2017

STATE BANK
Financial Corporation

Notice of 2017 Annual Meeting
Proxy Statement
2016 Annual Report

To our shareholders,

Since our inception, we have used the word "*Absolutely*" as a part of our brand. We believe this word reflects our customer centric and solutions oriented approach to banking. In 2016, we decided to ask our customers for feedback on their relationship with State Bank. Frankly, we couldn't say it any better ourselves.

> "State Bank believed in me, and that made all the difference."
> *—Bob Dyson, Georgia Hardwoods*

> "They are proactive in bringing us solutions, ideas, and insights."
> *—Bob Morrison, The Morrison Agency*

> "They offer ways to improve my business."
> *—Brian Macaluso, Dr. Roof, Roofing, Siding & Windows*

> "Big bank services, with the local feel."
> *—Brad and Havird Usry, Fat Man's Cafe*

> "They helped us face the challenges of growing our business."
> *—Jack and Byron Pyles, Pyles Plumbing & Utility Contractors, Inc.*

> "We wanted a banker that got us. We found that at State Bank."
> *—Allen Peake, C&P Restaurant Co.*

> "Over the years, the trust and service has been phenomenal."
> *—Deanna Brown-Thomas, Deanna Inc. & The James Brown Family Foundation*

We are both extremely proud of, and honored by, this feedback. We also believe there is a direct correlation between these customer quotes and our bank's performance, and we're very pleased to report that 2016 was an outstanding year for tangible results at State Bank. Numerous milestones were achieved, including record earnings, crossing $4 billion in total assets, and maintaining sound asset quality. Growth in interest and noninterest income outpaced declining accretion income, resulting in a significant increase in total revenue. Disciplined execution on our strategic priorities resulted in exceptional growth in organic loans and core deposits, which combined with effective expense management, collectively yielded net income of $47.6 million.

In addition to our financial success, we announced two bank acquisitions during the year: The National Bank of Georgia on April 5, 2016, and S Bank on May 19, 2016. Both of these acquisitions were completed on December 31, 2016, providing us with well-known and talented bankers and an expanded statewide footprint into new strategically compelling markets. We now have a meaningful presence and efficient footprint in seven of the eight largest MSAs in Georgia.

State Bank's results in 2016 demonstrate our commitment to grow low-cost transaction deposits, improve our noninterest income lines of business, maintain strong credit metrics while growing loans, prudently deploy capital, and become a more efficient company.

Our payroll, treasury services, and cash management product offerings continue to provide a competitive advantage in growing core funding and allow us to successfully compete with banks of any size. We had $156 million of deposit growth in 2016, including $118 million, or 8%, growth in transaction deposit accounts. Noninterest-bearing deposits comprised 29% of total deposits at year-end 2016. Our long-term success is going to be primarily driven by the quality of our deposit base and having very deep relationships with our primary depositors.

We also generated organic loan growth of $316 million, or 18%, while managing our risks effectively and without compromising our high credit standards. Our credit quality metrics continue to be among the best in the entire industry.

Positive momentum in our noninterest income lines of business carried over into 2016 as all three of our key fee income initiatives—mortgage, SBA, and payroll—had double digit growth in 2016. In our SBA business, we added a team with a national market focus and completed major improvements to our operating processes that will significantly improve productivity and efficiency. We remain very pleased with the pace of growth in payroll clients, which in turn, delivers core funding and a solid recurring revenue source.

We are making measureable progress with our commitment to become a more efficient company. Total noninterest expense, excluding merger and credit-related expenses, declined nearly 5% in 2016. Expense reductions occurred across the board in nearly every category leading to a significant improvement in our efficiency ratio in 2016.

In addition to the capital deployment through two acquisitions, we maintained an attractive dividend, with a yield of more than 2% based on our year-end share price, equating to a dividend payout ratio of approximately 44% for the year, and we repurchased over $5 million of our common shares. We continuously evaluate our overall capital management strategy and remain committed to being conservative stewards of your investment in State Bank.

In summary, we are blessed to operate in genuinely attractive markets with diverse growth drivers and positive economic trends, which make us very optimistic about the future for State Bank. Our existing markets represent a significant growth opportunity for our company. We continue to grow market share in the Atlanta market, strengthen our number one market share in Middle Georgia, and are excited about the tremendous opportunities we have in our new markets. As we reflect upon the successes of 2016, we are grateful for each client, board member, and employee that contributed to this success, and are "*Absolutely*" thankful for your continued confidence as a shareholder.

Sincerely,

Joe Evans

Tom Wiley

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Cautionary Note Regarding Forward-Looking Statements

Some of the statements in this letter to shareholders are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including statements describing our future expectations regarding our continued competitive advantage as it relates to growth in core funding from our payroll, treasury services and cash management product offerings; the effect of the quality of our deposit base and depositor relationships on our long-term success; the ability of our payroll services to deliver core funding and serve as a revenue source; the success of our capital management strategy; and continued growth and opportunities within our current market areas. These forward looking statements are subject to risks, uncertainties and other factors, such as an economic downturn in the markets in Georgia where we operate, access to funding sources, greater than expected noninterest expenses, the timing of increases in interest rates, volatile financial markets, regulatory changes and strong competition for deposit accounts, any of which could cause actual results to differ materially from future results expressed or implied by those forward-looking statements. Although we believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove to be inaccurate. Therefore, we can give no assurance that the results contemplated in the forward-looking statements will be realized. For a description of some of the other factors that may affect actual outcomes, see Item 1A, Risk Factors, in the enclosed Annual Report on Form 10-K for 2016. The inclusion of forward-looking information should not be construed as a representation by us that our plans or expectations will be achieved. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

STATE BANK FINANCIAL CORPORATION
3399 Peachtree Road NE
Suite 1900
Atlanta, Georgia 30326

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON MAY 25, 2017

Dear Shareholder,

I cordially invite you to attend the annual meeting of shareholders of State Bank Financial Corporation, the holding company of State Bank and Trust Company, to be held on Thursday, May 25, 2017 at 1:00 p.m. EDT at our headquarters located at 3399 Peachtree Road NE, Suite 1900, Atlanta, Georgia 30326, for the following purposes:

1) to elect 11 directors to our board of directors to serve a one-year term;
2) to conduct an advisory vote on the compensation of our named executive officers;
3) to conduct an advisory vote on the frequency of the advisory vote on the compensation of our named executive officers;
4) to ratify the appointment of Dixon Hughes Goodman LLP as our independent registered public accounting firm for 2017; and
5) to transact such other business as may properly come before the annual meeting or any adjournment of the meeting.

The board of directors set the close of business on April 7, 2017 as the record date to determine the shareholders who are entitled to vote at the annual meeting. Under rules of the Securities and Exchange Commission, we are providing access to our proxy materials both by sending you this full set of proxy materials, including a proxy card, and by notifying you of the availability of our proxy materials on the Internet.

Although we would like each shareholder to attend the annual meeting, I realize that for some of you this is not possible. Whether or not you plan to attend the annual meeting, we encourage you to vote as soon as possible by signing, dating and mailing your proxy card in the enclosed postage-paid envelope. For specific instructions on voting, please refer to the instructions on the enclosed proxy card.

Important Notice Regarding Availability of Proxy Materials for the Annual Meeting: Our 2017 proxy statement, proxy card and 2016 Annual Report to Shareholders are available free of charge online at http://www.statebt.com/proxyvote.

Your vote is important, and I appreciate the time and consideration that I am sure you will give it.

On behalf of the board of directors,

Joseph W. Evans
Chairman and Chief Executive Officer
April 13, 2017

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PROXY SUMMARY

Unless the context indicates otherwise, all references to the "Company", "we," "us" and "our" in this proxy statement refer to State Bank Financial Corporation and our wholly-owned subsidiary bank, State Bank and Trust Company ("State Bank").

2017 Annual Meeting of Shareholders

Date:	May 25, 2017
Time:	1:00 p.m. EDT
Place:	3399 Peachtree Road NE Suite 1900 Atlanta, Georgia 30326
Record Date:	April 7, 2017
Voting:	Common shareholders as of the record date are entitled to vote. Shareholders of record can vote by:

Mail:	Vote by filling out the proxy card and sending it back in the postage-paid envelope provided.
In Person:	You may vote in person at the annual meeting.

See Voting Procedures and Related Matters beginning on page 61 for more information about how to vote your shares.

Proposals That Require Your Vote

		Board Recommendation	More Information
Proposal 1	Election of 11 directors	**FOR each nominee**	Page 4
Proposal 2	Advisory vote on the compensation of our named executive officers	**FOR**	Page 56
Proposal 3	Advisory vote on the frequency of the advisory vote on the compensation of our named executive officers	**EVERY YEAR**	Page 57
Proposal 4	Ratification of the appointment of our independent registered public accounting firm for 2017	**FOR**	Page 58

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PROPOSAL 1 - ELECTION OF DIRECTORS

Nominees for Election as Directors

Our bylaws provide for a board of directors consisting of not fewer than five nor more than 25 individuals, with the exact number to be fixed by the board of directors. Our board has fixed the number of directors constituting the entire board at 11 directors, and the board currently consists of 11 directors. All of the current members of the board of directors have been nominated for re-election.

If elected, all nominees will serve a one-year term, expiring at the 2018 annual meeting of shareholders or until their respective successors are duly elected and qualified. Each nominee has agreed to serve if elected. If any named nominee is unable to serve, proxies will be voted for the remaining named nominees.

Summary information about each of the director nominees is provided below. Each director is currently a director of the Company and State Bank.

Name	Age	Director Since	Primary Occupation
James R. Balkcom, Jr.	72	2010	Chairman of the Board of TMG Gases, Inc., a gas supply chain management company
Archie L. Bransford, Jr.	64	2010	President of Bransford & Associates, LLC, a bank regulatory consulting group
Kim M. Childers	58	2010	Executive Risk Officer of the Company and State Bank and Vice Chairman of the Boards of Directors of the Company and State Bank
Ann Q. Curry	73	2013	Chair and Chief Client Strategist of Coxe Curry & Associates, a fundraising consulting firm
Joseph W. Evans	67	2010	Chief Executive Officer of the Company and Chairman of the Boards of Directors of the Company and State Bank
Virginia A. Hepner	59	2010	President and Chief Executive Officer of The Woodruff Arts Center, a visual and performing arts center
John D. Houser	68	2012	Former President and Chief Executive Officer of Southern Trust Corporation (Retired), a commercial insurance firm
Anne H. Kaiser	60	2016	Vice President, Community and Economic Development of Georgia Power Company, a regional utility that supplies electric power and energy services to Georgia residents and businesses
William D. McKnight	59	2015	President and Chief Executive Officer of McKnight Construction Company, a construction company that provides construction services throughout the Southeast
Major General (Ret.) Robert H. McMahon	60	2012	President of Fickling Management Services, a property management and leasing firm
J. Thomas Wiley, Jr.	64	2010	Chief Executive Officer of State Bank, President of the Company and Vice Chairman of the Boards of Directors of the Company and State Bank

Voting for Directors

Each share of our common stock entitles the holder to one vote on all matters voted on at the meeting. Provided a quorum is present, directors will be elected by the affirmative vote of a majority of the shares of our common stock present in person or by proxy at the annual meeting. Shareholders do not have cumulative voting rights. If you hold your shares in street name and do not complete and return voting instructions to your broker or other nominee, this will have the same effect as a vote "AGAINST" the election of our director nominees. Abstentions will also have the same effect as a vote "AGAINST" the election of our director nominees. All of our nominees are currently serving as directors. If a nominee does not receive the required vote for re-election, the director will continue to serve on the board as a “holdover” director until his or her death, written resignation, retirement, disqualification or removal, or his or her successor is elected.

Biographical Information for Each Nominee for Director

James R. Balkcom, Jr. is Chairman of the Board of TMG Gases, Inc., a gas supply chain management company. Mr. Balkcom also serves as an operating partner with Council Ventures, Inc., a position he has held since 2001. He served as Chairman of the Board of Advisors for Talent Quest, a leadership consultancy, from 2004 through 2010 and as Chairman of the Board of iKobo, Inc., a provider of online money transfer services, from 2006 until 2009. Mr. Balkcom also served as a director of EndoChoice, Inc. from 2009 until 2016 and as a director of Reach Health, Inc. from 2010 until 2014. He served as Chairman of the Board of Commerce South Bank, Inc. from 2001 until 2004 and as a director and Chairman of the compensation committee of Century South Banks, Inc. from 1997 until 2001. He was also a director and Chairman of the audit committee of DataPath, Inc. from 2007 until 2009. Mr. Balkcom served as Chief Executive Officer of Techsonic Industries, Inc. from 1977 until 1994. He serves as a Civilian Aide to the Secretary of the Army for Georgia and has served on the executive committee of the USO Council of Georgia since 2000. Mr. Balkcom also serves on the advisory board of the Shepherd Center Foundation, Inc. Mr. Balkcom holds a bachelor’s degree in engineering from the United States Military Academy at West Point and a master’s degree in business administration from Harvard Business School.

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Mr. Balkcom’s extensive experience in corporate governance and finance, together with his management experience as a senior executive with several companies, make him well qualified to be a member of our board.

Archie L. Bransford, Jr. is the President of Bransford & Associates, LLC, a bank regulatory consulting group that consults with banks on risk management and regulatory matters, a position he has held since 2004. Prior to forming the consulting group, Mr. Bransford retired from the Office of the Comptroller of the Currency as the Deputy Comptroller for the agency’s Southern District, where he was responsible for the regulatory activity of approximately 700 banks. Mr. Bransford was a member of the board of directors of Banuestra Financial Corporation, a private financial services company, from 2006 until 2008. Mr. Bransford holds a bachelor’s degree in business administration from the University of Detroit.

Mr. Bransford’s depth of knowledge and valuable experience with bank regulatory matters make him well qualified to be a member of our board.

