 20.6% and $399.6 million, or 55.4%, respectively, in the past year.

Non-taxable equivalent net interest income for the quarter decreased $878,000, or 1.1%, compared to the second quarter of 2015. Non-taxable equivalent net interest margin was down to 4.22% from 4.70% during the second quarter of 2015 due to the increase in cash and federal funds sold from the BOA branch acquisition and due to the decline in the yield on both the non-acquired loan portfolio and acquired loan portfolio. The rate on interest-bearing liabilities declined 4 basis points during the same period which partially offset the decrease in yield on interesting-earning assets. Compared to the first quarter of 2016, net interest margin (taxable equivalent) decreased by 10 basis points. The yield on interest-earning assets decreased by 11 basis points due to both the decline in the yield on the non-acquired loan portfolio and the acquired loan portfolio. The yield on the non-acquired and acquired loan portfolios declined due to the continued effect of the low interest rate environment on the repricing of the loan portfolios. The yield on the acquired loan portfolio also declined due to the acquired credit impaired loans being renewed and the cash flow from these assets are being extended out and increasing the weighted average life of the loan pools within all acquired loan portfolios. The rate on interest bearing liabilities declined slightly to 0.15% from 0.16% during the second quarter of 2016. This decline was mainly attributable to the decline in the cost of certificate of deposits of 7 basis points during this period.

Our quarterly efficiency ratio increased slightly to 64.5% compared to 64.1% from the first quarter of 2016 and from 63.2% in the second quarter of 2015. The increase in the efficiency ratio compared to the first quarter of 2016 was mainly the result of a 2.5% increase in noninterest expense, partially offset by a 1.8% increase in net interest income and noninterest income. The increase in noninterest expense was mainly driven by a $1.8 million increase in other noninterest expense which consisted from increases in operational charge-offs, sales and use taxes and secondary mortgage repurchase costs. The increase in the efficiency ratio compared to the second quarter of 2015 was the result of a 3.2% increase in noninterest expense, partially offset by a 1.1% increase in net interest income and noninterest income. Compared to the second quarter of 2015, noninterest expense was up by $2.3 million which was driven mainly by an increase in other noninterest expense of $1.2 million, salaries and employee benefits expense of $783,000, bankcard expense of $755,000, and information services expense of $701,000. The increase in other noninterest expense was mostly related to an increase in operational charge-offs and the increase in salaries and employee benefits, bankcard expense and information services expense is related costs from the Bank of America branch purchases in the third quarter of 2015.

Diluted EPS and basic EPS decreased to $1.01 and $1.02, respectively for the second quarter of 2016, from the second quarter 2015 amounts of $1.03 and $1.04, respectively. This was the result of a 1.4% decrease in net income.

Selected Figures and Ratios

	Three Months Ended June 30,				Six Months Ended June 30,			
(Dollars in thousands)	2016		2015		2016		2015	
Return on average assets (annualized)	1.13	%	1.24	%	1.14	%	1.24	%
Return on average equity (annualized)	9.02	%	9.78	%	9.10	%	9.75	%
Return on average tangible equity (annualized)*	14.59	%	16.00	%	14.81	%	16.10	%

Dividend payout ratio **	29.61 %	23.35 %	28.63 %	23.29 %
Equity to assets ratio	12.66 %	12.66 %	12.66 %	12.66 %
Average shareholders' equity	$ 1,093,208	$ 1,020,245	$ 1,083,403	$ 1,008,934

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

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

- For the three months ended June 30, 2016, return on average tangible equity decreased to 14.59% compared to 16.00% for the same period in 2015. This decrease was driven by the 8.3% increase in average tangible equity and a 1.5% decrease in net income excluding amortization of intangibles. Similarly, return on average assets decreased to 1.13%, compared to 1.24% for the three months ended June 30, 2015, due to both an 8.2% increase in average assets and a 1.4% decrease in net income.
- Dividend payout ratio increased to 29.61% for the three months ended June 30, 2016 compared with 23.35% for the three months ended June 30, 2015. The increase from the comparable period in 2015 primarily reflects the higher percentage increase in the cash dividends declared per common share of 25.0% as compared to a 1.4% 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.

Table of Contents

- Equity to assets ratio remained flat at 12.66% for both June 30, 2016 and 2015. Total average assets increased 8.2% compared to a 7.2% increase in average equity.

Reconciliation of Non-GAAP to GAAP

	Three Months Ended June 30,				Six Months Ended June 30,			
(Dollars in thousands)	2016		2015		2016		2015	
Return on average tangible equity (non-GAAP)	14.59	%	16.00	%	14.81	%	16.10	%
Effect to adjust for intangible assets	(5.57)	%	(6.22)	%	(5.71)	%	(6.35)	%
Return on average equity (GAAP)	9.02	%	9.78	%	9.10	%	9.75	%
Adjusted average shareholders' equity (non-GAAP)	$ 710,213		$ 656,039		$ 699,443		$ 644,035	
Average intangible assets	382,995		364,206		383,960		364,899	
Average shareholders' equity (GAAP)	$ 1,093,208		$ 1,020,245		$ 1,083,403		$ 1,008,934	
Adjusted net income (non-GAAP)	$ 25,772		$ 26,168		$ 51,524		$ 51,425	
Amortization of intangibles	(1,892)		(1,964)		(3,795)		(3,980)	
Tax effect	636		668		1,281		1,353	
Net income (GAAP)	$ 24,516		$ 24,872		$ 49,010		$ 48,798	

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 48 basis points from the second quarter of 2015, due to the following: (1) a decrease of 52 basis points in the yield on interest-earning assets from the increase in the balance of the lower yielding assets of federal funds sold, reverse repurchase agreements and time deposits from the increase in liquidity gained through the BOA branch acquisition and due to the decline in the yield on both the non-acquired loan portfolio and the acquired loan portfolio, (2) partially offset by a 4 basis point decline in the rate on interest-bearing liabilities in all categories of funding as we continue to remain in a low interest rate environment and by a 19 basis point increase in the rate on federal funds sold, reverse repurchase agreements and time deposits due to the increase in the Federal Funds Rate of 25 basis points in December 2015. The taxable equivalent net interest margin decreased by 10 basis points from the first quarter of 2016 to 4.27% in the second quarter of 2016, which was mainly the result of the yield on interest-earning assets decreasing by 11 basis points during this period. This decrease in yield on interest-earning assets was mainly due to the decline in yield on both the non-acquired and acquired loan portfolios. The non-acquired and acquired loan portfolios declined due to the continued effect of the low interest rate environment on the repricing of the loan portfolios. The yield on the acquired loan portfolio also declined due to the acquired credit impaired loans being renewed and the cash flow from these assets are being extended out and increasing the weighted average life of the loan pools within all acquired loan portfolios.

