STATE BANK FINANCIAL CORP
Form 10-Q
November 03, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2017
or

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

For the transition period from ______ to_____

Commission file number: 001-35139
STATE BANK FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Georgia	27-1744232
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3399 Peachtree Road, NE, Suite 1900 Atlanta, Georgia	30326
(Address of principal executive offices)	(Zip Code)

404-475-6599
(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 x No o

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

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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

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

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

The number of shares outstanding of the registrant’s common stock, as of November 2, 2017 was 38,991,789

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this report that are not statements of historical fact are forward-looking statements. These forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, can generally be identified by the use of the words "may," "would," "could," "will," "expect," "anticipate," "project," "believe," "intend," "plan" and "estimate," as well as similar expressions. These forward-looking statements include, but are not limited to, statements related to our strategic plans to continue organic growth and pursue other strategic opportunities, such as acquisitions, our expectations regarding growth in our markets, our belief that our deposits are attractive sources of funding because of their stability and relative cost, our plan to meet future cash needs through the generation of deposits, our anticipation that a significant portion of our commercial and residential real estate construction and consumer equity lines of credit will not be funded, our expectation regarding the impact of the new capital and liquidity standards on the Company and State Bank, our belief that our recorded deferred tax assets are fully recoverable, as well as statements relating to the anticipated effects on results of operations and financial condition from expected developments or events, the possible normalizing of our level of capitalization, anticipated organic growth, our use of derivatives and their anticipated future effect on our financial statements, and our plans to acquire other banks.

These forward-looking statements involve significant risks and uncertainties that could cause our actual results to differ materially from those anticipated in such statements. Potential risks and uncertainties include those described under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016, and the following:

- negative reactions to our recent or future acquisitions of each bank's customers, employees and counterparties or difficulties related to the transition of services;
- general economic conditions (both generally and in our markets) may be less favorable than expected, which could result in, among other things, a deterioration in credit quality, a reduction in demand for credit and a decline in real estate values;
- a general decline in the real estate and lending markets, particularly in our market areas, could negatively affect our financial results;
- risk associated with income taxes including the potential for adverse adjustments and the inability to fully realize deferred tax benefits;
- increased cybersecurity risk, including potential network breaches, business disruptions or financial losses;
- our ability to raise additional capital may be impaired based on conditions in the capital markets;
- costs or difficulties related to the integration of the banks we have acquired or may acquire may be greater than expected;
- current or future restrictions or conditions imposed by our regulators on our operations may make it more difficult for us to achieve our goals;
- legislative or regulatory changes, including changes in accounting standards and compliance requirements, may adversely affect us;
- competitive pressures among depository and other financial institutions may increase significantly;
- changes in the interest rate environment may reduce the volumes or values of the loans we make or have acquired;
- other financial institutions may be able to develop or acquire products that enable them to compete more successfully than we can;
- our ability to attract and retain key personnel can be affected by the increased competition for experienced employees in the banking industry;
- adverse changes may occur in the bond and equity markets;
- war or terrorist activities may cause deterioration in the economy or cause instability in credit markets;
- economic, geopolitical or other factors may prevent the growth we expect in the markets in which we operate; and
- we will or may continue to face the risk factors discussed from time to time in the periodic reports we file with the Securities and Exchange Commission ("SEC").

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For these forward-looking statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You should not place undue reliance on the forward-looking statements, which speak only as of the date of this report. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. See Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2016 for a description of some of the important factors that may affect actual outcomes.

PART I
Item 1. Financial Statements.
STATE BANK FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Financial Condition
(Dollars in thousands, except per share amounts)

	September 30, 2017 (unaudited)	December 31, 2016 (audited)
Assets		
Cash and amounts due from depository institutions	$ 14,235	$ 13,219
Interest-bearing deposits in other financial institutions	251,115	132,851
Federal funds sold	16,889	3,523
Cash and cash equivalents	282,239	149,593
Investment securities available-for-sale	920,763	847,178
Investment securities held-to-maturity (fair value of $58,605 and $67,435, respectively)	57,867	67,063
Loans	3,572,790	2,814,572
Allowance for loan and lease losses	(26,842)	(26,598)
Loans, net	3,545,948	2,787,974
Loans held-for-sale (includes loans at fair value of $33,787 and $35,813, respectively)	47,743	52,169
Other real estate owned	1,271	10,897
Premises and equipment, net	52,120	52,056
Goodwill	84,564	77,084
Other intangibles, net	11,755	12,749
SBA servicing rights	3,950	3,477
Bank-owned life insurance	66,846	65,371
Other assets	73,417	99,654
Total assets	$ 5,148,483	$ 4,225,265
Liabilities and Shareholders' Equity		
Liabilities:		
Noninterest-bearing deposits	$ 1,179,698	$ 984,419
Interest-bearing deposits	3,061,387	2,446,746
Total deposits	4,241,085	3,431,165
Federal funds purchased and securities sold under agreements to repurchase	25,499	27,673
FHLB borrowings	—	47,014
Notes payable	398	398
Other liabilities	238,911	105,382
Total liabilities	4,505,893	3,611,632
Shareholders' equity:		
Preferred stock, $1 par value; 2,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $.01 par value; 100,000,000 shares authorized; 38,991,022 and 38,845,573 shares issued and outstanding, respectively	390	388
Additional paid-in capital	412,448	409,736
Retained earnings	230,095	205,966
Accumulated other comprehensive income (loss), net of tax	(343)	(2,457)
Total shareholders' equity	642,590	613,633
Total liabilities and shareholders' equity	$ 5,148,483	$ 4,225,265

See accompanying notes to consolidated financial statements.

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STATE BANK FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Income
(Unaudited)
(Dollars in thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2017	2016	2017	2016
Interest income:				
Loans	$35,400	$26,580	$104,332	$76,328
Loan accretion	6,520	9,335	23,425	33,039
Investment securities	5,564	4,670	16,587	13,883
Deposits with other financial institutions	218	44	402	230
Total interest income	47,702	40,629	144,746	123,480
Interest expense:				
Deposits	3,260	2,408	9,491	6,759
FHLB borrowings	94	73	435	100
Notes payable	9	12	29	93
Federal funds purchased and repurchase agreements	7	11	23	36
Total interest expense	3,370	2,504	9,978	6,988
Net interest income	44,332	38,125	134,768	116,492
Provision for loan and lease losses	415	88	3,262	(40)
Net interest income after provision for loan and lease losses	43,917	38,037	131,506	116,532
Noninterest income:				
Service charges on deposits	1,575	1,383	4,513	4,121
Mortgage banking income	2,793	3,216	8,783	9,808
SBA income	1,464	1,553	4,625	4,740
Payroll and insurance income	1,487	1,297	4,400	4,097
ATM income	826	759	2,522	2,273
Bank-owned life insurance income	526	533	1,475	1,463
Gain on sale of investment securities	3	38	28	447
Other	1,008	990	3,271	2,441
Total noninterest income	9,682	9,769	29,617	29,390
Noninterest expense:				
Salaries and employee benefits	21,457	19,799	65,426	59,221
Occupancy and equipment	3,187	2,984	9,796	9,100
Data processing	2,587	2,097	7,608	6,383
Legal and professional fees	700	1,064	3,403	2,993
Merger-related expenses	135	135	2,742	454
Marketing	342	665	1,409	1,786
Federal deposit insurance premiums and other regulatory fees	407	441	1,202	1,556
Loan collection costs and OREO activity	181	(841)	(1,074)	(452)
Amortization of intangibles	701	513	2,094	1,586
Other	1,874	1,623	5,527	5,425
Total noninterest expense	31,571	28,480	98,133	88,052
Income before income taxes	22,028	19,326	62,990	57,870
Income tax expense	7,592	6,885	21,793	20,606
Net income	$14,436	$12,441	$41,197	$37,264
Basic earnings per share	$.37	$.34	$1.06	$1.01

Diluted earnings per share	$ .37	$ .34	$ 1.06	$ 1.01
Cash dividends declared per common share	$ .14	$ .14	$ .42	$ .42
Weighted Average Shares Outstanding:				
Basic	37,918,753	35,863,183	37,894,385	35,940,402
Diluted	37,963,141	35,965,948	37,943,971	36,040,655

See accompanying notes to consolidated financial statements.

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STATE BANK FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Comprehensive Income
(Unaudited)
(Dollars in thousands)

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Net income	$14,436	$12,441	$41,197	$37,264
Other comprehensive income (loss), net of tax:				
Net change in unrealized gains	1,604	(758)	2,198	7,737
Amortization of net unrealized (gains) losses on securities transferred to held-to-maturity	(4)	(2)	40	(3)
Amounts reclassified for losses realized and included in earnings	376	282	1,185	357
Other comprehensive income (loss), before income taxes	1,976	(478)	3,423	8,091
Income tax expense	760	(184)	1,309	3,197
Other comprehensive income (loss), net of income taxes	1,216	(294)	2,114	4,894
Comprehensive income	$15,652	$12,147	$43,311	$42,158

See accompanying notes to consolidated financial statements.

STATE BANK FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)
(Dollars in thousands)

	Warrants	Common Shares	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2015	172,745	37,077,848	$371	$358,671	$179,082	$ (1,634)	$536,490
Exercise of stock warrants	(13,833)	7,247	—	—	—	—	—
Share-based compensation	—	—	—	3,010	—	—	3,010
Repurchase of common stock	—	(270,715)	(3)	(5,125)	—	—	(5,128)
Restricted stock activity	—	80,173	1	130	(10)	—	121
Other comprehensive income	—	—	—	—	—	4,894	4,894
Common stock dividends, $.42 per share	—	—	—	—	(15,517)	—	(15,517)
Net income	—	—	—	—	37,264	—	37,264
Balance, September 30, 2016	158,912	36,894,553	$369	$356,686	$200,819	$ 3,260	$561,134
Balance, December 31, 2016	133,912	38,845,573	$388	$409,736	$205,966	$ (2,457)	$613,633
Exercise of stock warrants	(46,008)	31,939	1	—	—	—	1
Share-based compensation	—	—	—	2,826	—	—	2,826
Restricted stock activity	—	96,939	1	(649)	(449)	—	(1,097)
Stock option activity	—	4,085	—	200	(265)	—	(65)
Issuance of common stock	—	12,486	—	335	—	—	335
Other comprehensive income	—	—	—	—	—	2,114	2,114
Common stock dividends, $.42 per share	—	—	—	—	(16,354)	—	(16,354)
Net income	—	—	—	—	41,197	—	41,197
Balance, September 30, 2017	87,904	38,991,022	$390	$412,448	$230,095	$ (343)	$642,590

See accompanying notes to consolidated financial statements.

STATE BANK FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands)

	Nine Months Ended September 30	
	2017	2016
Cash Flows from Operating Activities		
Net income	$41,197	$37,264
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	8,668	8,485
Provision for loan and lease losses	3,262	(40)
Accretion on acquisitions, net	(23,425)	(33,039)
Gains on sales of other real estate owned	(1,780)	(894)
Writedowns of other real estate owned	130	207
Proceeds from sales of mortgage loans held-for-sale	370,290	404,669
Proceeds from sales of SBA loans held-for-sale	38,722	42,518
Originations of mortgage loans held-for-sale	(358,514)	(389,283)
Originations of SBA loans held-for-sale	(32,679)	(51,200)
Mortgage banking activities	(8,783)	(9,808)
Gains on sales of SBA loans	(3,642)	(3,925)
Net gains on sales of available-for-sale securities	(28)	(447)
Share-based compensation expense	2,826	3,010
Changes in fair value of SBA servicing rights	377	314
Changes in other assets and other liabilities, net	1,550	295
Net cash provided by operating activities	38,171	8,126
Cash flows from Investing Activities		
Purchase of investment securities available-for-sale	(216,960)	(215,818)
Proceeds from sales and calls of investment securities available-for-sale	71,588	93,584
Proceeds from maturities and paydowns of investment securities available-for-sale	147,429	135,872
Proceeds from maturities and paydowns of investment securities held-to-maturity	14,301	—
Purchase of investment securities held-to-maturity	(5,000)	(10,500)
Loan originations, repayments and resolutions, net	(20,595)	(156,617)
Purchases of loans	—	(1,300)
Net purchases of premises and equipment	(1,590)	(1,703)
Proceeds from sales of other real estate owned	11,926	3,577
Net cash received in excess of assets and liabilities acquired in purchase business combinations	57,255	—
Net cash provided by (used in) investing activities	58,354	(152,905)
Cash Flows from Financing Activities		
Net increase in noninterest-bearing customer deposits	92,626	64,372
Net increase in interest-bearing customer deposits	11,693	32,958
Repayment of other borrowed funds	—	(1,414)
Proceeds from FHLB advances	880,000	440,000
Repayments of FHLB advances	(927,014)	(420,000)
Net decrease in federal funds purchased and securities sold under repurchase agreements	(2,174)	(12,055)
Payment of contingent consideration	(1,495)	(150)
Exercise of stock warrants	1	—
Restricted stock activity	(1,097)	121

Stock option activity	(65)	—
Repurchase of common stock	—	(5,128)
Dividends paid to shareholders	(16,354)	(15,517)
Net cash provided by financing activities	36,121	83,187

STATE BANK FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands)

	Nine Months Ended September 30	
	2017	2016
Net increase (decrease) in cash and cash equivalents	132,646	(61,592)
Cash and cash equivalents, beginning	149,593	175,362
Cash and cash equivalents, ending	$282,239	$113,770
Supplemental Disclosure of Noncash Investing and Financing Activities		
Unrealized gains on securities and cash flow hedges, net of tax	$2,114	$4,894
Transfer of investment securities available-for-sale to held-to-maturity	—	56,595
Transfers of loans to other real estate owned	1,340	2,969
Acquisitions:		
Assets acquired	$909,117	$—
Liabilities assumed	713,663	—
Net assets	195,454	—
Goodwill and fair value adjustments	7,480	—

See accompanying notes to consolidated financial statements.

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STATE BANK FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: BASIS OF PRESENTATION AND RECENTLY ADOPTED ACCOUNTING STANDARDS

Overview

State Bank Financial Corporation (the "Company" or "we") is a bank holding company whose business is primarily conducted through its wholly-owned banking subsidiary, State Bank and Trust Company (the "Bank" or "State Bank"). We operate a full service banking business and offer a broad range of commercial and retail banking products to our customers throughout seven of Georgia's eight largest metropolitan statistical areas, or MSAs.

The accompanying unaudited consolidated financial statements for the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, the financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statement presentation. The interim consolidated financial statements included herein are unaudited, but reflect all adjustments, consisting of normal and recurring items, which, in the opinion of management, are necessary for a fair presentation of the consolidated financial position and results of operations for the interim period presented. All significant intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the period ended September 30, 2017 are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto and the report of our independent registered public accounting firm included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Certain amounts have been reclassified to conform to the current period presentation. The reclassifications had no effect on net income or shareholders' equity as previously reported.

NOTE 2: RECENT ACCOUNTING PRONOUNCEMENTS

Adoption of New Accounting Standards

ASU 2016-05 — In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. The amendments in this Update clarify that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument under Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The amendments in this update are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted and the amendments can be adopted either on a prospective basis or a modified retrospective basis. The Company adopted the amendments in this ASU effective January 1, 2017. The adoption did not have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements

ASU 2017-12 — On August 28, 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The purpose of this ASU is to better align a company's risk management activities and financial reporting for hedging relationships with the economic objectives of those activities, simplify the hedge accounting requirements, and improve the disclosures of hedging arrangements. The ASU is effective for annual reporting periods, including interim periods within those annual reporting periods, beginning after December 15, 2018. Early adoption is permitted, including adoption in any interim period. ASU 2017-12 requires a modified retrospective transition method in which the Company will recognize the cumulative effect of the change on the opening balance of each affected component of equity in the statement of financial position as of the date of adoption. The Company is still reviewing the impact of adoption of this guidance.

ASU 2017-09 — On May 10, 2017, the FASB issued ASU 2017-09, Scope of Modification Accounting. This Update amends the scope of modification accounting for share-based payment arrangements. It provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718, Compensation—Stock Compensation. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions and classification of the awards are the same immediately before and after the modification. The ASU is effective for annual reporting periods, including interim periods within those annual reporting periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period. The guidance is not expected to have a significant impact on the Company's financial position, results of operations or disclosures.

ASU 2017-08 — In March 2017, FASB issued ASU No. 2017-08, Receivables - Nonrefundable Fees and Other Costs (Topic 310-20): Premium Amortization on Purchased Callable Debt Securities. The ASU shortens the amortization period for certain callable debt securities held at a premium. The premium on individual callable debt securities shall be amortized to the earliest call date. This guidance does not apply to securities for which prepayments are estimated on a large number of similar loans where prepayments are probable and reasonably estimable. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. This update should be adopted on a modified retrospective basis with a cumulative-effect adjustment to retained earnings on the date of adoption. The guidance is not expected to have a significant impact on the Company's financial position, results of operations or disclosures.

ASU 2017-04 — In January 2017, FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The ASU simplifies the subsequent measurement of goodwill and eliminates Step 2 from the goodwill impairment test. The Company should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. The impairment charge is limited to the amount of goodwill allocated to that reporting unit. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. The guidance is not expected to have a significant impact on the Company's financial position, results of operations or disclosures.

ASU 2017-01 — In January 2017, FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The ASU clarifies the definition of a business to assist with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The guidance is not expected to have a significant impact on the Company's financial position, results of operations or disclosures.

ASU 2016-13 — In June 2016, FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU changed the credit loss model on financial instruments measured at amortized cost, available for sale securities and certain purchased financial instruments. Credit losses on financial instruments measured at amortized cost will be determined using a current expected credit loss model which requires the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. Purchased financial assets with more-than-insignificant credit deterioration since origination ("PCD assets") measured at amortized cost will have an allowance for credit losses established at acquisition as part of the purchase price. Subsequent increases or decreases to the allowance for credit losses on PCD assets will be recognized in the income statement. Interest income should be recognized on PCD assets based on the effective interest rate, determined excluding the discount attributed to credit losses at acquisition. Credit losses relating to available-for-sale debt securities will be recognized through an allowance for credit losses. The amount of the credit loss is limited to the amount by which fair value is below amortized cost of the available-for-sale debt security. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted and if early adopted, all provisions must be adopted in the same period. The amendments should be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the period adopted. A prospective approach is required for securities with other-than-temporary impairment recognized prior to adoption. The Company is still reviewing the impact the adoption of this guidance, but expects the allowance for credit losses to increase upon adoption with a corresponding adjustment to retained earnings. The ultimate amount of the increase will depend on the portfolio composition, credit quality, economic conditions and reasonable and supportable forecasts at that time.

ASU 2016-02 — In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842). The new standard requires the recognition of assets and liabilities arising from the lease transactions on the balance sheet and the disclosure of key information about leasing arrangements. Accordingly, a lessee will recognize a lease asset for its right to use the underlying asset and a lease liability for the corresponding lease obligation. Both the asset and liability will initially be measured at the present value of the future minimum lease payments over the lease term. Subsequent measurement, including the presentation of expenses and cash flows, will depend on the classification of the lease as either a finance or an operating lease. Initial costs directly attributable to negotiating and arranging the lease will be included in the asset. For leases with a term of 12 months or less, a lessee can make an accounting policy election by class of underlying asset to not recognize an asset and corresponding liability. Lessees will also be required to provide additional qualitative and quantitative disclosures regarding the amount, timing and uncertainty of cash flows arising from leases. These disclosures are intended to supplement the amounts recorded in the financial statements and provide additional information about the nature of an organization’s leasing activities. 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. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. An entity that elects to apply the practical expedients will, in effect, continue to account for leases that commence before the effective date in accordance with previous GAAP unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous GAAP. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company expects to elect the package of practical expedients that allows it to not reassess whether any expired or existing contracts represent leases, the lease classification of any expired or existing lease and initial direct costs for any existing or expired leases. The Company expects this standard will have a material impact on its financial statements through gross-up of the balance sheet for lease assets and liabilities. However, no material change to lease expense recognition is expected.

ASU 2016-01 — In January 2016, FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this ASU (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (vii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The accounting guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is prohibited except for the presentation in other comprehensive income of the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk which may be early adopted. The guidance is not expected to have a significant impact on the Company's financial position, results of operations or disclosures.

ASU 2014-09, Revenue from Contracts with Customers (Topic 606), ASU 2015-14 Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, ASU 2016-08 Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), ASU 2016-10 Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, ASU 2016-11 Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting, ASU 2016-12 Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, ASU 2016-20 Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, and ASU 2017-05 Other Income - Gains and losses from the Derecognition of Nonfinancial Assets

(Subtopic 610-20) - Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets — In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The new guidance, which does not apply to financial instruments, provides that revenue should be recognized for the transfer of goods and services to customers in an amount equal to the consideration it receives or expects to receive. The guidance also includes expanded disclosure requirements that provide comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company currently plans to adopt the guidance using the modified retrospective method and without electing any of the practical expedients available. The Company has performed an analysis of the guidance and it is not expected to have a significant impact on the Company's financial position or results of operations but will increase disclosures of revenue.

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NOTE 3: ACQUISITIONS

Acquisition of AloStar Bank of Commerce.

On September 30, 2017, State Bank completed its acquisition of AloStar Bank of Commerce ("AloStar"). State Bank Interim Corp., a wholly-owned subsidiary of State Bank, merged with and into AloStar, immediately followed by the merger of AloStar with and into State Bank. Under the terms of the merger agreement, each share of AloStar common stock was converted into the right to receive $24.26 in cash. Total consideration paid was approximately $195.0 million and the final merger consideration was distributed in October 2017.

The merger of AloStar was accounted for under the acquisition method of accounting. Assets acquired, liabilities assumed and consideration exchanged were recorded at their respective acquisition date fair values. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values becomes available. Goodwill of $7.1 million was generated from the acquisition, none of which is expected to be deductible for income tax purposes.

The following table summarizes the assets acquired and liabilities assumed and the consideration payable by the Company at the acquisition date (dollars in thousands):

	As Recorded by AloStar Bank of Commerce	Fair Value Adjustments		As Recorded by the Company
Assets				
Cash and cash equivalents	$ 91,571	$ —		$ 91,571
Investment securities available-for-sale	76,436	(195)	(a)	76,241
Loans, net	728,319	(9,763)	(b)	718,556
Core deposit intangible	—	856	(c)	856
Premises and equipment, net	507	—		507
Other assets	11,430	2,233	(d)	13,663
Total assets acquired	$ 908,263	$ (6,869)		$ 901,394
Liabilities				
Deposits:				
Noninterest-bearing	$ 102,653	$ —		$ 102,653
Interest-bearing	603,069	(121)	(e)	602,948
Total deposits	705,722	(121)		705,601
Other liabilities	7,912	—		7,912
Total liabilities assumed	713,634	(121)		713,513
Net identifiable assets acquired over liabilities assumed	$ 194,629	$ (6,748)		$ 187,881
Goodwill	$ —	$ 7,088		$ 7,088
Net assets acquired over liabilities assumed	$ 194,629	$ 340		$ 194,969
Consideration:				
Cash consideration payable	194,969			
Fair value of total consideration transferred	$ 194,969			

Explanation of fair value adjustments

(a) Adjustment reflects the loss on certain securities that were sold immediately following the closing that was deemed to be a more accurate representation of fair value.

(b) Adjustment reflects the fair value adjustment based on the State Bank's evaluation of the acquired loan portfolio and includes the adjustment to eliminate the recorded allowance for loan and lease losses.

(c) Adjustment reflects the fair value adjustment to record the estimated core deposit intangible.

(d) Adjustment reflects the fair value adjustment based on State Bank's evaluation of acquired other assets.

(e) Adjustment reflects the fair value adjustment based on State Bank's evaluation of acquired deposits.

The following table presents certain pro forma information as if AloStar had been acquired on January 1, 2016 (dollars in thousands, except per share amounts). These results combine the historical results of AloStar in the Company's consolidated statements of income and, while certain adjustments were made for the estimated impact of certain fair value adjustments and other acquisition-related activity, they are not indicative of what would have occurred had the acquisition taken place on January 1, 2016. Merger-related costs are not included in the pro forma statements below.

	Nine Months Ended September 30	
	2017 Pro Forma	2016 Pro Forma
Net interest income	$163,304	$152,606
Net income	47,304	43,599
Earnings per share:		
Basic	$1.22	$1.18
Diluted	1.21	1.18

The following is a summary of the purchased credit impaired loans acquired in the AloStar transaction on September 30, 2017 (dollars in thousands):

	Purchased Credit Impaired Loans
Contractually required principal and interest at acquisition	$108,308
Contractual cash flows not expected to be collected (nonaccretable difference)	(19,093)
Expected cash flows at acquisition	89,215
Accretable difference	(11,664)
Basis in acquired loans at acquisition - estimated fair value	$77,551

On September 30, 2017, the fair value of the purchased non-credit impaired loans acquired in the AloStar transaction was $641.0 million. The gross contractual amounts receivable of the purchased non-credit impaired loans at acquisition was $707.0 million, of which $9.3 million was the amount of contractual cash flows not expected to be collected.

Acquisition of NBG Bancorp, Inc.

On December 31, 2016, the Company completed its acquisition of NBG Bancorp, Inc. ("NBG Bancorp"), the holding company for The National Bank of Georgia ("National Bank of Georgia"), a national banking association. NBG Bancorp was immediately merged into the Company followed by the merger of National Bank of Georgia with and into State Bank. Under the terms of the merger agreement, each share of NBG Bancorp common stock was converted into the right to receive either $45.45 in cash or 2.1642 shares of the Company's common stock, provided, that the elections by NBG Bancorp shareholders were prorated under the merger agreement such that 50% of NBG Bancorp's shares were exchanged for cash and 50% were exchanged for Company common stock. The elections by NBG Bancorp's shareholders were made subsequent to completion of the merger and the final merger consideration was distributed in February 2017. Total consideration paid was approximately $77.9 million, consisting of $34.2 million in cash and $43.7 million in the Company's common stock.

The merger of NBG Bancorp was accounted for under the acquisition method of accounting, using pushdown accounting. Assets acquired, liabilities assumed and consideration exchanged were recorded at their respective acquisition date fair values. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values becomes available. Goodwill of $36.6 million was generated from the acquisition, none of which is expected to be deductible for income tax purposes.