Kim M. Childers is the Executive Risk Officer of the Company and State Bank, a position he has held since July 2012 and has been a Vice Chairman of the board of the Company since 2010 and a Vice Chairman of the board of State Bank since 2009. Mr. Childers previously served as our Chief Credit Officer from 2009 until July 2012 and as our President from 2009 until December 2012. Mr. Childers previously held senior positions with Flag Bank and RBC Centura Bank, including Executive Vice President and Chief Credit Officer of Flag Bank from 2002 until 2007 and as Director-Georgia Risk Management of RBC Centura Bank from 2006 until 2007. Before joining Flag Bank in 2002, Mr. Childers was employed with Century South Banks, Inc., the holding company of 12 banks located in Georgia, Tennessee, Alabama and North Carolina, acting in a number of capacities, including Regional Chief Executive Officer for the North Georgia Region (which included eight charters and $600 million in assets), Chief Credit Officer and Senior Vice President/Credit Administration. Mr. Childers also serves as a managing principal of Bankers’ Capital Group, LLC, an investment company that primarily buys and sells notes. Mr. Childers holds a bachelor’s degree in agricultural economics from the University of Georgia.

Mr. Childers’ depth of knowledge and years of experience in banking make him well qualified to be a member of our board. His extensive personal understanding of the markets we serve is also a valuable asset to our board.

Ann Q. Curry is the Chair and Chief Client Strategist of Coxe Curry & Associates, a fundraising consulting firm serving nonprofit organizations in greater Atlanta and throughout Georgia, a position she has held since 2015. Ms. Curry previously served as the President of Coxe Curry & Associates from 1992 until 2014. Ms. Curry has held leadership roles both locally and nationally with the League of Women Voters, and she was a five-year member of the Board of Research Atlanta and its first woman president. She is a graduate of Leadership Atlanta and Leadership Georgia and a member of the YWCA Academy of Women Achievers. Ms. Curry serves on the CDC Foundation's Advisory Board, on the Nominating Committee of United Way, on the Advisory Board of the Georgia Conservancy and is a member of the Atlanta Rotary Club. She is a graduate of Duke University, a past chair of the Duke University Women's Studies Council and a six-year member of the Board of Visitors for Trinity College at Duke. She also currently serves on the advisory board for Duke University Libraries.

Ms. Curry's extensive experience in business management, as well as her depth of knowledge of the market areas we serve, make her well qualified to be a member of our board.

Joseph W. Evans is the Chief Executive Officer of the Company and Chairman of the Board, positions he has held since 2010. Mr. Evans also served as the Chief Executive Officer of State Bank from July 2009 until January 1, 2015. He is the former Chairman, President and Chief Executive Officer of Flag Financial Corporation which was acquired by RBC Centura Bank in 2006. Mr. Evans previously served as President and Chief Executive Officer of Bank Corporation of Georgia which was acquired by Century South Banks, Inc. in 1997 and later served as President and Chief Executive Officer of Century South Banks, Inc., which was acquired by BB&T in 2001. Currently, Mr. Evans is also a managing principal of Bankers' Capital Group, LLC, an investment company that primarily buys and sells notes. Mr. Evans serves on the boards of directors of Southern Trust Insurance Company and the Metro Atlanta Chamber. He is Vice President of the Buckhead Coalition, a trustee of the Foundation of the Methodist Home of the South Georgia Conference, Inc. in Macon, Georgia, where he chairs its investment committee, a member of the Board of Councilors of the Carter Center and the Chair of the Finance Committee of the Mt. Zion United Methodist Church. Mr. Evans serves on the Board of Trustees of the Georgia Tech Foundation as Treasurer, Chairman of the Finance Committee and as a member of the Executive Committee. He also serves on the Executive Committee of the advisory board of the Scheller College of Business at Georgia Tech, having previously served as chairman. He is the former Chairman of the Board of Trustees of the Georgia Tech Alumni Association and previously served as a director of the Alliance Theater at The Woodruff Arts Center. Mr. Evans holds a bachelor's degree in industrial management from Georgia Tech.

Mr. Evans' depth of knowledge and years of experience in banking make him well qualified to be a member of our board. His ties to our market area also provide him with personal contacts and an awareness of the social environment within which we operate.

Virginia A. Hepner is the President and Chief Executive Officer of The Woodruff Arts Center, a position she has held since 2012. The Woodruff Arts Center is one of the largest arts centers in the world, home to the Tony Award-winning Alliance Theater, the Grammy Award-winning Atlanta Symphony Orchestra and the High Museum of Art. Before joining The Woodruff Arts Center, Ms. Hepner was a business consultant with DMI, Inc., an entertainment and music marketing company, from 2011 until 2012. She serves on the board of directors of Oxford Industries, Inc., a publicly traded lifestyle brands retailer. Ms. Hepner has over 25 years of corporate banking experience with Wachovia Bank and its predecessors, serving in North Carolina, Chicago and Atlanta. She joined Wachovia Bank in 1979 and, until her retirement in 2005, she held numerous positions in corporate banking and capital markets, including Atlanta Commercial Banking Manager, Manager of the Foreign Exchange and Derivatives Group, and Executive Vice President and Manager of the U.S. Corporate Client Group. Ms. Hepner was formerly a director of Chexar Corporation (now named Ingo Money, Inc.), a private financial technology company. She is also active in many not-for-profit and civic organizations and presently serves as a board member of the Metro Atlanta Chamber, Midtown Alliance and the Atlanta Convention and Visitors Bureau. Ms. Hepner holds a bachelor's degree in finance from the Wharton School of the University of Pennsylvania.

Ms. Hepner's depth of knowledge and years of experience in corporate banking make her well qualified to be a member of our board.

John D. Houser served as the President and Chief Executive Officer of Southern Trust Corporation from 2007 until his retirement in August 2016. Mr. Houser served as director, President and Chief Executive Officer of Southern Trust Insurance Company from 2007 until January 2016 and as a member of Southern Specialty Underwriters, LLC from 2009 until 2015. He served as a director of Flag Financial Corporation from 2004 until

2006 and as Managing Partner of Miller Ray Houser & Stewart, a Certified Public Accounting firm in Atlanta, from 1998 until 2007. Mr. Houser served as an officer in the United States Navy from 1970 until 1973. Mr. Houser served as member of the Georgia Underwriting Association from 2008 until 2016 and as its Chairman from 2012 until 2016. He also served as a director of the Georgia Association of Property and Casualty Insurance Companies from 2008 until 2015. He previously served on the Board of Trustees of the United Way of Middle Georgia from 2010 until 2016 and currently serves on the board of the Community Foundation of Central Georgia. Mr. Houser received a bachelor's degree in Industrial Management from Georgia Tech in 1970 and a master's of public accountancy from Georgia State University in 1975.

Mr. Houser's depth of knowledge and years of experience in finance and accounting make him well qualified to be a member of our board.

Anne H. Kaiser is the Vice President of Community and Economic Development for Georgia Power Company, a position she has held since 2015, leading the company's efforts to recruit new industry to Georgia and help existing industries grow. Ms. Kaiser previously served as Vice President, Northwest Region for Georgia Power Company from 2008 until 2015 with responsibility for 15 counties and more than 170,000 customers. Ms. Kaiser joined Georgia Power Company in 1998 and has held a variety of positions, including Vice President of Corporate Services, assistant to the President and Chief Executive Officer and Vice President of Sales. Before joining Georgia Power Company, Ms. Kaiser held senior marketing management positions at the accounting and consulting firm KPMG, the Westminster Schools of Atlanta and Alston & Bird LLP, an international law firm headquartered in Atlanta. Ms. Kaiser serves on the boards of Berry College, where she chairs the Finance Committee, and Georgia Children's Cabinet. In addition, she serves as chair of the REACH Foundation, co-chair of the Alliance Theatre board, vice chair of the Technical College System of Georgia board and is on the advisory board of the Georgia Department of Economic Development. Ms. Kaiser holds a bachelor's degree in public relations from the University of Georgia. She is also a graduate of the Advanced Marketing Program at Harvard Business School and the National Association of Corporate Directors' College.

Ms. Kaiser's experience in dealing with complex business problems, as well as her substantial community involvement in the market areas we serve, make her well qualified to be a member of our board.

William D. McKnight is the President and Chief Executive Officer of McKnight Construction Company, a general contracting firm that operates in the Southeast, a position he has held since 1979. Mr. McKnight is also the President of Will McKnight Construction Company, a position he has held since 1999. Mr. McKnight previously served as a director of Georgia-Carolina Bancshares, Inc. ("Georgia-Carolina Bancshares") until it merged with the Company on January 1, 2015. He served as Chairman of the Board of Directors of First Bank of Georgia, which we acquired in our acquisition of Georgia-Carolina Bancshares, from May 2010 until July 2015, when First Bank of Georgia was merged into State Bank. Mr. McKnight currently serves on the boards of the Georgia Ports Authority, the Jasper Ports Authority and the Georgia Health Sciences Foundation. He has previously served on the boards of Associated General Contractors of America, the Augusta Ballet and the Tuttle-Newton Home. He is a graduate of Georgia Tech.

Mr. McKnight's extensive experience in business management, as well as his in-depth knowledge of the Augusta market, makes him well qualified to be a member of our board.

Major General (Retired) Robert H. McMahon is the President of Fickling Management Services, a property management and leasing firm, since November 2015. Major General (Ret.) McMahon previously served as Director of C-17 Field Operations at Boeing from May 2014 until August 2015 and as President and Chief Executive Officer of the 21st Century Partnership in Warner Robins, Georgia, from 2012 until May 2014. Major General (Ret.) McMahon served as Commander, Warner Robins Air Logistics Center, Air Force Material Command, Robins Air Force Base, in Warner Robins, Georgia from 2010 until he retired in 2012. The Warner Robins Air Logistics Center was one of three Air Force air logistics centers and the largest single-site industrial complex in the State of Georgia. Before that, from 2008 until 2010, he served as Director of Logistics, Deputy Chief of Staff for Logistics, Installations and Mission Support, with the U.S. Air Force, in Washington, D.C. Major General (Retired) McMahon served as a director of NORDAM from 2012 to 2014. He entered active duty after graduation from the

U.S. Air Force Academy in 1978 with a bachelor's of science in International Affairs and later earned a master's of science in maintenance management from the Air Force Institute of Technology.

Major General (Ret.) McMahon's depth of knowledge and years of experience in finance and government relations, together with his management experience as a senior officer with the United States Air Force, make him well qualified to be a member of our board.

J. Thomas Wiley, Jr. has served as Chief Executive Officer of State Bank since January 2015, as President of the Company since January 2013 and as a director of the Company and State Bank since 2010 (and as Vice Chairman of the boards of directors of the Company and State Bank since 2013). Mr. Wiley also served as President of State Bank from January 2013 until July 2015. Mr. Wiley also served as a director of First Bank of Georgia, which we acquired in our acquisition of Georgia-Carolina Bancshares from January 2015 until July 2015, when First Bank of Georgia was merged into State Bank. Mr. Wiley is the former President and Chief Executive Officer of Coastal Bankshares, Inc. and its subsidiary bank, The Coastal Bank, where he served from 2007 until November 2012. Mr. Wiley also served as Chairman of the Board of Directors of Coastal Bankshares and The Coastal Bank from 2007 until March 2014. Before joining Coastal Bankshares, Mr. Wiley served as the Vice Chairman/director and Chief Banking Officer of Flag Financial Corporation from 2002 until 2006 and as President and Chief Executive Officer of Flag Bank from 2002 until 2006. Mr. Wiley is also a managing principal of Bankers' Capital Group, LLC, an investment company that primarily buys and sells notes. Mr. Wiley serves on the board of governors of the Georgia Chamber of Commerce, the board of trustees of the Atlanta Police Foundation and is a former chairman of the Georgia Bankers Association. Mr. Wiley is a graduate of the Leadership Georgia Foundation Class of 2001. Mr. Wiley also serves as Co-Chairman of the Valdosta State University Capital Campaign. Mr. Wiley earned his bachelor's degree in business administration from Valdosta State University and is a graduate of the School of Banking of the South, Louisiana State University.

Mr. Wiley's depth of knowledge and years of experience in banking make him well qualified to be a member of our board.

The board of directors recommends a vote FOR each of the above nominees.

Director Compensation

Our bylaws permit our directors to receive compensation as determined by the board of directors. We do not pay our "inside" employee-directors any additional compensation for their service as directors. Our non-employee director compensation package includes both cash and equity award components.

In February 2016, the Independent Directors Committee performed a review of our non-employee director compensation package, with the assistance of Matthews, Young & Associates, Inc. ("Matthews, Young"), who served as our independent compensation adviser from 2010 until September 2016, to ensure our directors continued to be fairly compensated compared to peer organizations. The peer group included 40 publicly-traded financial institutions in the eastern region of the United States of comparable size to the Company.

As a result of that review, the Independent Directors Committee approved an increase in the number of shares of restricted stock granted annually to each of our non-employee directors from 1,000 shares to 1,200 shares in order to more closely align the equity component of our director compensation with the peer group analyzed. Our annual cash retainers and board meeting fees described below were not changed.

Our director restricted stock grants vest in full on the date of the next annual meeting of shareholders following the date of grant, unless the director's service as a member of the board of directors ceases for any reason before the vesting date, other than as a result of death or permanent disability. If the director's service ceases due to death or permanent disability, the number of shares of restricted stock that vest will be determined by dividing the total number of shares of restricted stock by 12 and multiplying that result by the number of months served as director between the date of grant and the date of the next annual meeting of shareholders.

Under the cash component of our director compensation package, our non-employee directors receive:

- a cash retainer of $40,000 (which is prorated and payable quarterly);
- an additional cash retainer of $10,000 to the chairs of each of the Audit Committee, Independent Directors Committee and Risk Committee (which is prorated and payable quarterly);
- a fee of $1,000 per board meeting (if attended in person) or $500 (if attended by phone); and
- a fee of $500 per meeting of the Audit Committee, the Independent Directors Committee, the Risk Committee and the Executive Committee.