Net interest income decreased from the second quarter of 2015 by $877,000. This decrease was driven by an 18 basis point decline in the yield on the non-acquired loan portfolio, a 24 basis point decline in the yield on the acquired loan portfolio and a $408.2 million decline in the average balance of the acquired loan portfolio. This decrease was partially offset by a $963.8 million increase in the average balance of the non-acquired loan portfolio and a 4 basis point decline in the cost of our interest-bearing liabilities. The decline in the yield on interest-bearing liabilities was due to both the repricing of $20.6 million in trust preferred debt from a fixed rate of 5.92% to a variable rate of three month LIBOR plus

Table of Contents

159 basis points during the third quarter of 2015, and the continued effect of the low interest rate environment on the our cost of deposits. The decline in yield on both the non-acquired and acquired loan portfolios was due to the continued effect of the low interest rate environment on the repricing of the loan portfolios. The decline in the yield on the acquired loan portfolio was also due to the acquired credit impaired loans being renewed and the cash flow from these assets are being extended out and increasing the weighted average life of the loan pools within all acquired loan portfolios.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2016	2015	2016	2015
Non-TE net interest income	$ 81,399	$ 82,276	$ 163,000	$ 163,325
Non-TE yield on interest-earning assets	4.33 %	4.85 %	4.38 %	4.87 %
Non-TE rate on interest-bearing liabilities	0.15 %	0.19 %	0.15 %	0.21 %
Non-TE net interest margin	4.22 %	4.70 %	4.27 %	4.72 %
TE net interest margin	4.27 %	4.75 %	4.32 %	4.76 %

Non-TE net interest income decreased $877,000, or 1.1%, in the second quarter of 2016 compared to the same period in 2015. Some key highlights are outlined below:

- Average interest-earning assets increased 10.5% to $7.8 billion in the second quarter of 2016 compared to the same period last year due to the increase in non-acquired loans, investment securities and federal funds sold and reverse repurchase agreements.
- Non-TE yield on interest-earning assets for the second quarter of 2016 decreased 52 basis points from the comparable period in 2015. The decrease since the second quarter of 2015 was driven by an 18 basis point decline in the yield on the non-acquired loan portfolio, a 24 basis point decline in the yield on the acquired loan portfolio and a 12 basis point decline in the yield on investment securities. These decreases were partially offset by a 19 basis point increase in the yield on federal funds sold and reverse repurchase agreements. The loan portfolio continues to remix with 75% of the portfolio being comprised of non-acquired loans and 25% being acquired loans. This compares to 65% and 35%, respectively one year ago.
- The average cost of interest-bearing liabilities for the second quarter of 2016 decreased 4 basis points from the same period in 2015. The decrease since the second quarter of 2015 was primarily the result of a decline in the cost of certificates and other time deposits due to the effect of the continued low rate environment on the repricing of these deposits. The average cost of certificates and other time deposits decreased from 0.33% to 0.24%. The overall decrease was also driven by the decline in the cost of other borrowings due to the repricing of $20.6 million in trust preferred debt from a fixed rate of 5.92% to a variable rate of three month LIBOR plus 159 basis points during the third quarter of 2015. The average cost decreased from 4.71% in the second quarter of 2015 to 3.46% in the second quarter of 2016. The expected cost of funds on our other borrowings (trust preferred debt) will continue to adjust with short term interest rates in that our other borrowings are variable rate and are tied to 3 month LIBOR.
- TE net interest margin decreased by 48 basis points in the second quarter of 2016 compared to the second quarter of 2015.

Table of Contents

Loans

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

LOAN PORTFOLIO (ENDING balance)	June 30, 2016	% of Total		December 31, 2015	% of Total		June 30, 2015	% of Total	
Acquired loans:									
Acquired non-credit impaired loans:									
Commercial non-owner occupied real estate:									
Construction and land development	$ 12,516	0.2	%	$ 13,849	0.2	%	$ 17,762	0.3	%
Commercial non-owner occupied	36,904	0.6	%	40,103	0.7	%	43,123	0.7	%
Total commercial non-owner occupied real estate	49,420	0.8	%	53,952	0.9	%	60,885	1.0	%
Consumer real estate:									
Consumer owner occupied	466,479	7.3	%	518,107	8.6	%	574,697	9.9	%
Home equity loans	177,946	2.8	%	190,968	3.2	%	210,734	3.6	%
Total consumer real estate	644,425	10.1	%	709,075	11.8	%	785,431	13.5	%
Commercial owner occupied real estate	32,267	0.5	%	39,220	0.7	%	49,334	0.9	%
Commercial and industrial	15,598	0.2	%	25,476	0.4	%	31,762	0.5	%
Other income producing property	44,873	0.7	%	51,169	0.9	%	58,987	1.0	%
Consumer non real estate	155,303	2.4	%	170,647	2.8	%	185,273	3.2	%
Other	-	-	%	-	-	%	-	-	%
Total acquired non-credit impaired loans	941,886	14.7	%	1,049,539	17.5	%	1,171,672	20.1	%
Acquired credit impaired loans:									
Commercial non-owner occupied real estate:									
Construction and land development	43,615	0.7	%	49,409	0.8	%	56,224	1.0	%
Commercial non-owner occupied	118,266	1.8	%	130,858	2.2	%	146,961	2.5	%
Total commercial non-owner occupied real estate	161,881	2.5	%	180,267	3.0	%	203,185	3.5	%
Consumer real estate:									
Consumer owner occupied	166,277	2.6	%	183,548	3.1	%	205,726	3.6	%
Home equity loans	78,459	1.2	%	82,674	1.4	%	88,479	1.5	%
Total consumer real estate	244,736	3.8	%	266,222	4.5	%	294,205	5.1	%
Commercial owner occupied real estate	103,502	1.6	%	116,879	1.9	%	139,288	2.4	%
Commercial and industrial	20,140	0.3	%	27,517	0.5	%	30,286	0.5	%
Other income producing property	68,967	1.1	%	76,936	1.3	%	85,528	1.5	%
Consumer non real estate	63,361	1.0	%	69,754	1.2	%	76,178	1.3	%
Other	-	-	%	-	-	%	-	-	%
Total acquired credit impaired loans	662,587	10.3	%	737,575	12.4	%	828,670	14.3	%
Total acquired loans	1,604,473	25.0	%	1,787,114	29.9	%	2,000,342	34.5	%
Non-acquired loans:									