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The following table summarizes the assets acquired and liabilities assumed and the consideration paid by the Company at the acquisition date (dollars in thousands):

	As Recorded by NBG Bancorp, Inc.	Fair Value Adjustments		As Recorded by the Company
Assets				
Cash and cash equivalents	$38,146	$ (31,158)	(a)	$6,988
Investment securities available-for-sale	5,974	(40)	(b)	5,934
Loans, net	348,641	(3,645)	(c)	344,996
Loans held-for-sale	694	—		694
Other real estate owned	69	(5)	(d)	64
Core deposit intangible	—	3,740	(e)	3,740
Premises and equipment, net	7,943	(635)	(f)	7,308
Bank-owned life insurance	1,499	—		1,499
Other assets	6,542	276	(g)	6,818
Total assets acquired	$409,508	$ (31,467)		$378,041
Liabilities				
Deposits:				
Noninterest-bearing	$58,161	$ —		$58,161
Interest-bearing	261,034	(30,711)	(h)	230,323
Total deposits	319,195	(30,711)		288,484
FHLB advances	46,354	(140)	(i)	46,214
Other liabilities	2,067	—		2,067
Total liabilities assumed	367,616	(30,851)		336,765
Net identifiable assets acquired over liabilities assumed	$41,892	$ (616)		$41,276
Goodwill	$—	$ 36,587		$36,587
Net assets acquired over liabilities assumed	$41,892	$ 35,971		$77,863
Consideration:				
State Bank Financial Corporation common shares issued	1,626,648			
Purchase price per share of the Company's common stock	$26.86			
Company common stock issued	43,692			
Cash exchanged for shares	34,171			
Fair value of total consideration transferred	$77,863			

Explanation of fair value adjustments

(a) Adjustment reflects the elimination of a deposit account The National Bank of Georgia held with State Bank.

(b) Adjustment reflects the loss on certain securities that were sold immediately following the closing that was deemed to be a more accurate representation of fair value.

(c) Adjustment reflects the fair value adjustment based on State Bank's evaluation of the acquired loan portfolio and includes the adjustment to eliminate the recorded allowance for loan and lease losses.

(d) Adjustment reflects the fair value adjustment based on State Bank's evaluation of the acquired other real estate owned portfolio.

(e) Adjustment reflects the fair value adjustment to record the estimated core deposit intangible.

(f) Adjustment reflects the fair value adjustment based on appraised values.

(g) Adjustment reflects the fair value adjustment based on State Bank's evaluation of acquired other assets.

(h) Adjustment reflects the elimination of a deposit account The National Bank of Georgia held with State Bank and the fair value adjustment based on State Bank's evaluation of acquired deposits.

(i) Adjustment arises since the rates on acquired FHLB advances were lower than the rates available on similar borrowings. Subsequent to the NBG Bancorp acquisition all FHLB advances were paid off.

The following table presents certain pro forma information as if NBG Bancorp had been acquired on January 1, 2016 (dollars in thousands, except per share amounts). These results combine the historical results of NBG Bancorp in the Company's consolidated statements of income and, while certain adjustments were made for the estimated impact of certain fair value adjustments and other acquisition-related activity, they are not indicative of what would have occurred had the acquisition taken place on January 1, 2016. Merger-related costs are not included in the pro forma statements below.

	Nine Months Ended September 30 2016 Pro Forma
Net interest income	$ 129,840
Net income	41,719
Earnings per share:	
Basic	$ 1.08
Diluted	1.08

The following is a summary of the purchased credit impaired loans acquired in the NBG Bancorp transaction on December 31, 2016 (dollars in thousands):

	Purchased Credit Impaired Loans
Contractually required principal and interest at acquisition	$ 33,584
Contractual cash flows not expected to be collected (nonaccretable difference)	(3,736)
Expected cash flows at acquisition	29,848
Accretable difference	(2,799)
Basis in acquired loans at acquisition - estimated fair value	$ 27,049

On December 31, 2016, the fair value of the purchased non-credit impaired loans acquired in the NBG Bancorp transaction was $317.9 million. The gross contractual amounts receivable of the purchased non-credit impaired loans at acquisition was $350.0 million, of which $4.4 million was the amount of contractual cash flows not expected to be collected.

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Acquisition of S Bankshares, Inc.

On December 31, 2016, the Company completed its acquisition of S Bankshares Inc. ("S Bankshares"), the holding company for S Bank, a Georgia state-chartered bank. S Bankshares was immediately merged into the Company followed by the merger of S Bank with and into State Bank. Under the terms of the merger agreement, each share of S Bankshares common stock was converted into the right to receive either $56.70 in cash or 2.7444 shares of the Company's common stock, provided, that the elections by S Bankshares' shareholders were prorated under the merger agreement such that 60% of S Bankshares' shares were exchanged for Company common stock and 40% were exchanged for cash. Total consideration paid was approximately $12.6 million, consisting of $4.3 million in cash and $8.3 million in the Company's common stock.

The acquisition of S Bankshares was accounted for under the acquisition method of accounting, using pushdown accounting. Assets acquired, liabilities assumed and consideration exchanged were recorded at their respective acquisition date fair values. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values becomes available. Goodwill of $4.1 million was generated from the acquisition, none of which is expected to be deductible for income tax purposes.

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The following table summarizes the assets acquired and liabilities assumed and the consideration paid by the Company at the acquisition date (dollars in thousands):

	As Recorded by S Bankshares Inc.	Fair Value Adjustments		As Recorded by the Company
Assets				
Cash and cash equivalents	$ 954	$ —		$ 954
Investment securities available-for-sale	13,814	(88)	(a)	13,726
Loans, net	81,383	(2,344)	(b)	79,039
Other real estate owned	1,278	(332)	(c)	946
Core deposit intangible	—	1,010	(d)	1,010
Premises and equipment, net	3,132	420	(e)	3,552
Bank-owned life insurance	3,124	—		3,124
Other assets	2,636	1,130	(f)	3,766
Total assets acquired	$ 106,321	$ (204)		$ 106,117
Liabilities				
Deposits:				
Noninterest-bearing	$ 16,620	$ —		$ 16,620
Interest-bearing	76,664	494	(g)	77,158
Total deposits	93,284	494		93,778
Federal funds purchased and securities sold under repurchase agreements	1,951	—		1,951
FHLB advances	800	—		800
Other liabilities	1,104	—		1,104
Total liabilities assumed	97,139	494		97,633
Net identifiable assets acquired over liabilities assumed	$ 9,182	$ (698)		$ 8,484
Goodwill	$ —	$ 4,140		$ 4,140
Net assets acquired over liabilities assumed	$ 9,182	$ 3,442		$ 12,624
Consideration:				
State Bank Financial Corporation common shares issued	310,596			
Purchase price per share of the Company's common stock	$ 26.86			
Company common stock issued	8,343			
Cash exchanged for shares	4,281			
Fair value of total consideration transferred	$ 12,624			

Explanation of fair value adjustments

(a) Adjustment reflects the loss on certain securities that were sold immediately following the closing that was deemed to be a more accurate representation of fair value.

(b) Adjustment reflects the fair value adjustment based on State Bank's evaluation of the acquired loan portfolio and includes the adjustment to eliminate the recorded allowance for loan and lease losses.

(c) Adjustment reflects the fair value adjustment based on State Bank's evaluation of the acquired other real estate owned portfolio.

(d) Adjustment reflects the fair value adjustment to record the estimated core deposit intangible.

(e) Adjustment reflects the fair value adjustment based on appraised values.

(f) Adjustment reflects the fair value adjustment based on State Bank's evaluation of acquired other assets.

(g) Adjustment reflects the fair value adjustment based on State Bank's evaluation of acquired deposits.

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The following table presents certain pro forma information as if S Bankshares had been acquired on January 1, 2016 (dollars in thousands, except per share amounts). These results combine the historical results of S Bankshares in the Company's consolidated statements of income and, while certain adjustments were made for the estimated impact of certain fair value adjustments and other acquisition-related activity, they are not indicative of what would have occurred had the acquisition taken place on January 1, 2016. Merger-related costs are not included in the pro forma statements below.

	Nine Months Ended September 30 2016 Pro Forma
Net interest income	$ 120,833
Net income	37,448
Earnings per share:	
Basic	$ 1.00
Diluted	1.00

The following is a summary of the purchased credit impaired loans acquired in the S Bankshares transaction on December 31, 2016 (dollars in thousands):

	Purchased Credit Impaired Loans
Contractually required principal and interest at acquisition	$ 15,966
Contractual cash flows not expected to be collected (nonaccretable difference)	(2,805)
Expected cash flows at acquisition	13,161
Accretable difference	(1,377)
Basis in acquired loans at acquisition - estimated fair value	$ 11,784

On December 31, 2016, the fair value of the purchased non-credit impaired loans acquired in the S Bankshares transaction was $67.3 million. The gross contractual amounts receivable of the purchased non-credit impaired loans at acquisition was $77.0 million, of which $1.3 million was the amount of contractual cash flows not expected to be collected.

NOTE 4: INVESTMENT SECURITIES

The amortized cost and fair value of securities classified as available-for-sale are as follows (dollars in thousands):

	September 30, 2017				December 31, 2016			
Investment Securities Available-for-Sale	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government securities	$ 77,725	$ 2	$ 352	$ 77,375	$ 89,044	$ 70	$ 465	$ 88,649
States and political subdivisions	2,859	—	—	2,859	300	1	—	301
Residential mortgage-backed securities — nonagency	123,609	3,559	116	127,052	151,519	3,129	639	154,009
	607,533	430	5,037	602,926	533,479	548	4,725	529,302

Residential mortgage-backed securities — agency								
Corporate securities	108,874	1,726	49	110,551	74,793	207	83	74,917
Total investment securities available-for-sale	$920,600	$ 5,717	$ 5,554	$920,763	$849,135	$ 3,955	$ 5,912	$847,178

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The amortized cost and fair value of securities classified as held-to-maturity are as follows (dollars in thousands):

	September 30, 2017				December 31, 2016			
Investment Securities Held-to-Maturity	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Asset-backed securities	$47,681	$ 424	$ —	$48,105	$56,804	$ 295	$ 14	$57,085
Corporate securities	10,186	314	—	10,500	10,259	91	—	10,350
Total investment securities held-to-maturity	$57,867	$ 738	$ —	$58,605	$67,063	$ 386	$ 14	$67,435

The amortized cost and estimated fair value of debt securities by contractual maturities are summarized in the tables below (dollars in thousands):

Debt Securities Available-for-Sale	Distribution of Maturities (1)				
September 30, 2017	1 Year or Less	1-5 Years	5-10 Years	After 10 Years	Total
Amortized Cost:					
U.S. Government securities	$2,495	$75,230	$—	$—	$77,725
States and political subdivisions	—	1,117	1,742	—	2,859
Residential mortgage-backed securities — nonagency	—	—	—	123,609	123,609
Residential mortgage-backed securities — agency	—	32,951	286,764	287,818	607,533
Corporate securities	17,775	75,215	14,000	1,884	108,874
Total debt securities available-for-sale	$20,270	$184,513	$302,506	$413,311	$920,600
Fair Value:					
U.S. Government securities	$2,496	$74,879	$—	$—	$77,375
States and political subdivisions	—	1,117	1,742	—	2,859
Residential mortgage-backed securities — nonagency	—	—	—	127,052	127,052
Residential mortgage-backed securities — agency	—	32,747	284,321	285,858	602,926
Corporate securities	17,811	75,879	14,763	2,098	110,551
Total debt securities available-for-sale	$20,307	$184,622	$300,826	$415,008	$920,763

Debt Securities Held-to-Maturity	Distribution of Maturities (1)				
September 30, 2017	1 Year or Less	1-5 Years	5-10 Years	After 10 Years	Total
Amortized Cost:					
Asset-backed securities	$—	$ —	$32,181	$15,500	$47,681
Corporate securities	—	—	10,186	—	10,186
Total debt securities held-to-maturity	$—	$ —	$42,367	$15,500	$57,867
Fair Value:					
Asset-backed securities	$—	$ —	$32,492	$15,613	$48,105
Corporate securities	—	—	10,500	—	10,500
Total debt securities held-to-maturity	$—	$ —	$42,992	$15,613	$58,605

(1) Actual cash flows may differ from contractual maturities as borrowers may prepay obligations without prepayment penalties.

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The following tables provide information regarding securities with unrealized losses (dollars in thousands):

Investment Securities Available-for-Sale	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2017						
U.S. Government securities	$49,399	$ 166	$20,480	$ 186	$69,879	$ 352
States and political subdivisions	—	—	—	—	—	—
Residential mortgage-backed securities — nonagency	1,912	10	5,986	106	7,898	116
Residential mortgage-backed securities — agency	398,119	4,129	43,932	908	442,051	5,037
Corporate securities	8,369	49	—	—	8,369	49
Total temporarily impaired securities	$457,799	$ 4,354	$70,398	$ 1,200	$528,197	$ 5,554
December 31, 2016						
U.S. Government securities	$43,958	$ 465	$—	$ —	$43,958	$ 465
States and political subdivisions	—	—	—	—	—	—
Residential mortgage-backed securities — nonagency	29,403	239	23,991	400	53,394	639
Residential mortgage-backed securities — agency	430,490	4,484	18,795	241	449,285	4,725
Corporate securities	22,944	83	—	—	22,944	83
Total temporarily impaired securities	$526,795	$ 5,271	$42,786	$ 641	$569,581	$ 5,912

Investment Securities Held-to-Maturity	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2016						
Asset-backed securities	$6,486	$ 14	$ —	$ —	$6,486	$ 14
Total temporarily impaired securities	$6,486	$ 14	$ —	$ —	$6,486	$ 14

At September 30, 2017, the Company held 120 investment securities that were in an unrealized loss position. Market changes in interest rates and credit spreads may result in temporary unrealized losses as market prices of securities fluctuate. The Company reviews its investment portfolio on a quarterly basis for indications of other than temporary impairment ("OTTI"). The severity and duration of impairment and the likelihood of potential recovery of impairment is considered along with the intent and ability to hold any impaired security to maturity or recovery of carrying value. More specifically, when analyzing the nonagency portfolio, the Company uses cash flow models that estimate cash flows on security-specific collateral and the transaction structure. Future expected credit losses are determined by using various assumptions, the most significant of which include current default rates, prepayment rates and loss severities. Credit information is available and modeled at the loan level underlying each security during the OTTI analysis; the Company also considers information such as loan to collateral values, FICO scores and geographic considerations, such as home price appreciation or depreciation. These inputs are updated quarterly or as changes occur to ensure that the most current credit and other assumptions are utilized in the analysis. If, based on the analysis, the Company does not expect to recover the entire amortized cost basis of the security, the expected cash flows are discounted at the security's initial effective interest rate to arrive at a present value amount. OTTI credit losses reflect the difference between the present value of cash flows expected to be collected and the amortized cost basis of these securities. At September 30, 2017, there was no intent to sell any of the securities in an unrealized loss position, and it is more likely than not the Company will not be required to sell these securities. Furthermore, the present value of cash flows expected to be collected exceeded the Company's amortized cost basis of the investment securities; therefore, these securities are not deemed to be other than temporarily impaired.

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Sales and calls of securities are summarized in the following table for the periods presented (dollars in thousands):

	Three Months Ended September 30		Nine Months Ended September 30	
Securities Available-For-Sale	2017	2016	2017	2016
Proceeds from sales and calls	$6,810	$28,705	$71,588	$93,584
Gross gains on sales and calls	$3	$38	$121	$447
Gross losses on sales and calls	—	—	(93)	—
Net realized gains on sales and calls	$3	$38	$28	$447

The composition of investment securities reflects the strategy of management to maintain an appropriate level of liquidity while providing a relatively stable source of revenue. The securities portfolio may at times be used to mitigate interest rate risk associated with other areas of the balance sheet while also providing a means for the investment of available funds, providing liquidity and supplying investment securities that are required to be pledged as collateral against specific deposits and for other purposes. Investment securities with an aggregate fair value of $408.9 million and $368.3 million at September 30, 2017 and December 31, 2016, respectively, were pledged to secure public deposits and repurchase agreements.

NOTE 5: LOANS

Loans, in total, are summarized as follows (dollars in thousands):

Total Loans	September 30, 2017	December 31, 2016
Construction, land & land development	$ 507,956	$ 567,763
Other commercial real estate	1,253,147	1,025,063
Total commercial real estate	1,761,103	1,592,826
Residential real estate	329,692	343,398
Owner-occupied real estate	413,432	395,863
Commercial, financial & agricultural	937,682	368,120
Leases	66,765	71,724
Consumer	64,116	42,641
Total loans	3,572,790	2,814,572
Allowance for loan and lease losses	(26,842)	(26,598)
Total loans, net	$ 3,545,948	$ 2,787,974

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Organic loans, net of related discounts, are summarized as follows (dollars in thousands):

Organic Loans	September 30, 2017	December 31, 2016
Construction, land & land development	$ 460,368	$ 500,018
Other commercial real estate	915,727	754,790
Total commercial real estate	1,376,095	1,254,808
Residential real estate	175,258	144,295
Owner-occupied real estate	261,784	256,317
Commercial, financial & agricultural	363,551	327,381
Leases	66,765	71,724
Consumer	61,200	36,039
Total organic loans (1)	2,304,653	2,090,564
Allowance for loan and lease losses	(22,709)	(21,086)
Total organic loans, net	$ 2,281,944	$ 2,069,478

(1) Includes net deferred loan fees that totaled approximately $8.9 million and $7.0 million at September 30, 2017 and December 31, 2016, respectively.

Purchased non-credit impaired loans ("PNCI loans"), net of related discounts, are summarized as follows (dollars in thousands):

Purchased Non-Credit Impaired Loans	September 30, 2017	December 31, 2016
Construction, land & land development	$ 30,670	$ 51,208
Other commercial real estate	234,486	209,531
Total commercial real estate	265,156	260,739
Residential real estate	112,244	144,596
Owner-occupied real estate	125,438	115,566
Commercial, financial & agricultural	558,992	36,206
Consumer	2,647	6,255
Total purchased non-credit impaired loans (1)	1,064,477	563,362
Allowance for loan and lease losses	(900)	(439)
Total purchased non-credit impaired loans, net	$ 1,063,577	$ 562,923

(1) Includes net discounts that totaled approximately $15.7 million and $10.5 million at September 30, 2017 and December 31, 2016, respectively.

Purchased credit impaired loans ("PCI loans"), net of related discounts, are summarized as follows (dollars in thousands):

Purchased Credit Impaired Loans	September 30, 2017	December 31, 2016
Construction, land & land development	$ 16,918	$ 16,537
Other commercial real estate	102,934	60,742
Total commercial real estate	119,852	77,279
Residential real estate	42,190	54,507
Owner-occupied real estate	26,210	23,980
Commercial, financial & agricultural	15,139	4,533
Consumer	269	347

Total purchased credit impaired loans	203,660	160,646
Allowance for loan and lease losses	(3,233)	(5,073)
Total purchased credit impaired loans, net	$ 200,427	$ 155,573

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Changes in the carrying value of purchased credit impaired loans are presented in the following table for the periods presented (dollars in thousands):

	Three Months Ended September 30		Nine Months Ended September 30	
Purchased Credit Impaired Loans	2017	2016	2017	2016
Balance, beginning of period	$130,837	$129,100	$155,573	$137,777
Accretion of fair value discounts	6,520	9,335	23,425	33,039
Fair value of acquired loans	77,551	—	77,551	1,300
Reductions in principal balances resulting from repayments, write-offs and foreclosures	(16,009)	(17,032)	(57,962)	(53,078)
Change in the allowance for loan and lease losses on purchased credit impaired loans	1,528	142	1,840	2,507
Balance, end of period	$200,427	$121,545	$200,427	$121,545

Purchased credit impaired loans are initially recorded at fair value at the acquisition date. The Company re-estimates expected cash flows on purchased credit impaired loans on a quarterly basis. Subsequent decreases in the amount of cash expected to be collected from the borrower results in a provision for loan and lease losses and an increase in the allowance for loan and lease losses. Subsequent increases in the amount of cash expected to be collected from the borrower results first in the reversal of any previously-recorded provision for loan and lease losses and related allowance for loan and lease losses, and then as a prospective increase in the accretable discount on the purchased credit impaired loans. The accretable discount is accreted into interest income over the estimated life of the related loan on a level yield basis.

Changes in the value of the accretable discount on purchased credit impaired loans are presented in the following table for the periods presented (dollars in thousands):

	Three Months Ended September 30		Nine Months Ended September 30	
Changes in Accretable Discount	2017	2016	2017	2016
Balance, beginning of period	$59,808	$75,390	$69,301	$86,100
Additions from acquisitions	11,664	—	11,664	1,648
Accretion	(6,520)	(9,335)	(23,425)	(33,039)
Transfers to accretable discounts and exit events, net	2,244	5,939	9,656	17,285
Balance, end of period	$67,196	$71,994	$67,196	$71,994

The change in the accretable discount is a result of the Company's review and re-estimation of loss assumptions and expected cash flows on purchased credit impaired loans and additions from acquisitions.

At September 30, 2017 and December 31, 2016, loans with a carrying value of $3.1 billion and $2.5 billion, respectively, were pledged for lines of credit

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NOTE 6: ALLOWANCE FOR LOAN AND LEASE LOSSES (ALLL)

The following tables summarize the Company's allowance for loan and lease losses for the periods indicated (dollars in thousands):

	Three Months Ended September 30							
	2017				2016			
	Organic Loans	Purchased Non-Credit Impaired Loans	Purchased Credit Impaired Loans	Total	Organic Loans	Purchased Non-Credit Impaired Loans	Purchased Credit Impaired Loans	Total
Balance, beginning of period	$22,560	$ 667	$ 4,761	$27,988	$22,008	$ 158	$ 5,433	$27,599
Charge-offs	(912)	(152)	(643)	(1,707)	(311)	(16)	(223)	(550)
Recoveries	106	40	—	146	39	1	—	40
Net (charge-offs) recoveries	(806)	(112)	(643)	(1,561)	(272)	(15)	(223)	(510)
Provision for loan and lease losses	955	345	(885)	415	—	7	81	88
Balance, end of period	$22,709	$ 900	$ 3,233	$26,842	$21,736	$ 150	$ 5,291	$27,177

	Nine Months Ended September 30							
	2017				2016			
	Organic Loans	Purchased Non-Credit Impaired Loans	Purchased Credit Impaired Loans	Total	Organic Loans	Purchased Non-Credit Impaired Loans	Purchased Credit Impaired Loans	Total
Balance, beginning of period	$21,086	$ 439	$ 5,073	$26,598	$21,224	$ 53	$ 7,798	$29,075
Charge-offs	(1,988)	(397)	(971)	(3,356)	(2,858)	(80)	(2,345)	(5,283)
Recoveries	296	42	—	338	189	62	3,174	3,425
Net recoveries (charge-offs)	(1,692)	(355)	(971)	(3,018)	(2,669)	(18)	829	(1,858)
Provision for loan and lease losses	3,315	816	(869)	3,262	3,181	115	(3,336)	(40)
Balance, end of period	$22,709	$ 900	$ 3,233	$26,842	$21,736	$ 150	$ 5,291	$27,177

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Activity in the allowance for loan and lease losses on organic loans is detailed as follows by portfolio segment for the periods indicated (dollars in thousands):

Organic Loans	Commercial Real Estate	Residential Real Estate	Owner-Occupied Real Estate	Commercial, Financial & Agricultural	Leases	Consumer	Total
Three Months Ended September 30, 2017							
Beginning balance	$ 13,337	$ 1,841	$ 2,036	$ 3,663	$ 825	$ 858	$ 22,560
Charge-offs	(746)	—	—	(98)	(2)	(66)	(912)
Recoveries	—	3	—	20	67	16	106
Provision	469	132	374	97	(194)	77	955
Ending balance	$ 13,060	$ 1,976	$ 2,410	$ 3,682	$ 696	$ 885	$ 22,709
Nine Months Ended September 30, 2017							
Beginning balance	$ 11,767	$ 1,786	$ 2,239	$ 4,093	$ 655	$ 546	$ 21,086
Charge-offs	(933)	(48)	—	(240)	(501)	(266)	(1,988)
Recoveries	—	9	—	71	176	40	296
Provision	2,226	229	171	(242)	366	565	3,315
Ending balance	$ 13,060	$ 1,976	$ 2,410	$ 3,682	$ 696	$ 885	$ 22,709
Three Months Ended September 30, 2016							
Beginning balance	$ 12,943	$ 1,890	$ 1,982	$ 3,834	$ 881	$ 478	$ 22,008
Charge-offs	—	(1)	—	(172)	(112)	(26)	(311)
Recoveries	—	2	—	35	2	—	39
Provision	(818)	2	56	699	(55)	116	—
Ending balance	$ 12,125	$ 1,893	$ 2,038	$ 4,396	$ 716	$ 568	$ 21,736
Nine Months Ended September 30, 2016							
Beginning balance	$ 13,607	$ 2,053	$ 1,920	$ 2,509	$ 865	$ 270	$ 21,224
Charge-offs	(2,125)	(29)	—	(336)	(327)	(41)	(2,858)
Recoveries	—	5	44	130	9	1	189
Provision	643	(136)	74	2,093	169	338	3,181
Ending balance	$ 12,125	$ 1,893	$ 2,038	$ 4,396	$ 716	$ 568	$ 21,736

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The following table presents the balance of organic loans and the allowance for loan and lease losses based on the method of determining the allowance at the dates indicated (dollars in thousands):

Organic Loans	Allowance for Loan and Lease Losses			Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Allowance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Loans
September 30, 2017						
Commercial real estate	$69	$ 12,991	$ 13,060	$3,417	$1,372,678	$1,376,095
Residential real estate	360	1,616	1,976	720	174,538	175,258
Owner-occupied real estate	83	2,327	2,410	759	261,025	261,784
Commercial, financial & agricultural	129	3,553	3,682	511	363,040	363,551
Leases	—	696	696	—	66,765	66,765
Consumer	37	848	885	75	61,125	61,200
Total organic loans	$678	$ 22,031	$ 22,709	$5,482	$2,299,171	$2,304,653
December 31, 2016						
Commercial real estate	$201	$ 11,566	$ 11,767	$5,057	$1,249,751	$1,254,808
Residential real estate	413	1,373	1,786	825	143,470	144,295
Owner-occupied real estate	—	2,239	2,239	—	256,317	256,317
Commercial, financial & agricultural	146	3,947	4,093	298	327,083	327,381
Leases	—	655	655	—	71,724	71,724
Consumer	27	519	546	54	35,985	36,039
Total organic loans	$787	$ 20,299	$ 21,086	$6,234	$2,084,330	$2,090,564