In addition, from time to time, our non-employee directors may perform services for us in their capacity as directors that are beyond the services intended to be covered by the annual retainers and per meeting fees described above, and we will pay our directors additional compensation for such services. We also reimburse our non-employee directors for reasonable expenses incurred in connection with serving as a director.

The following table provides the compensation paid to our non-employee directors for the year ended December 31, 2016.

Director Compensation for 2016

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)	All Other Compensation ($)	Total ($)
James R. Balkcom, Jr.	65,000(2)	26,088	644(3)	91,732
Archie L. Bransford, Jr.	65,038(4)	26,088	644(3)	91,770
Ann Q. Curry	52,000	26,088	644(3)	78,732
Virginia A. Hepner	56,000	26,088	644(3)	82,732
John D. Houser	88,000(5)	26,088	644(3)	114,732
Anne Kaiser(6)	15,087	—	—	15,087
William D. McKnight	52,500	26,088	644(3)	79,232
Major General (Ret.) McMahon	57,000	26,088	644(3)	83,732

(1) The amounts in the Stock Awards column are the aggregate grant date fair values computed in accordance with FASB ASC Topic 718. Assumptions made in the valuation of awards can be found in Note 17 of the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

(2) As chair of the Independent Directors Committee, Mr. Balkcom received a cash retainer of $10,000 in 2016.

(3) This amount reflects cash dividends related to unvested restricted stock.

(4) As chair of the Risk Committee, Mr. Bransford received a cash retainer of $9,038 in 2016. Mr. Bransford was appointed as chair of the Risk Committee in February 2016, and his cash retainer was prorated accordingly.

(5) As chair of the Audit Committee, Mr. Houser received a cash retainer of $10,000 in 2016. In addition, Mr. Houser received additional director fees of $10,000 for services he performed for us in his capacity as a director that were outside the scope of services intended to be covered by our annual retainers and per meeting fees.

(6) Ms. Kaiser was appointed as a director in September 2016.

The table below shows the aggregate number of shares of restricted stock held by non-employee directors as of December 31, 2016.

Name	Restricted Stock (in shares)(1)
James R. Balkcom, Jr.	1,200
Archie L. Bransford, Jr.	1,200
Ann Q. Curry	1,200
Virginia A. Hepner	1,200
John D. Houser	1,200
Anne H. Kaiser	—
William D. McKnight	1,200
Major General (Ret.) McMahon	1,200

(1) The shares of restricted stock were granted under our 2011 Omnibus Equity Compensation Plan (the "Equity Plan") and vest in full on May 25, 2017, the date of our annual meeting of shareholders.

Biographical Information for Executive Officers

Our executive officers are:

Name	Position
Joseph W. Evans	Chief Executive Officer of the Company and Chairman of the Boards of Directors of the Company and State Bank
Kim M. Childers	Executive Risk Officer of the Company and State Bank and Vice Chairman of the Boards of Directors of the Company and State Bank
J. Thomas Wiley, Jr.	Chief Executive Officer of State Bank, President of the Company and Vice Chairman of the Boards of Directors of the Company and State Bank
Sheila E. Ray	Chief Financial Officer, Corporate Secretary and Executive Vice President of the Company and State Bank
David F. Black	Chief Credit Officer and Executive Vice President of State Bank
Remer Y. Brinson III	President of State Bank and Executive Vice President of the Company
David C. Brown	Corporate Development Officer and Executive Vice President of the Company and State Bank
David W. Cline	Chief Information Officer and Executive Vice President of the Company and Chief Operating Officer and Executive Vice President of State Bank
Steven G. Deaton	Enterprise Risk Officer and Executive Vice President of the Company and State Bank
Michael R. Fitzgerald	Chief Talent Officer and Executive Vice President of State Bank
Bradford L. Watkins	Managing Director of the Commercial Finance Group and Executive Vice President of State Bank

Because each of Mr. Evans, Mr. Childers and Mr. Wiley also serves on our board of directors, we have provided biographical information for them above with our other directors. Biographical information for each of Ms. Ray, Mr. Black, Mr. Brinson, Mr. Brown, Mr. Cline, Mr. Deaton, Mr. Fitzgerald and Mr. Watkins is provided below:

Sheila E. Ray, age 58, serves as Chief Financial Officer of the Company and State Bank, a position she has held since January 2015. Ms. Ray also serves as the Corporate Secretary of the Company and State Bank, a position she has held since December 2015. Ms. Ray joined the Company and State Bank in October 2014 as Executive Vice President – Finance. She also served as the Chief Financial Officer of our former subsidiary bank, First Bank of

Georgia, concurrent with her service as Chief Financial Officer of the Company, from January 2015 until July 2015, when it was merged into State Bank. Before that, she served as Chief Financial Officer of Atlanta Bancorporation, Inc. and Bank of Atlanta from 2006 until each was merged into the Company and State Bank, respectively, on October 1, 2014. She also served on the board of directors of Bank of Atlanta, a position she held from 2010 until 2014. Before that, Ms. Ray served as Chief Operating Officer and Chief Financial Officer of Eagle Bancshares, Inc., and its subsidiary unitary thrift, Tucker Federal Bank, from 1997 until it was acquired by RBC Centura Bank in 2002. In 2003, she left RBC Centura Bank to work as an independent consultant, providing financial analysis and strategic planning to a variety of community banks. Ms. Ray also previously served in various leadership roles at First National Bancorp and its subsidiary bank First National Bank of Gainesville from 1988 until 1996, including the Director of Information Processing and Administrative Support and Director of Internal Audit. Ms. Ray served in various leadership roles within internal audit at Wachovia Corporation from 1981 until 1988, including Vice President and Deputy Auditor. Ms. Ray is a Certified Public Accountant, a member of the Board of Trustees at Toccoa Falls College and a member of the board of directors for the Care and Counseling Center of Georgia. Ms. Ray holds a bachelor's of business administration in accounting from the University of Georgia.

Proxy

David F. Black, age 41, serves as Chief Credit Officer and Executive Vice President of State Bank, positions he has held since September 2013. Mr. Black previously served as Chief Credit Officer of the Company from September 2013 until February 2015. Mr. Black joined State Bank in 2011 as Senior Vice President of Finance. Previously, Mr. Black served as Director of Corporate Strategy at First Horizon National Corporation in Memphis, Tennessee from July 2009 until August 2011. Mr. Black held various leadership roles in Finance and Corporate Development at Wachovia Corporation and Wells Fargo & Company (following Wells Fargo & Company's purchase of Wachovia Corporation in 2008) in Winston-Salem and Charlotte, North Carolina between June 2000 and July 2009, and he started his banking career with SunTrust Bank in Atlanta. Mr. Black holds both a bachelor's of business administration in finance and a master's degree in business administration from the Terry College of Business at the University of Georgia.

Remer Y. Brinson III, age 56, serves as Executive Vice President of the Company, a position he has held since January 2015, and as President of State Bank since July 2015. Mr. Brinson served as the President and Chief Executive Officer of Georgia-Carolina Bancshares from May 2008 until January 2015, when it was merged with the Company, and he served as a director of Georgia-Carolina Bancshares from May 2004 until January 2015. Mr. Brinson also previously served as President and Chief Executive Officer of our former subsidiary bank, First Bank of Georgia, from October 1999 until it was merged into State Bank in July 2015. Mr. Brinson served as President and Chief Executive Officer of Citizens Bank and Trust until its acquisition by Allied Bank of Georgia. From 1994 to 1999, he was Senior Vice President of Allied Bank of Georgia and Regions Bank. From 1982 to 1994, Mr. Brinson served First Union Bank and its predecessor, Georgia-Railroad Bank and Trust, in various capacities, including Senior Vice President, Corporate Banking. Mr. Brinson has served as Chairman of the board of directors of the Georgia Bankers Association, Augusta Tomorrow, The Episcopal Day School and The Augusta Country Club. Mr. Brinson currently serves on the boards of directors of the Georgia Bankers Insurance Trust, The Richmond County Development Authority and Tuttle-Newton Home. Mr. Brinson holds a bachelor's of business administration in finance from the University of Georgia.

David C. Brown, age 51, serves as Corporate Development Officer and Executive Vice President of the Company and State Bank, positions he has held since December 2013, with respect to the Company, and since March 2016, with respect to State Bank. Before joining the Company, Mr. Brown served as Managing Principal of Sagus Partners, LLC from January 2008 until December 2013. Mr. Brown holds a bachelor's of arts in philosophy from Vanderbilt University and a master's degree in business administration from the University of Georgia.

David W. Cline, age 56, serves as Chief Information Officer and Executive Vice President of the Company, positions he has held since January 2010. Mr. Cline also serves as the Chief Operating Officer and Executive Vice President of State Bank, positions he has held since January 2015. Mr. Cline previously served as Chief Information Officer and Executive Vice President of State Bank from August 2009 until December 2014. Before joining State Bank in August 2009, Mr. Cline was a Director of Technical Operations with AT&T Business Field Services, serving the AT&T and BellSouth family of companies in technical management roles from 1988 until retiring in 2009. Mr. Cline holds a bachelor's of science degree from Virginia Polytechnic Institute and State University.

Steven G. Deaton, age 54, serves as Enterprise Risk Officer and Executive Vice President of the Company and State Bank, positions he has held since August 2012. Mr. Deaton previously served as Atlanta Regional President/Chief Banking Officer and Executive Vice President of State Bank from August 2009 until July 2012. Before joining State Bank, Mr. Deaton served as Executive Vice President/Atlanta Regional President of Flag Bank from 2005 until 2006 and served as President of Business Banking for Georgia for RBC Centura Bank from 2006 until 2007 (following RBC Centura Bank's acquisition of Flag Bank). Mr. Deaton joined Flag Bank after it acquired First Capital Bank, successor of Chattahoochee National Bank, where he served as Chief Operating Officer, Chief Credit Officer and Senior Lender. Before that, Mr. Deaton held various senior management positions at Bank South and SouthTrust Bank from 1985 until 2000, including Georgia Commercial Banking Manager, Georgia Credit Administrator and Director of the Management Training Program. Mr. Deaton holds a bachelor's of science in business administration from the University of North Carolina at Chapel Hill.

Michael R. Fitzgerald, age 58, serves as Chief Talent Officer and Executive Vice President of State Bank, positions he has held since August 2015. Mr. Fitzgerald previously served as State Bank's Chief Revenue and Chief Deposit Officer from 2012 until 2015 and as State Bank's Senior Deposit Officer from 2011 until 2012. Before joining State Bank, he served as President of FitzgeraldMSI, a consulting company for banks, from 2002 until 2010. Mr. Fitzgerald previously served as President and Chief Operating Officer of NetBank, Vice President of Mellon Bank and President of directbanking.com, the online banking division of Salem Bank of Boston. Mr. Fitzgerald holds an economics degree from the University of Massachusetts.

Bradford L. Watkins, age 50, serves as Managing Director of the Commercial Finance Group and Executive Vice President of State Bank, positions he has held since 2015 and 2011, respectively. In his role, he has responsibility for Commercial Real Estate Finance, Homebuilder Finance, Government Guaranteed (SBA) Lending, Wholesale Lending and Specialty Finance. Mr. Watkins previously served as Director of Real Estate Banking of State Bank from 2011 until 2015 and as Atlanta Regional Credit Officer of State Bank from 2009 until 2011. Before joining State Bank, he served as Senior Vice President of Cornerstone Bank between 2007 and 2009. Before that, he served as the Regional President for Atlanta and later for Real Estate Finance at Flag Bank from 2002 until 2006. He began his career in 1988 at Wachovia Bank, where he served in various capacities in Retail Banking and Corporate Finance. Mr. Watkins holds a bachelor's degree in history from Washington & Lee University and a master's of business administration in finance from Georgia State University. He also has completed the Executive Development Program at the Wharton School at the University of Pennsylvania.

CORPORATE GOVERNANCE

Introduction

We are committed to providing effective corporate governance over the business operations and corporate structure of the Company for the benefit of our shareholders. Our board of directors has adopted a set of Corporate Governance Principles that, together with our articles of incorporation, bylaws and the charters of our board committees, provide a framework for the governance of the Company. The Independent Directors Committee reviews and assesses the adequacy of our Corporate Governance Principles on an annual basis and oversees our compliance with such principles.

The following table summarizes some of the corporate governance practices we follow.

Highlights of Our Corporate Governance Practices

Director Attendance	We expect each director to attend all meetings of the board and of each committee of which the director is a member.
Focus on Strategic Planning	The board and management focus on our corporate strategy, holding annual off-site meetings to conduct strategic planning.
Board Independence	8 of our 11 directors are independent.

Highlights of Our Corporate Governance Practices

Board Committees	We have four board committees —Audit; Independent Directors; Risk; and Executive Committee. Our Audit, Independent Directors and Risk Committees consist entirely of independent directors.
Director Qualifications	Our board is comprised of directors with diverse backgrounds, business experience and abilities necessary to allow the board to fulfill its responsibilities.
Independent Lead Director	Our independent directors elect an independent lead director. The lead director regularly presides over executive sessions without management present.
Succession Planning	The Independent Directors Committee identifies and develops leaders through its oversight of succession planning for the Chief Executive Officer, senior executives and other officers.
Board Effectiveness	The board and its committees perform an annual self-evaluation to assess and improve the board's effectiveness.
Mandatory Director Retirement Policy	The board adopted a policy in which directors are required to retire on the date of the next annual meeting of shareholders after reaching age 75.
Board Oversight of Risk	Our board oversees the Company's general risk management strategy and advises management on the development and execution of the Company's strategy. Our Audit Committee oversees risk management processes related to internal controls, financial reporting and audit functions. Our Risk Committee reviews and monitors our risk appetite and risk profile and articulates the types and tolerance of risk that the Company will assume in pursuit of its corporate objectives. The Independent Directors Committee oversees risk related to our compensation and incentive plans, in addition to risk associated with the Company's corporate governance principles.
Code of Ethics	The Company maintains a robust Code of Ethics policy providing expectations and guidelines to ensure all employees and directors act in a responsible manner.
Board Communications	We have a process through which all shareholders may communicate with our Board.
Related Person Transactions	Our Audit Committee reviews all related person transactions.