Commercial non-owner occupied real estate:						
Construction and land development	533,219	8.3 %	401,979	6.7 %	368,954	6.4 %
Commercial non-owner occupied	586,828	9.1 %	487,777	8.1 %	351,524	6.1 %
Total commercial non-owner occupied real estate	1,120,047	17.4 %	889,756	14.8 %	720,478	12.5 %
Consumer real estate:						
Consumer owner occupied	1,109,667	17.3 %	1,018,984	17.0 %	906,973	15.7 %
Home equity loans	345,957	5.4 %	319,255	5.3 %	300,074	5.2 %
Total consumer real estate	1,455,624	22.7 %	1,338,239	22.3 %	1,207,047	20.9 %
Commercial owner occupied real estate	1,083,051	16.9 %	1,033,398	17.2 %	975,701	16.9 %
Commercial and industrial	611,901	9.5 %	503,808	8.4 %	448,247	7.7 %
Other income producing property	181,703	2.8 %	175,848	2.9 %	163,441	2.8 %
Consumer non real estate	272,957	4.3 %	233,104	3.9 %	209,544	3.6 %
Other	91,592	1.4 %	46,573	0.8 %	63,941	1.1 %
Total non-acquired loans	4,816,875	75.0 %	4,220,726	70.3 %	3,788,399	65.5 %
Total loans (net of unearned income)	$ 6,421,348	100.0 %	$ 6,007,840	100.0 %	$ 5,788,741	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 $632.6 million, or 10.9%, at June 30, 2016 as compared to the same period in 2015. Acquired non-credit impaired loans decreased by $229.8 million and acquired credit impaired loans decreased by $166.1 million as compared to the same period in 2015. Acquired loans continue to decline due to principal payments, charge offs, and foreclosures. Non-acquired loans or legacy loans increased by $1.0 billion, or 27.2%, from June 30, 2015 to June 30, 2016. Non-acquired loans have grown to 75.0%

Table of Contents

of the total loan portfolio at June 30, 2016, compared to 65.0% at June 30, 2015. This increase was driven by loan growth in all categories of non-acquired loans.

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

(Dollars in thousands)	June 30, 2016	% of Total	December 31, 2015	% of Total	June 30, 2015	% of Total
Acquired loans:						
Acquired covered loans:						
Commercial non-owner occupied real estate:						
Construction and land development	$ —	— %	$ 13,121	0.2 %	$ 13,550	0.2 %
Commercial non-owner occupied	—	— %	10,981	0.2 %	13,726	0.2 %
Total commercial non-owner occupied real estate	—	— %	24,102	0.4 %	27,276	0.4 %
Consumer real estate:						
Consumer owner occupied	—	— %	23,486	0.4 %	26,267	0.5 %
Home equity loans	—	— %	29,733	0.5 %	31,979	0.6 %
Total consumer real estate	—	— %	53,219	0.9 %	58,246	1.1 %
Commercial owner occupied real estate	—	— %	16,236	0.3 %	21,711	0.4 %
Commercial and industrial	—	— %	4,792	0.1 %	4,965	0.1 %
Other income producing property	—	— %	9,814	0.2 %	11,309	0.2 %
Consumer non real estate	—	— %	57	0.0 %	100	0.0 %
Total acquired covered loans	—	— %	108,220	1.9 %	123,607	2.2 %
Acquired non-covered loans:						
Commercial non-owner occupied real estate:						
Construction and land development	56,131	0.9 %	50,137	0.8 %	60,436	1.0 %
Commercial non-owner occupied	155,171	2.4 %	159,980	2.7 %	176,358	3.0 %
Total commercial non-owner occupied real estate	211,302	3.3 %	210,117	3.5 %	236,794	4.0 %
Consumer real estate:						
Consumer owner occupied	632,756	9.8 %	678,169	11.3 %	754,156	13.0 %
Home equity loans	256,405	4.0 %	243,909	4.1 %	267,234	4.6 %
Total consumer real estate	889,161	13.8 %	922,078	15.4 %	1,021,390	17.6 %
Commercial owner occupied real estate	135,769	2.1 %	139,863	2.3 %	166,911	2.9 %
Commercial and industrial	35,738	0.6 %	48,201	0.8 %	57,083	1.0 %

Other income producing property		113,840	1.8 %		118,291	2.0 %		133,206	2.3 %
Consumer non real estate		218,663	3.4 %		240,344	4.0 %		261,351	4.5 %
Total acquired non-covered loans		1,604,473	25.0 %		1,678,894	28.0 %		1,876,735	32.3 %
Total acquired loans		1,604,473	25.0 %		1,787,114	29.9 %		2,000,342	34.5 %
Non-acquired loans:									
Commercial non-owner occupied real estate:									
Construction and land development		533,219	8.3 %		401,979	6.7 %		368,954	6.4 %
Commercial non-owner occupied		586,828	9.1 %		487,777	8.1 %		351,524	6.1 %
Total commercial non-owner occupied real estate		1,120,047	17.4 %		889,756	14.8 %		720,478	12.5 %
Consumer real estate:									
Consumer owner occupied		1,109,667	17.3 %		1,018,984	17.0 %		906,973	15.7 %
Home equity loans		345,957	5.4 %		319,255	5.3 %		300,074	5.2 %
Total consumer real estate		1,455,624	22.7 %		1,338,239	22.3 %		1,207,047	20.9 %
Commercial owner occupied real estate		1,083,051	16.9 %		1,033,398	17.2 %		975,701	16.9 %
Commercial and industrial		611,901	9.5 %		503,808	8.4 %		448,247	7.7 %
Other income producing property		181,703	2.8 %		175,848	2.9 %		163,441	2.8 %
Consumer non real estate		272,957	4.3 %		233,104	3.9 %		209,544	3.6 %
Other		91,592	1.4 %		46,573	0.8 %		63,941	1.1 %
Total non-acquired loans		4,816,875	75.0 %		4,220,726	70.3 %		3,788,399	65.5 %
Total loans (net of unearned income)	$	6,421,348	100.0 %	$	6,007,840	100.0 %	$	5,788,741	100.0 %

Note: Loan data excludes loans held for sale.