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Activity in the allowance for loan and lease losses on purchased non-credit impaired loans is detailed as follows by portfolio segment for the periods indicated (dollars in thousands):

Purchased Non-Credit Impaired Loans	Commercial Real Estate	Residential Real Estate	Owner-Occupied Real Estate	Commercial, Financial & Agricultural	Consumer	Total
Three Months Ended September 30, 2017						
Beginning balance	$ 145	$ 342	$ 152	$ 26	$ 2	$667
Charge-offs	(50)	(7)	—	(91)	(4)	(152)
Recoveries	1	5	—	32	2	40
Provision	93	120	68	61	3	345
Ending balance	$ 189	$ 460	$ 220	$ 28	$ 3	$900
Nine Months Ended September 30, 2017						
Beginning balance	$ 88	$ 72	$ 44	$ 235	$ —	$439
Charge-offs	(50)	(7)	(80)	(251)	(9)	(397)
Recoveries	1	5	—	32	4	42
Provision	150	390	256	12	8	816
Ending balance	$ 189	$ 460	$ 220	$ 28	$ 3	$900
Three Months Ended September 30, 2016						
Beginning balance	$ —	$ —	$ —	$ 158	$ —	$158
Charge-offs	—	(14)	—	—	(2)	(16)
Recoveries	—	1	—	—	—	1
Provision	—	13	—	(8)	2	7
Ending balance	$ —	$ —	$ —	$ 150	$ —	$150
Nine Months Ended September 30, 2016						
Beginning balance	$ —	$ 53	$ —	$ —	$ —	$53
Charge-offs	—	(76)	—	(1)	(3)	(80)
Recoveries	—	45	—	—	17	62
Provision	—	(22)	—	151	(14)	115
Ending balance	$ —	$ —	$ —	$ 150	$ —	$150

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The following table presents the balance of purchased non-credit impaired loans and the allowance for loan and lease losses based on the method of determining the allowance at the dates indicated (dollars in thousands):

Purchased Non-Credit Impaired Loans	Allowance for Loan and Lease Losses			Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Allowance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Loans
September 30, 2017						
Commercial real estate	$—	$ 189	$ 189	$525	$264,631	$265,156
Residential real estate	—	460	460	387	111,857	112,244
Owner-occupied real estate	—	220	220	2,664	122,774	125,438
Commercial, financial & agricultural	28	—	28	2,031	556,961	558,992
Consumer	—	3	3	8	2,639	2,647
Total purchased non-credit impaired loans	$28	$ 872	$ 900	$5,615	$1,058,862	$1,064,477
December 31, 2016						
Commercial real estate	$—	$ 88	$ 88	$56	$260,683	$260,739
Residential real estate	—	72	72	320	144,276	144,596
Owner-occupied real estate	44	—	44	1,875	113,691	115,566
Commercial, financial & agricultural	—	235	235	1,128	35,078	36,206
Consumer	—	—	—	2	6,253	6,255
Total purchased non-credit impaired loans	$44	$ 395	$ 439	$3,381	$559,981	$563,362

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Activity in the allowance for loan and lease losses on purchased credit impaired loans is detailed as follows by portfolio segment for the periods indicated (dollars in thousands):

Purchased Credit Impaired Loans	Commercial Real Estate	Residential Real Estate	Owner-Occupied Real Estate	Commercial, Financial & Agricultural	Consumer	Total
Three Months Ended September 30, 2017						
Beginning balance	$ 2,131	$ 968	$ 1,611	$ 37	$ 14	$4,761
Charge-offs	(168)	(50)	(416)	(6)	(3)	(643)
Recoveries	—	—	—	—	—	—
Provision	(506)	310	(697)	5	3	(885)
Ending balance	$ 1,457	$ 1,228	$ 498	$ 36	$ 14	$3,233
Nine Months Ended September 30, 2017						
Beginning balance	$ 2,183	$ 1,196	$ 1,655	$ 38	$ 1	$5,073
Charge-offs	(401)	(92)	(452)	(22)	(4)	(971)
Recoveries	—	—	—	—	—	—
Provision	(325)	124	(705)	20	17	(869)
Ending balance	$ 1,457	$ 1,228	$ 498	$ 36	$ 14	$3,233
Three Months Ended September 30, 2016						
Beginning balance	$ 2,834	$ 1,025	$ 1,502	$ 69	$ 3	$5,433
Charge-offs	(131)	(5)	(87)	—	—	(223)
Recoveries	—	—	—	—	—	—
Provision	(341)	254	173	(4)	(1)	81
Ending balance	$ 2,362	$ 1,274	$ 1,588	$ 65	$ 2	$5,291
Nine Months Ended September 30, 2016						
Beginning balance	$ 3,388	$ 1,893	$ 2,449	$ 60	$ 8	$7,798
Charge-offs	(864)	(899)	(298)	(228)	(56)	(2,345)
Recoveries	2,281	400	207	233	53	3,174
Provision	(2,443)	(120)	(770)	—	(3)	(3,336)
Ending balance	$ 2,362	$ 1,274	$ 1,588	$ 65	$ 2	$5,291

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The following table presents the balance of purchased credit impaired loans and the allowance for loan and lease losses based on the method of determining the allowance at the dates indicated (dollars in thousands):

Purchased Credit Impaired Loans	Allowance for Loan and Lease Losses			Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Allowance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Loans
September 30, 2017						
Commercial real estate	$1,129	$ 328	$ 1,457	$89,812	$ 30,040	$119,852
Residential real estate	153	1,075	1,228	3,058	39,132	42,190
Owner-occupied real estate	353	145	498	14,732	11,478	26,210
Commercial, financial & agricultural	22	14	36	2,345	12,794	15,139
Consumer	14	—	14	134	135	269
Total purchased credit impaired loans	$1,671	$ 1,562	$ 3,233	$110,081	$ 93,579	$203,660
December 31, 2016						
Commercial real estate	$760	$ 1,423	$ 2,183	$29,387	$ 47,892	$77,279
Residential real estate	156	1,040	1,196	1,897	52,610	54,507
Owner-occupied real estate	1,471	184	1,655	8,376	15,604	23,980
Commercial, financial & agricultural	2	36	38	86	4,447	4,533
Consumer	—	1	1	8	339	347
Total purchased credit impaired loans	$2,389	$ 2,684	$ 5,073	$39,754	$ 120,892	$160,646

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Impaired loans, segregated by class of loans, are presented in the following table (dollars in thousands):

	September 30, 2017			December 31, 2016		
Impaired Loans (1)	Unpaid Principal Balance	Recorded Investment	Related Allowance	Unpaid Principal Balance	Recorded Investment	Related Allowance
With no related allowance recorded:						
Construction, land & land development	$5	$ 5	$ —	$4,565	$ 2,933	$ —
Other commercial real estate	4,606	3,800	—	56	56	—
Total commercial real estate	4,611	3,805	—	4,621	2,989	—
Residential real estate	413	387	—	388	320	—
Owner-occupied real estate	3,392	3,257	—	193	188	—
Commercial, financial & agricultural	2,012	1,457	—	1,335	1,128	—
Consumer	16	8	—	2	2	—
Subtotal	10,444	8,914	—	6,539	4,627	—
With related allowance recorded:						
Construction, land & land development	139	137	69	4,277	2,124	201
Other commercial real estate	—	—	—	—	—	—
Total commercial real estate	139	137	69	4,277	2,124	201
Residential real estate	782	720	360	891	825	413
Owner-occupied real estate	166	166	83	1,706	1,687	44
Commercial, financial & agricultural	1,127	1,085	157	308	298	146
Consumer	85	75	37	55	54	27
Subtotal	2,299	2,183	706	7,237	4,988	831
Total impaired loans	$12,743	$ 11,097	$ 706	$13,776	$ 9,615	$ 831

(1) Includes loans with SBA guaranteed balances of $4.7 million and $3.0 million at September 30, 2017 and December 31, 2016, respectively.

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The following table presents information related to the average recorded investment and interest income recognized on impaired loans, for the periods presented (dollars in thousands):

Impaired Loans	September 30, 2017		September 30, 2016	
Three Months Ended	Average Recorded Investment (1)	Interest Income Recognized (2)	Average Recorded Investment (1)	Interest Income Recognized (2)
Construction, land & land development	$146	$ —	$5,062	$ —
Other commercial real estate	4,347	—	—	—
Total commercial real estate	4,493	—	5,062	—
Residential real estate	1,120	—	1,743	—
Owner-occupied real estate	3,446	—	—	—
Commercial, financial & agricultural	2,653	—	1,163	—
Consumer	87	—	50	—
Total impaired loans	$11,799	$ —	$8,018	$ —
Nine Months Ended				
Construction, land & land development	$2,862	$ —	$6,070	$ —
Other commercial real estate	4,558	—	201	—
Total commercial real estate	7,420	—	6,271	—
Residential real estate	1,154	—	1,794	—
Owner-occupied real estate	3,500	—	148	3
Commercial, financial & agricultural	2,761	1	1,722	24
Consumer	94	—	38	—
Total impaired loans	$14,929	$ 1	$9,973	$ 27

(1) The average recorded investment for troubled debt restructurings was $0.0 million and $2.7 million for the three and nine months ended September 30, 2017, respectively, and was $5.0 million and $6.4 million for the three and nine months ended September 30, 2016, respectively.
(2) The interest income recognized on troubled debt restructurings was $0 for both the three and nine months ended September 30, 2017, and was $0 and $24,000 for the three and nine months ended September 30, 2016, respectively.

The following table presents the recorded investment in nonaccrual loans by loan class at the dates indicated (dollars in thousands):

Nonaccrual Loans	September 30, 2017	December 31, 2016
Construction, land & land development	$ 142	$ 5,057
Other commercial real estate	3,800	56
Total commercial real estate	3,942	5,113
Residential real estate	1,107	1,146
Owner-occupied real estate	3,423	1,874
Commercial, financial & agricultural	2,542	1,426
Consumer	83	56
Total nonaccrual loans	$ 11,097	$ 9,615

The following table presents an analysis of past due organic loans, by class of loans, at the dates indicated (dollars in thousands):

Organic Loans	30 - 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
September 30, 2017						
Construction, land & land development	$262	$45	$307	$460,061	$460,368	$ —
Other commercial real estate	—	—	—	915,727	915,727	—
Total commercial real estate	262	45	307	1,375,788	1,376,095	—
Residential real estate	286	136	422	174,836	175,258	—
Owner-occupied real estate	424	593	1,017	260,767	261,784	—
Commercial, financial & agricultural	543	437	980	362,571	363,551	—
Leases	—	—	—	66,765	66,765	—
Consumer	66	22	88	61,112	61,200	—
Total organic loans	$1,581	$1,233	$2,814	$2,301,839	$2,304,653	$ —
December 31, 2016						
Construction, land & land development	$49	$12	$61	$499,957	$500,018	$ —
Other commercial real estate	—	—	—	754,790	754,790	—
Total commercial real estate	49	12	61	1,254,747	1,254,808	—
Residential real estate	157	118	275	144,020	144,295	—
Owner-occupied real estate	40	—	40	256,277	256,317	—
Commercial, financial & agricultural	247	283	530	326,851	327,381	—
Leases	—	—	—	71,724	71,724	—
Consumer	350	31	381	35,658	36,039	—
Total organic loans	$843	$444	$1,287	$2,089,277	$2,090,564	$ —

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The following table presents an analysis of past due purchased non-credit impaired loans, by class of loans, at the dates indicated (dollars in thousands):

Purchased Non-Credit Impaired Loans	30 - 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
September 30, 2017						
Construction, land & land development	$39	$5	$44	$30,626	$30,670	$ —
Other commercial real estate	47	—	47	234,439	234,486	—
Total commercial real estate	86	5	91	265,065	265,156	—
Residential real estate	257	56	313	111,931	112,244	—
Owner-occupied real estate	256	2,500	2,756	122,682	125,438	—
Commercial, financial & agricultural	547	1,386	1,933	557,059	558,992	—
Consumer	8	6	14	2,633	2,647	—
Total purchased non-credit impaired loans	$1,154	$3,953	$5,107	$1,059,370	$1,064,477	$ —
December 31, 2016						
Construction, land & land development	$495	$—	$495	$50,713	$51,208	$ —
Other commercial real estate	17	56	73	209,458	209,531	—
Total commercial real estate	512	56	568	260,171	260,739	—
Residential real estate	274	165	439	144,157	144,596	—
Owner-occupied real estate	387	1,687	2,074	113,492	115,566	—
Commercial, financial & agricultural	144	552	696	35,510	36,206	—
Consumer	38	2	40	6,215	6,255	—
Total purchased non-credit impaired loans	$1,355	$2,462	$3,817	$559,545	$563,362	$ —

The following table presents an analysis of past due purchased credit impaired loans, by class of loans, at the dates indicated (dollars in thousands):

Purchased Credit Impaired Loans	30 - 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans
September 30, 2017					
Construction, land & land development	$10	$1,872	$1,882	$15,036	$16,918
Other commercial real estate	534	3,336	3,870	99,064	102,934
Total commercial real estate	544	5,208	5,752	114,100	119,852
Residential real estate	1,678	2,430	4,108	38,082	42,190
Owner-occupied real estate	—	6,162	6,162	20,048	26,210
Commercial, financial & agricultural	243	261	504	14,635	15,139
Consumer	15	—	15	254	269
Total purchased credit impaired loans	$2,480	$14,061	$16,541	$187,119	$203,660
December 31, 2016					
Construction, land & land development	$722	$1,853	$2,575	$13,962	$16,537
Other commercial real estate	346	3,148	3,494	57,248	60,742
Total commercial real estate	1,068	5,001	6,069	71,210	77,279
Residential real estate	1,210	2,787	3,997	50,510	54,507
Owner-occupied real estate	661	3,507	4,168	19,812	23,980
Commercial, financial & agricultural	29	61	90	4,443	4,533
Consumer	—	5	5	342	347
Total purchased credit impaired loans	$2,968	$11,361	$14,329	$146,317	$160,646

For each period indicated, a portion of the Company's purchased credit impaired loans were past due, including many that were 90 days or more past due; however, such delinquencies were included in the Company's performance expectations in determining the fair values of purchased credit impaired loans at each acquisition and at subsequent valuation dates. All purchased credit impaired loan cash flows and the timing of such cash flows continue to be estimable and probable of collection and thus accretion income continues to be recognized on these assets. As such, the referenced purchased credit impaired loans are not considered nonperforming assets.

Asset Quality Grades:

The Company assigns loans into risk categories based on relevant information about the ability of borrowers to pay their debts, such as current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. A loan's risk grade is assigned at inception based upon the strength of the repayment sources and reassessed periodically throughout the year. Loans over certain dollar thresholds identified as having weaknesses are subject to more frequent review. In addition, the Company's internal loan review department provides an ongoing, comprehensive and independent assessment of credit risk within the Company.

Loans are graded on a scale of 1 to 8. Pass grades are from 1 to 4. Descriptions of the general characteristics of grades 5 and above are as follows:

Watch (Grade 5)—Loans graded Watch are pass credits that have not met performance expectations or that have higher inherent risk characteristics warranting continued supervision and attention.

OAEM (Grade 6)—Loans graded OAEM (other assets especially mentioned) have 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 in the Company's credit position at some future date. OAEM loans are not adversely classified and do not expose the institution to sufficient risk to warrant adverse classification.

Substandard (Grade 7)—Loans classified as substandard are inadequately protected by the current sound worth and payment capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful (Grade 8)—Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following table presents the risk grades of the organic loan portfolio, by class of loans, at the dates indicated (dollars in thousands):

Organic Loans	Pass	Watch	OAEM	Substandard	Doubtful	Total
September 30, 2017						
Construction, land & land development	$433,737	$24,628	$1,866	$ 137	$ —	$460,368
Other commercial real estate	885,428	24,134	2,823	3,342	—	915,727
Total commercial real estate	1,319,165	48,762	4,689	3,479	—	1,376,095
Residential real estate	169,972	3,348	615	1,323	—	175,258
Owner-occupied real estate	237,134	22,637	1,083	930	—	261,784
Commercial, financial & agricultural	354,520	8,193	124	714	—	363,551
Leases	61,096	5,669	—	—	—	66,765
Consumer	60,953	102	66	79	—	61,200
Total organic loans	$2,202,840	$88,711	$6,577	$ 6,525	$ —	$2,304,653
December 31, 2016						
Construction, land & land development	$470,686	$24,178	$97	$ 5,057	$ —	$500,018
Other commercial real estate	718,969	35,821	—	—	—	754,790
Total commercial real estate	1,189,655	59,999	97	5,057	—	1,254,808
Residential real estate	139,393	2,484	460	1,958	—	144,295
Owner-occupied real estate	237,753	14,967	3,577	20	—	256,317
Commercial, financial & agricultural	325,161	920	624	676	—	327,381
Leases	60,849	10,875	—	—	—	71,724
Consumer	35,844	47	2	145	1	36,039
Total organic loans	$1,988,655	$89,292	$4,760	$ 7,856	$ 1	$2,090,564

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The following table presents the risk grades of the purchased non-credit impaired loan portfolio, by class of loans, at the dates indicated (dollars in thousands):

Purchased Non-Credit Impaired Loans	Pass	Watch	OAEM	Substandard	Doubtful	Total
September 30, 2017						
Construction, land & land development	$30,205	$419	$—	$ 46	$ —	$30,670
Other commercial real estate	229,919	2,199	1,849	519	—	234,486
Total commercial real estate	260,124	2,618	1,849	565	—	265,156
Residential real estate	107,613	2,446	569	1,616	—	112,244
Owner-occupied real estate	117,516	3,443	1,285	3,194	—	125,438
Commercial, financial & agricultural	473,093	74,032	6,640	5,227	—	558,992
Consumer	2,636	2	—	9	—	2,647
Total purchased non-credit impaired loans	$960,982	$82,541	$10,343	$ 10,611	$ —	$1,064,477
December 31, 2016						
Construction, land & land development	$51,208	$—	$—	$ —	$ —	$51,208
Other commercial real estate	206,515	803	2,157	56	—	209,531
Total commercial real estate	257,723	803	2,157	56	—	260,739
Residential real estate	142,079	1,883	314	320	—	144,596
Owner-occupied real estate	107,096	6,310	—	2,160	—	115,566
Commercial, financial & agricultural	34,747	310	21	1,128	—	36,206
Consumer	6,247	5	—	3	—	6,255
Total purchased non-credit impaired loans	$547,892	$9,311	$2,492	$ 3,667	$ —	$563,362

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Classifications on purchased credit impaired loans are based upon the borrower's ability to pay the current unpaid principal balance without regard to the net carrying value of the loan on the Company's balance sheet. Because the values shown in the table below are based on each loan's estimated cash flows, any expected losses should be covered by a combination of the specific reserves established in the allowance for loan and lease losses on purchased credit impaired loans plus the discounts to the unpaid principal balances reflected in the recorded investment of each loan.

The following table presents the risk grades of the purchased credit impaired loan portfolio, by class of loans (dollars in thousands):

Purchased Credit Impaired Loans	Pass	Watch	OAEM	Substandard	Doubtful	Total
September 30, 2017						
Construction, land & land development	$10,114	$863	$941	$ 5,000	$ —	$16,918
Other commercial real estate	78,310	12,435	2,465	9,724	—	102,934
Total commercial real estate	88,424	13,298	3,406	14,724	—	119,852
Residential real estate	22,728	6,523	1,624	11,182	133	42,190
Owner-occupied real estate	7,347	4,940	816	13,104	3	26,210
Commercial, financial & agricultural	2,194	253	9,432	3,242	18	15,139
Consumer	57	30	154	28	—	269
Total purchased credit impaired loans	$120,750	$25,044	$15,432	$ 42,280	$ 154	$203,660
December 31, 2016						
Construction, land & land development	$7,798	$1,150	$1,416	$ 6,173	$ —	$16,537
Other commercial real estate	33,423	13,103	2,770	11,446	—	60,742
Total commercial real estate	41,221	14,253	4,186	17,619	—	77,279
Residential real estate	28,628	10,371	2,840	12,396	272	54,507
Owner-occupied real estate	7,736	4,884	794	10,566	—	23,980
Commercial, financial & agricultural	3,381	310	273	569	—	4,533
Consumer	53	100	173	21	—	347
Total purchased credit impaired loans	$81,019	$29,918	$8,266	$ 41,171	$ 272	$160,646

Allowance Estimation

During the first quarter of 2017, the Company implemented an automated solution broadly deployed throughout the industry for its estimation of the allowance for loan and lease losses on its organic and purchased non-credit impaired loans. No change was made to the allowance estimation for purchased credit impaired loans. No material changes were made to the methodology used. However, the new model does allow for further granularity within our loan pools. The Company validated the new model against its existing model for three quarters prior to implementation.

Troubled Debt Restructurings (TDRs)

There were no troubled debt restructurings (TDRs) at September 30, 2017. At December 31, 2016, TDRs totaled $5.0 million with $148,000 in related allowance. At December 31, 2016, there was no commitment to extend credit to a borrower with an existing troubled debt restructuring. Purchased credit impaired loans modified post-acquisition are not removed from their accounting pools and accounted for as TDRs, even if those loans would otherwise be deemed TDRs.

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The following table provides information on loans that were modified as TDRs during the periods presented (dollars in thousands):

TDR Additions (1)	September 30, 2017 Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	September 30, 2016 Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Nine Months Ended						
Construction, land & land development	—	$ —	$ —	1	$ 4,168	$ 4,168
Other commercial real estate	—	—	—	—	—	—
Total commercial real estate	—	—	—	1	4,168	4,168
Commercial & industrial	—	—	—	—	—	—
Owner-occupied real estate	—	—	—	—	—	—
Residential real estate	—	—	—	—	—	—
Consumer & Other	—	—	—	—	—	—
Total modifications	—	$ —	$ —	1	$ 4,168	$ 4,168

(1) The pre-modification and post-modification recorded investment amount represents the recorded investment on the date of the loan modification. Since the modifications on this loan were an interest rate concession and payment term extension, not principal reductions, the pre-modification and post-modification recorded investment amount is the same.

During the nine months ended September 30, 2017 and 2016, there were no TDRs that subsequently defaulted within twelve months of their modification dates.

NOTE 7: OTHER REAL ESTATE OWNED (OREO)

The following table presents other real estate owned ("OREO") by property type at the dates indicated (dollars in thousands):

Other real estate owned	September 30, 2017	December 31, 2016
Construction, land development, and other land	$ 756	$ 2,393
Commercial and farmland real estate	255	6,960
Residential real estate	260	1,544
Total other real estate owned	$ 1,271	$ 10,897

The following table presents OREO by type of loan foreclosure or banking premises transferred into OREO at the dates indicated (dollars in thousands):

Other real estate owned	September 30, 2017	December 31, 2016
Organic OREO	$ —	$ 282
Purchased Credit Impaired OREO	1,271	10,615
Total other real estate owned	$ 1,271	$ 10,897

At September 30, 2017, consumer mortgage loans secured by residential real estate properties totaling $84,000 were in formal foreclosure proceedings.

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NOTE 8: SBA SERVICING RIGHTS

All sales of SBA loans, consisting of the guaranteed portion, are executed on a servicing retained basis. These loans, which are partially guaranteed by the SBA, are generally secured by business property such as real estate, inventory, equipment and accounts receivable. During the three months and nine months ended September 30, 2017, the Company sold SBA loans with unpaid principal balances totaling $10.1 million and $35.1 million, respectively, and recognized $1.2 million and $3.6 million in gains on the loan sales, respectively. During the three and nine months ended September 30, 2016, the Company sold SBA loans with unpaid principal balances totaling $13.7 million and $38.6 million, respectively, and recognized $1.3 million and $3.9 million in gains on the loan sales, respectively. The Company retains the related loan servicing rights and receives servicing fees on the sold loans. Both the servicing fees and the gains on sales of loans are recorded in SBA income on the consolidated statements of income. SBA servicing fees totaled $389,000 and $1.2 million for the three and nine months ended September 30, 2017, respectively. SBA servicing fees totaled $383,000 and $974,000 for the three and nine months ended September 30, 2016, respectively. At September 30, 2017 and December 31, 2016, the Company serviced SBA loans for others with unpaid principal balances totaling $178.2 million and $142.1 million, respectively.

The table below summarizes the activity in the SBA servicing rights asset for the periods presented (dollars in thousands):

	Three Months Ended September 30		Nine Months Ended September 30	
SBA Servicing Rights	2017	2016	2017	2016
Balance, beginning of period	$3,828	$3,165	$3,477	$2,626
Additions	253	339	850	963
Fair value adjustments	(131)	(229)	(377)	(314)
Balance, end of period	$3,950	$3,275	$3,950	$3,275

The fair value of the SBA servicing rights asset, key metrics, and the sensitivity of the fair value due to adverse changes in key economic assumptions at the periods presented are as follows (dollars in thousands):

SBA Servicing Rights	September 30, 2017	December 31, 2016
Fair value	$ 3,950	$ 3,477
Weighted average discount rate	12.6 %	12.8 %
Decline in fair value due to a 100 basis point adverse change	$ (141)	$ (122)
Decline in fair value due to a 200 basis point adverse change	(273)	(236)
Prepayment speed	8.4 %	8.0 %
Decline in fair value due to a 10% adverse change	$ (130)	$ (108)
Decline in fair value due to a 20% adverse change	(254)	(210)
Weighted average remaining life (years)	7.0	7.1

The sensitivity calculations above are hypothetical and should not be considered to be predictive of future performance. As indicated, changes in fair value based on adverse changes in model inputs and/or assumptions generally cannot be extrapolated because the relationship of the change in input or assumption to the change in fair value may not be linear. In addition, the effect of an adverse variation in a particular input or assumption on the value of the SBA servicing rights is calculated without changing any other input or assumption. In reality, changes in one factor may magnify or counteract the effect of the change.

The risk inherent in the SBA servicing rights asset includes prepayments at different rates than anticipated or resolution of loans at dates not consistent with the estimated expected lives. These events would cause the value of the servicing asset to decline at a faster or slower rate than originally anticipated.