Director Attendance

The directors meet to review our operations and discuss our business plans and strategies for the future. The full board of directors met eleven times in 2016. During 2016, each director attended at least 75% of the aggregate of the total number of board meetings and the total number of meetings held by the committees of the board on which he or she served. We expect each director to attend our annual meeting of shareholders, although we recognize that conflicts may occasionally arise that will prevent a director from attending an annual meeting. All of our directors attended the 2016 annual meeting.

Director Independence

Our board of directors has determined that each of James R. Balkcom, Jr., Archie L. Bransford, Jr., Ann Q. Curry, Virginia A. Hepner, John D. Houser, Anne H. Kaiser, William D. McKnight and Major General (Ret.) Robert H. McMahon is an "independent" director, based on the independence criteria in the corporate governance listing standards of The NASDAQ Capital Market. Our shares of common stock were listed and began trading on The NASDAQ Capital Market on April 14, 2011.

In determining that Mr. Balkcom is independent, the board took into account a charitable contribution made by State Bank to the Shepherd Center Foundation, Inc. for which Mr. Balkcom serves as a member of its advisory board. The Shepherd Center Foundation, Inc. supports Shepherd Center, a private, not-for-profit hospital in Atlanta, Georgia specializing in medical treatment, research and rehabilitation for people with spinal cord injury and brain injury.

In determining that Ms. Hepner is independent, the board took into account, among other things, charitable contributions made by State Bank to The Woodruff Arts Center and the Alliance Theater, a division of The Woodruff Arts Center. Ms. Hepner serves as President and Chief Executive Officer of The Woodruff Arts Center.

In determining that Mr. Houser is independent, the board took into account, among other things, that Mr. Houser, until January 2016, served as President of Southern Trust Corporation, which owns Southern Trust Insurance Company ("Southern Trust"), and that Southern Trust paid State Bank's insurance division for commissions owed to State Bank. Neither the Company nor State Bank paid any fees to Southern Trust for any accounting, consulting, legal, investment banking or financial advisory services. The board also took into account charitable contributions paid by State Bank to United Way of Middle Georgia and the Community Foundation of Central Georgia for which Mr. Houser served on the board of directors.

In determining that Ms. Kaiser is independent, the board took into account, among other things, a charitable contribution paid by State Bank to the Georgia Chamber of Commerce, for which Ms. Kaiser serves on the board of governors.

Mr. Evans, Mr. Childers and Mr. Wiley are considered inside directors because of their employment as our executive officers.

There are no family relationships between any of our directors and executive officers.

Committees of the Board of Directors

Our board committees are currently composed as follows (M — member; C — chairman):

Name	Audit Committee	Independent Directors Committee	Risk Committee	Executive Committee
James R. Balkcom, Jr.		C	M	M
Archie L. Bransford, Jr.		M	C	M
Ann Q. Curry		M	M	
Joseph W. Evans				C
Virginia A. Hepner	M	M		
John D. Houser	C	M		M
Anne H. Kaiser		M	M	
William D. McKnight	M	M		
Robert H. McMahon	M	M		
J. Thomas Wiley, Jr.				M

In 2010, the board of directors established an Audit Committee, a Compensation Committee and a Nominating Committee. In January 2011, for administrative purposes, the board of directors combined the functions of the Compensation Committee and the Nominating Committee into one committee, the Independent Directors Committee. The board of directors also established the Risk Committee in March 2013, which previously operated as a committee of State Bank, and established the Executive Committee in November 2013.

Audit Committee. Our Audit Committee is composed of Mr. Houser (Chairman), Ms. Hepner, Mr. McKnight and Major General (Ret.) McMahon. The board has determined that each of Ms. Hepner and Mr. Houser is an "audit committee financial expert" for purposes of the rules and regulations of the SEC. The board has determined that each member of the committee is "independent" under SEC Rule 10A-3 and under The NASDAQ Capital Market listing standards. The Audit Committee met twelve times in 2016. The Audit Committee operates under a written charter that is available on our website, www.statebt.com, in the "Governance Documents" section under "Investors."

To review our annual Audit Committee report, please see "Proposal 4 – Ratification of Appointment of Independent Registered Public Accounting Firm–Report of the Audit Committee."

Independent Directors Committee. As noted above, we have combined the functions of our Nominating Committee and our Compensation Committee into one committee, the Independent Directors Committee. Our Independent Directors Committee performs the dual roles of overseeing (a) our corporate governance matters and the nomination of director candidates to the board of directors and (b) our compensation and personnel policies. Our Independent Directors Committee is composed of Mr. Balkcom (Chairman), Mr. Bransford, Ms. Curry, Ms. Hepner (Vice Chair), Mr. Houser, Ms. Kaiser, Mr. McKnight and Major General (Ret.) McMahon. The Independent Directors Committee charter is available on our website, www.statebt.com, in the "Governance Documents" section under "Investors."

In its compensation role, the Independent Directors Committee has authority to establish the salaries and incentive compensation for our named executive officers. The committee also has the authority, among other things:

- to annually determine and approve corporate goals and objectives relevant to the compensation of our Chief Executive Officer;
- to review and approve annual base salary, annual incentive levels, any special or supplemental benefits and perquisites for our executive officers;
- to review and approve employment agreements, new hire awards or payments, severance and change in control or similar termination agreements for our executive officers;
- to oversee and administer our equity-based compensation, including the review and grant of equity awards to all eligible employees, and to fulfill such duties and responsibilities as described in those plans;
- to review, approve and recommend to the board, as appropriate, any new compensation and incentive plans, policies or programs;
- to oversee, monitor and assess the Company's compensation and incentive plans, policies and programs; and
- to oversee the Company's management development and succession plans for executive officers.

In addition, the Independent Directors Committee annually reviews, evaluates and establishes levels of director compensation. For purpose of performance reviews, the committee evaluates the performance of our Chief Executive Officer, and our Chief Executive Officer evaluates the performance of our other named executive officers and discusses the results of such evaluations with the committee.

Under the Independent Directors Committee charter, the committee may delegate to one or more of our officers, who are also directors, the power to designate the officers and employees of the Company or State Bank who will receive awards under the Company's equity-based incentive plan and to determine the terms of such awards in accordance with such plan. Notwithstanding that authority, no officer may be delegated the power to designate himself or herself as a recipient of restricted shares, options or warrants, or to grant restricted shares, options or warrants to any person who is subject to reporting obligations under Section 16 of the Securities Exchange Act of 1934. Acting under this authority, the Independent Directors Committee delegated to Mr. Evans, our Chairman and Chief Executive Officer, the authority to issue equity incentive grants to any eligible employee, not to exceed 25,000 shares per employee per year. The Independent Directors Committee reviews a report of all grants authorized by Mr. Evans on at least a quarterly basis. The Independent Directors Committee must review and approve in advance all equity incentive grants to any individual exceeding 25,000 shares per year.

The Independent Directors Committee has the authority under its charter to appoint, select, obtain advice from, retain, terminate and approve the fees and other retention terms of advisors (including compensation consultants). From 2010 until September 2016, the Independent Directors Committee engaged Matthews, Young as an independent advisor to assist the committee in determining and evaluating director and executive compensation. In September 2016, the committee concluded its relationship with Matthews, Young and engaged Meridian Compensation Partners, LLC ("Meridian") to serve as its independent advisor to assist with the review and establishment of our compensation programs and practices. The Independent Directors Committee assessed the independence of each of Matthews, Young and Meridian, taking into consideration all factors specified in The NASDAQ Capital Market listing standards. Based on this assessment, the committee determined that neither the engagement of Matthews, Young nor Meridian raised a conflict of interest.

Risk Committee. Our Risk Committee is composed of Mr. Bransford (Chairman), Mr. Balkcom, Ms. Curry and Ms. Kaiser. Ms. Kaiser joined the Risk Committee in November 2016. The board has appointed the Risk Committee to assist in the fulfillment of its oversight responsibilities, specifically as it relates to (a) communicating with management and monitoring our risk appetite and risk profile regarding credit risk, risk related to information technology and cyber security, operational risk, regulatory/compliance risk, liquidity and market risk, strategic risk and capital and earnings risk; and (b) approving our risk management framework and reviewing its effectiveness.

Executive Committee. Our Executive Committee is composed of our Chairman (Mr. Evans), Mr. Wiley and the Chairs of the Audit Committee (Mr. Houser), the Independent Directors Committee (Mr. Balkcom) and the Risk Committee (Mr. Bransford). The Executive Committee was appointed to exercise the powers and authority of the board, with certain limitations more fully provided in its charter, during the intervals between meetings of the board, when, based on the business needs of the Company, it is desirable for board-level actions to be considered but the convening of a special board meeting is not warranted as determined by the Chairman of the board. The Executive Committee reports any actions or recommendations to the board at the next regularly scheduled meeting. It is the general intention that all substantive matters in the ordinary course of business be brought before the full board for action, but the board recognizes the need for flexibility to act on substantive matters where action may be necessary between board meetings.

Nominations of Directors

The Independent Directors Committee serves to identify, screen, recruit and nominate candidates to the board of directors. The committee's charter requires the committee to review potential candidates for the board, including any nominees submitted by shareholders in accordance with our bylaws. The committee evaluated each nominee recommended for election as a director in these proxy materials. In evaluating candidates proposed by shareholders, the committee will follow the same process and apply the same criteria as it does for candidates identified by the committee or the board of directors.

For a shareholder to nominate a director candidate, the shareholder must comply with the advance notice provisions and other requirements of our bylaws. Each notice must state:

- the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated;
- a representation that the shareholder is a holder of record of stock of the Company entitled to vote at the annual meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice;

- a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the shareholder is making the nomination or nominations; and

- such other information regarding each nominee proposed by the shareholder as would be required to be included in a proxy statement filed under the proxy rules of the SEC relating to the election of directors.

The notice must be accompanied by the sworn or certified statement of the shareholder that the nominee has consented to being nominated and that the shareholder believes the nominee will stand for election and will serve if elected.

When considering a potential candidate for nomination, the Independent Directors Committee will consider the skills and background that the Company requires and that the person possesses, the diversity of the board and the ability of the person to devote the necessary time to serve as a director. The Independent Directors Committee has established the following minimum qualifications for service on our board of directors:

- the highest ethics, integrity and values;

- an outstanding personal and professional reputation;

- professional experience that adds to the mix of the board as a whole;

- the ability to exercise sound, independent business judgment;

- freedom from conflicts of interest;

- demonstrated leadership skills;

- the willingness and ability to devote the time necessary to perform the duties and responsibilities of a director; and

- relevant expertise and experience and the ability to offer advice and guidance to our Chief Executive Officer based on that expertise and experience.

In considering whether to recommend any particular candidate for inclusion in the board's slate of recommended director nominees, the committee also considers the following criteria, among others:

- whether the candidate possesses the qualities described above;

- whether the candidate has significant contacts in our markets and the ability to generate additional business for State Bank;

- whether the candidate qualifies as an independent director under our guidelines;

- the candidate's management experience in complex organizations and experience with complex business problems;

- the likelihood of obtaining regulatory approval of the candidate, if required;

- whether the candidate would qualify under our guidelines for membership on the Audit Committee or the Independent Directors Committee, including whether a potential director nominee qualifies as an "audit committee financial expert" as that term is defined by the SEC or as an "independent" director under the listing standards of The NASDAQ Capital Market;

- the extent to which the candidate contributes to the diversity of the board in terms of background, specialized experience, age, gender and race;
- the candidate's other commitments, such as employment and other board positions; and
- whether the candidate complies with any minimum qualifications or restrictions set forth in our bylaws.

The committee does not assign specific weights to particular criteria, and no particular criterion is a prerequisite for each prospective nominee. Although we have no formal policy regarding diversity, we believe that the backgrounds and qualifications of our directors, considered as a group, should provide a composite mix of experience, knowledge and abilities that will allow the board of directors to fulfill its responsibilities.

Board Leadership Structure

Our governance framework provides our board of directors with flexibility to determine the appropriate board leadership structure for the Company. We recognize that different board leadership structures may be appropriate for our Company depending on a number of different factors and, therefore, we reexamine our corporate governance policies and leadership structure from time to time to ensure that they continue to meet our needs. We believe this flexibility is important to allow our board of directors to determine the appropriate structure based on our specific needs at any given time.

Under our current leadership structure, the roles of the Chairman of the board of directors and Chief Executive Officer are combined, the board of directors has appointed a lead independent director and our audit, independent directors and risk committees consist entirely of independent directors.

Mr. Evans, one of our founders, has served in the dual roles of Chief Executive Officer and Chairman since the Company's formation in 2010 (and also served in these dual roles at State Bank before our holding company reorganization in 2010), and the board believes that having Mr. Evans serve in these combined roles provides certain synergies and efficiencies that have successfully served our business and our shareholders. Under Mr. Evans' leadership, we have successfully executed our growth strategy through 12 Federal Deposit Insurance Corporation ("FDIC") assisted acquisitions and four non-assisted acquisitions, while also achieving strong organic loan and deposit growth. Mr. Evans has extensive experience in banking, as well as an in-depth knowledge of our organization, our shareholders and our markets. As a result, he is able to promote the development of our corporate strategies by facilitating effective and efficient information flow between management and the board. The board also believes that when the combined role of Chairman and Chief Executive Officer is coupled with a lead independent director appointed by the board, the interests of shareholders are served by providing a balance between the development of corporate strategies and independent oversight of management.