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

Table of Contents

(Dollars in thousands)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Average total loans	$ 6,268,711	$ 5,713,175	$ 6,167,546	$ 5,710,020
Interest income on total loans	76,837	78,784	154,065	157,218
Non-TE yield	4.93 %	5.53 %	5.02 %	5.55 %

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

· Our non-TE yield on total loans decreased 60 basis points in the second quarter of 2016 compared to the same period in 2015. Average total loans increased 9.7%, as compared to the second quarter of 2015. The increase in average total loans was the result of 26.3% growth in the non-acquired loan portfolio during 2016, partially offset by a 19.9% decline in acquired loan portfolio. The yields on both the non-acquired and acquired loan portfolios declined in the second quarter of 2016. The growth in the non-acquired loan portfolio has been at lower rates and, as a result, the average yield declined to 3.86% in the second quarter of 2016 compared to 4.04% in the second quarter of 2015. The acquired loan portfolio effective yield also declined to 7.94% in the second quarter of 2016 compared to 8.18% in the same period in 2015. This decline was due to the acquired credit impaired loans being renewed and the cash flow from these assets being extended out, increasing the weighted average life of the loan pools within all acquired loan portfolios. The decline in the overall loan portfolio yield has also been affected by the change in the mix of the loan portfolio as the lower yielding non-acquired loan portfolio has grown while the higher yielding acquired loan portfolio has declined.

The balance of mortgage loans held for sale increased $7.3 million from December 31, 2015 to $48.9 million at June 30, 2016, and decreased $24.1 million compared to the balance of mortgage loans held for sale at June 30, 2015 of $73.1 million.

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, 2016, investment securities totaled $1.0 billion, compared to $1.0 billion at December 31, 2015 and $860.4 million at June 30, 2015. Our investment portfolio decreased $20.7 million from December 31, 2015 primarily as a result of having $154.1 million in U.S. agency securities called during the first half of 2016 due to interest rates remaining low. Otherwise, we generally have continued to try and slowly increase our investment securities portfolio as we identify securities that meet our

strategy and objectives. Our portfolio increased $146.7 million from June 30, 2015 to June 30, 2016, primarily as a result of purchases of mortgage-backed securities.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2016	2015	2016	2015
Average investment securities	$ 974,545	$ 827,463	$ 998,077	$ 821,398
Interest income on investment securities	5,469	4,894	11,278	9,634
Non-TE yield	2.26 %	2.37 %	2.27 %	2.37 %

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

Table of Contents

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

(Dollars in thousands)	Amortized Cost	Fair Value	Unrealized Gain (Loss)	AAA - A	BBB	BB or Lower	Not Rated
June 30, 2016							
Government-sponsored entities debt	$ 102,985	$ 103,092	$ 107	$ 102,985	$ —	$ —	$ —
State and municipal obligations	126,321	132,125	5,804	125,692	—	—	629
Mortgage-backed securities *	743,956	758,881	14,925	—	—	—	743,956
Corporate stocks	3,658	3,743	85	—	—	—	3,658
	$ 976,920	$ 997,841	$ 20,921	$ 228,677	$ —	$ —	$ 748,243

* - 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, 2016, we had 10 securities available for sale in an unrealized loss position, which totaled $306,000. At December 31, 2015, we had 90 securities available for sale in an unrealized loss position, which totaled $4.5 million. At June 30, 2015, we had 92 securities available for sale in an unrealized loss position, which totaled $3.7 million.

During the second quarter of 2016 as compared to the second quarter of 2015, the total number of available for sale securities with an unrealized loss position decreased by 82 securities, while the total dollar amount of the unrealized loss decreased by $3.4 million. This decline was due to the lower interest rate environment at June 30, 2016 compared to at June 30, 2015.

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

for OTTI related to securities available-for-sale would not impact cash flow, tangible capital or liquidity.

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

Other Investments

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

Table of Contents

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)	2016	2015	2016	2015
Average interest-bearing liabilities	$ 5,473,322	$ 5,186,679	$ 5,468,726	$ 5,170,095
Interest expense	1,980	2,488	4,194	5,438
Average rate	0.15 %	0.19 %	0.15 %	0.21 %

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

- Average interest-bearing deposits for the three months ended June 30, 2016 increased 5.5% from the same period in 2015.
- Interest-bearing deposits increased 4.6% to $5.0 billion at June 30, 2016 from the period end balance at June 30, 2015 of $4.8 billion. This was mainly the result of a $302.1 million increase in interest-bearing transaction accounts from the Bank of America branch acquisition, which was partially offset by a decline in certificates of deposit of $174.8 million. The Company continues to monitor and adjust rates paid on deposit products as part of its strategy to manage its net interest margin.
- The average rate on transaction and money market account deposits for the three months ended June 30, 2016 decreased one basis point from the comparable period in 2015.
- Average certificates of deposit and other time deposits decreased 13.7%, down $159.1 million from the average balance in the second quarter of 2015. Interest expense on certificates of deposit and other time deposits decreased $354,000 as a result of the decline in average balances and a nine basis point decrease in the average rate to 24 basis points for the three months ended June 30, 2016 as compared to the same period in 2015.
- The average rate on other borrowings experienced a 125 basis point decline to 3.46% for the three months ended June 30, 2016 as compared to the same period in 2015. This was the result of the rate on $20.6 million in trust preferred debt resetting during the third quarter of 2015 from a fixed rate of 5.92% to a variable rate of three month LIBOR plus a spread of 159 basis points (Current rate is 2.24%).

Noninterest-Bearing Deposits

Noninterest-bearing deposits are transaction accounts that provide our Bank with "interest-free" sources of funds. Average noninterest-bearing deposits increased $295.6 million, or 16.6%, to $2.1 billion in the second quarter of 2016 compared to $1.8 billion at June 30, 2015. At June 30, 2016, the period end balance of noninterest-bearing deposits was $2.1 billion, exceeding the June 30, 2015 balance by $272.3 million.