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Information about the SBA loans serviced by the Company at and for the periods presented are as follows (dollars in thousands):

	September 30, 2017			
SBA Loans Serviced	Unpaid Principal Balance	30 - 89 Days Past Due	90 Days or Greater Past Due	Net Charge-offs for the Nine Months Ended September 30, 2017
Serviced for others	$178,177	$76	$—	$ —
Held-for-sale	13,956	—	—	—
Held-for-investment	152,000	1,322	8,154	454
Total SBA loans serviced	$344,133	$1,398	$8,154	$ 454

	December 31, 2016			
SBA Loans Serviced	Unpaid Principal Balance	30 - 89 Days Past Due	90 Days or Greater Past Due	Net Charge-offs for the Nine Months Ended September 30, 2016
Serviced for others	$142,069	$ 522	$—	$ —
Held-for-sale	16,356	—	—	—
Held-for-investment	144,351	220	5,580	2,120
Total SBA loans serviced	$302,776	$ 742	$5,580	$ 2,120

NOTE 9: DERIVATIVE INSTRUMENTS & HEDGING ACTIVITIES

Interest Rate Swaps and Caps

Risk Management Objective of Interest Rate Swaps and Caps

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity and credit risk, primarily by managing the amount, sources and duration of certain balance sheet assets and liabilities. In the normal course of business, the Company also uses derivative financial instruments to add stability to interest income or expense and to manage its exposure to movements in interest rates. The Company does not use derivatives for trading or speculative purposes and only enters into transactions that have a qualifying hedging relationship. The Company's hedging strategies involving interest rate derivatives are classified as either Fair Value Hedges or Cash Flow Hedges, depending upon the rate characteristic of the hedged item.

Fair Value Hedge: As a result of interest rate fluctuations, fixed-rate assets and liabilities will appreciate or depreciate in fair value. When effectively hedged, this appreciation or depreciation will generally be offset by fluctuations in the fair value of the derivative instruments that are linked to the hedged assets and liabilities. This strategy is referred to as a fair value hedge.

Cash Flow Hedge: Cash flows related to floating-rate assets and liabilities will fluctuate with changes in an underlying rate index. When effectively hedged, the increases or decreases in cash flows related to the floating rate asset or liability will generally be offset by changes in cash flows of the derivative instrument designated as a hedge. This strategy is referred to as a cash flow hedge.

Credit and Collateral Risks for Interest Rate Swaps and Caps

The Company manages credit exposure on interest rate swap and cap transactions by entering into a bilateral credit support agreement with each counterparty. The credit support agreements require collateralization of exposures beyond specified minimum threshold amounts. The details of these agreements, including the minimum thresholds, vary by counterparty. Refer to Note 10, Balance Sheet Offsetting, for more information on collateral pledged and received under these agreements.

The Company’s agreements with its interest rate swap and cap counterparties contain a provision where if either party defaults on any of its indebtedness, then it could also be declared in default on its derivative obligations. The agreements with derivative counterparties also include provisions that if not met, could result in the Company being declared in default. If the Company were to be declared in default, the counterparty could terminate the derivative positions and the Company and the counterparty would be required to settle their obligations under the agreements. At September 30, 2017, the termination value of derivatives in a net liability position under these agreements was $11,000, for which the Company did not post any cash collateral. Although the Company did not breach any provisions at September 30, 2017, if a breach had occurred, the maximum amount of collateral the Company would have been required to post to counterparties was $11,000.

Mortgage Derivatives

Risk Management Objective of Mortgage Lending Activities

The Company also maintains a risk management program to manage interest rate risk and pricing risk associated with its mortgage lending activities. The risk management program includes the use of forward contracts and other derivatives that are recorded in the financial statements at fair value and are used to offset changes in value of the mortgage inventory due to changes in market interest rates. As a normal part of our operations, we enter into derivative contracts to economically hedge risks associated with overall price risk related to interest rate lock commitments ("IRLCs") and mortgage loans held-for-sale for which the fair value option has been elected. Fair value changes occur as a result of interest rate movements as well as changes in the value of the associated servicing. Derivative instruments used include forward sale commitments and IRLCs.

Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. It is the Company's practice to enter into forward commitments for the future delivery of mortgage loans in order to economically hedge the effect of changes in interest rates resulting from interest rate lock commitments.

Credit and Collateral Risks for Mortgage Lending Activities

The Company’s underlying risks are primarily related to interest rates and forward sales commitments entered into as part of its mortgage banking activities. Forward sales commitments are contracts for the delayed delivery or net settlement of an underlying instrument, such as a mortgage loan, in which the seller agrees to deliver on a specified future date, either a specified instrument at a specified price or yield or the net cash equivalent of an underlying instrument. These hedges are used to preserve the Company’s position relative to future sales of mortgage loans to third parties in an effort to minimize the volatility of the expected gain on sale from changes in interest rate and the associated pricing changes.

Derivative Fair Values

The table below presents the fair values of the Company's interest rate swaps and caps at the dates presented (dollars in thousands):

	Asset Derivatives (1)		Liability Derivatives (1)	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Derivatives Designated as Hedging Instruments				

Interest rate swaps and caps	$1,538	$ 1,774	$ 387	$ 641
Derivatives Not Designated as Hedging Instruments				
Interest rate swaps	$—	$ 19	$ —	$ 85
Mortgage derivatives	872	1,362	467	459

(1) All asset derivatives are located in "Other Assets" on the consolidated statements of financial condition and all liability derivatives are located in "Other Liabilities" on the consolidated statements of financial condition.

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Derivatives Designated as Hedging Instruments

Fair Value Hedges

The Company uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps, designated as fair value hedges, involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed payments over the life of the agreements without the exchange of the underlying notional amount. The gain or loss on the derivative as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in earnings. At September 30, 2017, the Company had 91 interest rate swaps with an aggregate notional amount of $157.8 million, designated as fair value hedges associated with the Company's fixed rate loan program.

The table below presents the effect of the Company's derivatives in fair value hedging relationships for the periods presented (dollars in thousands):

		Three Months Ended		Nine Months Ended	
		September 30		September 30	
Interest Rate Products	Location	2017	2016	2017	2016
Amount of gain (loss) recognized in income on derivatives	Noninterest income	$3	$977	$35	$(3,396)
Amount of loss recognized in income on hedged items	Noninterest income	(55)	(956)	(138)	3,106
Total net (loss) gain recognized in income on fair value hedge ineffectiveness		$(52)	$21	$(103)	$(290)

During the three and nine months ended September 30, 2017, the Company recognized net losses of $52,000 and $103,000, respectively, related to hedge ineffectiveness on the fair value swaps. During the three and nine months ended September 30, 2016, the Company recognized a net gain (loss) of $21,000 and $(290,000), respectively, related to hedge ineffectiveness on the fair value swaps. The Company also recognized a net reduction in interest income of $176,000 and $761,000 for the three and nine months ended September 30, 2017, respectively, related to the fair value hedges, which includes net settlements on derivatives and any amortization adjustment of the basis in the hedged items. For the three and nine months ended September 30, 2016, the Company recognized a net reduction in interest income of $460,000 and $1.4 million, respectively, related to the fair value hedges. For the three and nine months ended September 30, 2017, the Company recognized net losses of $152,000 and $153,000, respectively, related to the unamortized basis in the hedged items. For the three and nine months ended September 30, 2016, the Company recognized net losses of $61,000 and $108,000, respectively, related to the unamortized basis in the hedged items.

Cash Flow Hedges

The Company uses interest rate caps as part of its interest rate risk management strategy. Interest rate caps, designated as cash flow hedges, involve the payment of a premium to a counterparty based on the notional size and cap strike rate. The Company's current cash flow hedges are for the purpose of capping interest rates paid on deposits, which protects the Company in a rising rate environment. The caps were purchased during the first quarter of 2013 to hedge the variable cash outflows associated with these liabilities; they originally had a five-year life and notional value of $200.0 million.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income (AOCI) and is subsequently reclassified into earnings in the period the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of derivatives that qualify as cash flow hedges is recognized directly in earnings. No hedge ineffectiveness was recognized on the Company's cash flow hedges during the periods ended September 30, 2017 and 2016.

Amounts reported in AOCI related to derivatives are reclassified to interest expense as the interest rate cap premium is amortized over the life of the cap. During the next twelve months, $502,000 is expected to be reclassified as a decrease to net interest income.

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The table below presents the effect of the Company's derivatives in cash flow hedging relationships for the periods presented (dollars in thousands):

		Three Months Ended September 30		Nine Months Ended September 30	
Interest Rate Products	Location	2017	2016	2017	2016
Amount of (loss) gain recognized in AOCI on derivatives (effective portion)	OCI	$(30)	$73	$50	$(847)
Amount of loss reclassified from AOCI into income (effective portion)	Interest expense	379	320	1,213	804
Amount of loss recognized in consolidated statements of comprehensive income		$(409)	$(247)	$(1,163)	$(1,651)

Derivatives Not Designated as Hedging Instruments

Interest Rate Swaps

At September 30, 2017, the Company had no interest rate swaps that were not designated as fair value hedges associated with the Company's fixed rate loan program. For the three and nine months ended September 30, 2017, there were net losses of $68,000 and $124,000, respectively, recorded in the income statement for the interest rate swaps not designated as hedging instruments. For the three and nine months ended September 30, 2016, there was a net gain of $21,000 and a net loss of $199,000, respectively, recorded in the income statement for the interest rate swaps not designated as hedging instruments.

Mortgage Derivatives

Mortgage derivative fair value assets and liabilities are recorded in "Other Assets" and "Other Liabilities," respectively, on the consolidated statements of financial condition. At September 30, 2017 and December 31, 2016, the fair value of mortgage derivative assets was $872,000 and $1.4 million, respectively, and the fair value of mortgage derivative liabilities was $467,000 and $459,000, respectively. At September 30, 2017 and December 31, 2016, the Company had approximately $51.2 million and $49.9 million, respectively, of interest rate lock commitments, and $75.8 million and $76.7 million, respectively, of forward commitments for the future delivery of residential mortgage loans. The net loss related to interest rate lock commitments for the three months ended September 30, 2017 was $79,000, compared to a loss of $430,000 for the same period in 2016. The net gains related to interest rate lock commitments were $250,000 and $313,000 for the nine months ended September 30, 2017 and 2016, respectively. The net loss for forward commitments related to these mortgage loans was $66,000 for the three months ended September 30, 2017, compared to a net gain of $451,000 for the same period in 2016. The net losses for forward commitments were $748,000 and $399,000 for the nine months ended September 30, 2017 and September 30, 2016, respectively.

The table below presents the effect of the Company's derivatives not designated as hedging instruments for the periods presented (dollars in thousands):

	Three Months Ended September 30	Nine Months Ended September 30

Interest Rate Products	Location	2017	2016	2017	2016
Amount of (loss) gain recognized in income on interest rate swaps	Noninterest income	$(68)	$21	$(124)	$(199)
Amount of (loss) gain recognized in income on interest rate lock commitments	Noninterest income	(79)	(430)	250	313
Amount of (loss) gain recognized in income on forward commitments	Noninterest income	(66)	451	(748)	(399)
Total (loss) gain recognized in income on derivatives not designated as hedging instruments		$(213)	$42	$(622)	$(285)

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NOTE 10: BALANCE SHEET OFFSETTING AND REPURCHASE AGREEMENTS

Balance Sheet Offsetting

Certain financial instruments, including repurchase agreements and derivatives (interest rate swaps and caps), may be eligible for offset in the consolidated statements of financial condition and/or subject to master netting arrangements or similar agreements; however, the Company does not offset assets and liabilities under these arrangements for financial statement presentation purposes.

The table below presents information about the Company’s financial instruments that are eligible for offset in the consolidated statements of financial condition at the dates presented (dollars in thousands):

	Gross Amounts Recognized	Gross Amounts Offset on the Statement of Financial Condition	Net Amounts Presented on the Statement of Financial Condition	Gross Amounts Not Offset on the Statement of Financial Condition		Net Amount
				Financial Instruments	Collateral Received/Posted (1)	
September 30, 2017						
Offsetting Assets						
Interest rate swaps and caps	$ 1,538	$ —	$ 1,538	$(377)	$ (590)	$ 571
Offsetting Liabilities						
Interest rate swaps and caps	$ 387	$ —	$ 387	$(377)	$ —	$ 10
Repurchase agreements	25,499	—	25,499	—	(25,499)	—
Total liabilities	$ 25,886	$ —	$ 25,886	$(377)	$ (25,499)	$ 10
December 31, 2016						
Offsetting Assets						
Interest rate swaps and caps	$ 1,793	$ —	$ 1,793	$(718)	$ (1,075)	$ —
Offsetting Liabilities						
Interest rate swaps and caps	$ 726	$ —	$ 726	$(718)	$ —	$ 8
Repurchase agreements	25,722	—	25,722	—	(25,722)	—
Total liabilities	$ 26,448	$ —	$ 26,448	$(718)	$ (25,722)	$ 8

(1) The application of collateral cannot reduce the net amount below zero; therefore, excess collateral received/posted is not reflected in this table. All positions are fully collateralized.

Repurchase Agreements

The Company utilizes securities sold under repurchase agreements to facilitate the needs of its customers. Securities sold under repurchase agreements consist of balances in the transaction accounts of commercial customers swept nightly to an overnight investment account and are collateralized with investment securities having a market value no less than the balance borrowed. The investment securities pledged are subject to market fluctuations as well as prepayments of principal. The Company monitors the risk of the fair value of its pledged collateral falling below the balance of the repurchase agreements on a daily basis and may be required to provide additional collateral. Securities pledged as collateral are maintained with a safekeeping agent.

At September 30, 2017 and December 31, 2016, securities sold under repurchase agreements were $25.5 million and $25.7 million, respectively, all of which mature on an overnight and continuous basis. At both September 30, 2017 and December 31, 2016, investment securities pledged for the outstanding repurchase agreements consisted of U.S. government sponsored agency mortgage-backed securities.

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NOTE 11: REGULATORY MATTERS

Regulatory Capital Requirements

Beginning on January 1, 2015, the Company and State Bank became subject to the provisions of the Basel III final rule that governs the regulatory capital calculation, including transitional, or phase-in, provisions. The methods for calculating the risk-based capital ratios will change as the provisions of the Basel III final rule related to the numerator (capital) and denominator (risk-weighted assets) are fully phased in on January 1, 2019. The ongoing methodological changes will result in differences in the reported capital ratios from one reporting period to the next that are independent of applicable changes in the capital base, asset composition, off-balance sheet exposures or risk profile.

Beginning on January 1, 2016, the Company and State Bank must maintain a capital conservation buffer to avoid restrictions on capital distributions or discretionary bonus payments. This buffer must consist solely of Common Equity Tier 1 Capital, but the buffer applies to all three measurements (Common Equity Tier 1, Tier 1 capital and total capital) in addition to the minimum risk-based capital requirements. The capital conservation buffer required for 2017 is common equity equal to 1.25% of risk-weighted assets and will increase by .625% per year until reaching 2.5% beginning January 1, 2019.

The minimum regulatory capital ratios and ratios to be considered well-capitalized under prompt corrective action provisions at both September 30, 2017 and December 31, 2016 are presented in the table below:

Capital Ratio Requirements	Minimum Requirement	Well-capitalized (1)
Common Equity Tier 1 (CET1) capital ratio	4.50%	6.50%
Tier 1 risk-based capital ratio	6.00%	8.00%
Total risk-based capital ratio	8.00%	10.00%
Tier 1 leverage ratio	4.00%	5.00%

(1) The prompt corrective action provisions are only applicable at the bank level.

At September 30, 2017 and December 31, 2016, the Company and State Bank exceeded all regulatory capital adequacy requirements to which they were subject.

The Company's regulatory ratios at the dates indicated are presented in the table below (dollars in thousands):

	September 30, 2017			December 31, 2016		
	Actual		Required Minimum	Actual		Required Minimum
	Amount	Ratio	Amount	Amount	Ratio	Amount
Company						
Common Equity Tier 1 (CET1) capital ratio	$543,807	12.21%	$200,405	$526,282	14.78%	$160,258
Tier 1 risk-based capital ratio	543,807	12.21%	267,207	526,282	14.78%	213,678
Total risk-based capital ratio	570,649	12.81%	356,276	552,880	15.52%	284,904
Tier 1 leverage ratio	543,807	13.37%	162,706	526,282	14.90%	141,273

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State Bank's regulatory ratios at the dates indicated are presented in the table below (dollars in thousands):

	September 30, 2017				December 31, 2016			
	Actual		Required		Actual		Required	
	Amount	Ratio	Minimum Amount	Well Capitalized Amount	Amount	Ratio	Minimum Amount	Well Capitalized Amount
State Bank								
Common Equity Tier 1 (CET1) capital ratio	$471,829	10.62%	$199,899	$ 288,743	$463,164	13.06%	$159,535	$ 230,440
Tier 1 risk-based capital ratio	471,829	10.62%	266,532	355,376	463,164	13.06%	212,714	283,618
Total risk-based capital ratio	498,671	11.23%	355,376	444,221	489,762	13.81%	283,618	354,523
Tier 1 leverage ratio	471,829	11.60%	162,691	203,364	463,164	13.18%	140,572	175,715

Regulatory Restrictions on Dividends

Regulatory policy statements provide that generally bank holding companies should pay dividends only out of current operating earnings and that the level of dividends must be consistent with current and expected capital requirements. Dividends received from State Bank have been the primary source of funds available for the declaration and payment of dividends to the Company's common shareholders.

Federal and state banking laws and regulations restrict the amount of dividends banks may distribute without prior regulatory approval. At September 30, 2017, State Bank had no capacity to pay dividends to the Company without prior regulatory approval.

At September 30, 2017, the Company had $60.7 million in cash and due from bank accounts, which can be used for additional capital as needed by State Bank, payment of holding company expenses, payment of dividends to shareholders, or for other corporate purposes.

NOTE 12: COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

In order to meet the financing needs of its customers, the Company maintains financial instruments with off-balance-sheet risk in the normal course of business. These financial instruments include commitments to extend credit and standby letters of credit and involve, to varying degrees, elements of credit, interest rate and/or liquidity risk. Such financial instruments are recorded when they are funded and the related fees are generally recognized when collected.

Commitments to extend credit are legally binding agreements to lend to customers. Commitments generally have fixed maturity dates or other termination clauses with required fee payments. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future liquidity requirements. The amount of collateral required, if deemed necessary upon extension of credit, is determined on a case by case basis by management through credit evaluation of the customer.

Standby letters of credit are commitments guaranteeing performance of a customer to a third party. Those guarantees are issued primarily to support public and private borrowing arrangements. In order to minimize its exposure, the

Company's credit policies govern the issuance of standby letters of credit.

The Company's exposure to credit loss is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as we do for on-balance-sheet instruments.

A summary of the Company's commitments is as follows (dollars in thousands):

	September 30, 2017	December 31, 2016
Commitments to extend credit:		
Fixed	$ 56,342	$ 63,166
Variable	897,223	608,176
Letters of credit:		
Fixed	5,525	6,985
Variable	11,391	3,239
Total commitments	$ 970,481	$ 681,566

The fixed rate loan commitments have maturities ranging from one month to thirteen years. Management takes appropriate actions to mitigate interest rate risk associated with these fixed rate commitments through various measures including, but not limited to, the use of derivative financial instruments.

Contingent Liabilities

Mortgage loan sales agreements contain covenants that may, in limited circumstances, require the Company to repurchase or indemnify the investors for losses or costs related to the loans the Company has sold. As a result of the potential recourse provisions, the Company maintains a recourse liability for mortgage loans sold to investors. At September 30, 2017, the recourse liability was $297,000.

Furthermore, in the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material effect on the Company's financial statements.

NOTE 13: FAIR VALUE

Overview

Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumptions in fair value measurements, the Financial Accounting Standards Board's Accounting Standards Codification Topic 820 ("ASC 820") Fair Value Measurements and Disclosures establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs classified within Level 3 of the hierarchy).

Fair Value Hierarchy

Level 1

Valuation is based on inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2

Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as interest rates, yield curves observable at commonly quoted intervals, and other market-corroborated inputs.

Level 3

Valuation is generated from techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. The Company evaluates fair value measurement inputs on an ongoing basis in order to determine if there is a change of sufficient significance to warrant a transfer between levels. Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally coincides with the Company's valuation process. For the nine months ended September 30, 2017 and the year ended December 31, 2016, there were no transfers between levels.

Fair Value Option

ASC 820 allows companies to report selected financial assets and liabilities at fair value using the fair value option. The changes in fair value are recognized in earnings and the assets and liabilities measured under this methodology are required to be displayed separately on the balance sheet. The Company made the election to record mortgage loans held-for-sale at fair value under the fair value option, which allows for a more effective offset of the changes in fair values of the loans and the derivative instruments used to hedge them without the burden of complying with the requirements for hedge accounting.

Financial Assets and Financial Liabilities Measured on a Recurring Basis

The Company uses the following methods and assumptions in estimating the fair value of its financial assets and financial liabilities on a recurring basis:

Investment Securities Available-for-Sale

At September 30, 2017, the Company's investment portfolio primarily consisted of U.S. government agency mortgage-backed securities, nonagency mortgage-backed securities, U.S. government securities, municipal securities, asset-backed securities, and corporate securities. Fair Values for U.S. Treasury and equity securities are determined by obtaining quoted prices on nationally recognized securities exchanges utilizing Level 1 inputs. Other securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. The fair value of other securities classified as available-for-sale are determined using widely accepted valuation techniques including matrix pricing and broker-quote-based applications. Inputs may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other relevant items. The Company reviews the prices supplied by the independent pricing service, as well as their underlying pricing methodologies, for reasonableness and to ensure such prices are aligned with traditional pricing matrices. From time to time, the Company validates the appropriateness of the valuations provided by the independent pricing service to prices obtained from an additional third party or prices derived using internal models.

Hedged Loans

Loans involved in fair value hedges are recorded at fair value on a recurring basis. The estimated fair value is determined using Level 2 inputs consistent with the valuation methodology for interest rate swaps discussed below. The Company does not record other loans held for investment at fair value on a recurring basis.

Mortgage Loans Held-for-Sale

Mortgage loans held-for-sale are recorded at fair value on a recurring basis. The estimated fair value is determined using Level 2 inputs based on observable data such as the existing forward commitment terms or the current market value of similar loans. Interest income is recorded in interest income on the consolidated statements of income and is based on the contractual terms of the loan. None of these loans were 90 days or more past due or on nonaccrual at September 30, 2017.

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At September 30, 2017, the aggregate fair value of the Company's mortgage loans held-for-sale was $33.8 million and the contractual balance including accrued interest was $33.0 million, with a fair value mark totaling $754,000. The Company recognized a gain of $63,000 and a gain of $545,000 for the three and nine months ended September 30, 2017, respectively, related to the change in fair value of the mortgage loans held-for-sale, included in "mortgage banking income" on the consolidated statements of income. For the three and nine months ended September 30, 2016, the amount recognized related to the change in fair value of the mortgage loans held-for-sale was a loss of $749,000 and a gain of $324,000, respectively.

Derivative Financial Instruments

Interest Rate Swaps and Caps

The Company uses interest rate swaps to provide longer-term fixed rate funding to its customers and interest rate caps to mitigate the interest rate risk on its variable rate liabilities. The majority of these derivatives are traded within highly active dealer markets. In order to determine the fair value of these instruments, the Company utilizes the exchange price or dealer market price for the particular derivative contract. Therefore, these derivative contracts are classified as Level 2. The Company utilizes an independent third party valuation company to validate the dealer prices. In cases where significant credit valuation adjustments are incorporated into the estimation of fair value, reported amounts are considered to have been derived utilizing Level 3 inputs.

The Company evaluates the credit risk of its counterparties as well as that of the Company. The Company has considered factors such as the likelihood of default by the Company and its counterparties, its net exposures, and remaining contractual life, among other things, in determining if any fair value adjustments related to credit risk are required. Counterparty exposure is evaluated by netting positions that are subject to master netting arrangements, as well as considering the amount of collateral securing the position. The Company reviews its counterparty exposure on a regular basis, and, when necessary, appropriate business actions are taken to adjust the exposure. The Company also utilizes this approach to estimate its own credit risk on derivative liability positions. To date, the Company has not realized any losses due to a counterparty's inability to pay any net uncollateralized position.

Mortgage Derivatives

Mortgage derivatives include interest rate lock commitments to originate residential mortgage loans held-for-sale. The Company relies on an internal valuation model to estimate the fair value of its interest rate lock commitments to originate residential mortgage loans held-for-sale. The model groups the interest rate lock commitments by interest rate and term, applies an estimated pull-through rate based on historical experience, and then multiplies by quoted investor prices which were determined to be reasonably applicable to the loan commitment group based on interest rate, term, and rate lock expiration date of the loan commitment group. While there are Level 2 and 3 inputs used in the valuation model, the Company has determined that the majority of the inputs significant in the valuation of the interest rate lock commitments fall within Level 3 of the fair value hierarchy. Changes in the fair values of these derivatives are included in "mortgage banking income" on the consolidated statements of income.

Mortgage derivatives also include forward commitments to sell residential mortgage loans to various investors when interest rate locks are entered into, in order to hedge the change in interest rates resulting from its commitment to fund loans. The Company also relies on an internal valuation model to estimate the fair value of its forward commitments to sell residential mortgage loans (i.e., an estimate of what the Company would receive or pay to terminate the forward delivery contract based on market prices for similar financial instruments), which includes matching specific terms and maturities of the forward commitments against applicable investor pricing available (Level 2). Changes in the fair values of these derivatives are included in "mortgage banking income" on the consolidated statements of income.

SBA Servicing Rights

The Company has the rights to service a portfolio of SBA loans. The SBA servicing rights are measured at fair value when loans are sold on a servicing retained basis. The servicing rights are subsequently measured at fair value on a recurring basis utilizing Level 3 inputs. Management uses a model operated and maintained by a third party to calculate the present value of future cash flows using the third party's market-based assumptions. The future cash flows for each asset are based on the asset's unique characteristics and the third party's market-based assumptions for prepayment speeds, default and voluntary prepayments. For non-guaranteed portions of servicing assets, future cash flows are estimated using loan specific assumptions for losses and recoveries. Adjustments to fair value are recorded as a component of "SBA income" on the consolidated statements of income. Please reference Note 8 for the rollforward of the SBA servicing rights asset at fair value utilizing level 3 inputs.