The Independent Directors Committee has elected, and the full board has approved, Mr. Balkcom as our lead independent director. Mr. Balkcom has served in this role since 2011. In this role, he calls and presides over executive sessions of the independent directors, without management present, as he deems necessary.

Other Governance Policies and Practices

Management Succession Plan. As noted above, in accordance with our Independent Directors Committee charter, the Independent Directors Committee reviews, in conjunction with the Chief Executive Officer, the Chief Executive Officer's mission and objectives and considers succession plans for the Chief Executive Officer and other senior executives, officers and business unit managers. The Independent Directors Committee has developed a management succession plan to minimize the risk to our business from an unplanned departure of our Chief Executive Officer or other members of our senior management and to help ensure the continuity of senior management.

Board and Committee Self-Evaluations. The board conducts annual self-evaluations to determine whether the board and its committees are functioning effectively. The Independent Directors Committee oversees this annual review process and, through its Chairman, discusses the input with the full board. In addition, each board committee reviews annually the qualifications and effectiveness of that committee and its members. The Company, the board and each of the board committees will continue to monitor corporate governance developments and will continue to evaluate committee charters, duties and responsibilities.

Mandatory Director Retirement Policy. The Company maintains a policy requiring a director to retire from the board upon attaining the age of 75, effective as of the next annual meeting of shareholders. The Company adopted this policy to promote board diversity and encourage the addition of directors with varied perspectives, skills and strengths.

Board's Role in Risk Oversight

Our Audit Committee is primarily responsible for overseeing our risk management processes as it relates to management, financial statements and audit functions on behalf of the full board. Specifically, the Audit Committee focuses on financial reporting risk and internal controls, oversight of the internal audit process and legal compliance, regulatory compliance, review of insurance programs, policies and procedures as they relate to our conflicts of interest and complaints regarding accounting and audit matters. The Audit Committee receives reports from management at least quarterly regarding our assessment of risks and the adequacy and effectiveness of internal control systems and operational risk (including compliance and legal risk that may have a significant effect on the financial statements of the Company). The Audit Committee also receives reports from management addressing the most serious risks impacting the day-to-day operations of the Company and State Bank. Our Director of Internal Audit reports to the Audit Committee and meets with the committee, at least annually, in executive sessions to discuss any potential risk or control issues involving management. The Audit Committee reports regularly to the full board, which also considers our entire risk profile.

In addition to the risk management oversight functions provided by the Audit Committee, the Independent Directors Committee and the Risk Committee also perform functions related to oversight of risk management processes on behalf of the full board. Both the Independent Directors Committee and the Risk Committee regularly report to the full board.

The Risk Committee is responsible for overseeing risk management processes and controls related to credit risk, operational risk, risks related to compliance and regulatory matters, liquidity and market risks, strategic risk, capital and earning risks, and risks related to information technology and cyber security. The Risk Committee also reviews the establishment of risk levels for those identified risks and monitors the Company's performance within such risk levels. Our Director of Internal Loan Review reports to the Risk Committee and meets with the Risk Committee no less frequently than quarterly. In addition, the Risk Committee reviews policies related to risk management governance.

In its compensation role, the Independent Directors Committee reviews our compensation and incentive plans, policies and programs made available to our named executive officers and to all other employees and directors. In its nomination and corporate governance role, the Independent Directors Committee manages risks associated with the independence of the members of the board and the Company's compliance with its corporate governance principles.

The full board focuses on the most significant risks facing the Company and the Company's general risk management strategy and also ensures that risks we undertake are consistent with board policy. In addition, the full board regularly considers strategic, market and reputational risk. While the board of directors oversees our risk management, management is responsible for the day-to-day risk management processes. We believe this division of responsibility is the most effective approach for addressing the risks facing the Company and that our board leadership structure supports this approach.

Code of Ethics

We expect all of our employees to conduct themselves honestly and ethically. Our board of directors has adopted a Code of Ethics that applies to all employees of the Company and State Bank, including officers and directors. The Code of Ethics is intended to provide guidance to assure compliance with law and promote ethical behavior. The Code of Ethics is available on our website, www.statebt.com, in the "Governance Documents" section under "Investors." If we amend or waive any of the provisions of our Code of Ethics applicable to our principal executive officer, principal financial officer, controller or persons performing similar functions that relate to any element of the definition of "Code of Ethics" enumerated in Item 406(b) of Regulation S-K under the Securities Exchange Act of 1934, we intend to disclose these actions on our website, www.statebt.com in the "Governance Documents" section under "Investors."

Communications with the Board of Directors

The board of directors has established a process for shareholders to send communications to the board of directors. Shareholders may communicate with the board as a group or individually by writing to: Corporate Secretary, State Bank Financial Corporation, 3399 Peachtree Road NE, Suite 1900, Atlanta, Georgia 30326. The board has instructed the Corporate Secretary to forward all such communications promptly to the board.

Certain Relationships and Related Person Transactions

Our Code of Ethics sets forth the guidelines for reviewing all related person transactions for potential conflicts of interest. Under the Code of Ethics, our Audit Committee (or another independent body of the board) is responsible for reviewing, approving and ratifying all related person transactions. The Audit Committee Charter also sets forth the committee's requirement to review and approve such transactions. Pursuant to the terms of the Audit Committee Charter, the Audit Committee has delegated to the Chair of the Audit Committee, or the Chair's designee, the authority to approve a related person transaction, and the decision of the Chair or the Chair's designee is to be presented to, and reviewed by, the Audit Committee. For purposes of this review, related person transactions include all transactions that are required to be disclosed under applicable SEC regulations.

The spouse of David W. Cline, the Company's Chief Information Officer and State Bank's Chief Operating Officer, is an employee of State Bank. During 2016, Mr. Cline's spouse received compensation in the amount of \$186,725, which included base salary, an annual incentive payment, the granting of 781 shares of restricted stock, cash dividends related to restricted stock grants and 401(k) matching contributions.

A son-in-law of one of our directors had loans outstanding with State Bank in 2016. These loans were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing for comparable loan transactions with other customers of State Bank not related to State Bank and did not include more than the normal risk of collectability associated with State Bank's other banking transactions or other unfavorable features. The loans made to the son-in-law of one of our directors were made in accordance with our policy guidelines and were not disclosed as nonaccrual, past due, restructured or potential problems as of the date of this proxy statement.

In addition, State Bank is subject to the provisions of Section 23A of the Federal Reserve Act, which limits the amount of loans or extensions of credit to, or investments in, or certain other transactions with, affiliates and the amount of advances to third parties collateralized by the securities or obligations of affiliates. State Bank is also subject to the provisions of Section 23B of the Federal Reserve Act, which, among other things, prohibits an institution from engaging in certain transactions with certain affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

Compensation Committee Interlocks and Insider Participation

None of the members of the Independent Directors Committee was an officer or employee, or former officer or employee, of the Company or State Bank during 2016. In addition, none of these individuals had any relationship requiring disclosure under Certain Relationships and Related Person Transactions, except as otherwise described above.

During 2016, none of our executive officers served on the board or compensation committee (or other committee serving an equivalent function) of any other entity (as defined in Item 407(e)(4) of Regulation S-K under the Securities Exchange Act of 1934) whose executive officers served on our board or Independent Directors Committee, except Mr. Evans, our Chairman and Chief Executive Officer. Mr. Evans serves on the board of directors of Southern Trust Insurance Company. Mr. Houser, a member of our board, served as the Chief Executive Officer and President of Southern Trust Insurance Company until January 2016.

Proxy

PRINCIPAL AND MANAGEMENT SHAREHOLDERS

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Beneficial Owners

The following table shows the owners of more than 5% of our outstanding common stock as of April 7, 2017, the record date.

Name and Address	Number of Shares Owned	Right to Acquire	Percentage of Beneficial Ownership(1)
The Vanguard Group(2) 100 Vanguard Blvd. Malvern, Pennsylvania 19355	2,706,846	—	6.95%
Franklin Mutual Advisers, LLC(3) 101 John F. Kennedy Parkway Short Hills, New Jersey 07078	2,235,360	—	5.74%
BlackRock, Inc.(4) 55 East 52nd Street New York, New York 10055	2,076,259	—	5.33%

(1) The percentage of beneficial ownership is based on 38,939,203 shares outstanding on April 7, 2017.

(2) This information is based solely on the Schedule 13G/A filed on February 10, 2017 by The Vanguard Group, which reported sole voting power over 42,934 shares, shared voting power over 6,800 shares, shared dispositive power over 47,688 shares and sole dispositive power over 2,659,158 shares. Vanguard Fiduciary Trust Company, a wholly-owned subsidiary of The Vanguard Group, Inc., is the beneficial owner of 40,888 shares as a result of serving as an investment manager of collective trust accounts. Vanguard Investments Australia, Ltd., a wholly-owned subsidiary of The Vanguard Group, Inc., is the beneficial owner of 8,846 shares as a result of serving as an investment manager of Australian investment offerings.

(3) This information is based solely on the Schedule 13G/A filed on February 2, 2016 by Franklin Mutual Advisers, LLC reporting that the shares are beneficially owned by one or more open-end investment companies or other managed accounts which, pursuant to investment management contracts, are managed by Franklin Mutual Advisers, LLC, an indirect wholly-owned subsidiary of Franklin Resources, Inc. Pursuant to the investment management contracts, Franklin Mutual Advisers, LLC has sole voting and dispositive power over 2,235,360 shares. Franklin Mutual Advisers, LLC, however, disclaims any pecuniary interest in the shares and disclaims that it is the beneficial owner of the shares as defined in Rule 13d-3.

(4) This information is based solely on the Schedule 13G filed on January 30, 2017 by BlackRock, Inc. which reported sole voting power over 1,987,059 shares and sole dispositive power over 2,076,259 shares.

Security Ownership of Management

The following table shows the number of shares of our common stock beneficially owned as of April 7, 2017 by (a) each director and named executive officer named below and (b) all executive officers and directors, as a group.

Name and Address[1]	Number of Shares Owned[2]	Right to Acquire	Percentage of Beneficial Ownership[3]
James R. Balkcom, Jr.	9,519	—	*
Archie L. Bransford, Jr.[4]	13,398	—	*
Remer Y. Brinson III[5]	74,355	—	*
Kim M. Childers	208,038	—	*
Ann Q. Curry	7,500	—	*
Joseph W. Evans	429,131	—	1.10%
Virginia A. Hepner	5,200	—	*
John D. Houser	38,682	—	*
Anne H. Kaiser	—	—	*
William D. McKnight	74,710	—	*
Major General (Ret.) McMahon	4,300	—	*
Sheila E. Ray	36,000	—	*
J. Thomas Wiley, Jr.	415,918	—	1.07%
All Directors and Executive Officers as a Group (19 persons)	**1,809,427**	—	4.65%

* Denotes beneficial ownership of less than 1%.

(1) The address of each of these listed individuals is c/o State Bank Financial Corporation, 3399 Peachtree Road NE, Suite 1900, Atlanta, Georgia 30326.

(2) The shares shown in this column include shares of restricted stock issued under our Equity Plan for which such holder has voting rights in the following amounts: Mr. Balkcom–1,200 shares; Mr. Bransford–1,200 shares; Mr. Brinson–36,000 shares; Mr. Childers–79,038 shares; Ms. Curry–1,200 shares; Mr. Evans–92,600 shares; Ms. Hepner–1,200 shares; Mr. Houser–1,200 shares; Mr. McKnight–1,200 shares; Major General (Ret.) McMahon–1,200 shares; Ms. Ray–36,000 shares; and Mr. Wiley–69,000 shares.

(3) The percentages shown above are based on 38,939,203 shares of our common stock outstanding on April 7, 2017.

(4) Includes 4,549 shares jointly held by Mr. Bransford's spouse for which he shares voting and dispositive power.

(5) Includes 99 shares of common stock held by Mr. Brinson's spouse as a custodian for a minor child.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, executive officers and persons who own beneficially more than 10% of our outstanding common stock to file with the SEC initial reports of ownership and reports of changes in their ownership of our common stock. Directors, executive officers and greater than 10% shareholders are required by SEC regulations to furnish us with copies of the forms they file. To our knowledge, no person beneficially owned more than 10% of our common stock during 2016. Based solely on a review of the copies of such reports furnished to us, during the fiscal year ended December 31, 2016, our directors and executive officers complied with all applicable Section 16(a) filing requirements, with the exception of Mr. Brown, who did not timely file one Form 4 for shares sold by him on November 8, 2016. Mr. Brown filed a late Form 4 to report the sale on November 14, 2016. In addition, Mr. Brinson timely filed a Form 4 on March 8, 2016 to report shares he purchased. However, that Form 4 incorrectly reflected the transaction as a sale; accordingly, Mr. Brinson amended the Form 4 on February 8, 2017 to correctly reflect a purchase transaction.

EXECUTIVE OFFICER COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

In this section, we sometimes refer to the Independent Directors Committee as the "committee."

This Compensation Discussion and Analysis is intended to assist our shareholders in understanding our compensation programs, the philosophy underlying our compensation strategy and the fundamental elements of the compensation paid to our "named executive officers" whose 2016 compensation information is provided in the tables following this discussion. In this proxy statement, our "named executive officers" are the individuals who served as our principal executive officer, our principal financial officer and our three other most highly compensated executive officers in 2016.