Provision for Loan Losses and Nonperforming Assets

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

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

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

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

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

During the second quarter of 2016, we decreased the valuation allowance on acquired credit impaired loans by $172,000, which resulted in $47,000 net provision for loan losses on acquired credit impaired loans.

Table of Contents

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

	Three Months Ended June 30,															
	2016								2015							
(Dollars in thousands)	Non-acquired Loans		Acquired Non-credit Impaired Loans		Acquired Credit Impaired Loans		Total		Non-acquired Loans		Acquired Non-credit Impaired Loans		Acquired Credit Impaired Loans		Total	
Balance at beginning of period	$	35,115	$	—	$	3,877	$	38,992	$	33,538	$	—	$	4,717	$	38,255
Loans charged-off		(1,557)		(232)		—		(1,789)		(1,680)		(558)		—		(2,238)
Recoveries of loans previously charged off		881		51		—		932		548		25		—		573
Net recoveries (charge-offs)		(676)		(181)		—		(857)		(1,132)		(533)		—		(1,665)
(Benefit) provision for loan losses		2,500		181		47		2,728		2,376		533		236		3,145
Benefit attributable to FDIC loss share agreements		—		—		—		—		—		—		—		—
Total provision for loan losses charged to operations		2,500		181		47		2,728		2,376		533		236		3,145
Provision for loan losses recorded through the FDIC loss share receivable		—		—		—		—		—		—		—		—
Reductions due to loan removals		—		—		(172)		(172)		—		—		(264)		(264)
Balance at end of period	$	36,939	$	—	$	3,752	$	40,691	$	34,782	$	—	$	4,689	$	39,471
Total non-acquired loans:																
At period end		4,816,875								3,788,399						
Average		4,623,448								3,659,674						
Net charge-offs as a percentage of average non-acquired loans (annualized)		0.06	%							0.12	%					
Allowance for loan losses as a percentage of period end non-acquired loans		0.77	%							0.92	%					
		201.06	%							141.04	%					

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

	Six Months Ended June 30,							
	2016				2015			
	Non-acquired Loans	Acquired Non-credit Impaired Loans	Acquired Credit Impaired Loans	Total	Non-acquired Loans	Acquired Non-credit Impaired Loans	Acquired Credit Impaired Loans	Total
Balance at beginning of period	$ 34,090	$ —	$ 3,706	$ 37,796	$ 34,539	$ —	$ 7,365	$ 41,904
Loans charged-off	(3,276)	(529)	—	(3,805)	(2,676)	(2,369)	—	(5,045)
Recoveries of loans previously charged off	1,645	141	—	1,786	1,598	50	—	1,648
Net charge-offs	(1,631)	(388)	—	(2,019)	(1,078)	(2,319)	—	(3,397)
Provision for loan losses on non-acquired loans	4,480	388	395	5,263	1,321	2,319	302	3,942
Benefit attributable to FDIC loss share agreements	—	—	23	23	—	—	21	21
Total provision for loan losses charged to operations	4,480	388	418	5,286	1,321	2,319	323	3,963
Provision for loan losses recorded through the FDIC loss share receivable	—	—	(23)	(23)	—	—	(21)	(21)
Reductions due to loan removals	—	—	(349)	(349)	—	—	(2,978)	(2,978)
Balance at end of period	$ 36,939	$ —	$ 3,752	$ 40,691	$ 34,782	$ —	$ 4,689	$ 39,471
Total non-acquired loans:								
At period end	$ 4,816,875				$ 3,788,399			

Average	4,477,109		3,586,745	
Net charge-offs as a percentage of average non-acquired loans (annualized)	0.07	%	0.06	%
Allowance for loan losses as a percentage of period end non-acquired loans	0.77	%	0.92	%
Allowance for loan losses as a percentage of period end non-performing non-acquired loans (“NPLs”)	201.06	%	141.04	%

The allowance for loan losses as a percent of non-acquired loans reflects the continued improvement in credit quality, as well as the continued decline in our three-year historical charge off rate. Additionally, our classified loans, nonaccrual loans, and non-performing loans declined during the second quarter of 2016 compared to the same quarter in 2015. Continued improvement was also seen in all three categories when compared to the first quarter of 2016. Our overall net charge offs for the quarter on non-acquired loans was 6 basis points annualized, or $676,000, compared to 12 basis points annualized, or $1.1 million, a year ago, and 9 basis points, or $955,000 in the first quarter of 2016. Excluding acquired assets, nonperforming assets decreased by $5.3 million during the second quarter of 2016 compared to the second quarter of 2015 and decreased by $1.8 million from the first quarter of 2016. The ratio of the ALLL to cover total nonperforming non-acquired loans increased from 141.04% at June 30, 2015 and 182.56 at March 31, 2016 to 201.06% at June 30, 2016.

We increased the ALLL compared to the second quarter of 2015, as well as compared to the first quarter of 2016, 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 requires the use of an alternate historical loss rate to better capture the risk within the portfolio. We also consider economic risk, model risk and operational risk when determining the ALLL. All of these factors are reviewed and adjusted each reporting period to account for management’s assessment of loss within

Table of Contents

the loan portfolio. Overall, the general reserve increased by $2.0 million compared to the balance at both June 30, 2015 and March 31, 2016.

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

On a specific reserve basis, the allowance for loan losses decreased $192,000 from March 31, 2016, with loan balances being evaluated for specific reserves decreasing from $33.2 million at March 31, 2016 to $24.3 million at June 30, 2016. Specific reserves increased $196,000, to $1.5 million at June 30, 2016, from $1.3 million at June 30, 2015 with the loan balances being evaluated for specific reserves decreasing $6.8 million from $31.1 million at June 30, 2015. Our practice, generally, is that once a specific reserve is established for a loan, a charge off occurs in the quarter subsequent to the establishment of the specific reserve.