The following tables present financial assets and financial liabilities measured at fair value on a recurring basis at the dates indicated, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (dollars in thousands):

September 30, 2017	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
U.S. Government securities	$ —	$77,375	$ —	$77,375
States and political subdivisions	—	2,859	—	2,859
Residential mortgage-backed securities — nonagency	—	127,052	—	127,052
Residential mortgage-backed securities — agency	—	602,926	—	602,926
Corporate securities	—	110,551	—	110,551
Hedged loans	—	154,446	—	154,446
Mortgage loans held-for-sale	—	33,787	—	33,787
Mortgage derivatives	—	135	737	872
Interest rate swaps and caps	—	1,538	—	1,538
SBA servicing rights	—	—	3,950	3,950
Total recurring assets at fair value	$ —	$1,110,669	$ 4,687	$1,115,356
Liabilities:				
Interest rate swaps and caps	$ —	$387	$ —	$387
Mortgage derivatives	—	128	339	467
Total recurring liabilities at fair value	$ —	$515	$ 339	$854

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December 31, 2016	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
U.S. Government securities	$ —	$88,649	$ —	$88,649
States and political subdivisions	—	301	—	301
Residential mortgage-backed securities — nonagency	—	154,009	—	154,009
Residential mortgage-backed securities — agency	—	529,302	—	529,302
Corporate securities	—	74,917	—	74,917
Hedged loans	—	167,165	—	167,165
Mortgage loans held for sale	—	35,813	—	35,813
Mortgage derivatives	—	663	699	1,362
Interest rate swaps and caps	—	1,793	—	1,793
SBA servicing rights	—	—	3,477	3,477
Total recurring assets at fair value	$ —	$1,052,612	$ 4,176	$1,056,788
Liabilities:				
Interest rate swaps and caps	$ —	$726	$ —	$726
Mortgage derivatives	—	14	445	459
Total recurring liabilities at fair value	$ —	$740	$ 445	$1,185

Changes in the carrying value of mortgage derivatives utilizing Level 3 inputs are presented in the following tables for the periods presented (dollars in thousands):

Mortgage Derivatives	Three Months Ended September 30 2017 Other Assets	Three Months Ended September 30 2017 Other Liabilities	Nine Months Ended September 30 2017 Other Assets	Nine Months Ended September 30 2017 Other Liabilities
Balance, beginning of period	$890	$ 385	$699	$ 445
Issuances (1)	339	339	1,543	1,167
Settlements and closed loans (1)	(492)	(385)	(1,505)	(1,273)
Balance, end of period	$737	$ 339	$737	$ 339

Mortgage Derivatives	Three Months Ended September 30 2016 Other Assets	Three Months Ended September 30 2016 Other Liabilities	Nine Months Ended September 30 2016 Other Assets	Nine Months Ended September 30 2016 Other Liabilities
Balance, beginning of period	$1,338	$ 560	$651	$ 361
Issuances (1)	427	427	2,084	1,596
Settlements and closed loans (1)	(854)	(560)	(1,824)	(1,530)
Balance, end of period	$911	$ 427	$911	$ 427

(1) The change in fair value, recorded as a component of "mortgage banking income" on the consolidated statements of income, was a loss of $107,000 and a gain of $144,000 for the three months and nine months ended September 30, 2017, respectively. The change in fair value resulted in a loss of $294,000 and a gain of $194,000 for the three and nine months ended September 30, 2016, respectively.

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Financial Assets Measured on a Nonrecurring Basis

The Company uses the following methods and assumptions in estimating the fair value of its financial assets on a nonrecurring basis:

Impaired Loans

Loans, excluding purchased credit impaired loans, are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The fair values of impaired loans are measured on a nonrecurring basis and are based on the underlying collateral value of each loan if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs that are based on observable market data such as an appraisal. Updated appraisals are obtained on at least an annual basis. Level 3 inputs are based on the Company's customized discounting criteria when management determines the fair value of the collateral is further impaired.

The following table presents financial assets measured at fair value on a nonrecurring basis at the dates indicated, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (dollars in thousands):

	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
September 30, 2017				
Impaired loans	$ —	$ —	$ 10,391	$ 10,391
Total nonrecurring assets at fair value	$ —	$ —	$ 10,391	$ 10,391
December 31, 2016				
Impaired loans	$ —	$ —	$ 8,784	$ 8,784
Total nonrecurring assets at fair value	$ —	$ —	$ 8,784	$ 8,784

Impaired loans, excluding purchased credit impaired loans, that are measured for impairment using the fair value of collateral for collateral dependent loans had recorded investments of $11.1 million and $9.6 million with respective valuation allowances of $706,000 and $831,000 at September 30, 2017 and December 31, 2016, respectively.

Nonfinancial Assets Measured on a Nonrecurring Basis

The Company uses the following methods and assumptions in estimating the fair values of its nonfinancial assets on a nonrecurring basis:

Other Real Estate Owned

Other real estate owned ("OREO") consists of real estate acquired through foreclosure or a deed in lieu of foreclosure in satisfaction of a loan, OREO acquired in a business acquisition, and banking premises no longer used for a specific business purpose. Real estate obtained in satisfaction of a loan is initially recorded at the lower of the principal investment in the loan or the fair value of the collateral less estimated costs to sell at the time of foreclosure with any excess in loan balance charged against the allowance for loan and lease losses. OREO acquired in a business acquisition is recorded at fair value on Day 1 of the acquisition. Banking premises no longer used for a specific business purpose is transferred into OREO at the lower of its carrying value or fair value less estimated costs to sell with any excess in the carrying value charged to noninterest expense. For all fair value estimates of the real estate properties, management considers a number of factors such as appraised values, estimated selling prices, and current market conditions, resulting in a Level 3 classification. Management periodically reviews the carrying value of OREO for impairment and adjusts the values as appropriate through noninterest expense.

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The following table presents nonfinancial assets measured at fair value on a nonrecurring basis at the dates indicated, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (dollars in thousands):

	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
September 30, 2017				
Other real estate owned	$ —	$ —	$ 1,647	$1,647
December 31, 2016				
Other real estate owned	$ —	$ —	$ 13,292	$13,292

The following table is a reconciliation of the fair value measurement of other real estate owned disclosed in accordance with ASC 820 to the amount recorded on the consolidated statement of financial condition at the dates indicated (dollars in thousands):

	September 30, 2017	December 31, 2016
Other real estate owned:		
Other real estate owned at fair value	$ 1,647	$ 13,292
Estimated selling costs and other adjustments	(376)	(2,395)
Other real estate owned	$ 1,271	$ 10,897

Unobservable Inputs for Level 3 Fair Value Measurements

The following tables provide information describing the unobservable inputs used in Level 3 fair value measurements at the dates indicated (dollars in thousands):

September 30, 2017	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
SBA servicing rights	$3,950	Discounted cash flows	Discount rate	9% - 20% (13%)
			Prepayment speed	4% - 12% (8%)
Mortgage derivatives - asset	$737	Pricing model	Pull-through rate	83%
Mortgage derivatives - liability	$339	Pricing model	Pull-through rate	83%
Impaired loans - collateral dependent	$10,391	Third party appraisal	Management discount for property type and recent market volatility	0% - 50% (6%)
Other real estate owned	$1,647	Third party appraisal	Management discount for property type and recent market volatility	0% - 33% (14%)

December 31, 2016	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
SBA servicing rights	$3,477	Discounted cash flows	Discount rate	9% - 18% (13%)
			Prepayment speed	3% - 11% (8%)

Mortgage derivatives - asset	$699	Pricing model	Pull-through rate	84%
Mortgage derivatives - liability	$445	Pricing model	Pull-through rate	84%
Impaired loans - collateral dependent	$8,784	Third party appraisal	Management discount for property type and recent market volatility	0% - 50% (9%)
Other real estate owned	$13,292	Third party appraisal	Management discount for property type and recent market volatility	0% - 68% (16%)

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Fair Value of Financial Assets and Financial Liabilities

The following table includes the estimated fair value of the Company's financial assets and financial liabilities (dollars in thousands). The methodologies for estimating the fair value of financial assets and financial liabilities measured on a recurring and nonrecurring basis are discussed above. The methodologies for estimating the fair value for other financial assets and financial liabilities are discussed below. The Company has determined the estimated fair value amounts using available market information and appropriate valuation methodologies; however, considerable judgment is required to interpret market data in order to develop the estimates of fair value. Accordingly, the estimates presented below are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation techniques may have a material effect on the estimated fair value amounts at September 30, 2017 and December 31, 2016.

		September 30, 2017		December 31, 2016	
	Fair Value Hierarchy Level	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:					
Cash and cash equivalents	Level 1	$282,239	$282,239	$149,593	$149,593
Investment securities available-for-sale	Level 2	920,763	920,763	847,178	847,178
Investment securities held-to-maturity	Level 2 & 3	57,867	58,605	67,063	67,435
Loans held-for-sale	Level 2	47,743	49,481	52,169	53,770
Loans, net	Level 2 & 3	3,545,948	3,572,224	2,787,974	2,820,484
Other real estate owned	Level 3	1,271	1,647	10,897	13,292
Interest rate swaps and caps	Level 2	1,538	1,538	1,793	1,793
Mortgage derivatives	Levels 2 & 3	872	872	1,362	1,362
SBA servicing rights	Level 3	3,950	3,950	3,477	3,477
Accrued interest receivable	Level 2	14,015	14,015	10,210	10,210
Federal Home Loan Bank stock	Level 3	4,651	4,651	5,680	5,680
Liabilities:					
Deposits	Level 2	$4,241,085	$4,240,594	$3,431,165	$3,430,405
Federal funds purchased and securities sold under agreements to repurchase	Level 2	25,499	25,499	27,673	27,673
FHLB borrowings	Level 2	—	—	47,014	47,014
Notes payable	Level 2	398	398	398	398
Interest rate swaps and caps	Level 2	387	387	726	726
Mortgage derivatives	Levels 2 & 3	467	467	459	459
Accrued interest payable	Level 2	3,023	3,023	2,312	2,312

Cash and Cash Equivalents

The carrying amount approximates fair value because of the short maturity of these instruments.

Investment Securities Held-to-Maturity

Fair values are determined using quoted market prices or dealer quotes in the same manner as investment securities available-for-sale.

Organic and Purchased Non-Credit Impaired Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type. The fair value of performing loans is calculated by discounting scheduled cash flows through the estimated maturities using estimated market discount rates that reflect observable market information incorporating the credit, liquidity, yield, and other risks inherent in the loan. The estimate of maturity is based on the Company's historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of the current economic and lending conditions.

Purchased Credit Impaired Loans

Purchased credit impaired loans are recorded at fair value at the date of acquisition. The fair values of loans with evidence of credit deterioration are recorded net of a nonaccretable discount and an accretable discount. Subsequent decreases to the expected cash flows will generally result in a provision for loan and lease losses. Subsequent increases to the expected cash flows results in a reversal of the provision for loan and lease losses to the extent of prior changes or a reclassification of the difference from the nonaccretable to accretable discount with a positive impact on the accretable discount.

Accrued Interest Receivable and Accrued Interest Payable

The carrying amounts are a reasonable estimate of fair values.

Federal Home Loan Bank Stock

Federal Home Loan Bank stock, classified as a restricted equity security, is considered a Level 3 asset as little or no market activity exists for the security; therefore, the security's value is not market observable and is carried at original cost basis as cost approximates fair value.

Deposits

The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, interest-bearing deposits, and savings and money market deposits, is equal to the amount payable on demand. The fair value of time deposits is estimated by discounting the expected life. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Federal Funds Purchased and Securities Sold Under Repurchase Agreements

The fair value of federal funds purchased and securities sold under agreements to repurchase approximates the carrying amount because of the short maturity of these borrowings.

FHLB Borrowings

The carrying amount approximates fair value because of the short maturity of these instruments.

Notes Payable

Notes payable are variable rate subordinated debt for which performance is based on the underlying notes receivable. Interest rates adjust according to market value; therefore, the carrying amount approximates fair value.

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NOTE 14: EARNINGS PER SHARE

The Company has granted stock compensation awards with nonforfeitable dividend rights which are considered participating securities. As such, earnings per share is calculated using the two-class method. Basic earnings per share is calculated by dividing net income allocated to common shareholders by the weighted average number of common shares outstanding during the period which excludes the participating securities. Diluted earnings per share includes the dilutive effect of additional potential common shares from stock compensation awards and warrants. There were no anti-dilutive securities excluded from the computation of earnings per share in the periods presented.

Earnings per share have been computed based on the following weighted average number of common shares outstanding (dollars in thousands, except per share data):

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Numerator:				
Net income per consolidated statements of income	$14,436	$12,441	$41,197	$37,264
Net income allocated to participating securities	(389)	(348)	(1,095)	(1,021)
Net income allocated to common stock	$14,047	$12,093	$40,102	$36,243
Basic earnings per share computation:				
Net income allocated to common stock	$14,047	$12,093	$40,102	$36,243
Weighted average common shares outstanding, including shares considered participating securities	38,969,619	36,895,121	38,928,833	36,953,036
Less: Average participating securities	(1,050,866)	(1,031,938)	(1,034,448)	(1,012,634)
Weighted average shares	37,918,753	35,863,183	37,894,385	35,940,402
Basic earnings per share	$.37	$.34	$1.06	$1.01
Diluted earnings per share computation:				
Net income allocated to common stock	$14,047	$12,093	$40,102	$36,243
Weighted average common shares outstanding for basic earnings per share	37,918,753	35,863,183	37,894,385	35,940,402
Weighted average dilutive grants	44,388	102,765	49,586	100,253
Weighted average shares and dilutive potential common shares	37,963,141	35,965,948	37,943,971	36,040,655
Diluted earnings per share	$.37	$.34	$1.06	$1.01

NOTE 15: ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income, or AOCI, is reported as a component of shareholders' equity. AOCI can include, among other items, unrealized holding gains and losses on investment securities available-for-sale, unrealized gains and losses on investment securities available-for-sale transferred to held-to-maturity, and gains and losses on derivative instruments that are designated as, and qualify as, cash flow hedges. Unrealized holding gains and losses on securities transferred to held-to-maturity are amortized over the estimated remaining life of the security as an adjustment to yield, offsetting the related amortization/accretion of the net premium/discount created in the transfer. The components of AOCI are reported net of related tax effects.

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The components of AOCI and changes in those components for the periods presented are as follows (dollars in thousands):

	Investment Securities Available-for-Sale	Held-to-Maturity Securities Transferred from Available-For-Sale	Cash Flow Hedges (Effective Portion)	Total
Three Months Ended				
September 30, 2017				
Balance, beginning of period	$ (905)	$ (131)	$ (523)	$ (1,559)
Other comprehensive income (loss) before income taxes:				
Net change in unrealized gains (losses)	1,634	—	(30)	1,604
Amounts reclassified for net (gains) losses realized and included in earnings	(3)	—	379	376
Amortization of net unrealized losses on securities transferred to held-to-maturity	—	(4)	—	(4)
Income tax expense	625	—	135	760
Balance, end of period	$ 101	$ (135)	$ (309)	$ (343)
September 30, 2016				
Balance, beginning of period	$ 5,356	$ (173)	$ (1,629)	$ 3,554
Other comprehensive income (loss) before income taxes:				
Net change in unrealized (losses) gains	(831)	—	73	(758)
Amounts reclassified for net (gains) losses realized and included in earnings	(38)	—	320	282
Amortization of net unrealized losses on securities transferred to-held-to-maturity	—	(2)	—	(2)
Income tax (benefit) expense	(336)	—	152	(184)
Balance, end of period	$ 4,823	$ (175)	$ (1,388)	$ 3,260
Nine Months Ended				
September 30, 2017				
Balance, beginning of period	$ (1,200)	$ (175)	$ (1,082)	$ (2,457)
Other comprehensive income (loss) before income taxes:				
Net change in unrealized gains	2,148	—	50	2,198
Amounts reclassified for net (gains) losses realized and included in earnings	(28)	—	1,213	1,185
Amortization of net unrealized losses on securities transferred to-held-to-maturity	—	40	—	40
Income tax expense	819	—	490	1,309
Balance, end of period	$ 101	$ (135)	$ (309)	$ (343)

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	Investment Securities Available-for-Sale	Held-to-Maturity Securities Transferred from Available-For-Sale	Cash Flow Hedges (Effective Portion)	Total
September 30, 2016				
Balance, beginning of period	$ (272)	$ —	$ (1,362)	$ (1,634)
Other comprehensive income (loss) before income taxes:				
Net change in unrealized gains (losses)	8,584	—	(847)	7,737
Amounts reclassified for net (gains) losses realized and included in earnings	(447)	—	804	357
Transfer of net unrealized loss from available-for-sale to held-to-maturity	172	(172)	—	—
Amortization of net unrealized losses on securities transferred to-held-to-maturity	—	(3)	—	(3)
Income tax expense (benefit)	3,214	—	(17)	3,197
Balance, end of period	$ 4,823	$ (175)	$ (1,388)	$ 3,260

Reclassifications from AOCI into income for the periods presented are as follows (dollars in thousands):

Reclassifications from AOCI into income and affected line items on Consolidated Statements of Income	Three Months Ended September 30 2017	2016	Nine Months Ended September 30 2017	2016
Investment securities available-for-sale				
Gain on sale of investment securities	$ 3	$ 38	$ 28	$ 447
Income tax expense	(1)	(15)	(11)	(173)
Net income	$ 2	$ 23	$ 17	$ 274
Cash flow hedges (effective portion)				
Interest expense on deposits	$ (379)	$ (320)	$ (1,213)	$ (804)
Income tax benefit	145	124	466	311
Net income	$ (234)	$ (196)	$ (747)	$ (493)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion analyzes our consolidated financial condition at September 30, 2017 as compared to December 31, 2016 and our results of operations for the three and nine months ended September 30, 2017 as compared to the three and nine months ended September 30, 2016. This discussion should be read in conjunction with our consolidated financial statements and accompanying footnotes appearing in this report and in conjunction with the financial statements and related notes in our 2016 Annual Report on Form 10-K.

We have made, and will continue to make, various forward-looking statements with respect to financial and business matters. Comments regarding our business that are not historical facts are considered forward-looking statements, which involve inherent risks and uncertainties. Actual results may differ materially from those contained in these forward-looking statements. For additional information regarding our cautionary disclosures, see the "Cautionary Note Regarding Forward-Looking Statements" beginning on page 1 of this report.

Business Overview

The Company is a bank holding company that was incorporated under the laws of the State of Georgia in January 2010 to serve as the holding company for State Bank and Trust Company ("State Bank"). State Bank is a Georgia state-chartered bank that opened in October 2005. Between July 24, 2009 and September 30, 2017, we successfully completed 17 bank acquisitions totaling $6.0 billion in assets and $5.2 billion in deposits.

In this report, unless the context indicates otherwise, all references to "we," "us," and "our" refer to State Bank Financial Corporation and our wholly-owned subsidiary, State Bank.

As a result of our acquisitions, we were transformed from a small community bank to a much larger commercial bank. We are now operating 31 full-service branches throughout seven of Georgia's eight largest MSAs and one branch office in Birmingham, Alabama. At September 30, 2017, our total assets were $5.1 billion, our total loans receivable were $3.6 billion, our total deposits were $4.2 billion and our total shareholders' equity was $642.6 million.

Quarterly Highlights

The following provides an overview of the major factors impacting our financial performance for the quarter ended September 30, 2017:

- Net income for the quarter ended September 30, 2017 was $14.4 million, or $.37 per diluted share, compared to net income of $12.4 million, or $.34 per diluted share, for the quarter ended September 30, 2016.
- We completed our acquisition of AloStar Bank of Commerce ("AloStar") on September 30, 2017, less than four months after the merger was announced.
- Our net interest income on a taxable equivalent basis was $44.5 million for the quarter ended September 30, 2017, an increase of $6.2 million, or 16.3%, from the quarter ended September 30, 2016. Our interest income increased $7.1 million for the quarter ended September 30, 2017, compared to the quarter ended September 30, 2016, attributable to an $8.9 million increase in loan interest income and a $1.1 million increase in interest income on invested funds, partially offset by a $2.8 million decline in accretion income on loans.
- We experienced continued loan growth during the nine months ended September 30, 2017. At September 30, 2017, total loans were $3.5 billion, an increase of $758.2 million, or 26.9%, from December 31, 2016, primarily due to $718.6 million in loans, net of fair value adjustments, acquired in our acquisition of AloStar and organic loan growth of $29.2 million, or 1.3% during the quarter ended September 30, 2017. The growth in organic loans was partially offset by a decrease of $55.9 million, or 9.2%, in purchased credit impaired and purchased non-credit impaired loans, excluding the AloStar acquisition, during the same period.

- The accretable discount on purchased credit impaired loans decreased $2.1 million to $67.2 million at September 30, 2017, compared to $69.3 million at December 31, 2016. The decrease is a result of $23.4 million in accretion income recognized on purchased credit impaired loans, offset by additions from the AloStar acquisition of $11.7 million and transfers from nonaccretable to accretable discount of $9.7 million.

- Asset quality remained sound at September 30, 2017 with a ratio of nonperforming assets to total loans plus other real estate owned of .35% and a ratio of nonperforming loans to total loans of .31%.
- The average cost of funds remained low at 38 basis points for the quarter ended September 30, 2017, an increase of four basis points from the same period in 2016, primarily due to an increase in savings and money market deposits, as well as an increase in the rate paid on other borrowings.
- The Company's capital ratios exceeded all regulatory "well capitalized" guidelines, with a Tier 1 leverage ratio of 13.37%, CET1 and Tier 1 risk-based capital ratios of 12.21%, and a Total risk-based capital ratio of 12.81% at September 30, 2017.
- During the third quarter of 2017, we declared and paid a cash dividend of $0.14 per common share to our shareholders.

Recent Developments

Acquisition of AloStar Bank of Commerce

On September 30, 2017, State Bank completed its acquisition of AloStar, an Alabama banking corporation. State Bank Interim Corp., a wholly-owned subsidiary of State Bank, merged with and into AloStar with AloStar as the surviving bank and immediately thereafter, AloStar merged with and into State Bank, with State Bank as the surviving bank. We paid total cash consideration of approximately $195.0 million for all outstanding shares of AloStar. With the acquisition of AloStar, we acquired banking operations in Birmingham, Alabama and Atlanta, Georgia.

Acquisition of NBG Bancorp, Inc. and The National Bank of Georgia

On December 31, 2016, we completed our acquisition of NBG Bancorp, Inc. ("NBG Bancorp"), the holding company for The National Bank of Georgia ("National Bank of Georgia"), a national banking association. NBG Bancorp was immediately merged into the Company followed by the merger of National Bank of Georgia with and into State Bank. We paid total consideration of approximately $77.9 million for all outstanding shares of NBG Bancorp, consisting of $34.2 million in cash and $43.7 million in our common stock. With the acquisition of National Bank of Georgia, we acquired one branch in Athens, Georgia, one branch in Gainesville, Georgia, and a mortgage office in Athens, Georgia.

Acquisition of S Bankshares, Inc. and S Bank

On December 31, 2016, we completed our acquisition of S Bankshares Inc. ("S Bankshares"), the holding company for S Bank, a Georgia state-chartered bank. S Bankshares was immediately merged into the Company followed by the merger of S Bank with and into State Bank. We paid total consideration of approximately $12.6 million for all outstanding shares of S Bankshares, consisting of $4.3 million in cash and $8.3 million in our common stock. With the acquisition of S Bank, we acquired four branches located in Savannah, Glennville, Reidsville and Hinesville, Georgia.

Critical Accounting Policies

There have been no significant changes to our critical accounting policies from those disclosed in our 2016 Annual Report on Form 10-K. The reader should refer to the notes to our consolidated financial statements in our 2016 Annual Report on Form 10-K for a full disclosure of all critical accounting policies.

Financial Summary

The following table provides unaudited selected financial data at and for the periods presented. This data should be read in conjunction with the consolidated financial statements and the notes thereto in Item 1 and the information contained in this Item 2, including Table 2 below, "Non-GAAP Measures Reconciliation".