Our named executive officers as of December 31, 2016 are noted in the following table, along with their titles:

Name	Title
Joseph W. Evans	Chief Executive Officer of the Company and Chairman of the Boards of Directors of the Company and State Bank
Sheila E. Ray	Chief Financial Officer, Corporate Secretary and Executive Vice President of the Company and State Bank
Remer Y. Brinson III	President of State Bank and Executive Vice President of the Company
Kim M. Childers	Executive Risk Officer of the Company and State Bank and Vice Chairman of the Boards of Directors of the Company and State Bank
J. Thomas Wiley, Jr.	Chief Executive Officer of State Bank, President of the Company and Vice Chairman of the Boards of Directors of the Company and State Bank

Overview

Our Compensation Discussion and Analysis addresses, among other matters, the following:

- key compensation decisions made by the committee in 2016;
- 2016 business performance highlights;
- our compensation design and governance practices;
- the results of our 2016 "say on pay" vote;
- our compensation philosophy and the objectives of our compensation programs;

- our process for determining executive officer compensation;
- the elements of compensation paid to our executive officers; and
- other compensation and benefit policies related to the compensation of our executive officers.

Executive Summary

Key 2016 Compensation Decisions

Below we have summarized key compensation decisions made by the committee in 2016.

Base Salary	Maintained base salaries at 2015 rates for named executive officers, except for a market increase provided to our Chief Financial Officer.
Annual Cash Incentives	Established performance objectives for 2016 annual cash incentive plan, including an adjusted revenue target, growth targets for deposit and loan balances, an expense ratio target and the achievement of certain asset quality metrics. Cash incentive payments were awarded at 92.9% of target for the executive officers based on results relative to established performance objectives.
Long-Term Equity Incentives	Executives received no equity awards in 2016 as 2015 grants were intended to provide for long-term compensation over at least a five-year period. Performance conditions on 10% of the 2015 grants were achieved as our annual return on average assets, as measured under the agreements, exceeded the median of comparable banks for 2016. These shares remain subject to service vesting conditions until December 31, 2019.

2016 Business Performance Highlights

Our financial results in 2016 reflect record net income, strong growth in organic loans and core deposits, solid progress in noninterest income and effective expense management. We also announced the acquisitions of NBG Bancorp, Inc. and its wholly-owned subsidiary, The National Bank of Georgia, and S Bankshares, Inc. and its wholly-owned subsidiary, S Bank, in the second quarter of 2016 and closed both acquisitions on December 31, 2016.

Strong Earnings Growth

- Net income of $47.6 million in 2016, a 67.4% increase from $28.4 million in 2015; diluted earnings per share were $1.28 in 2016, up 66.2% from $.77 in 2015.
- Revenue, excluding accretion income and amortization of the FDIC receivable, increased $14.2 million, or 10.3%, in 2016 as the Company continued to replace accretion income from failed bank acquisitions with more traditional sources of revenue.
- Net interest margin excluding accretion income expanded to 3.52% in 2016, a 13 basis point improvement from 2015.
- Return on average assets improved to 1.34% in 2016, up from .84% in 2015.

Shareholder Return

- Increased annual cash dividends 75% to $.56 per share in 2016 from $.32 in 2015, equating to a 43.8% dividend payout ratio.

- Repurchased 270,715 shares of our common stock or $5.1 million under the stock repurchase program authorized in February 2016.

Noninterest Income Growth

- Noninterest income increased 7.4% to $39.3 million in 2016, excluding amortization of the FDIC receivable.
- Mortgage banking, SBA banking and payroll fee income increased in the aggregate 12.5% in 2016.

Expense Management

- Total noninterest expense declined 2.0% to $120.9 million in 2016 from 2015; noninterest expense excluding merger-related expenses and loan collection and other real estate owned costs decreased 4.7% in 2016 from 2015.
- Noninterest expense minus noninterest income, excluding amortization/accretion of the FDIC receivable, divided by average assets declined to 2.30% in 2016 from 2.58% in 2015.

Organic Loan and Deposit Growth

- Organic loan growth of $316 million, or 17.8%, in 2016 (excluding acquisitions) from 2015.
- Deposit growth of $156 million, or 5.5%, including $118 million, or 8.4%, growth in transaction deposit accounts in 2016 (excluding acquisitions) from 2015.
- Noninterest-bearing deposits comprised 29% of total deposits at year-end 2016.

Strong Credit Quality

- Nonperforming organic loans to total organic loans were .30% in 2016.
- Past due organic loans to total organic loans totaled .06% in 2016.
- Net charge-offs to total average organic loans of .16% in 2016.

Compensation Design and Governance Practices

The committee has formulated our executive compensation program to align with the long-term interests of our shareholders. Below we summarize certain practices we have implemented to drive performance and those we have not implemented because we do not believe they would serve our shareholders' long-term interests.

What We Do

Pay-for-Performance	We have structured compensation so that a significant portion of pay for our executive officers is subject to the attainment of key performance objectives.
Risk Management	We annually review our compensation programs to ensure that they do not encourage excessive risk-taking.
Caps on Annual Cash Incentive Payments	Our annual cash incentive payments are subject to caps on amounts earned.
Clawback	Both our annual cash incentive payments and long-term incentive program include a clawback provision requiring the return of incentive compensation in the event of a financial restatement.
Compensation Consultant	We engage an independent compensation consultant to assist in the development of our executive compensation program and to provide information on market trends and developments.

What We Don't Do

Tax Gross-Up	We do not provide excise tax gross-ups on benefits or under any change in control provisions or agreements.
Excessive Perquisites	The perquisites offered to our executive officers are limited and solely for business-related expenses.
Permit Hedging	We prohibit hedging of Company securities.
Allow Unrestricted Pledging	We maintain a policy restricting pledging of Company securities, except in limited circumstances.

Results of 2016 Say on Pay Advisory Vote

In May 2016, we held our sixth shareholder advisory vote on our named executive officer compensation, and approximately 92% of votes cast were for approval of our named executive officer compensation. The committee believes that the strong result of this vote is evidence that our compensation policies and decisions are in the best interests of our shareholders. Although this shareholder vote on executive compensation was advisory, we continue to take the results of the "say-on-pay" vote into consideration and will continue to work with our shareholders to gain a better understanding of shareholder perspectives on our executive compensation policies and practices, corporate governance practices and other matters of shareholder interest.

Philosophy and Objectives of Executive Compensation

The Independent Directors Committee has established the following compensation philosophy in its charter and generally seeks to make decisions consistent with these objectives:

- to encourage achievement of our long-range objectives by relating compensation to achievement of internal strategic objectives;
- to establish compensation policies, benefit programs and guidelines that will attract and retain qualified executives through a level of compensation that is competitive within the banking industry;
- to promote a direct relationship between compensation and our performance and to build long-term value for shareholders by facilitating executive officer stock ownership through restricted stock and other equity-based incentive awards; and
- to plan for, justify and control total compensation costs.

Process for Determining Executive Officer Compensation

Role of the Independent Directors Committee

The committee is responsible for administering our executive compensation program in a manner consistent with our compensation philosophy. Under the Independent Directors Committee Charter, the committee has authority to review and approve the total compensation, including salary, bonus incentive, benefits and other compensation, of the Chief Executive Officer and all other executive officers of the Company. The committee also has the authority to, among other things:

- annually review and determine corporate goals and objectives relevant to the compensation of the Chief Executive Officer;
- review and approve employment agreements, new hire awards or payments, severance agreements and change in control or similar termination agreements for our executive officers; and

- administer the Company's incentive compensation plans (such as our Executive Officer Annual Cash Incentive Plan) and equity-based compensation plans (such as our Equity Plan), including the designation of the employees to whom awards are granted, the amount of awards and the terms and conditions of such awards, subject to the provisions of each plan.

With respect to performance reviews, the committee conducts an annual evaluation of the Chief Executive Officer's performance and determines his compensation in executive sessions without the Chief Executive Officer present. Our Chief Executive Officer evaluates the performance of our other named executive officers and presents his conclusions and recommendations to the committee. The committee retains absolute discretion as to whether it approves the recommendations of the Chief Executive Officer or makes adjustments, as it deems appropriate.

Role of Management

Our Chief Executive Officer and other members of executive management and the committee work together to establish, review and evaluate performance goals for our performance-based incentive plans. While these executives provide input into our strategic goals for future performance periods, the committee carefully reviews recommended goals before giving its final approval, and it evaluates and determines whether such performance goals have been achieved. We believe this process ensures that goals will be appropriately balanced between short and long term incentives and will be motivating and challenging but also attainable.

Role of Our Compensation Consultants

The Independent Directors Committee has the authority under its charter to appoint, select, obtain advice from, retain, terminate and approve the fees and other retention terms of advisors (including compensation consultants). For much of 2016, the committee continued its engagement of Matthews, Young as its independent compensation consultant. In this role, Matthews, Young provided the committee with market data, analysis and advice regarding the compensation of our named executive officers and our other executive officers, which was used by the committee in making the majority of its compensation-related decisions in 2016. Specifically, Matthews, Young assisted the committee in the selection of performance objectives for our Executive Officer Annual Cash Incentive Plan (the "Incentive Plan") and provided the committee with an analysis of compensation practices of similarly situated companies to ensure that our executive compensation programs fit within industry standards. In this regard, Matthews, Young conducted a peer group analysis of 40 SEC-reporting financial institutions in the eastern region of the United States to obtain a general understanding of the current compensation practices for our industry as compared to the Company, including a review of base salaries, incentive payments and long-term incentive grants. However, for 2016, the committee did not utilize benchmarking when determining the amount or form of executive compensation.

In September 2016, the committee concluded its engagement with Matthews, Young and engaged Meridian to serve as its independent compensation consultant. In its role, Meridian has consulted with the committee and has provided information on marketplace executive and director compensation trends, effective compensation policies and practices and updates on regulatory and compliance issues related to executive and director compensation.

Elements of Compensation

The primary components of our 2016 named executive officer compensation, as well as the key features of each component, are included in the table below:

Component	Objective	Link to Performance	Fixed or Performance Based	Short or Long-term
Base Salary	Attract and retain qualified executives Provide a measure of income stability to allow executives to focus on execution of our strategic goals	Based on each executive's performance of internal strategic objectives and responsibilities	Fixed	Short-term
Annual Cash Incentive Payments	Attract and retain qualified executives Focus management on achievement of our financial and operational objectives	Incentives are 100% based on quantitative performance objectives important to our near term financial success	Performance	Short-term
Long-Term Incentive Program	Attract and retain qualified executives Align executive and shareholder goals by providing management with a direct interest in our future success Reward achievement of sustained long-term performance while providing adequate exposure to equity performance risk	Awards granted in 2015 will vest only if pre-established performance targets are met and the executive continues service with the Company	Performance	Long-term

The Company values pay-for-performance in the compensation of its executive officers. Therefore, we strive to maintain a balanced approach to total compensation that includes a balance of fixed and performance-based pay, cash and equity compensation, absolute and relative performance goals and short- and long-term incentive compensation.

Base Salary

The committee intends for the base salary of our named executive officers to provide a base level of pay for the services they provide that is competitive within the financial services industry for comparable financial institutions. We believe that the fixed annual base salaries of the named executive officers help us retain qualified executives and provide a measure of income stability to the executives, which allows them to stay focused on our business. The "*Summary Compensation Table for 2016*" below reflects the base salary paid to each of our named executive officers for the periods presented.

Under the employment agreements for each of Mr. Evans, Mr. Childers and Mr. Wiley, the committee annually reviews each officer's base salary and can increase that salary based on performance and in compliance with regulatory standards. The committee also annually reviews the base salary of our other executive officers. Based on this review, the committee established the base salaries of each of the named executive officers for 2016.

The following table details the base salary of our named executive officers for the periods presented and shows the percentage change in base salary year over year.

Name	2015 Base Salary ($)	2016 Base Salary ($)	Percent Increase from 2015 Base Salary
Joseph W. Evans	500,000	500,000	—
Sheila E. Ray	250,000	300,000	20%
Remer Y. Brinson III	336,000	336,000	—
Kim M. Childers	360,000	360,000	—
J. Thomas Wiley Jr.	450,000	450,000	—

For 2016, the committee increased the base salary of Ms. Ray after considering her individual performance, increased responsibilities and the committee's desire to more closely align Ms. Ray's compensation with the compensation of other similarly situated employees of banking organizations of comparable size and complexity. Ms. Ray had not received an increase in salary since her initial hire in 2014. The committee determined that the base salary of each of our other named executive officers would remain unchanged from 2015. For more information, see the section below titled "*Summary of Executive Compensation.*"

Proxy

Annual Cash Incentive Payments

Annual cash incentive compensation is an integral component of our total compensation program that links executive decision-making and performance with our annual strategic objectives. We use this component to focus management on our most important near-term priorities—financial, operating, compliance, safety and soundness—that support our overall strategy and build shareholder value.

In February 2015, the committee approved the Incentive Plan, which the committee administers in consultation with management. The purpose of the Incentive Plan is to allow participants, including our named executive officers, to earn incentive compensation that is tied to performance measured against specific pre-set objectives. The Incentive Plan was developed with the assistance of Matthews, Young and was similar to the annual cash incentive plans adopted by the committee in prior years. In 2016, Matthews, Young advised the committee on prevailing market practices regarding annual cash incentive plans and confirmed that the Incentive Plan conformed with such practices.

Under the Incentive Plan, as soon as practicable at the beginning of each fiscal year, the committee, in consultation with our Chief Executive Officer or his designees, selects key performance objectives, which will be used to determine the actual incentive cash payment to be awarded to our executive officers upon the achievement of the selected performance objectives.

The committee may also consider more subjective performance objectives, such as customer satisfaction, employee management and development, regulatory standing of the Company, evaluation of merger and acquisition activities, adherence to policies and procedures and the maintenance of high ethical standards, which can be used to downwardly adjust the actual incentive earned by a participant in any plan year. The committee has plenary authority, among other things, to designate participants; to determine the maximum potential incentive of each participant; to select performance objectives, weights and threshold, target and stretch performance levels for each performance objective; to select performance factors and assign negative percentage weights with respect to those performance factors for each participant; to determine actual funded and earned incentives; to interpret the plan; and to prescribe, amend and rescind rules and regulations relating to the plan.