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

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

(Dollars in thousands)	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015
Non-acquired:					
Nonaccrual loans	$ 15,071	$ 15,989	$ 15,785	$ 18,099	$ 15,894
Accruing loans past due 90 days or more	450	188	300	156	574
Restructured loans - nonaccrual	2,851	3,058	2,662	5,616	8,193
Total nonperforming loans	18,372	19,235	18,747	23,871	24,661
Other real estate owned (“OREO”) (2)	6,833	7,701	8,705	5,956	5,862
Other nonperforming assets (3)	29	78	78	24	—
Total non-acquired nonperforming assets	25,234	27,014	27,530	29,851	30,523
Acquired non-credit impaired:					
Nonaccrual loans	4,438	3,951	3,764	4,130	5,173
Accruing loans past due 90 days or more	—	—	53	—	101
Total acquired nonperforming loans (1)	4,438	3,951	3,817	4,130	5,274

Acquired OREO and other nonperforming assets:														
Covered OREO (2)		—			4,222			5,751			5,465			8,293
Acquired OREO not covered under loss share (2)		15,594			14,030			16,098			19,957			20,887
Other acquired nonperforming assets (3)		664			694			546			557			540
Total acquired OREO and other nonperforming assets		16,258			18,946			22,395			25,979			29,720
Total nonperforming assets	$	45,930		$	49,911		$	53,742		$	59,960		$	65,517
Excluding Acquired Assets														
Total NPAs as a percentage of total loans and repossessed assets (4)		0.52	%		0.60	%		0.65	%		0.75	%		0.80 %
Total NPAs as a percentage of total assets (5)		0.29	%		0.31	%		0.32	%		0.35	%		0.38 %
Total NPLs as a percentage of total loans (4)		0.38	%		0.43	%		0.44	%		0.60	%		0.65 %
Including Acquired Assets														
Total NPAs as a percentage of total loans and repossessed assets (4)		0.71	%		0.81	%		0.89	%		1.02	%		1.12 %
Total NPAs as a percentage of total assets		0.53	%		0.58	%		0.63	%		0.71	%		0.81 %
Total NPLs as a percentage of total loans (4)		0.36	%		0.38	%		0.38	%		0.48	%		0.52 %

Table of Contents

(1) Excludes the acquired credit impaired loans that are contractually past due 90 days or more totaling $14.5 million, $15.9 million, $18.8 million, $21.7 million, and $38.2 million as of June 30, 2016, March 31, 2016, December 31, 2015, September 30, 2015, and June 30, 2015, respectively, including the valuation discount. Acquired credit impaired loans are considered to be performing due to the application of the accretion method under FASB ASC Topic 310-30. (For further discussion of the Company's application of the accretion method, see Business Combinations and Method of Accounting for Loans Acquired" in our Annual Report on Form 10-K for the year ended December 31, 2015.
(2) Includes certain real estate acquired as a result of foreclosure and property not intended for bank use.
(3) Consists of non-real estate foreclosed assets, such as repossessed vehicles. Prior to our termination agreement with the FDIC in the 2nd 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 $18.4 million, or 0.38% of non-acquired loans, a decrease of $6.3 million, or 25.5%, from June 30, 2015. The decrease in nonperforming loans was driven primarily by a decrease in commercial nonaccrual loans of $2.7 million and restructured nonaccrual loans of $5.3 million, partially offset by an increase in consumer nonaccrual loans of $1.9 million.

Nonperforming non-acquired loans overall, including restructured loans, decreased by $863,000 during the second quarter of 2016 from the level at March 31, 2016. This decrease was primarily driven by a decrease in restructured nonaccrual loans of $207,000, commercial nonaccrual loans of $286,000 and consumer nonaccrual loans of $632,000, offset by an increase in loans over 90 days still accruing of $262,000.

At June 30, 2016, non-acquired OREO decreased by $868,000 from March 31, 2016. At June 30, 2016, non-acquired OREO consisted of 33 properties with an average value of $207,000. This compared to 47 properties with an average value of $164,000 at March 31, 2016. In the second quarter of 2016, we added 7 properties with an aggregate value of $1.5 million into non-acquired OREO, and we sold 21 properties with a basis of $2.3 million. Our non-acquired OREO balance of $6.8 million at June 30, 2016 is comprised of 55% in the Low Country/Orangeburg region, 8% in the Coastal region (Beaufort to Myrtle Beach), 24% in the Central region (Columbia), 6% in the Charlotte region, 7% in the Upstate region (Greenville).

Potential Problem Loans

Potential problem loans (excluding all acquired loans), totaled $15.3 million, or 0.20% of total non-acquired loans outstanding, at June 30, 2016, compared to $6.3 million, or 0.15% of total non-acquired loans outstanding, at December 31, 2015, and compared to $6.5 million, or 0.17% of total non-acquired loans outstanding, at June 30, 2015. Potential problem loans related to acquired non-credit impaired loans totaled $1.3 million, or 0.14% of total acquired non-credit impaired loans, at June 30, 2016, compared to $8.4 million, or 0.80% of total acquired non-credit impaired loans outstanding, at December 31, 2015, and compared to $8.3 million, or 0.71% of total acquired

non-credit impaired loans outstanding, at June 30, 2015. All potential problem loans represent those loans where information about possible credit problems of the borrowers has caused management to have serious concern about the borrower's ability to comply with present repayment terms.

Noninterest Income

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2016	2015	2016	2015
Fees on deposit accounts	$ 21,539	$ 17,699	$ 41,663	$ 34,192
Mortgage banking income	5,620	7,089	9,818	13,715
Trust and investment services income	4,911	5,051	9,697	9,985
Securities losses, net	—	—	122	—
Amortization of FDIC indemnification asset	(4,427)	(2,042)	(5,901)	(5,249)
Other	4,475	2,285	6,761	3,945
Total noninterest income	$ 32,118	$ 30,082	$ 62,160	$ 56,588

Table of Contents

Noninterest income increased by $2.0 million, or 6.8%, during the second quarter of 2016 compared to the same period in 2015. The quarterly increase in total noninterest income primarily resulted from the following:

- Fees on deposit accounts increased $3.8 million, or 21.7%, which mainly resulted from an increase in total deposits of $496.4 million. The increase in total deposits was driven by the purchase of 13 branches from Bank of America during the third quarter of 2015, in addition to the year over year organic core deposit growth of $102.5 million;
- Other income increased $2.2 million, which was driven by an increase in recoveries on acquired loans with the early termination of FDIC Loss Share Agreements of $1.0 million, and the positive resolution of an acquired credit impaired loan totaling $1.1 million; partially offset by
- Amortization of the FDIC indemnification asset increased by $2.4 million. This increase was driven primarily by the early termination charge to settle the FDIC loss share agreements during the second quarter of 2016;
- Mortgage banking income decreased by $1.5 million, or 20.7%, driven primarily by a decline in the gains on sale of mortgage loans; and
- Trust and investment services income declined by $140,000.