Table 1 - Financial Highlights

Selected Financial Information

	2017			2016		Nine Months Ended September 30	
(dollars in thousands, except per share amounts)	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	2017	2016
SELECTED RESULTS OF OPERATIONS							
Interest income on loans	$35,400	$34,872	$34,060	$26,696	$26,580	$104,332	$76,328
Accretion income on loans	6,520	9,228	7,677	10,271	9,335	23,425	33,039
Interest income on invested funds	5,782	5,747	5,460	4,810	4,714	16,989	14,113
Total interest income	47,702	49,847	47,197	41,777	40,629	144,746	123,480
Interest expense	3,370	3,369	3,239	2,631	2,504	9,978	6,988
Net interest income	44,332	46,478	43,958	39,146	38,125	134,768	116,492
Provision for loan and lease losses (organic & PNCI loans)	1,300	1,470	1,361	300	7	4,131	3,296
Provision for loan and lease losses (purchased credit impaired loans)	(885)	375	(359)	(23)	81	(869)	(3,336)
Total provision for loan and lease losses	415	1,845	1,002	277	88	3,262	(40)
Total noninterest income	9,682	10,476	9,459	9,911	9,769	29,617	29,390
Total noninterest expense	31,571	31,997	34,565	32,875	28,480	98,133	88,052
Income before income taxes	22,028	23,112	17,850	15,905	19,326	62,990	57,870
Income tax expense	7,592	7,909	6,292	5,578	6,885	21,793	20,606
Net income	$14,436	$15,203	$11,558	$10,327	$12,441	$41,197	$37,264

COMMON SHARE DATA							
Basic earnings per share	$.37	$.39	$.30	$.28	$.34	$1.06	$1.01
Diluted earnings per share	.37	.39	.30	.28	.34	1.06	1.01
Cash dividends declared per share	.14	.14	.14	.14	.14	.42	.42
Book value per share	16.48	16.23	15.96	15.80	15.21	16.48	15.21
Tangible book value per share (1)	14.01	13.94	13.66	13.48	13.99	14.01	13.99
Dividend payout ratio	37.84 %	35.90 %	46.67 %	50.00 %	41.18 %	39.62 %	41.58 %
COMMON SHARES OUTSTANDING							
Common stock	38,991,022	38,967,972	38,870,424	38,845,573	36,894,553	38,991,022	36,894,553
Weighted average shares outstanding:							
Basic	37,918,753	37,896,125	37,867,718	35,904,009	35,863,183	37,894,385	35,940,402
Diluted	37,963,141	37,942,483	37,954,585	36,009,098	35,965,948	37,943,971	36,040,655
AVERAGE BALANCE SHEET HIGHLIGHTS							
Loans (2)	$2,893,187	$2,905,415	$2,846,571	$2,431,512	$2,406,629	$2,880,534	$2,328,309
Assets	4,178,731	4,200,843	4,181,961	3,636,544	3,564,860	4,186,588	3,522,159
Deposits	3,437,329	3,413,831	3,423,506	2,975,510	2,866,822	3,424,940	2,864,830
Equity	638,620	627,294	617,009	559,561	557,365	627,926	548,738
Tangible equity (1)	550,002	538,153	527,603	514,982	512,265	538,874	503,117

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Table 1 - Financial Highlights
Selected Financial Information

	2017			2016		Nine Months Ended September 30	
(dollars in thousands, except per share amounts)	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	2017	2016
SELECTED ACTUAL BALANCES							
Total assets	$5,148,483	$4,233,977	$4,202,681	$4,225,265	$3,616,775	$5,148,483	$3,616,775
Investment securities	978,630	910,899	963,350	914,241	889,726	978,630	889,726
Organic loans	2,304,653	2,275,471	2,172,555	2,090,564	2,030,457	2,304,653	2,030,457
Purchased non-credit impaired loans	1,064,477	469,931	528,065	563,362	189,053	1,064,477	189,053
Purchased credit impaired loans	203,660	135,598	154,160	160,646	126,836	203,660	126,836
Allowance for loan and lease losses	(26,842)	(27,988)	(26,976)	(26,598)	(27,177)	(26,842)	(27,177)
Interest-earning assets	4,867,167	3,967,184	3,931,732	3,917,356	3,403,046	4,867,167	3,403,046
Total deposits	4,241,085	3,452,692	3,409,775	3,431,165	2,959,292	4,241,085	2,959,292
Interest-bearing liabilities	3,087,284	2,548,837	2,590,391	2,521,831	2,109,226	3,087,284	2,109,226
Noninterest-bearing liabilities	1,418,609	1,052,803	992,007	1,089,801	946,415	1,418,609	946,415
Shareholders' equity	642,590	632,337	620,283	613,633	561,134	642,590	561,134
PERFORMANCE RATIOS							
Return on average assets (3)	1.37 %	1.45 %	1.12 %	1.13 %	1.39 %	1.32 %	1.41 %
Return on average equity (3)	8.97	9.72	7.60	7.34	8.88	8.77	9.07
Cost of funds	.38	.38	.37	.35	.34	.38	.32
Net interest margin (4)	4.51	4.76	4.59	4.56	4.54	4.62	4.72
Interest rate spread (4)	4.31	4.58	4.41	4.38	4.37	4.43	4.55
Efficiency ratio (5)	58.45	56.18	64.71	67.01	59.46	59.70	60.36
CAPITAL RATIOS							
Average equity to average assets	15.28 %	14.93 %	14.75 %	15.39 %	15.63 %	15.00 %	15.58 %
Leverage ratio	13.37	13.23	13.04	14.90	14.64	13.37	14.64

CET1 risk-based capital ratio	12.21	15.01	14.74	14.78	16.68	12.21	16.68
Tier 1 risk-based capital ratio	12.21	15.01	14.74	14.78	16.68	12.21	16.68
Total risk-based capital ratio	12.81	15.79	15.49	15.52	17.56	12.81	17.56
ORGANIC ASSET QUALITY RATIOS							
Annualized net charge-offs (recoveries) to total average loans	.14 %	.08 %	.09 %	.10 %	.05 %	.10 %	.18 %
Nonperforming loans to total loans	.24	.06	.28	.30	.32	.24	.32
Nonperforming assets to loans + ORE	.24	.06	.29	.31	.32	.24	.32
Past due loans to total loans	.12	.09	.08	.06	.09	.12	.09
Allowance for loan and lease losses to loans	.99	.99	1.01	1.01	1.07	.99	1.07

(1) Denotes a non-GAAP financial measure. See "GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures" and Table 2, "Non-GAAP Measures Reconciliation" for further information.
(2) Includes quarter-to-date average nonaccrual loans of $8.0 million for third quarter 2017, $9.3 million for second quarter 2017, $9.9 million for first quarter 2017, $8.4 million for fourth quarter 2016 and $8.6 million for third quarter 2016.
(3) Net income annualized for the applicable period.
(4) Interest income annualized for the applicable period and calculated on a fully tax-equivalent basis using a tax rate of 35%.
(5) Noninterest expenses divided by net interest income plus noninterest income.

GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures

Certain financial measures included in this report, tangible book value per common share and average tangible equity, are financial measures that are not recognized by generally accepted accounting principles in the United States, or GAAP. These non-GAAP financial measures exclude the effect of the period end or average balance of intangible assets. Management believes that these non-GAAP financial measures provides additional useful information to investors, particularly since these measure are widely used by industry analysts for companies with prior merger and acquisition activities, such as us.

A reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measure is presented in the accompanying table. Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied, and are not audited. These non-GAAP financial measures should not be considered as a substitute for GAAP financial measures, and we strongly encourage investors to review the GAAP financial measures included in this report and not to place undue reliance upon any single financial measure. In addition, because non-GAAP financial measures are not standardized, it may not be possible to compare the non-GAAP financial measures presented in this report with other companies' non-GAAP financial measures having the same or similar names.

Table 2 - Non-GAAP Measures Reconciliation
Selected Financial Information

	2017			2016		Nine Months Ended September 30	
(dollars in thousands, except per share amounts)	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	2017	2016
BOOK VALUE PER COMMON SHARE RECONCILIATION							
Book value per common share (GAAP)	$16.48	$16.23	$15.96	$15.80	$15.21	$16.48	$15.21
Effect of goodwill and other intangibles	(2.47)	(2.29)	(2.30)	(2.32)	(1.22)	(2.47)	(1.22)
Tangible book value per common share	$14.01	$13.94	$13.66	$13.48	$13.99	$14.01	$13.99
AVERAGE TANGIBLE EQUITY RECONCILIATION							
Average equity (GAAP)	$638,620	$627,294	$617,009	$559,561	$557,365	$627,926	$548,738
Effect of average goodwill and other intangibles	(88,618)	(89,141)	(89,406)	(44,579)	(45,100)	(89,052)	(45,621)
Average tangible equity	$550,002	$538,153	$527,603	$514,982	$512,265	$538,874	$503,117

Results of Operations

Net Income

We reported net income of $14.4 million and $41.2 million for the three and nine months ended September 30, 2017, respectively, compared to net income of $12.4 million and $37.3 million for the same periods in 2016. Diluted earnings per common share were $.37 and $1.06 for the three and nine months ended September 30, 2017, respectively, compared to diluted earnings per common share of $.34 and $1.01 for the same periods in 2016.

Net Interest Income (Taxable Equivalent)

Net interest income, which is our primary source of earnings, is the difference between interest earned on interest-earning assets, as well as accretion income on purchased credit impaired loans and interest incurred on interest-bearing liabilities. Net interest income depends upon the relative mix of interest-earning assets and interest-bearing liabilities, the ratio of interest-earning assets to total assets and of interest-bearing liabilities to total funding sources, and movements in market interest rates.

Three Months Ended September 30, 2017 and 2016

Our net interest income on a taxable equivalent basis was $44.5 million for the three months ended September 30, 2017, an increase of $6.2 million, or 16.3%, from the three months ended September 30, 2016. This increase was primarily attributable to an increase in average loans, excluding purchased credit impaired loans, of $486.6 million and an increase in investment securities of $32.3 million compared to the three months ended September 30, 2016. An increase in average interest bearing deposits of $389.5 million, compared to the three months ended September 30, 2016, partially offset the impact of the increases in average loans, excluding purchased credit impaired loans, and investment securities.

Our net interest spread on a taxable equivalent basis, which is the difference between the yields earned on average earning assets and the rates paid on average interest-bearing liabilities, was 4.31% for the three months ended September 30, 2017, compared to 4.37% for the same period in 2016, a decrease of six basis points. Our net interest margin on a taxable equivalent basis, which is net interest income divided by average interest-earning assets, was 4.51% for the three months ended September 30, 2017 compared to 4.54% for the same period in 2016, a decrease of three basis points.

The yield on average earning assets was 4.85% for the three months ended September 30, 2017, compared to 4.84% for the three months ended September 30, 2016, an increase of one basis point, driven primarily by growth in average loans, excluding purchased credit impaired loans, and investment securities, outpacing growth in higher-yielding purchased credit impaired loans. The decline in accretion income on purchased credit impaired loans was offset by an increase in interest income on loans, excluding purchased credit impaired loans, and investment securities. The yield on our purchased credit impaired loans can vary significantly from period to period depending largely on the timing of loan pool closings for our purchased credit impaired loans that are accounted for in pools and the timing of customer payments. The decrease of 861 basis points in our yield on purchased credit impaired loans was primarily due to a decrease in loan recovery income of $1.5 million, as well as the lower yield on the purchased credit impaired portfolios acquired in our recent acquisitions. Our yield on loans, excluding purchased credit impaired loans, was 5.11% for the three months ended September 30, 2017, compared to 4.67% for the same period in 2016, an increase of 44 basis points. The increase primarily resulted from a combination of variable rate loans repricing due to increases in index rates and accretion of purchase accounting discounts on purchased non-credit impaired loans. The yield on our investment portfolio was 2.42% and 2.11% for the three months ended September 30, 2017 and 2016, respectively. The increase of 31 basis points compared to the prior period was primarily driven by variable rate securities repricing due to increases in index rates and the reinvestment of cash flows from securities into higher yielding bonds as market rates have increased.

The average rate on interest-bearing liabilities was .54% for the three months ended September 30, 2017, an increase of seven basis points from the same period in 2016. The average rate paid on interest-bearing deposits was .53% and .47% for the three months ended September 30, 2017 and 2016, respectively. The increase of six basis points was primarily the result of an increase in the rate paid on savings and money market accounts acquired in our recent acquisitions and a shift in the mix of interest-bearing deposits to savings and money market accounts. Also contributing to the increase in the rate paid on interest-bearing liabilities was a 35 basis point increase in the rate paid on other borrowings compared to the same period in 2016. Our cost of funds was 38 basis points for the three months ended September 30, 2017, an increase of four basis points from the same period in 2016.

Nine Months Ended September 30, 2017 and 2016

Our net interest income on a taxable equivalent basis was $135.2 million for the nine months ended September 30, 2017, an increase of $18.3 million, or 15.7%, from the nine months ended September 30, 2016. This increase was primarily attributable to an increase in average loans, excluding purchased credit impaired loans, of $545.5 million and an increase in investment securities of $47.9 million compared to the nine months ended September 30, 2016. An increase in average interest bearing deposits of $427.1 million and other borrowings of $22.9 million, compared to the nine months ended September 30, 2017, partially offset the impact of the increases in average loans, excluding purchased credit impaired loans, and investment securities.

Our net interest spread on a taxable equivalent basis, which is the difference between the yields earned on average earning assets and the rates paid on average interest-bearing liabilities, was 4.43% for the nine months ended September 30, 2017, compared to 4.55% for the same period in 2016, a decrease of 12 basis points. Our net interest margin on a taxable equivalent basis, which is net interest income divided by average interest-earning assets, was 4.62% for the nine months ended September 30, 2017 compared to 4.72% for the same period in 2016, a decrease of 10 basis points.

The yield on average earning assets was 4.96% for the nine months ended September 30, 2017, compared to 5.00% for the nine months ended September 30, 2016, a decrease of four basis points, driven primarily by growth in average loans, excluding purchased credit impaired loans, and investment securities, outpacing growth in higher-yielding purchased credit impaired loans. The decline in accretion income on purchased credit impaired loans was offset by an increase in interest income on loans, excluding purchased credit impaired loans, and investment securities. The yield on our purchased credit impaired loans can vary significantly from period to period depending largely on the timing of loan pool closings for our purchased credit impaired loans that are accounted for in pools and the timing of customer payments. The decrease of 1,053 basis points in our yield on purchased credit impaired loans was primarily due to a $4.1 million decrease in gains on loan pool closings, as well as the lower yield on the portfolios acquired in our recent acquisitions. Our yield on loans, excluding purchased credit impaired loans, was 5.12% for the nine months ended September 30, 2017, compared to 4.68% for the same period in 2016, an increase of 44 basis points. The increase primarily resulted from a combination of variable rate loans repricing due to increases in index rates and accretion of purchase accounting discounts on purchased non-credit impaired loans. The yield on our investment portfolio was 2.36% and 2.08% for the nine months ended September 30, 2017 and 2016, respectively. The increase of 28 basis points compared to the prior period was primarily driven by variable rate securities repricing due to increases in index rates and the reinvestment of cash flows from securities into higher yielding bonds as market rates have increased.

The average rate on interest-bearing liabilities was .53% for the nine months ended September 30, 2017, an increase of eight basis points from the same period in 2016. The average rate paid on interest-bearing deposits was .52% and .45% for the nine months ended September 30, 2017 and 2016, respectively. The increase of seven basis points was primarily the result of an increase in the rate paid on savings and money market accounts acquired in our recent acquisitions and a shift in the mix of interest-bearing deposits to savings and money market accounts. Also contributing to the increase in the rate paid on interest-bearing liabilities was an increase in the volume of other borrowings and a 27 basis point increase in the related rate on other borrowings compared to the same period in 2016. Our cost of funds was 38 basis points for the nine months ended September 30, 2017, an increase of six basis points from the same period in 2016.

Average Balances, Net Interest Income, Yields and Rates

The following table shows our average balance sheet and our average yields on assets and average costs of liabilities for the periods indicated (dollars in thousands). We derive these yields by dividing annualized income or expense by the average balance of the corresponding assets or liabilities, respectively. We have derived average balances from the daily balances throughout the periods indicated.

	For the Three Months Ended					
	September 30, 2017			September 30, 2016		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets:						
Interest-bearing deposits in other financial institutions	$108,546	$218	.80 %	$63,315	$44	.28 %
Investment securities	913,898	5,564	2.42 %	881,642	4,670	2.11 %
Loans, excluding purchased credit impaired loans (1)(2)	2,762,479	35,577	5.11 %	2,275,859	26,722	4.67 %
Purchased credit impaired loans	130,708	6,520	19.79%	130,770	9,335	28.40%
Total earning assets	3,915,631	47,879	4.85 %	3,351,586	40,771	4.84 %
Total nonearning assets	263,100			213,274		
Total assets	$4,178,731			$3,564,860		
Liabilities:						
Interest-bearing liabilities:						
Interest-bearing transaction accounts	$580,090	$183	.13 %	$515,974	$159	.12 %
Savings & money market deposits	1,383,326	2,180	.63 %	1,105,635	1,514	.54 %
Time deposits	420,192	765	.72 %	401,447	687	.68 %
Brokered and wholesale time deposits	49,675	132	1.05 %	20,723	48	.92 %
Other borrowings	57,988	110	.75 %	94,455	96	.40 %
Total interest-bearing liabilities	2,491,271	3,370	.54 %	2,138,234	2,504	.47 %
Noninterest-bearing liabilities:						
Noninterest-bearing demand deposits	1,004,046			823,043		
Other liabilities	44,794			46,218		
Shareholders’ equity	638,620			557,365		
Total liabilities and shareholders’ equity	$4,178,731			$3,564,860		
Net interest income		$44,509			$38,267	
Net interest spread			4.31 %			4.37 %
Net interest margin			4.51 %			4.54 %
Cost of funds			.38 %			.34 %

(1) Includes average nonaccrual loans of $8.0 million and $8.6 million for the three months ended September 30, 2017 and 2016, respectively.

(2) Reflects taxable equivalent adjustments using the federal statutory tax rate of 35% in adjusting tax-exempt loan interest income to a fully taxable basis. The taxable equivalent adjustments included above are $177,000 and $142,000 for the three months ended September 30, 2017 and 2016, respectively.

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	For the Nine Months Ended					
	September 30, 2017			September 30, 2016		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets:						
Interest-bearing deposits in other financial institutions	$89,460	$402	.60 %	$89,850	$230	.34 %
Investment securities (1)	940,861	16,587	2.36 %	892,970	13,887	2.08 %
Loans, excluding purchased credit impaired loans (2)(3)	2,738,226	104,780	5.12 %	2,192,681	76,748	4.68 %
Purchased credit impaired loans	142,308	23,425	22.01 %	135,628	33,039	32.54 %
Total earning assets	3,910,855	145,194	4.96 %	3,311,129	123,904	5.00 %
Total nonearning assets	275,733			211,030		
Total assets	$4,186,588			$3,522,159		
Liabilities:						
Interest-bearing liabilities:						
Interest-bearing transaction accounts	$589,189	$546	.12 %	$528,669	$483	.12 %
Savings & money market deposits	1,384,243	6,328	.61 %	1,064,999	4,205	.53 %
Time deposits	438,025	2,333	.71 %	395,765	1,830	.62 %
Brokered and wholesale time deposits	36,093	284	1.05 %	30,978	241	1.04 %
Other borrowings	86,242	487	.75 %	63,301	229	.48 %
Total interest-bearing liabilities	2,533,792	9,978	.53 %	2,083,712	6,988	.45 %
Noninterest-bearing liabilities:						
Noninterest-bearing demand deposits	977,390			844,419		
Other liabilities	47,480			45,290		
Shareholders’ equity	627,926			548,738		
Total liabilities and shareholders’ equity	$4,186,588			$3,522,159		
Net interest income		$135,216			$116,916	
Net interest spread			4.43 %			4.55 %
Net interest margin			4.62 %			4.72 %
Cost of funds			.38 %			.32 %

(1) Reflects taxable equivalent adjustments using the federal statutory tax rate of 35% in adjusting interest on tax-exempt securities to a fully taxable basis. The taxable equivalent adjustments included above are $0 and $4,000 for the nine months ended September 30, 2017 and 2016, respectively.
(2) Includes average nonaccrual loans of $9.2 million and $9.0 million for the nine months ended September 30, 2017 and 2016, respectively.
(3) Reflects taxable equivalent adjustments using the federal statutory tax rate of 35% in adjusting tax-exempt loan interest income to a fully taxable basis. The taxable equivalent adjustments included above are $448,000 and $420,000 for the nine months ended September 30, 2017 and 2016, respectively.

Rate/Volume Analysis on a Taxable Equivalent Basis

Net interest income can be analyzed in terms of the impact of changing interest rates and changing volumes. The following table reflects the effect that varying levels of interest-earning assets and interest-bearing liabilities and the applicable rates have had on changes in net interest income for the periods presented (dollars in thousands):

	Three Months Ended September 30, 2017 vs. 2016			Nine Months Ended September 30, 2017 vs. 2016		
	Change Attributable to			Change Attributable to		
	Volume	Rate	Total Increase (Decrease) (1)	Volume	Rate	Total Increase (Decrease) (1)
Interest income:						
Loans	$6,095	$2,760	$ 8,855	$20,390	$7,642	$ 28,032
Loan accretion	(4)	(2,811)	(2,815)	1,558	(11,172)	(9,614)
Investment securities	176	718	894	773	1,927	2,700
Interest-bearing deposits in other financial institutions	47	127	174	(1)	173	172
Total interest income	6,314	794	7,108	22,720	(1,430)	21,290
Interest expense:						
Deposits	495	357	852	1,558	1,174	2,732
Other borrowings	(47)	61	14	101	157	258
Total interest expense	448	418	866	1,659	1,331	2,990
Net interest income	$5,866	$376	$ 6,242	$21,061	$(2,761)	$ 18,300

(1) Amounts shown as increase (decrease) due to changes in either volume or rate includes an allocation of the amount that reflects the interaction of volume and rate changes. This allocation is based on the absolute dollar amounts of change due solely to changes in volume or rate.

Provision for Loan and Lease Losses

The provision for loan and lease losses is the amount of expense that, based on our judgment, is required to maintain the allowance for loan and lease losses (ALLL) at an adequate level to absorb probable losses inherent in the loan portfolio at the balance sheet date and that, in management's judgment, is appropriate under U.S. generally accepted accounting principles. The determination of the amount of the ALLL is complex and involves a high degree of judgment and subjectivity. Our determination of the amount of the ALLL and corresponding provision for loan and lease losses considers ongoing evaluations of the credit quality and level of credit risk inherent in various segments of the loan portfolio, levels of nonperforming loans and charge-offs, statistical trends and economic and other relevant factors. Please see the discussion below entitled "Allowance for Loan and Lease Losses (ALLL)" under "Balance Sheet Review" for a description of the factors we consider in determining the amount of periodic provision expense to maintain this allowance.

Organic Loans

For the three months ended September 30, 2017 and 2016, we recorded a provision for loan and lease losses related to organic loans of $1.0 million and $0, respectively. For the nine months ended September 30, 2017 and 2016, we recorded a provision for loan and lease losses related to organic loans of $3.3 million and $3.2 million, respectively. The amount of provision for loan and lease losses recorded for organic loans was the amount required such that the total allowance for loan and lease losses reflected the appropriate balance, in management's opinion, to sufficiently cover probable losses in the organic loan portfolio. This determination includes, but is not limited to, factors such as loan growth, asset quality, changes in loan portfolio composition, and national and local economic conditions.

Purchased Non-Credit Impaired Loans

We did not record an ALLL at acquisition for our purchased non-credit impaired loans because the loans were recorded at fair value based on a discounted cash flow methodology at the date of each respective acquisition. Subsequent to the purchase date, the ALLL for purchased non-credit impaired loans is evaluated quarterly similar to the method described above for organic loans, and if necessary, additional reserves are recognized in the ALLL. We recorded a provision for loan and lease losses related to purchased non-credit impaired loans of $345,000 for the three months ended September 30, 2017, compared to $7,000 for the three months ended September 30, 2016. We recorded a provision for loan and lease losses related to purchased non-credit impaired loans of $816,000 and $115,000 for the nine months ended September 30, 2017 and 2016, respectively.

Purchased Credit Impaired Loans

Similar to our purchased non-credit impaired loans, we did not record an ALLL at acquisition for our purchased credit impaired loans as the loans were recorded at fair valued based on a discounted cash flow methodology at the date of each respective acquisition. We re-estimate expected cash flows on our purchased credit impaired loans on a quarterly basis. Subsequent decreases in the amount of cash expected to be collected from the borrower results in a provision for loan and lease losses and an increase in the ALLL. Subsequent significant increases in the amount of cash expected to be collected from the borrower results first in the reversal of any previously-recorded provision for loan and lease losses and related ALLL, and then as a prospective increase in the accretable discount on the purchased credit impaired loans. We recorded a negative provision for loan and lease losses related to purchased credit impaired loans of $885,000 for the three months ended September 30, 2017, compared to a provision for loan and lease losses on such loans of $81,000 for the three months ended September 30, 2016. We recorded a negative provision for loan and lease losses related to purchased credit impaired loans of $869,000 for the nine months ended September 30, 2017, compared to a negative provision on such loans of $3.3 million for the nine months ended September 30, 2016.

Noninterest Income

Noninterest income for the three months ended September 30, 2017 totaled $9.7 million, compared to $9.8 million for the same period in 2016, a decrease of $87,000. For the nine months ended September 30, 2017, noninterest income was $29.6 million, compared to $29.4 million for the same period in 2016, an increase of $227,000. The following table presents the components of noninterest income for the periods indicated (dollars in thousands):

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Service charges on deposits	$1,575	$1,383	$4,513	$4,121
Mortgage banking income	2,793	3,216	8,783	9,808
SBA income	1,464	1,553	4,625	4,740
Payroll and insurance income	1,487	1,297	4,400	4,097
ATM income	826	759	2,522	2,273
Bank-owned life insurance income	526	533	1,475	1,463
Gain on sale of investment securities	3	38	28	447
Other	1,008	990	3,271	2,441
Total noninterest income	$9,682	$9,769	$29,617	$29,390

Mortgage banking income decreased $423,000, or 13.2%, for the three months ended September 30, 2017, from the same period in 2016. For the nine months ended September 30, 2017, mortgage banking income decreased $1.0 million, or 10.5%, from the same period in 2016. The decreases in mortgage banking income for the three and nine months ended September 30, 2017 were due to a decline in higher margin retail originations, partially offset by an increase in wholesale originations, compared to the same periods in 2016.

SBA income for the three months ended September 30, 2017 decreased $89,000, or 5.7%, from the same period in 2016. This decrease in SBA income was primarily due to a $173,000 decrease in gains on sale of SBA loans as a result of a decrease in the volume of loan sales during the three months ended September 30, 2017, compared to the same period in 2016. For the nine months ended September 30, 2017, SBA income decreased $115,000, or 2.4%, from the same period in 2016. This decrease in SBA income was primarily due to a $284,000 decrease in gains on sale of SBA loans during the nine months ended September 30, 2017, compared to the same period in 2016. This decrease was partially offset by higher SBA servicing fees of $256,000 during the nine months ended September 30, 2017, compared to the same period in 2016.

Payroll and insurance income increased $190,000, or 14.6%, for the three months ended September 30, 2017 from the same period in 2016. For the nine months ended September 30, 2017, payroll and insurance income increased $303,000, or 7.4%, from the same period in 2016. The increase for both periods in 2017 was primarily due to an increase in commissions on new insurance policies written.

Other noninterest income increased $830,000, or 34.0%, for the nine months ended September 30, 2017, compared to the same period in 2016. The increase in other noninterest income was primarily attributable to a $395,000 increase in gains on the sale of equipment finance loans and a $304,000 increase in the mark-to-market on interest rate swaps and hedged assets for the nine months ended September 30, 2017, compared to the same period in 2016.

Noninterest Expense

Noninterest expense for the three months ended September 30, 2017 totaled $31.6 million, up $3.1 million from the same period in 2016. Noninterest expense for the nine months ended September 30, 2017 totaled $98.1 million, up $10.1 million from the same period in 2016.