Each year, the committee will set the amount of each participant's potential incentive payment that can be earned at the threshold, target and stretch levels, determined as a percentage of the participant's base salary. (The application of the "threshold, target and stretch levels" is described in detail below.) For 2016, the committee set the potential incentive payment at the threshold, target and stretch levels for each of the named executive officers as follows:

Potential Incentive Payments as a Percentage of Base Salary and Potential Cash Incentive Payments

Name	Threshold (%)	Threshold Incentive Payment ($)	Target (%)	Target Incentive Payment ($)	Stretch (%)	Stretch Incentive Payment ($)
Joseph W. Evans	25.0	125,000	50.0	250,000	75.0	375,000
Sheila E. Ray	17.5	52,500	35.0	105,000	52.5	157,500
Remer Y. Brinson III	25.0	84,000	50.0	168,000	75.0	252,000
Kim M. Childers	25.0	90,000	50.0	180,000	75.0	270,000
J. Thomas Wiley Jr.	25.0	112,500	50.0	225,000	75.0	337,500

The committee (with input from our Chief Executive Officer or his designees) establishes threshold, target and stretch performance levels and weights for each selected performance objective. The weight, stated as a percentage, indicates the maximum percentage of the total potential threshold, target or stretch incentive payment that can be earned for achieving each particular performance objective at the set threshold, target and stretch performance levels. Threshold represents the minimum level of performance at which, if achieved, a payment is earned on each performance objective. If performance is below the threshold level for any particular performance objective, no payment will be earned; however, payment will be earned for other performance objectives that are achieved at least at a threshold level of performance. Stretch represents the maximum level of performance at which, if achieved, a payment is earned on each performance objective. If performance exceeds the stretch level for any performance objective, no further incentive above the stretch incentive for such performance objective is earned.

Actual performance between threshold, target and stretch performance levels will be interpolated to determine the amount of payment based on relative achievement of the performance objectives. In addition, for certain performance objectives, which are referred to as "yes/no objectives," the committee may determine that the performance level for such objective is either met or is not met (for example, an objective measuring asset quality). For these yes/no objectives, the committee will only set a target performance level. As such, performance below target will earn no incentive and performance above target will only earn the target incentive and will not result in earning a stretch incentive payment for that objective.

Finally, each year, the committee also establishes any subjective performance factors, including the maximum negative percentage for each such factor that can be deducted from a participant's actual incentive earned, for substandard results.

For 2016, the committee selected six performance objectives, which included two yes/no objectives. These performance objectives were determined by the committee to encompass critical aspects of our financial performance and sound management of asset quality. The committee assigned a weight to each objective, indicating their relative importance, with all weights summing to 100%. The committee established a threshold, target and stretch performance level for each performance objective, other than the two yes/no asset quality objectives which could only be earned at the target level of performance.

For 2016, the six selected performance objectives, the assigned weight for each objective and the threshold, target and stretch performance level, if applicable, for each objective, were as follows:

		Performance Objective Levels and Actual Results			
Performance Objectives	**Assigned Weight For Performance Objectives**	**Threshold ($)**	**Target ($)**	**Stretch ($)**	**Actual Company Result ($)**
Achieve Adjusted Revenue[1]	40%	133,663,476	157,251,148	188,701,378	151,143,935
Grow Fourth Quarter Average Deposit Transaction Account Balances[2]	20%	2,538,896,623	2,549,681,831	2,564,062,107	2,696,653,287
Grow Fourth Quarter Average Loan Balance[3]	10%	2,289,078,705	2,338,564,723	2,404,546,079	2,269,541,437
Achieve Expense Ratio[4]	20%	2.46%	2.10%	1.75%	2.17%
Asset Quality[5]					
Classified Assets as a Percent of Risk Based Capital at or Below 25.0%[6][7]	5%	No	Yes	n/a	Yes
Net Charge-offs at or Below .40%[8]	5%	No	Yes	n/a	Yes
Total	100%				

(1) Adjusted revenue is defined as the pre-provision net interest income and non-interest income, including gains and losses on loans held-for-sale, while excluding (a) accretion income on the January 1, 2016 purchased credit impaired loan portfolio, (b) gains and losses from the sale of assets (other than loans held-for-sale), including securities and (c) other additional revenues from strategic decisions approved by the board of directors but not included in the annual budget.

(2) This performance objective represents an increase of $89,742,276 in fourth quarter 2016 average total deposits as compared to the fourth quarter of 2015, excluding an increase in deposits resulting from volatile large depositors, such as municipalities or deposit accounts originated from financial institutions acquired in 2016.

(3) This performance objective represents an increase of $288,870,237 in fourth quarter 2016 average loan balances as compared to the fourth quarter of 2015.

(4) This performance objective is calculated by subtracting non-interest income from noninterest expense and dividing such total by total average assets. Noninterest expense excludes net cost of operations of other real estate owned and collections of loans, one time severance accruals, executive officer incentive accruals, merger related costs or other costs related to strategic decisions approved by the board of directors but not included in the annual budget. Noninterest income excludes income related to strategic decisions approved by the board of directors but not included in the annual budget.

(5) Credit metrics do not include purchased credit impaired loans.

(6) Classified assets include assets listed as substandard, doubtful or loss.

Proxy

(7) This performance objective is based on the average quarterly results as determined by dividing the sum of each quarter-end's classified assets or nonperforming assets, as applicable, as a percent of risk based capital or total assets, as applicable, by four.

(8) The target amount is determined based on the 2016 year-end balance of net charge-offs.

The Independent Directors Committee reviewed our performance and noted that for each performance objective with a threshold, target and stretch performance level, our performance exceeded the threshold level established by the committee, except for the performance objective related to loan growth, and the performance objective related to deposit growth exceeded the target level. In addition, with respect to the yes/no objectives regarding asset quality, we met each objective at the target level. The committee further determined, after considering the subjective performance factors, including customer satisfaction, employee management and development, regulatory standing of the Company, evaluation of merger and acquisition activities, adherence to policies and procedures and the maintenance of high ethical standards, that no reduction in incentive earned for performance against objectives was warranted. Accordingly, in determining the actual incentive compensation earned by Mr. Evans, Ms. Ray, Mr. Brinson, Mr. Childers and Mr. Wiley, the committee approved awards at an amount equal to an interpolated amount between the total potential threshold incentive and the total potential stretch incentive.

Our named executive officers' actual cash incentive awards for 2016 are noted in the table below, along with the percentage of the total target incentive each officer achieved.

Participant Name	Actual Award ($)	Percentage of Target Incentive Payment Achieved
Joseph W. Evans	232,256	92.9%
Shelia E. Ray	97,547	92.9%
Remer Y. Brinson III	156,076	92.9%
Kim M. Childers	174,192	92.9%
J. Thomas Wiley, Jr.	220,643	92.9%

The Independent Directors Committee will, on an annual basis, continue to review its annual cash incentive plans and award measurement methods and update the Incentive Plan as warranted to maintain the effectiveness of the plan as a key performance-based component of our overall executive compensation program. The committee expects that the selected objectives, performance measures and thresholds will continue to evolve based on market conditions, new regulations and the regulatory review process.

Long-Term Incentive Program

Our compensation philosophy strongly embraces the concept that management works in the best interests of shareholders when management also has an ownership stake in the Company. We have used the equity grant alternatives in our Equity Plan to support this philosophy.

In general, we have implemented equity-based incentives:

- to encourage management to continue in the long-term service of the Company;
- to give management a more direct interest in the future success of the operations of the Company;
- to attract outstanding individuals for leadership positions; and
- to retain and motivate those individuals.

2016 Long-Term Incentive Awards

The committee did not grant our named executive officers any long-term incentive awards in 2016, as the performance-based restricted stock awards granted in 2015 were intended to provide for long-term compensation over at least a five-year period.

2015 Restricted Stock Grant

In 2015, the committee granted restricted stock to our named executive officers pursuant to our Equity Plan. The 2015 grants of restricted stock varied from grants approved in prior years, as the vesting of the 2015 awards were subject not only to continued service of the executive with the Company but were also subject to the achievement of pre-established performance targets. When compared to previous grants of restricted stock, the number of shares granted in 2015 increased significantly because of the significantly longer vesting term of ten years, the addition of performance criteria and our intention not to make additional grants to our current named executive officers for at least five years.

As discussed in more detail below, the 2015 restricted stock grants:

- replaced our historic annual awards that vested solely upon the passage of time with a performance-based award that vests over ten years and is coupled with a service-based requirement for awards for which the performance-based requirements have been met;
- incentivize the achievement of above target results through the entire ten-year performance period;
- discourage imprudent risk-taking; and
- do not penalize executive officers for making strategic decisions that are intended to benefit the Company in the long term but which may have a temporary negative effect on earnings.

The following table outlines certain key features of our 2015 restricted stock awards. A description of the performance criteria related to such grants follows below the table.

Feature	Description	Notes/Rationale
Grant Date	February 11, 2015	The committee does not anticipate making additional grants of restricted stock to our named executive officers until at least 2020.
Performance Period	10 years	The awards are designed to reward sustained long-term performance.
Service Vesting Requirements	No shares will vest until December 31, 2019 and up to 50% of the shares will vest on December 31, 2019, if the performance criteria are met. At December 31st of each following year (2020 through 2024), an additional 10% of shares will be eligible for vesting based on achievement of the performance criteria.	The awards are designed to encourage retention of experienced, highly qualified executives who are critical to our long-term success. Subject to the exceptions outlined below, no shares will be awarded unless the executive remains employed through December 31, 2019, and the executive must remain employed through December 31, 2024 to earn the full award.

Proxy

Feature	Description	Notes/Rationale
Termination Provisions	If an officer's employment ceases for any reason, all shares that have not vested will be immediately forfeited, except for an involuntary termination without cause or termination due to death or permanent disability. In these situations, the number of shares subject to vesting under the agreement as of the most recently completed fiscal quarter shall vest on a pro-rata basis.	The committee believes providing for pro-rata vesting for terminations without cause or due to death or disability provides reasonable protections to executives.
Change in Control Provisions	Upon consummation of a change in control (as defined in the Equity Plan), shares will vest as follows: • If our share price on the date of the change in control is 20% higher than the closing price on the grant date, all award shares will vest. • If our share price on the date of change in control is not 20% higher than the closing price on the grant date, then the number of award shares that vest will be determined based upon a pro-rata percentage equal to the stock's per share closing price on the date of the change in control over the price per share equal to a 20% increase in share price since the grant date.	The committee structured the change in control provision to align the interests of management and shareholders if a change of control opportunity is presented that would be in the best interest of our shareholders.

Performance Criteria for 2015 Restricted Stock Grants. For each of the first five years (2015 through 2019), each named executive officer can accrue up to 10% of the shares of restricted stock awarded under the agreement, with the accrual date occurring on December 31 of each year, provided the Company's Annual Return on Average Assets, or AROAA, measured on December 31 of each year, is greater than or equal to the AROAA of at least 50% of all banks listed in the SNL Financial U.S. Bank Indices having between $1 billion and $10 billion in total consolidated assets (the "Comparator Group") on such date and the officer continues to be employed by us (except as described above). Under the restricted stock agreements, AROAA is calculated by reference to such indices and data reported by SNL Financial LC. Accordingly, the committee measured AROAA using SNL Financial's measurement of core ROAA (annualized), which is defined as net income after tax and before extraordinary items, excluding net income attributable to noncontrolling interest, gain on the sale of held to maturity and available for sale securities, amortization of intangibles, goodwill and nonrecurring items, including merger expenses. On December 31, 2019, 10% of the award shares will vest for each year (2015 through 2019) that the Company met the above-referenced performance conditions, such that up to 50% of the award shares can potentially vest on December 31, 2019. Thereafter, at the end of each year for the next five years (2020 through 2024), an additional 10% of shares will vest if the above-referenced performance conditions are met for such year.

The committee selected the AROAA performance measure to reward executive officers for their achievement for sustained long-term performance goals. The committee believes the AROAA performance measure provides a comparable metric with peers regardless of institution size and is heavily influenced by the short and long term decisions of our executives. We believe that consistent strong performance in comparison to other financial institutions will result in increased value for our shareholders without encouraging imprudent risk taking. For 2016, the Company met the AROAA performance metric under the 2015 restricted stock agreements. As such, 10% of each named executive officer's shares accrued for vesting. However, these accrued shares will not vest until December 31, 2019, assuming the officer meets the service requirement (subject to certain exceptions).

The 2015 restricted stock grants also contain a performance provision which provides that, beginning in year 2016 and continuing through year 2024, the Company will evaluate Multi-Year Return on Average Assets

("MROAA"), measured on January 1, 2015 and ending on December 31 of each subsequent yearly measurement period using SNL Financial's definition of core ROAA described above. To achieve this performance metric, MROAA for the multi-year period must be greater than or equal to the MROAA of 50% of the Comparator Group for the same period. If the MROAA performance metric is achieved for any multi-year periods and the officer meets the service requirement through the end of each of these periods, then any shares that were not eligible to vest for prior years based on the AROAA will vest for these periods. For example, if 40% of shares were vested through the end of 2020 for prior period performance but the Company's average MROAA for the entire six-year period, 2015 through 2020, met the performance requirement, then an additional 20% of shares will vest, bringing total vesting to 60% of granted shares for the six-year period.

As a bank holding company regulated by the Board of Governors of the Federal Reserve System that also controls our bank subsidiary regulated by the FDIC, the Independent Directors Committee is responsible for not only creating compensation programs that encourage the achievement of our long-term objectives but also for creating compensation programs that limit risk and are consistent with safety and soundness principles. With these goals in mind, the Independent Directors Committee structured these long-term incentive awards with the MROAA provision to allow our executives to earn shares for the achievement of performance over a longer period. Specifically, the MROAA provision prevents executive officers from being penalized for making strategic decisions that are intended to benefit the Company in the long term but which may have a temporary negative effect on earnings. In addition, the executives are incentivized to achieve above-target results thorough the entire ten-year performance period, given that their long-term equity awards are at risk if earnings fall below those of the Comparator Group. Each year the Company fails to achieve the AROAA performance metric, future performance of the Company will have to be well in excess of the median of the Comparator Group to attain the overall MROAA performance metric. Structuring the restricted stock grants in this manner allows our executives to continue focusing on the achievement of long-term results, while discouraging imprudent risk-taking.