Noninterest income increased by $5.6 million, or 9.8%, during the first six months of 2016 compared to the same

period in 2015. This increase resulted primarily from a $7.5 million or 21.9% increase in fees on deposit accounts and a $2.8 million or 41.7% increase in other noninterest income. This increase was partially offset by a $3.9 million or 28.4% decline in mortgage banking income. The increase in fees on deposit accounts was the result of an increase in deposits mainly driven by the purchase of the Bank of America branches in the third quarter of 2015. The increase in other noninterest income was driven by the positive resolution of an acquired credit impaired loan totaling $1.1 million in the second quarter of 2016 and an increase of $1.7 million in recoveries on acquired loans with the early termination of FDIC loss share agreements. The decrease in mortgage banking income was driven primarily by a decline in the fair market valuations of our loans held for sale portfolio, mortgage servicing rights and mortgage pipeline along with a decline in sale of mortgage loans.

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

Noninterest Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2016	2015	2016	2015
Salaries and employee benefits	$ 40,537	$ 39,754	$ 81,969	$ 80,741
Net occupancy expense	5,541	5,046	10,900	10,283
Information services expense	5,083	4,382	10,117	8,340
Furniture and equipment expense	3,072	2,762	5,923	5,907
OREO expense and loan related	874	2,019	2,648	5,033

Bankcard expense	3,040	2,285	5,919	4,265
Amortization of intangibles	1,892	1,964	3,795	3,980
Branch and consolidation expense	1,573	2,237	2,531	2,237
Supplies, printing and postage expense	1,757	1,430	3,565	3,042
Professional fees	1,576	1,585	2,906	2,994
FDIC assessment and other regulatory charges	1,017	1,253	2,161	2,437
Advertising and marketing	858	1,009	1,502	1,864
Other	7,034	5,803	11,947	10,891
Total noninterest expense	$ 73,854	$ 71,529	$ 145,883	$ 142,014

Noninterest expense increased $2.3 million in the second quarter of 2016 as compared to the same period in 2015. The quarterly increase in total noninterest expense primarily resulted from the following:

· Salaries and employee benefits expense increased by $783,000 in 2016 compared to the same period in 2015. This increase was mainly attributable to annual salary increases and to the added personnel from the branch acquisitions from Bank of America in the third quarter of 2015;
· Bankcard expense increased by $755,000 in 2016 compared to the expenses in 2015. This increase is mainly attributable to our growth in deposit transactions accounts both organically and through the branch acquisitions from Bank of America;

- Information services expense increased by $701,000 in 2016 compared to expenses in 2015 due primarily to additional cost related to using a third party mortgage servicing provider which began in the first quarter of 2016;
- Other noninterest expense increased by $1.2 million in 2016 compared to expenses in 2016 due primarily to increases in operational charge-offs, sales and use taxes, and armored carrier and courier services.
  - Increases in net occupancy expense and supplies, furniture and equipment expense, supplies, printing and postage expense and business development and staff related expense; partially offset by
- During the second quarter of 2016, we had branch and conversion related expense of $1.5 million compared to $2.2 million in the second quarter of 2015, a decrease of $664,000. The 2016 expense was related to our branch consolidation project and to our mortgage servicing provider conversion;
- Lower OREO expense and loan related cost of $1.1 million mainly related to a lower amount of nonperforming assets which have declined 29.9% from June 30, 2015 compared to June 30, 2016; and
- Decreases in FDIC assessment and other regulatory charges, amortization of intangibles, professional fees, and advertising and marketing expense.

Noninterest expense increased by $3.9 million or 2.7%, during the first six months of 2016 compared to the same

period in 2015. The increase resulted primarily from a $1.2 million or 1.5%, increase in salaries and employee benefits, a $1.8 million or 21.3% increase in information and technology expense, a $1.7 million or 38.8% increase in bankcard expense and a $1.1 million or 9.7% increase in other noninterest expense. This was partially offset by and $2.4 million or 47.4% decline in OREO expense and loan related. The increase in salaries and employee benefits was mainly related to annual salary increases and to the added personnel from the Bank of America branch acquisitions. The increase in information and technology expense was due primarily to costs related to using a third party mortgage servicing provider which began in the first quarter of 2016. The increase in bankcard expense was mainly attributable to our growth in deposit transaction accounts both organically and through the Bank of America branch acquisitions during the third quarter of 2015. The increase in other noninterest expense was mainly related to an increase in operational charge-offs and in sales and use taxes. The decline in OREO expense and loan related expense was mainly driven by the decline in nonperforming asset from June 30, 2015 to June 30, 2016.

Income Tax Expense

Our effective income tax rate was 33.63% and 33.76% for the three months and six months ended June 30, 2016, respectively. This compares to 34.00% for both the three months and six months ended June 30, 2015. The slight decrease in the rate for both periods was mainly attributable to the purchase of additional tax credits in late 2015 that were not considered in the income tax calculation in the second quarter of 2015.

Capital Resources

Our ongoing capital requirements have been met primarily through retained earnings, less the payment of cash dividends. As of June 30, 2016, shareholders' equity was $1.1 billion, an increase of $45.0 million, or 4.2%, from December 31, 2015, and an increase of $80.6 million, or 7.9%, from $1.0 billion at June 30, 2015. The driving factor

for the increase from year-end was net income of $49.0 million, which was offset by the common dividend paid of $14.0 million. At December 31, 2015 we had accumulated other comprehensive loss of $3.8 million compared to an accumulated other comprehensive gain of $6.5 million at June 30, 2016. This change was mainly attributable to the Company having an unrealized gain in its AFS securities portfolio of $10.1 million, net of tax during the first half of 2016 due to a drop in interest rates. The increase in shareholder's equity from the comparable period in 2015 was primarily the result of net income of $99.7 million and partially offset by dividends paid to common shareholders of $26.4 million. Our common equity-to-assets ratio was 12.66% at June 30, 2016, up from 12.38% at December 31, 2015 and remained constant compared to 12.66% at the end of the comparable period of 2015.