The following table presents the components of noninterest expense for the periods indicated (dollars in thousands):

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Salaries and employee benefits	$21,457	$19,799	$65,426	$59,221
Occupancy and equipment	3,187	2,984	9,796	9,100
Data processing	2,587	2,097	7,608	6,383
Legal and professional fees	700	1,064	3,403	2,993
Merger-related expenses	135	135	2,742	454
Marketing	342	665	1,409	1,786
Federal deposit insurance premiums and other regulatory fees	407	441	1,202	1,556
Loan collection costs and OREO activity	181	(841)	(1,074)	(452)
Amortization of intangibles	701	513	2,094	1,586
Other	1,874	1,623	5,527	5,425
Total noninterest expense	$31,571	$28,480	$98,133	$88,052

Salaries and employee benefits expense increased $1.7 million, or 8.4%, and $6.2 million, or 10.5%, for the three and nine months ended September 30, 2017, respectively, from the same periods in 2016. The increase in salaries and employee benefits for the three and nine months ended September 30, 2017 was primarily attributable to $1.8 million and $5.7 million, respectively, related to our acquisitions of National Bank of Georgia and S Bank. The increases were also attributable to additional staff added in our Patriot Capital and SBA lending divisions.

Data processing expenses increased $490,000, or 23.4%, and increased $1.2 million, or 19.2%, for the three and nine months ended September 30, 2017, respectively, from the same periods in 2016. The increases in both periods were primarily attributable to data processing expenses that we incurred related to investments in our infrastructure and our acquisitions of National Bank of Georgia and S Bank. Legal and professional fees decreased $364,000, or 34.2%, for the three months ended September 30, 2017, from the same period in 2016. Legal and professional fees increased $410,000, or 13.7%, for the nine months ended September 30, 2017, from the same period in 2016. The increase for the nine months ended September 30, 2017 was largely due to a support system project which was completed during the first quarter of 2017.

Marketing expenses decreased $323,000, or 48.6%, and $377,000, or 21.1%, for the three and nine months ended September 30, 2017, respectively, from the same periods in 2016. The decreases in both periods were primarily related to the timing of marketing campaigns.

Loan collection costs and OREO activity, which are net of rental fees on OREO properties as well as gains and losses on OREO, increased $1.0 million for the three months ended September 30, 2017, compared to the same period in 2016. The increase was attributable to a $503,000 decrease in gains on sale of OREO, a $186,000 increase in loan collection and OREO expenses, and a $334,000 decrease in rental fees, as compared to the same period in 2016. For the nine months ended September 30, 2017, loan collection costs and OREO activity decreased $622,000, compared to the same period in 2016. The decrease was attributable to a $940,000 increase in net gains on sale of OREO, a $236,000 decrease in loan collection and OREO expenses, and a $556,000 decrease in rental fees, as compared to the same period in 2016. The decreases in rental fees for both periods were primarily due to the sale of two OREO properties during the first quarter of 2017.

Amortization of intangibles increased $188,000, or 36.6%, for the three months ended September 30, 2017 from the same period in 2016. Amortization of intangibles increased $508,000, or 32.0%, for the nine months ended September 30, 2017, compared to the same period in 2016. The increases in both periods were primarily related to intangibles recorded and amortized from our acquisitions of NBG Bancorp, Inc. and S Bankshares, Inc. in the fourth quarter of 2016.

Merger-related expenses were $135,000 for the three months ended September 30, 2017 and 2016. Merger-related expenses were $2.7 million for the nine months ended September 30, 2017, compared to $454,000 for the same period in 2016. Merger-related expenses in 2017 were primarily attributable to our acquisitions and integrations of NBG Bancorp, Inc. and S Bankshares, Inc., and our acquisition of AloStar. These expenses include, among other things, liquidating damages from contract terminations, system conversion costs, severance, and professional fees.

Income Taxes

Income tax expense is comprised of both state and federal income tax expense. The effective tax rate was 34.5% and 35.6% for the three months ended September 30, 2017 and 2016, respectively. The effective tax rate was 34.6% and 35.6% for the nine months ended September 30, 2017 and 2016, respectively.

Balance Sheet Review

General

At September 30, 2017, we had total assets of approximately $5.1 billion, consisting principally of $2.3 billion in net organic loans, $1.1 billion in net purchased non-credit impaired loans, $200.4 million in net purchased credit impaired loans, $978.6 million in investment securities and $282.2 million in cash and cash equivalents. Our liabilities at September 30, 2017 totaled $4.5 billion, consisting principally of $4.2 billion in deposits. At September 30, 2017, our shareholders' equity was $642.6 million.

At December 31, 2016, we had total assets of approximately $4.2 billion, consisting principally of $2.1 billion in net organic loans, $562.9 million in net purchased non-credit impaired loans, $155.6 million in net purchased credit impaired loans, $914.2 million in investment securities and $149.6 million in cash and cash equivalents. Our liabilities at December 31, 2016 totaled $3.6 billion, consisting principally of $3.4 billion in deposits. At December 31, 2016, our shareholders' equity was $613.6 million.

Investments

Our investment portfolio consists of U.S. Government agency securities, municipal securities, nonagency mortgage-backed securities, U.S. Government sponsored agency mortgage-backed securities, asset-backed securities and corporate bonds. The composition of our portfolio reflects our investment strategy of maintaining an appropriate level of liquidity while providing a relatively stable source of revenue. The portfolio also provides a balance to interest rate risk, while providing a vehicle for the investment of available funds, furnishing liquidity and supplying securities to pledge as required collateral. At September 30, 2017, we had $920.8 million in available-for-sale securities representing approximately 17.9% of total assets, compared to $847.2 million, or 20.1% of total assets, at December 31, 2016. The increase in available-for-sale securities of $73.6 million, or 8.7%, from December 31, 2016 to September 30, 2017, was primarily due to available-for-sale securities acquired in our acquisition of AloStar of $76.2 million, partially offset by paydowns on legacy securities. At September 30, 2017 and December 31, 2016, we had $57.9 million and $67.1 million, respectively, in held-to-maturity securities.

At September 30, 2017, $77.4 million, or 7.9%, of our investment securities were invested in securities of U.S. Government agencies, compared to $88.6 million, or 9.7%, at December 31, 2016. U.S Government agency securities consist of debt obligations issued by the Government Sponsored Enterprises or collateralized by loans that are guaranteed by the SBA and are, therefore, backed by the full faith and credit of the U.S. Government. At September 30, 2017, $602.9 million, or 61.6%, of our securities were invested in agency mortgage-backed securities, compared to $529.3 million, or 57.9%, at December 31, 2016. Agency mortgage-backed securities are securities that have been developed by pooling a number of real estate mortgages and are principally issued by "quasi-federal" agencies such as the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). The contractual monthly cash flows of principal and interest are guaranteed by the issuing agencies. Although investors generally assume that the federal government will support these agencies, it is under no obligation to do so. Other agency mortgage-backed securities are issued by Government National Mortgage Association (Ginnie Mae), which is a federal agency, and are guaranteed by the U.S. Government. The actual maturities of these mortgage-backed securities will differ from their contractual maturities because the loans underlying the securities can prepay.

At September 30, 2017, $127.1 million, or 13.0%, of our investment securities were invested in nonagency mortgage-backed securities, compared to $154.0 million, or 16.8%, at December 31, 2016. The underlying collateral consists of mortgages originated prior to 2006 with the majority being 2004 and earlier. None of the collateral is sub-prime and we own the senior tranche of each bond.

At September 30, 2017, $47.7 million, or 4.9%, of our investment securities were invested in asset-backed securities, compared to $56.8 million, or 6.2%, at December 31, 2016. Asset-backed securities currently consist of highly-rated collateralized loan obligations. The investment in this asset class was due to management's decision to invest in securities with significant credit support and variable rate structures that could provide higher returns than other variable rate securities without adding significant risk. At September 30, 2017, $120.7 million, or 12.3%, of our investment securities were invested in corporate securities, compared to $85.2 million, or 9.3%, at December 31, 2016. Corporate securities currently consist of short duration debt and longer term financial institution subordinated debt securities. We evaluate and underwrite each issuer prior to purchase and periodically review the issuers after purchase.

The following tables are a summary of our investment portfolio at the dates indicated (dollars in thousands):

Investment Securities Available-for-Sale	September 30, 2017 Amortized Cost	September 30, 2017 Fair Value	December 31, 2016 Amortized Cost	December 31, 2016 Fair Value
U.S. Government securities	$77,725	$77,375	$89,044	$88,649
States and political subdivisions	2,859	2,859	300	301
Residential mortgage-backed securities — nonagency	123,609	127,052	151,519	154,009
Residential mortgage-backed securities — agency	607,533	602,926	533,479	529,302
Corporate securities	108,874	110,551	74,793	74,917
Total investment securities available-for-sale	$920,600	$920,763	$849,135	$847,178

Investment Securities Held-to-Maturity	September 30, 2017 Amortized Cost	September 30, 2017 Fair Value	December 31, 2016 Amortized Cost	December 31, 2016 Fair Value
Asset-backed securities	$47,681	$48,105	$56,804	$57,085
Corporate securities	10,186	10,500	10,259	10,350
Total investment securities available-for-sale	$57,867	$58,605	$67,063	$67,435

The following tables show contractual maturities and yields on our investments in debt securities at and for the period presented (dollars in thousands):

Investment Securities Available-for-Sale	Distribution of Maturities (1)				
September 30, 2017	1 Year or Less	1-5 Years	5-10 Years	After 10 Years	Total
Amortized Cost (1):					
U.S. Government securities	$2,495	$75,230	$—	$—	$77,725
States and political subdivisions	—	1,117	1,742	—	2,859
Residential mortgage-backed securities — nonagency	—	—	—	123,609	123,609
Residential mortgage-backed securities — agency	—	32,951	286,764	287,818	607,533
Corporate securities	17,775	75,215	14,000	1,884	108,874
Total debt securities	$20,270	$184,513	$302,506	$413,311	$920,600
Fair Value (1):					
U.S. Government securities	$2,496	$74,879	$—	$—	$77,375
States and political subdivisions	—	1,117	1,742	—	2,859
Residential mortgage-backed securities — nonagency	—	—	—	127,052	127,052
Residential mortgage-backed securities — agency	—	32,747	284,321	285,858	602,926
Corporate securities	17,811	75,879	14,763	2,098	110,551
Total debt securities	$20,307	$184,622	$300,826	$415,008	$920,763
Weighted average yield (2):					
Total debt securities	1.92 %	2.01 %	1.75 %	2.70 %	2.23 %

Investment Securities Held-to-Maturity	Distribution of Maturities (1)				
September 30, 2017	1 Year or Less	1-5 Years	5-10 Years	After 10 Years	Total
Amortized Cost (1):					
Asset-backed securities	$—	$ —	$32,181	$15,500	$47,681
Corporate securities	—	—	10,186	—	10,186
Total debt securities	$—	$ —	$42,367	$15,500	$57,867
Fair Value (1):					
Asset-backed securities	$—	$ —	$32,492	$15,613	$48,105
Corporate securities	—	—	10,500	—	10,500
Total debt securities	$—	$ —	$42,992	$15,613	$58,605
Weighted average yield (2):					
Total debt securities	—%	—%	4.08 %	3.47 %	3.92 %

(1) The amortized cost and fair value of investments in debt securities are presented based on contractual maturities. Actual cash flows may differ from contractual maturities because borrowers may have the right to prepay obligations without prepayment penalties.
(2) Average yields are based on amortized cost and presented on a fully taxable equivalent basis using a tax rate of 35%.

Loans

We had total net loans outstanding, including organic and purchased loans, of $3.5 billion and $2.8 billion at September 30, 2017 and December 31, 2016, respectively. Loans secured by real estate, consisting of commercial or residential property, are the principal component of our loan portfolio. Even if the principal purpose of the loan is not to finance real estate, when reasonable, we obtain a security interest in the real estate in addition to any other available collateral to increase the likelihood of ultimate repayment or collection of the loan.

Organic Loans

Organic loans increased $214.1 million, or 10.2%, to $2.3 billion at September 30, 2017 from December 31, 2016. The $214.1 million increase was a result of strong economic conditions and traction in asset generating verticals. Also contributing to organic loan growth was the reclassification of purchased non-credit impaired and purchased credit impaired loans which renewed and met our current underwriting standards for organic loans.

Purchased Loans

Purchased non-credit impaired loans were $1.1 billion at September 30, 2017, up $501.1 million, or 89.0%, from December 31, 2016. The increase in purchased non-credit impaired loans from December 31, 2016 was primarily due to $641.0 million of purchased non-credit impaired loans, net of fair value adjustments, acquired in our acquisition of AloStar, partially offset by purchased non-credit impaired loans which were paid down or refinanced. Our purchased credit impaired loans increased $43.0 million, or 26.8%, to $203.7 million at September 30, 2017 from December 31, 2016. Our purchased credit impaired loans increased due to $77.6 million of purchased credit impaired loans, net of fair value adjustments, acquired in our acquisition of AloStar, partially offset by loans which were paid down, refinanced or charged-off.

The following table summarizes the composition of our loan portfolio at the dates indicated (dollars in thousands):

	September 30, 2017					December 31, 2016			
	Organic Loans	Purchased Non-Credit Impaired Loans	Purchased Credit Impaired Loans	Total Amount	% of Gross Total	Organic Loans	Purchased Non-Credit Impaired Loans	Purchased Credit Impaired Loans	Total Amount
Construction, land & land development	$460,368	$30,670	$16,918	$507,956	14.2 %	$500,018	$51,208	$16,537	$567,763
Other commercial real estate	915,727	234,486	102,934	1,253,147	35.1 %	754,790	209,531	60,742	1,025,063
Total commercial real estate	1,376,095	265,156	119,852	1,761,103	49.3 %	1,254,808	260,739	77,279	1,592,826
Residential real estate	175,258	112,244	42,190	329,692	9.2 %	144,295	144,596	54,507	343,398
Owner-occupied real estate	261,784	125,438	26,210	413,432	11.6 %	256,317	115,566	23,980	395,863
Commercial, financial & agricultural	363,551	558,992	15,139	937,682	26.2 %	327,381	36,206	4,533	368,120
Leases	66,765	—	—	66,765	1.9 %	71,724	—	—	71,724
Consumer	61,200	2,647	269	64,116	1.8 %	36,039	6,255	347	42,641
Total gross loans receivable, net of deferred fees	2,304,653	1,064,477	203,660	3,572,790	100.0%	2,090,564	563,362	160,646	2,814,572
Allowance for loan and lease losses	(22,709)	(900)	(3,233)	(26,842)		(21,086)	(439)	(5,073)	(26,598
Total loans, net	$2,281,944	$1,063,577	$200,427	$3,545,948		$2,069,478	$562,923	$155,573	$2,787,974

Allowance for Loan and Lease Losses (ALLL)

The ALLL represents the amount that management believes is necessary to absorb probable losses inherent in the loan portfolio at the balance sheet date and involves a high degree of judgment and complexity. The ALLL is critical to the portrayal and understanding of our financial condition, liquidity and results of operations. The determination and application of the ALLL accounting policy involves judgments, estimates and uncertainties that are subject to change. Changes in these assumptions, estimates or the conditions surrounding them may have a material impact on our financial condition, liquidity and results of operations.

At September 30, 2017, our total ALLL for the loan portfolio was $26.8 million, an increase of $244,000 compared to December 31, 2016. The ALLL reflected $3.0 million of net charge-offs and a $3.3 million provision for loan and lease losses on our total loan portfolio for the nine months ended September 30, 2017.

Organic loans

The ALLL on our organic loan portfolio is determined based on factors such as changes in the nature and volume of the portfolio, overall portfolio quality, delinquency trends, adequacy of collateral, loan concentrations, specific problem loans and economic conditions that may affect the borrowers' ability to pay. The ALLL for organic loans consists of two components: a specific reserve and a general reserve. The specific reserve is representative of identified credit exposures that are readily predictable by the current performance of the borrower and the underlying collateral and relates to loans that are individually determined to be impaired. The general reserve is based on historical loss experience adjusted for current economic factors and relates to nonimpaired loans. Historical losses are adjusted by a qualitative analysis that reflects several key economic indicators such as gross domestic product, unemployment and core inflation as well as asset quality trends, rate risk and unusual events or significant changes in personnel, policies and procedures. The qualitative analysis requires judgment by management and is subject to continuous validation.

At September 30, 2017, our organic ALLL increased $1.6 million to $22.7 million, compared to $21.1 million at December 31, 2016. The increase in our organic ALLL at September 30, 2017 is largely from $3.3 million of provision for loan and lease losses charged to expense for the nine months ended September 30, 2017, primarily due to net charge-offs and organic loan growth. Net charge-offs on organic loans for the nine months ended September 30, 2017, decreased $1.0 million compared to the same period in 2016. The decrease in net charge-offs primarily related to one loan which was charged down in the second quarter of 2016.

Purchased loans

We maintain an allowance for loan and lease losses on purchased loans based on credit deterioration after the acquisition date. In accordance with the accounting guidance for business combinations, we recorded no allowance for loan and lease losses on any of our purchased loans at the acquisition date because any credit deterioration evident in the loans was included in the determination of the fair value of the loans.

For purchased non-credit impaired loans, credit discounts representing the principal losses expected over the life of the loan are a component of the initial fair value and the discount is accreted to interest income over the life of the asset. After the purchase date, the method used to evaluate the sufficiency of the credit discount is similar to organic loans, and if necessary, additional reserves are recognized in the allowance for loan and lease losses. At September 30, 2017, our purchased non-credit impaired ALLL was $900,000, an increase of $461,000, compared to December 31, 2016. The increase in the purchased non-credit impaired ALLL was due to continued seasoning of our earlier acquisitions' purchased non-credit impaired portfolios and an increase in the volume of purchased non-credit impaired loans from our recent acquisitions of National Bank of Georgia and S Bank.

We determine the ALLL on our purchased credit impaired loan portfolio based on expected future cash flows. On the date of acquisition, management determines which purchased credit impaired loans are placed in homogeneous risk pools or reviewed specifically as part of the periodic cash flow re-estimation process. If a loan is placed in a pool, the overall performance of the pool will determine if any future ALLL is required.

The ALLL analysis on purchased credit impaired loans represents management's estimate of the potential impairment of the acquired loans, or pools of acquired loans, after the original acquisition date. We established the purchased credit impaired ALLL due to additional credit deterioration in our purchased credit impaired loan portfolio after initial fair value estimates. Typically, decreased estimated cash flows result in impairment, while increased estimated cash flows result in a full or partial reversal of previously recorded impairment and potentially the calculation of a higher effective yield. The potentially higher yield is recorded as accretion income on our consolidated statements of income. If actual losses exceed the estimated losses, we record a provision for loan and lease losses on purchased credit impaired loans as an expense on our consolidated statements of income. If actual losses are less than our previously estimated losses, we reduce the purchased credit impaired ALLL by recording a negative provision for loan and lease losses on purchased credit impaired loans up to the amount of the ALLL previously recorded.

At September 30, 2017, our purchased credit impaired ALLL was $3.2 million, compared to $5.1 million at December 31, 2016. The provision for loan and lease losses charged to expense for the nine months ended September 30, 2017 was negative $869,000, compared to negative $3.3 million for the same period in 2016. The decrease in purchased credit impaired ALLL was primarily due to net-charge offs during the period and successful resolution of certain relationships with prior impairment recognized. The overall purchased credit impaired loan portfolio continues to perform better than our initial projections at each applicable acquisition date, although the performance is not uniform across all asset classes within specifically reviewed loans and loan pools.

For organic loans and purchased non-credit impaired loans, the provision for loan and lease losses will be affected by the loss potential on distressed loans and trends in the delinquency of loans, nonperforming loans and net charge-offs, which may be higher than our historical experience. For purchased credit impaired loans, the provision for loan and lease losses will be most significantly influenced by differences in actual credit losses resulting from the resolution of purchased credit impaired loans from the estimated credit losses used in determining the estimated fair values of such purchased credit impaired loans as of their acquisition or re-estimation dates.

The following table summarizes the activity in our ALLL for the periods presented (dollars in thousands):

	Nine Months Ended September 30							
	2017				2016			
	Organic Loans	Purchased Non-Credit Impaired Loans	Purchased Credit Impaired Loans	Total	Organic Loans	Purchased Non-Credit Impaired Loans	Purchased Credit Impaired Loans	Total
Balance, at the beginning of period	$21,086	$ 439	$5,073	$26,598	$21,224	$ 53	$7,798	$29,075
Charge-offs:								
Construction, land & land development	(187)	—	(14)	(201)	(2,125)	—	(681)	(2,806)
Other commercial real estate	(746)	(50)	(387)	(1,183)	—	—	(183)	(183)
Total commercial real estate	(933)	(50)	(401)	(1,384)	(2,125)	—	(864)	(2,989)
Residential real estate	(48)	(7)	(92)	(147)	(29)	(76)	(899)	(1,004)
Owner-occupied real estate	—	(80)	(452)	(532)	—	—	(298)	(298)
Commercial, financial & agricultural	(240)	(251)	(22)	(513)	(336)	(1)	(228)	(565)
Leases	(501)	—	—	(501)	(327)	—	—	(327)
Consumer	(266)	(9)	(4)	(279)	(41)	(3)	(56)	(100)
Total charge-offs	$(1,988)	$ (397)	$(971)	$(3,356)	$(2,858)	$ (80)	$(2,345)	$(5,283)
Recoveries:								
Construction, land & land development	—	1	—	1	—	—	402	402
Other commercial real estate	—	—	—	—	—	—	1,879	1,879
Total commercial real estate	—	1	—	1	—	—	2,281	2,281
Residential real estate	9	5	—	14	5	45	400	450
Owner-occupied real estate	—	—	—	—	44	—	207	251
Commercial, financial & agricultural	71	32	—	103	130	—	233	363
Leases	176	—	—	176	9	—	—	9
Consumer	40	4	—	44	1	17	53	71
Total recoveries	$296	$ 42	$—	$338	$189	$ 62	$3,174	$3,425
Net (charge-offs) recoveries	(1,692)	(355)	(971)	(3,018)	(2,669)	(18)	829	(1,858)
Provision for loan and lease losses	3,315	816	(869)	3,262	3,181	115	(3,336)	(40)
Balance, at end of period	$22,709	$ 900	$3,233	$26,842	$21,736	$ 150	$5,291	$27,177
Allowance for loan and lease losses to loans	.99%	.08%	1.59%	.75%	1.07%	.08%	4.17%	1.16%
Ratio of net charge-offs (recoveries) to average loans outstanding	.10%	.10%	.91%	.14%	.18%	.01%	(.82)%	.11%

Allocation of Allowance for Loan and Lease Losses

The following table presents the allocation of the ALLL and the percentage of the total amount of loans in each loan category listed at the dates indicated (dollars in thousands):

	September 30, 2017		December 31, 2016	
	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans
Organic loans				
Construction, land & land development	$4,438	12.9 %	$5,705	17.8 %
Other commercial real estate	8,622	25.6 %	6,062	26.8 %
Total commercial real estate	13,060	38.5 %	11,767	44.6 %
Residential real estate	1,976	4.9 %	1,786	5.1 %
Owner-occupied real estate	2,410	7.3 %	2,239	9.1 %
Commercial, financial & agricultural	3,682	10.2 %	4,093	11.6 %
Leases	696	1.9 %	655	2.5 %
Consumer	885	1.7 %	546	1.3 %
Total allowance for organic loans	$22,709	64.5 %	$21,086	74.2 %
Purchased Non-credit Impaired loans				
Construction, land & land development	$131	0.8 %	$88	1.8 %
Other commercial real estate	58	6.6 %	—	7.4 %
Total commercial real estate	189	7.4 %	88	9.2 %
Residential real estate	460	3.1 %	72	5.1 %
Owner-occupied real estate	220	3.6 %	44	4.1 %
Commercial, financial & agricultural	28	15.6 %	235	1.3 %
Consumer	3	0.1 %	—	0.2 %
Total allowance for purchased non-credit impaired loans	$900	29.8 %	$439	19.9 %
Purchased Credit Impaired loans				
Construction, land & land development	$569	0.5 %	$754	0.6 %
Other commercial real estate	888	2.9 %	1,429	2.2 %
Total commercial real estate	1,457	3.4 %	2,183	2.8 %
Residential real estate	1,228	1.2 %	1,196	2.0 %
Owner-occupied real estate	498	0.7 %	1,655	0.9 %
Commercial, financial & agricultural	36	0.4 %	38	0.2 %
Consumer	14	— %	1	— %
Total allowance for purchased credit impaired loans	$3,233	5.7 %	$5,073	5.9 %
Total allowance for loan and lease losses	$26,842	100.0%	$26,598	100.0%

Nonperforming Assets

Nonperforming assets consist of nonaccrual loans, troubled debt restructurings ("TDRs"), other real estate owned and foreclosed property. For organic and purchased non-credit impaired loans, management continuously monitors loans and transfers loans to nonaccrual status when they are 90 days past due.

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We do not consider our purchased credit impaired loans acquired with evidence of deteriorated credit quality to be nonperforming assets as long as their cash flows continue to be estimable and probable of collection. Therefore, interest income is recognized through accretion of the difference between the carrying value of these loans and the present value of expected future cash flows. As a result, management has excluded purchased credit impaired loans from the table in this section.

Non purchased credit impaired loans 1) $500,000 or greater or 2) less than $500,000 and 180 days past due or greater that have been placed on nonaccrual are considered impaired and are valued at either the observable market price of the loan, the present value of expected future cash flows or the fair value of the collateral less estimated costs to sell, if the loan is collateral dependent. The majority of these loans are on nonaccrual are collateral dependent and, therefore, are valued using the fair value of collateral method. The fair value of collateral is determined through a review of the appraised value and an assessment of the recovery value of the collateral through discounts related to various factors noted below. When a loan reaches nonaccrual status, we review the appraisal on file and determine if the appraisal is current and valid. A current appraisal is one that has been performed in the last twelve months, and a valid appraisal is one that we believe accurately and appropriately addresses current market conditions. If the appraisal is more than twelve months old or if market conditions have deteriorated since the last appraisal, we will order a new appraisal. In addition, we require a new appraisal at the time of foreclosure or repossession of the underlying collateral. Upon determining that an appraisal is both current and valid, management assesses the recovery value of the collateral, which involves the application of various discounts to the market value. These discounts may include the following: length of time to market and sell the property, as well as expected maintenance costs, insurance and taxes and real estate commissions on sale.