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

As disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015, in July 2013, the Federal Reserve announced its approval of a final rule to implement the regulatory capital reforms developed by the Basel

Committee on Banking Supervision ("Basel III"), among other changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The new rules became effective January 1, 2015, subject to a phase-in period for certain aspects of the new rules.

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

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

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

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

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

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

	June 30, 2016		December 31, 2015		June 30, 2015	
South State Corporation:						
Common equity Tier 1 risk-based capital	11.23	%	11.84	%	12.15	%
Tier 1 risk-based capital	12.02	%	12.71	%	13.03	%
Total risk-based capital	12.64	%	13.34	%	13.72	%
Tier 1 leverage	9.51	%	9.31	%	9.68	%
South State Bank:						
Common equity Tier 1 risk-based capital	11.62	%	12.33	%	12.68	%
Tier 1 risk-based capital	11.62	%	12.33	%	12.68	%
Total risk-based capital	12.24	%	12.96	%	13.38	%
Tier 1 leverage	9.19	%	9.03	%	9.43	%

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

Table of Contents

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 legacy loan portfolio increased by approximately $1.0 billion, or approximately 27.1%, compared to the balance at June 30, 2015, and by $596.1 million, or 28.4% annualized, compared to the balance at December 31, 2015.

Our investment securities portfolio increased $146.7 million, or 17.1%, compared to the balance at June 30, 2015, and decreased by $20.7 million compared to the balance at December 31, 2015. The Company's recent strategy has been to increase the investment portfolio as a percentage to total assets, however, during the first half of 2016, we had $154.2 million in U.S. Government Agencies called with the continuing low interest rate environment which led to the decrease in the investment portfolio. Total cash and cash equivalents were $481.9 million at June 30, 2016 as compared to $695.8 million at December 31, 2015 and $593.4 million at June 30, 2015.

At June 30, 2016, December 31, 2015 and June 30, 2015, the Company had $5.5 million, $18.9 million and $19.4 million, respectively, in traditional, out-of-market brokered deposits and $63.1 million, $53.3 million, and $71.0 million, respectively, of reciprocal brokered deposits. Total deposits were $7.2 billion at June 30 ,2016, up $496.4 million or 7.4%, from June 30, 2015, resulting primarily from the addition of $438.3 million of deposits in the branch acquisition in August of 2015. Other borrowings, comprised mainly of our trust preferred debt, has remained mainly flat from June 30, 2015, increasing only $199,000. 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, 2016, our Bank had total federal funds credit lines of $446.0 million with an outstanding balance of $10.5 million. 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, 2016, our Bank had $153.5 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

Table of Contents

alternative immediate funding sources from lines of credit extended to us from our correspondent banks and/or the FHLB. At June 30, 2016, our Bank had a total FHLB credit facility of $1.2 billion with total outstanding letters of credit consuming $8.7 million, $126,000 in outstanding advances and $134,000 in credit enhancements from participation in the FHLB's Mortgage Partnership Finance Program. The Company has a $20.0 million unsecured line of credit with U.S. Bank National Association with no outstanding advances. We believe that our liquidity position continues to be adequate and readily available.

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

Loss Share

The following table presents the expected losses on acquired assets covered under all loss share agreements from inception through June 30, 2016:

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

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

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

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

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

Deposit and Loan Concentrations

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

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 $208.5 million at June 30, 2016. Based on this

criteria, the Company had four such credit concentrations for non-acquired loans and acquired non-credit impaired loans at June 30, 2016, including $302.9 million of loans to lessors of residential buildings, $621.2 million of loans to lessors of nonresidential buildings (except mini-warehouses), $239.0 million of loans to religious organizations, and $230.1 million of loans to offices of physicians, dentists and other health practitioners.

Cautionary Note Regarding Any Forward-Looking Statements

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

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

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

Table of Contents

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, 2016 from that presented in our Annual Report on Form 10-K for the year ended December 31, 2015.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

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

Table of Contents

PART II — OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

As of June 30, 2016 and the date of this form 10-Q, we believe that we are not a party to, nor is any of our property the subject of, any pending material legal 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, 2015, as well as cautionary statements contained in this Form 10-Q, including those under the caption "Cautionary Note Regarding Any Forward-Looking Statements" set forth in Part I, Item 2 of this Form 10-Q, risks and matters described elsewhere in this Form 10-Q and in our other filings with the SEC.

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

(a) Not applicable

(b) Not applicable

(c) Issuer Purchases of Registered Equity Securities:

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

	(c) Total Number of	(d) Maximum Number (or Approximate

Period	(a) Total Number of Shares (or Units) Purchased		(b) Average Price Paid per Share (or Unit)	Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
April 1 - April 30	2,759	*	$ 69.67	—	54,972
May 1 - May 31	—		—	—	54,972
June 1 - June 30	—		—	—	54,972
Total	2,759			—	54,972

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

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

Table of Contents

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, 2016	/s/ Robert R. Hill, Jr. Robert R. Hill, Jr. Chief Executive Officer (Principal Executive Officer)
Date: August 4, 2016	/s/ John C. Pollok John C. Pollok Senior Executive Vice President, Chief Financial Officer, and Chief Operating Officer (Principal Financial Officer)
Date: August 4, 2016	/s/ Keith S. Rainwater Keith S. Rainwater Executive Vice President and Principal Accounting Officer

Exhibit Index

Exhibit No.	Description
Exhibit 2.1	Agreement and Plan of Merger, dated as of June 16, 2016, by and between Southeastern Bank Financial Corporation and South State Corporation (incorporated by reference as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on June 22, 2016)
Exhibit 10.1	Termination Agreement between South State Bank and the Federal Deposit Insurance Corporation, as Receiver of the Cape Fear Bank, in Wilmington, NC, Community Bank & Trust, in Cornelia, GA, Habersham Bank, in Clarkesville, GA, BankMeridian, in Columbia, SC, and Plantation Federal Bank, in Pawleys Island, SC, dated as of June 23, 2016 (incorporated by reference as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 24, 2016)
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, 2016, formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Changes in Shareholders' Equity, (v) Condensed Consolidated Statement of Cash Flows and (vi) Notes to Condensed Consolidated Financial Statements.