For nonaccrual organic impaired loans, we will record either a specific allowance or a charge-off against the ALLL if an impairment analysis indicates a collateral deficiency. For nonaccrual purchased non-credit impaired loans, if an impairment analysis indicates a collateral deficiency, a specific allowance or charge-off against the ALLL is recorded only if the collateral deficiency exceeds the fair value mark recognized at acquisition. The ALLL is evaluated at least quarterly to ensure it is sufficient to absorb all estimated credit losses in the loan portfolio given the facts and circumstances as of the evaluation date.

Loans, excluding purchased credit impaired loans, that are nonperforming remain on nonaccrual status until the factors that previously indicated doubtful collectability on a timely basis no longer exist. Specifically, we look at the following factors before returning a nonperforming loan to performing status: documented evidence of debt service capacity; adequate collateral; and a minimum of six months of satisfactory payment performance.

Loan modifications on organic and purchased non-credit impaired loans constitute a troubled debt restructuring if we, for economic or legal reasons related to the borrower's financial difficulties, grant a concession to the borrower that we would not otherwise consider. For loans that are considered troubled debt restructurings, we either compute the present value of expected future cash flows discounted at the original loan's effective interest rate or we may measure impairment based on the observable market price of the loan or the fair value of the collateral when the troubled debt restructuring is deemed collateral dependent. We record the difference between the carrying value and fair value of the loan as a charge-off or valuation allowance, as the situation may warrant.

Loan modifications on purchased credit impaired loans accounted for within a pool under ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, do not result in the removal of the loan from the pool even if the modification of the loan would otherwise be considered a troubled debt restructuring. At September 30, 2017, we did not have any purchased credit impaired loans classified as troubled debt restructurings.

Other real estate owned (OREO) consists of real estate acquired through foreclosure or a deed in lieu of foreclosure in satisfaction of a loan, OREO acquired in a business acquisition, and banking premises no longer used for a specific business purpose. Real estate obtained in satisfaction of a loan is initially recorded at the lower of the principal investment in the loan or the fair value of the collateral less estimated costs to sell at the time of foreclosure with any excess in loan balance charged against the allowance for loan and lease losses. OREO acquired in a business acquisition is recorded at fair value on Day 1 of the acquisition. Banking premises no longer used for a specific business purpose are transferred into OREO at the lower of their carrying value or fair value less estimated costs to sell with any excess in the carrying value charged to noninterest expense. For all fair value estimates of the real estate properties, management considers a number of factors such as appraised values, estimated selling prices, and current market conditions. Management periodically reviews the carrying value of OREO for impairment and adjusts the values as appropriate through noninterest expense. At September 30, 2017, OREO totaled $1.3 million, a decrease of $9.6 million from December 31, 2016. The decrease is mainly attributed to OREO acquired through foreclosure of loans receivable totaling $1.3 million, offset by $10.1 million in sales of OREO.

The following table set forth our nonperforming assets at the dates indicated (dollars in thousands):

	September 30, 2017				December 31, 2016			
Nonperforming Assets	Organic Assets	Purchased Non-Credit Impaired	Purchased Credit Impaired	Total	Organic Assets	Purchased Non-Credit Impaired	Purchased Credit Impaired	Total
Nonaccrual loans	$5,482	$ 5,615	$—	$11,097	$6,234	$ 3,381	$—	$9,615
Accruing TDRs	—	—	—	—	—	—	—	—
Total nonperforming loans	5,482	5,615	—	11,097	6,234	3,381	—	9,615
Other real estate owned	—	—	1,271	1,271	282	—	10,615	10,897
Total nonperforming assets	$5,482	$ 5,615	$1,271	$12,368	$6,516	$ 3,381	$10,615	$20,512
Nonperforming loans to total loans	.24 %	.53 %	— %	.31 %	.30 %	.60 %	— %	.34 %
Nonperforming assets to total loans and other real estate owned	.24 %	.53 %	.62 %	.35 %	.31 %	.60 %	6.20 %	.73 %

Nonperforming assets, defined as nonaccrual organic and purchased non-credit impaired loans, troubled debt restructurings and other real estate owned, totaled $12.4 million, or .3%, of total loans and other real estate owned at September 30, 2017, compared to $20.5 million, or .7%, at December 31, 2016. The $8.1 million decrease in nonperforming assets is primarily related to a decrease of $9.6 million in OREO, partially offset by an increase of $1.5 million in nonaccrual loans.

At September 30, 2017 and December 31, 2016, we did not have any organic or purchased non-credit impaired loans greater than 90 days past due and still accruing. At September 30, 2017 and December 31, 2016, a considerable portion of our purchased credit impaired loans were past due, including many that were 90 days or greater past due; however, as noted above, under ASC 310-30, our purchased credit impaired loans are classified as performing, even though they are contractually past due, as long as their cash flows and the timing of such cash flows are estimable and probable of collection.

The amount of interest that would have been recorded on organic and purchased non-credit impaired nonaccrual loans, had the loans not been classified as nonaccrual, totaled approximately $922,000 for the nine months ended September 30, 2017. Interest income recognized on organic and purchased non-credit impaired nonaccrual loans totaled $1,000 during the nine months ended September 30, 2017.

Potential problem loans are organic and purchased non-credit impaired loans which management has serious doubts as to the ability of the borrowers to comply with the present loan repayment terms. Potential problem loans not included in the nonperforming assets table above, consist of accruing, non-TDR organic and purchased non-credit impaired loans rated "Substandard" or "Doubtful," and totaled $6.0 million, or .2%, of total organic and purchased non-credit impaired loans outstanding at September 30, 2017, compared to $1.9 million, or .1%, at December 31, 2016.

Deferred Tax Asset

At September 30, 2017, we had $32.5 million in net deferred tax assets. Deferred tax assets are subject to an evaluation of whether it is more likely than not that they will be realized. In making such judgments, significant weight is given to evidence that can be objectively verified. Although realization is not assured, management believes the recorded deferred tax assets are fully recoverable based on taxable income in carryback years and the current forecast of taxable income that is sufficient to realize the net deferred tax assets during periods through which losses may be carried forward. The amount of taxable income available in the carryback years is approximately $108.8 million. If we are unable to demonstrate that we can continue to generate sufficient taxable income in the near future, then we may not be able to conclude it is more likely than not that the benefits of the deferred tax assets will be fully realized and we may be required to recognize a valuation allowance against our deferred tax assets with a corresponding decrease in income. Additionally, a substantial reduction in tax rate would immediately reduce the value of our deferred tax assets in the period enacted.

Deposits

Total deposits at September 30, 2017 were $4.2 billion, an increase of $809.9 million from December 31, 2016. The increase was largely due to $705.6 million of deposits assumed in our acquisition of AloStar and organic growth within our existing markets. Interest rates paid on specific deposit types are determined based on (a) interest rates offered by competitors, (b) anticipated amount and timing of funding needs, (c) availability and cost of alternative sources of funding, and (d) anticipated future economic conditions and interest rates. We regard our deposits as attractive sources of funding because of their stability and relative cost. Additionally, we regard our deposits as an important part of our overall client relationship, that provide us with opportunities to cross sell other services.

The overall deposit mix remained favorable through September 30, 2017, as we grew our noninterest-bearing deposits to $1.2 billion, representing 27.8% of total deposits. Average noninterest-bearing deposits increased $133.0 million, or 15.7%, for the nine months ended September 30, 2017 compared to the same period in 2016.

Our interest-bearing transaction accounts decreased $45.2 million from December 31, 2016 to September 30, 2017. The decrease was primarily due to reduction in public fund balances compared to December 31, 2016. Interest-bearing deposits in savings and money market accounts increased $388.1 million from December 31, 2016, primarily resulting from $293.6 million in deposits assumed in our acquisition of AloStar and a small number of new relationships. Time deposits, excluding brokered and wholesale, increased $264.6 million during the nine months ended September 30, 2017 primarily due to time deposits of $305.4 million assumed in our acquisition of AloStar, partially offset by the maturity of certain time deposits opened during a marketing campaign featuring special rates during the fourth quarter of 2015 and first quarter of 2016.

Growth in money market deposits, which offset the decline in interest-bearing transaction accounts, resulted in an average cost of funds of 38 basis points for the nine months ended September 30, 2017, up six basis points from the nine months ended September 30, 2016.

The following table shows the composition of deposits at the dates indicated (dollars in thousands):

	September 30, 2017		December 31, 2016	
	Amount	% of Total	Amount	% of Total
Noninterest-bearing demand deposits	$1,179,698	27.8 %	$984,419	28.7 %
Interest-bearing transaction accounts	619,156	14.6 %	664,350	19.4 %
Savings and money market deposits	1,680,922	39.6 %	1,292,867	37.7 %
Time deposits	731,416	17.3 %	466,849	13.6 %

Brokered and wholesale time deposits	29,893	.7 %	22,680	.6 %
Total deposits	$4,241,085	100.0 %	$3,431,165	100.0 %

The following table shows the average balance amounts and the average rates paid on deposits held by us for the periods indicated (dollars in thousands):

	Nine Months Ended September 30			
	2017		2016	
	Average Amount	Average Rate	Average Amount	Average Rate
Noninterest-bearing demand deposits	$977,390	— %	$844,419	— %
Interest-bearing transaction accounts	589,189	.12 %	528,669	.12 %
Savings and money market deposits	1,384,243	.61 %	1,064,999	.53 %
Time deposits	438,025	.71 %	395,765	.62 %
Brokered and wholesale time deposits	36,093	1.05 %	30,978	1.04 %
Total deposits	$3,424,940		$2,864,830	

FHLB Borrowings

We had no FHLB borrowings at September 30, 2017 and $47.0 million of FHLB borrowings at December 31, 2016. We use short-term FHLB borrowings as part of our liquidity management strategy. The decrease in FHLB borrowings was attributable to deposit growth, which outpaced asset growth during the period.

Capital Resources

We believe that our capital base is adequate to support our activities in a safe manner while at the same time attempting to maximize shareholder returns. At September 30, 2017, shareholders' equity was $642.6 million, or 12.5% of total assets, compared to $613.6 million, or 14.5% of total assets, at December 31, 2016. The primary factors affecting changes in shareholders' equity was our net income, offset by dividends declared during the nine months ended September 30, 2017.

Federal regulations impose minimum regulatory capital requirements on all institutions with deposits insured by the FDIC. The Federal Reserve Board imposes similar capital regulations on bank holding companies. On January 1, 2015, the U.S. Basel III final rule replaced the existing Basel I-based approach for calculating risk-weighted assets. Basel III introduced a new minimum ratio of common equity Tier 1 capital (CET1) and raised the minimum ratios for Tier 1 capital, total capital, and Tier 1 leverage. The final rule emphasizes common equity Tier 1 capital and implements strict eligibility criteria for regulatory capital instruments and improves the methodology for calculating risk-weighted assets to enhance risk sensitivity. The methods for calculating the risk-based capital ratios have changed and will change as the provisions of the Basel III final rule related to the numerator (capital) and denominator (risk-weighted assets) are fully phased in by January 1, 2019. The ongoing methodological changes will result in differences in the reported capital ratios from one reporting period to the next that are independent of applicable changes in the capital base, asset composition, off-balance sheet exposures or risk profile. In addition, in order to avoid restrictions on capital distributions or discretionary bonus payments to executives, a covered banking organization must maintain a "capital conservation buffer" on top of its minimum risk-based capital requirements. This buffer must consist solely of Tier 1 Common Equity, but the buffer applies to all three measurements (Common Equity Tier 1, Tier 1 capital and total capital). The capital conservation buffer will be phased in incrementally over time, becoming fully effective on January 1, 2019, and will consist of an additional amount of common equity equal to 2.5% of risk-weighted assets. Implementation of the new capital and liquidity standards did not and is not expected to significantly impact the Company or State Bank because our current capital levels materially exceed those required under the new rules.

The minimum regulatory capital ratios and ratios to be considered well-capitalized under prompt corrective action provisions at the both September 30, 2017 and December 31, 2016 are presented in the table below:

Capital Ratio Requirements	Minimum Requirement	Well-capitalized (1)
CET1 capital ratio	4.50%	6.50%
Tier 1 risk-based capital ratio	6.00%	8.00%
Total risk-based capital ratio	8.00%	10.00%
Tier 1 leverage ratio	4.00%	5.00%

(1) The prompt corrective action provisions are only applicable at the bank level.

At September 30, 2017 and December 31, 2016, the Company and State Bank exceeded all regulatory capital adequacy requirements to which they were subject. The following table shows the Company's and State Bank's regulatory capital ratios at the dates indicated:

	September 30, 2017		December 31, 2016	
Company				
Tier 1 leverage ratio	13.37	%	14.90	%
CET1 capital ratio	12.21		14.78	
Tier 1 risk-based capital ratio	12.21		14.78	
Total risk-based capital ratio	12.81		15.52	
State Bank				
Tier 1 leverage ratio	11.60	%	13.18	%
CET1 capital ratio	10.62		13.06	
Tier 1 risk-based capital ratio	10.62		13.06	
Total risk-based capital ratio	11.23		13.81	

Regulatory policy statements generally provide that bank holding companies should pay dividends only out of current operating earnings and that the level of dividends must be consistent with current and expected capital requirements. Dividends received from State Bank have been our primary source of funds available for the payment of dividends to our shareholders. Federal and state banking laws and regulations restrict the amount of dividends subsidiary banks may distribute without prior regulatory approval. During the quarter ended September 30, 2017, State Bank declared and paid no dividends to the Company. At September 30, 2017, State Bank had no capacity to pay dividends to the Company without prior regulatory approval.

At September 30, 2017, the Company had $60.7 million in cash and due from bank accounts, which could be used for additional capital as needed by State Bank, payment of holding company expenses, payment of dividends to shareholders, or for other corporate purposes.

We currently have a level of capitalization that will support significant growth, and the long-term management of our capital position is an area of significant strategic focus. We actively seek and regularly evaluate opportunities to acquire additional financial institutions, as well as acquisitions that would complement or expand our present product capabilities, such as our recent acquisition of AloStar. To the extent that we are unable to appropriately leverage our capital with organic growth and acquisitions, we will actively consider alternative means of normalizing our level of capitalization, including increasing our quarterly dividend and/or repurchasing shares (including purchases under the repurchase plan we announced on February 11, 2016, which the Company extended for an additional year on February 10, 2017).

Off-Balance Sheet Arrangements

Commitments to extend credit are agreements to lend to a customer as long as the customer has not violated any material condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee by the borrower. At September 30, 2017, unfunded commitments to extend credit were $953.6 million. A significant portion of the unfunded commitments related to commercial and residential real estate construction, commercial lines of credit and consumer equity lines of credit. Based on experience, we anticipate that a significant portion of these lines of credit will not be funded. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on our credit evaluation of the borrower. The type of collateral varies but may include accounts receivable, inventory, property, plant and equipment, and commercial and residential real estate.

At September 30, 2017, there were commitments totaling approximately $16.9 million under letters of credit. The credit risk and collateral involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Because most of the letters of credit are expected to expire without being drawn upon, they do not necessarily represent future cash requirements.

Except as disclosed in Note 12 to our consolidated financial statements located in Part I, Item 1 of this Quarterly Report on Form 10-Q, we are not involved in off-balance sheet contractual relationships or commitments, unconsolidated related entities that have off-balance sheet arrangements, or other off-balance sheet transactions that could result in liquidity needs that significantly impact earnings.

Contractual Obligations

In the normal course of business, we have various outstanding contractual obligations that will require future cash outflows. The following table presents our largest contractual obligations (dollars in thousands):

		Payments Due by Period			
September 30, 2017	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years
Contractual Obligations:					
Time deposits, including accrued interest payable	$764,162	$557,365	$183,265	$23,501	$ 31
Operating lease obligations	21,711	4,724	6,640	6,071	4,276
Total contractual obligations	$785,873	$562,089	$189,905	$29,572	$ 4,307

Liquidity

Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss, and the ability to raise additional funds by increasing liabilities. Liquidity management involves monitoring our sources and uses of funds to meet the operating, capital and strategic needs of the Company and State Bank. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of our investment portfolio is fairly predictable and subject to a high degree of control when we make investment decisions. Net deposit inflows and outflows, however, are far less predictable and are not subject to the same degree of certainty.

The asset portion of the balance sheet provides liquidity primarily through scheduled payments, maturities and repayments of loans and investment securities. Cash and short-term investments such as federal funds sold and interest-bearing deposits with other banks are also sources of funding.

At September 30, 2017, our liquid assets, which consist of cash and amounts due from banks and interest-bearing deposits in other financial institutions, amounted to $282.2 million, or 5.5% of total assets, compared to $149.6 million, or 3.5% of total assets, at December 31, 2016. The increase in our liquid assets was primarily due to cash acquired in our acquisition of AloStar. Our available-for-sale securities at September 30, 2017 were $920.8 million, or 17.9% of total assets, compared to $847.2 million, or 20.1% of total assets, at December 31, 2016. Investment securities with an aggregate fair value of $408.9 million and $368.3 million at September 30, 2017 and December 31, 2016, respectively, were pledged to secure public deposits and repurchase agreements. The decrease in our unpledged securities was due to increases in public funds, partially offset by a decrease in repurchase agreements.

The liability portion of the balance sheet serves as our primary source of liquidity. We plan to meet our future cash needs through the generation of deposits. Customer deposits have historically provided a sizeable source of relatively stable and low-cost funds. At September 30, 2017, customer deposits, excluding brokered deposits and time deposits greater than $250,000, were 114.4% of net loans, compared with 119.7% at December 31, 2016. We maintain eight federal funds lines of credit with correspondent banks totaling $175.0 million. We are also a member of the Federal Home Loan Bank of Atlanta (FHLB), from which we can borrow for leverage or liquidity purposes. The FHLB requires that securities and qualifying loans be pledged to secure any advances. At September 30, 2017, we had no advances from the FHLB and a remaining credit availability of $180.4 million. In addition, we maintain a $504.5 million line with the Federal Reserve Bank's discount window that is secured by certain loans from our loan portfolio.

Asset/Liability Management

Market risk is the risk of loss from adverse changes in market prices and rates, which principally arise from interest rate risk inherent in our lending, investing, deposit gathering and borrowing activities. Other types of market risk, such as foreign currency exchange rate risk and commodity price risk, do not generally arise in the normal course of our business. Asset/liability management is the process by which we monitor and control the mix and maturities of our assets and liabilities. The essential purposes of asset/liability management are to ensure adequate liquidity and to maintain an appropriate balance between interest sensitive assets and liabilities to minimize potentially adverse effects on earnings from changes in market interest rates. Our Risk Committee monitors and considers methods of managing exposure to interest rate risk and is responsible for maintaining the level of interest rate sensitivity of our interest-sensitive assets and liabilities within Board-approved limits.

Interest rate sensitivity is a function of the repricing characteristics of the portfolio of assets and liabilities. Interest rate sensitivity management focuses on the maturity structure of assets and liabilities and their repricing characteristics during periods of changes in market interest rates. Effective interest rate sensitivity management seeks to ensure that both assets and liabilities respond to changes in interest rates within an acceptable time-frame that minimizes the changes in net interest income.

In the event of a shift in interest rates, management may take certain actions intended to mitigate negative impacts on net interest income or to maximize positive impacts on net interest income. These actions may include, but are not limited to, restructuring of interest-earning assets and interest-bearing liabilities, seeking alternative funding sources or investment opportunities, modifying the pricing or terms of loans and deposits, and using derivatives.

Through the use of derivatives designated as hedging instruments, we seek to efficiently manage the interest rate risk identified in specific assets and liabilities on our balance sheet. At September 30, 2017, we had interest rate swaps and caps with aggregate notional amounts of $157.8 million and $200.0 million, respectively. The fair value of the derivative financial assets designated as hedging instruments was $1.5 million at September 30, 2017, compared to $1.8 million at December 31, 2016. The fair value of the derivative financial liabilities designated as hedging instruments was $387,000 at September 30, 2017, compared to $641,000 at December 31, 2016. The change in the values of our derivatives was directly related to changes in the index rates. Note 9 to our consolidated financial statements located in Part I, Item 1 of this Quarterly Report on Form 10-Q provides additional information on these contracts.

We regularly review our exposure to changes in interest rates. Among the factors we consider are changes in the mix of interest-earning assets and interest-bearing liabilities, interest rate spreads and repricing periods. Our Risk Committee reviews, on at least a quarterly basis, our interest rate risk position. The primary tool used to analyze our interest rate risk and interest rate sensitivity is an earnings simulation model.

This earnings simulation model projects a baseline net interest income (assuming no changes in interest rate levels) and estimates changes to that baseline net interest income resulting from changes in interest rate levels. We rely primarily on the results of this model in evaluating our interest rate risk. This model incorporates a number of additional factors including: (1) the expected exercise of call features on various assets and liabilities, (2) the expected rates at which various rate-sensitive assets and rate-sensitive liabilities will reprice, (3) the expected growth in various interest-earning assets and interest-bearing liabilities and the expected interest rates on new assets and liabilities, (4) the expected relative movements in different interest rate indexes which are used as the basis for pricing or repricing various assets and liabilities, (5) existing and expected contractual cap and floor rates on various assets and liabilities, (6) expected changes in administered rates on interest-bearing transaction, savings, money market and time deposit accounts and the expected impact of competition on the pricing or repricing of such accounts, (7) cash flow and accretion expectations from purchased credit impaired loans, and (8) other relevant factors. Inclusion of these factors in the model is intended to more accurately project our expected changes in net interest income resulting from interest rate changes. We typically model our changes in net interest income assuming interest rates go up 100 basis points, up 200 basis points, down 100 basis points and down 200 basis points. We also model more extreme rises in interest rates (e.g. up 500 basis points). For purposes of this model, we have assumed that the changes in interest rates are instantaneously shocked up or down. While we believe this model provides a reasonably accurate projection of our interest rate risk, the model includes a number of assumptions and predictions which may or may not be correct and may impact the model results. These assumptions and predictions include inputs to compute baseline net interest income, growth rates, expected changes in administered rates on interest-bearing deposit accounts, competition and a variety of other factors that are difficult to accurately predict. Accordingly, there can be no assurance the earnings simulation model will accurately reflect future results.

The following table presents the earnings simulation model's projected impact of a change in interest rates on the projected baseline net interest income for the 12-month period commencing October 1, 2017. Based on the simulation run at September 30, 2017, annual net interest income would be expected to increase approximately 7.29%, if rates increased from current rates by 100 basis points. If rates increased 200 basis points from current rates, net interest income is projected to increase approximately 14.48%. If rates decreased 100 basis points from current rates, net interest income is projected to decrease approximately 9.19%. The change in interest rates assumes parallel shifts in the yield curve and does not take into account changes in the slope of the yield curve. The increase in asset sensitivity at September 30, 2017 was primarily due to State Bank's acquisition of AloStar, which added a large floating rate loan portfolio, as well as an increase in longer duration deposits, specifically noninterest-bearing deposits and CDs.

	% Change in Projected Baseline Net Interest Income	
Shift in Interest Rates (in basis points)	September 30, 2017	December 31, 2016
+200	14.48 %	12.73 %
+100	7.29	6.02
-100	(9.19)	(6.07)
-200	Not meaningful	Not meaningful

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The information required by Item 305 of Regulation S-K is contained in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this Quarterly Report on Form 10-Q under the heading "Asset/Liability Management," which information is incorporated herein by reference.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Based on management's evaluation, with the participation of the Chief Executive Officer and Chief Financial Officer, as of September 30, 2017, the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act")) were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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 system will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

PART II

Item 1. Legal Proceedings.

In the ordinary course of operations, we may be party to various legal proceedings from time to time. We do not believe that there are any pending or threatened proceedings against us, which, if determined adversely, would have a material effect on our business, results of operations or financial condition.

Item 1A. Risk Factors.

There have been no material changes to the risk factors disclosed in Item 1A. of Part I in our Annual Report on Form 10-K for the year ended December 31, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Repurchases of Company Common Stock

The following table provides information regarding the Company's repurchases of its common stock during the three months ended September 30, 2017:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2)
Repurchases from July 1, 2017 - July 31, 2017 (1)	793	$ 26.09	—	1,229,285
Repurchases from August 1, 2017 - August 31, 2017	—	—	—	1,229,285
Repurchases from September 1, 2017 - September 30, 2017 (1)	31,209	27.79	—	1,229,285
Total	32,002	$ 27.75	—	1,229,285

(1) Represents shares of the Company's common stock acquired by the Company in connection with satisfaction of tax withholding obligations on vested restricted stock.
(2) On February 10, 2016, the board of directors authorized the repurchase of up to 1.5 million shares of the Company's outstanding common stock. On February 25, 2016, the Company announced it entered into a written trading plan with a broker for the purpose of purchasing up to 1.5 million shares of the Company's outstanding common stock in accordance with the guidelines specified in Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. The trading plan expires on the earlier of (a) the first anniversary of the trading plan, (b) the date on which the maximum aggregate number of shares authorized to be repurchased has been repurchased, or (c) after written notice by the broker or the Company as specified in the trading plan. To date, 270,715 shares have been repurchased and 1,229,285 shares may still be repurchased by the Company under the plan. No shares were repurchased under the plan for the three months ended September 30, 2017.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit No.	Description of Exhibit
31.1	Rule 13a-14(a) Certification of the Chief Executive Officer
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer
32.1	Section 1350 Certifications
101	The following materials from the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, formatted in eXtensible Business Reporting Language (XBRL); (i) Consolidated Statements of Financial Condition at September 30, 2017 and December 31, 2016, (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2017 and 2016, (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2017 and 2016, (iv) Consolidated Statement of Changes in Shareholders’ Equity for the nine months ended September 30, 2017 and 2016, (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016 and (vi) Notes to Consolidated Financial Statements.

SIGNATURES

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.

		STATE BANK FINANCIAL CORPORATION
November 3, 2017	By:	/s/ J. Thomas Wiley, Jr. J. Thomas Wiley, Jr. Chief Executive Officer (Principal Executive Officer)
November 3, 2017	By:	/s/ Sheila E. Ray Sheila E. Ray Chief Financial Officer and Chief Operating Officer (Principal Financial and Accounting Officer)

EXHIBIT INDEX

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