Proxy

The following table outlines the current status of the 2015 Restricted Stock Grant and the potential future vesting schedule.

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
AROAA Performance Measure Met	Yes	Yes	*	*	*	*	*	*	*	*
MROAA Performance Measure Met	N/A	Yes	*	*	*	*	*	*	*	*
Potential Shares Available to Earn	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Actual Shares Earned	10%	10%	*	*	*	*	*	*	*	*
Potential Vesting Schedule (if performance criteria are met)	0%	0%	0%	0%	50%	10%	10%	10%	10%	10%
Actual Shares Vested	0%	0%	*	*	*	*	*	*	*	*

* to be determined

Other Executive Benefits

Perquisites. The Company does not provide extensive perquisites to its executive officers, and those perquisites offered are business-related and granted to facilitate the efficiency and productivity of our executive officers. The total value of all perquisites provided to each of our named executive officers in 2016 was less than $10,000, except with respect to Mr. Brinson.

Mr. Brinson received $42,900 in perquisites that consisted of an allowance for housing expenses in Atlanta and cell phone charges. Our board of directors and Chief Executive Officer expect Mr. Brinson, as President of State Bank, to maintain a significant personal presence in each of our market areas, including metropolitan Atlanta.

Because Mr. Brinson resides in Augusta, Georgia, the Independent Directors Committee believes that the reimbursement for his Atlanta housing expenses was appropriate.

Benefit Plans. Our named executive officers are eligible to participate in our company-provided benefit plans and programs, including medical, life and disability plans, on the same basis as other salaried, full-time employees. Each of our named executive officers also participates in our 401(k) Plan. The committee believes that its employee benefits are generally in line with benefits provided by the Company's peer group and consistent with industry standards.

Retirement Benefits. Mr. Brinson is a participant in the Amended and Restated First Bank of Georgia Supplemental Retirement Plan (the "SERP"), which the Company assumed as a result of the merger of Georgia-Carolina Bancshares with and into the Company. The Company elected to assume the SERP as a method to retain Mr. Brinson following the merger. For an additional discussion of the SERP and the present value of his accumulated benefit under the SERP, see "S*upplemental Executive Retirement Plan*" below.

Severance and Change in Control Arrangements for Current Named Executive Officers

We provide change in control benefits to each of our named executive officers and severance benefits to Mr. Evans, Mr. Childers and Mr. Wiley in the event of certain involuntary terminations. The board of directors believes that it is important to protect its named executive officers in the event of a change in control by providing the officers with a structured process for leaving State Bank as a result of a change in control of the Company. Further, the board of directors believes that the interests of shareholders will be best served if the interests of executive management are aligned with the shareholders and that providing change in control benefits should eliminate, or at least reduce, the reluctance of executive management to pursue potential change in control transactions that may be in the best interests of shareholders.

Each of our employment agreements with Mr. Evans, Mr. Childers and Mr. Wiley include certain severance payments upon termination of employment or a change in control of the Company. With respect to a change in control, each of these employment agreements provide modified "single trigger" benefits to the executive, meaning that the change in control payment is made if the executive chooses to terminate his employment within a specified time period following the change in control. This modified "single trigger" change in control provision was negotiated with Mr. Evans and Mr. Childers, as our founding executive officers, contemporaneous with our initial institutional equity capital raise of approximately $292.1 million and our initial failed bank acquisitions in July 2009. Mr. Wiley, who was one of our founding investors and became a director in 2010, received substantially similar change in control provisions when he joined the Company as an executive officer. The Independent Directors Committee believes these change in control provisions are appropriate for Mr. Evans, Mr. Childers and Mr. Wiley because they allow these officers to continue to pursue strategies that build long-term shareholder value—whether through the Company's continued independent operations or through the sale of the Company. However, the Independent Directors Committee currently intends to avoid modified "single-trigger" and "single-trigger" change in control provisions in future employment agreements or change in control agreements with other executive officers.

Each of Mr. Brinson and Ms. Ray has a separation agreement with the Company that provides "double trigger" benefits to the executive, meaning that severance benefits are paid only in the event of such officer's termination without cause or for good reason by the officer following a change in control.

For a more detailed description of the severance and change in control benefits applicable to our named executive officers, see the discussion below under "*Potential Payments Upon Termination or Change in Control.*"

Other Policies and Practices

Stock Ownership Requirements. We do not have any stock ownership requirements or guidelines for our named executive officers. Each of Mr. Evans, Mr. Childers and Mr. Wiley currently owns shares of our common stock with a value of more than fifteen times his annual salary.

Policy Against Hedging Activities. The Company is dedicated to growing its business and enhancing shareholder value in all that we do in an ethical way and being mindful of the need to avoid taking actions that pose undue risk or have the appearance of posing undue risk to the institution. Our goal is to grow shareholder value in both the short term and in the longer term, and we expect our directors, officers and employees to have the same goals as the Company which are reflected in their trading activities in the Company's securities. The Company considers it inappropriate for any director, officer or employee to enter into speculative transactions in the Company's securities. The board has adopted, as part of our insider trading policy, prohibitions against our directors, officers and employees engaging in hedging activities involving the Company's securities, including short sales of our securities and transactions in puts, calls, options or other derivative securities based on the Company's securities.

Policy Against Pledging. We prohibit our directors, officers and employees from pledging the Company's securities as collateral for a loan, unless such person can demonstrate the financial capacity to repay the loan without resort to the pledged securities.

Recovery and Recoupment of Provisions. Our restricted stock agreements with our named executive officers provide that the shares of restricted stock granted to the named executive officer are conditioned on the named executive officer's forfeiting, waiving or repaying to the Company any amount or shares as may be required in compliance with Section 304 of the Sarbanes-Oxley Act, Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and with the Company's clawback compliance policy as in effect from time to time and as directed by the Independent Directors Committee. Similarly, the Incentive Plan provides that State Bank will comply with the incentive clawback requirements under applicable laws, rules and regulations, including the Dodd Frank Wall Street Reform and Consumer Protection Act. The Incentive Plan further includes clawback provisions requiring repayment of any award to the extent any payment made is later determined to have been based on financial results that are subsequently the subject of restatement to correct an accounting error due to material noncompliance with any financial reporting requirement, if such restatement is identified within three years after the date of the first public issuance or filings of the financial results subsequently restated and a lower payment or award would have been made based on the restated financial results. We intend to adopt a recoupment policy, which will include provisions to comply with the "clawback" provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, after the SEC issues the applicable rules.

Tax Treatment

Section 162(m) of the Internal Revenue Code limits deductibility of certain compensation to $1 million per year for the Chief Executive Officer and the three other executive officers (other than the Chief Financial Officer) who are the highest paid and employed at year-end. If certain conditions are met, performance-based compensation may be excluded from this limitation. The Independent Directors Committee considers the deductibility of compensation paid to the named executive officers when making compensation decisions. In order to maintain flexibility, the Independent Directors Committee has not adopted a policy that all compensation must be deductible for federal income tax purposes.

Effect of Compensation Policies and Practices on Risk Management and Risk-Taking Incentives

The Independent Directors Committee annually reviews, along with the assistance of members of senior management, our compensation and incentive plans, policies and programs made available to our named executive officers and to all other employees of the Company to seek to ensure that they do not provide incentives to the Company's employees to take risks that are reasonably likely to have a material adverse effect on the Company. In connection with this review, the Independent Directors Committee reviews the Company's compensation strategy and risk mitigation components of the incentive plans and policies to ensure the appropriate balance of compensation opportunities and risk. The committee also reviews the performance measurements and criteria used for determining the amount of awards earned under the various incentive plans, in addition to general administrative guidelines. None of our incentive plans for our retail or commercial bankers reward employees based on volume of accounts established. Instead, those incentive plans focus on deposit growth, loan production and other revenue generated, as appropriate per each employee's roles and responsibilities.

Our senior risk officers, including our Enterprise Risk Officer and Chief Financial Officer, performed an assessment of the non-executive officer incentive plans and practices that was intended to ensure that those plans did not encourage excessive risk-taking from our executive officers and employees and appropriately aligned the interests of employees with the long-term well-being and safety and soundness of the Company. Based on the review of the senior risk officers and our assessment of such policies and practices, we do not believe that any of our compensation policies and practices provide incentives to our employees to take risks that are reasonably likely to have a material adverse effect on us. We believe that our compensation policies and practices are consistent with those of similar bank holding companies and their banking subsidiaries and are intended to encourage and reward performance that is consistent with sound practice in the industry. Our incentive plans provide employees with appropriate incentives that balance risk and reward, are compatible with effective controls and risk management and are supported by strong corporate governance, including active and effective oversight by management and our board of directors.

Compensation Committee Report

The Independent Directors Committee, acting in the role of the compensation committee, has reviewed and discussed the Compensation Discussion and Analysis section contained in this proxy statement with our management. Based upon that review and those discussions, the Independent Directors Committee recommended to our board of directors that the Compensation Discussion and Analysis be included in this proxy statement.

The Independent Directors Committee
James R. Balkcom, Jr., Chairman
Archie L. Bransford, Jr.
Ann Q. Curry
Virginia A. Hepner
John D. Houser
Anne H. Kaiser
William D. McKnight
Major General (Ret.) Robert H. McMahon

The Compensation Committee Report of our Independent Directors Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate the information contained in the report by reference, and it shall not be deemed filed under such acts.

SUMMARY OF EXECUTIVE COMPENSATION

The following table shows the compensation we paid to our named executive officers for the years ended December 31, 2016, 2015 and 2014.

Summary Compensation Table

Name and Principal Position[1]	Year	Salary ($)	Stock Awards ($)[4]	Non-Equity Incentive Plan Compensation ($)[6]	Change in Pension Value & Nonqualified Deferred Compensation Earnings ($)[7]	All Other Compensation ($)	Total ($)
Joseph W. Evans	2016	500,000	—	232,256	—	70,746[8]	803,002
Chief Executive Officer/ Chairman	2015	500,000	1,255,320[5]	298,403	—	47,922	2,101,645
	2014	460,000	149,220	200,000	—	21,735	830,955
Sheila E. Ray[2]	2016	300,000	—	97,547	—	33,410[8]	430,957
Chief Financial Officer	2015	250,000	684,720[5]	104,441	—	24,020	1,063,181
J. Thomas Wiley, Jr.	2016	450,000	—	220,643	—	51,890[8]	722,533
President/Vice Chairman of the Company; Chief	2015	450,000	1,065,120[5]	268,563	—	35,330	1,819,013
Executive Officer of State Bank	2014	410,000	116,060	175,000	—	14,460	715,520
Remer Y. Brinson III[3]	2016	336,000	—	156,076	69,574	76,423[8]	638,073
President/Executive Vice President of State Bank	2015	336,000	684,720[5]	206,539	58,957	67,776	1,353,992
Kim M. Childers	2016	360,000	—	174,192	—	59,791[8]	593,983
Executive Risk Officer/ Vice Chairman	2015	360,000	1,065,120[5]	214,850	—	40,662	1,680,632
	2014	360,000	116,060	175,000	—	18,576	669,636

(1) Reflects current principal positions.

(2) Ms. Ray became Chief Financial Officer of the Company and State Bank effective January 1, 2015. Because Ms. Ray did not become a named executive officer until 2015, we have not included her compensation information for 2014.

(3) Mr. Brinson became Executive Vice President of the Company effective January 1, 2015 and became President of State Bank effective July 30, 2015.

(4) The amounts shown in this column reflect the aggregate grant date fair value of the restricted stock awards computed in accordance with FASB ASC Topic 718. Assumptions made in the valuation of awards can be found in Note 17 of the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. For the year ended December 31, 2015, the amounts shown are not an indication of actual compensation received but rather the maximum potential compensation (based on the grant date fair value of the restricted stock awards) if all performance and service requirements are met over the entire ten-year vesting period.

(5) On February 11, 2015, the Independent Directors Committee granted shares of restricted stock, which vest over a ten year period, with no shares vesting until at least December 31, 2019 (subject to certain exceptions). Unlike grants of restricted stock awarded in prior years, none of the 2015 award shares vest solely based on future service, even in the event of death, disability, termination without cause or a change in control. Vesting is subject to the Company meeting certain performance metrics and the continued employment of the executive officers, subject to certain exceptions. The amounts shown are not an indication of actual compensation received but rather the maximum potential compensation (based on the grant date fair value of the restricted stock awards) if all performance and service requirements are met over the entire ten-year vesting period. For further discussion of the 2015 restricted stock grants, see "*Compensation Discussion and Analysis—Long-Term Incentive Program*" above and "*Potential Payments Upon Termination or Change in Control—Restricted Stock Agreements*" below.

(6) See "*Compensation Discussion and Analysis—Annual Cash Incentive Payments*" above for a description of how the Independent Directors Committee determined the incentive payments awarded to Mr. Evans, Ms. Ray, Mr. Brinson, Mr. Childers and Mr. Wiley.

(7) For 2016, this amount represents the aggregate change in the actuarial present value of vested benefits accrued to Mr. Brinson under the SERP from our measurement dates used for our 2016 consolidated financial statements. For 2015, this amount represents the aggregate change in the actuarial present value of vested benefits accrued to Mr. Brinson under the SERP measured using the actuarial present value of Mr. Brinson's accumulated vested benefit under the SERP on January 1, 2015, immediately following our acquisition of Georgia-Carolina Bancshares, as compared to the accumulated vested benefit under the SERP at December 31, 2015. See the section titled "*Supplemental Executive Retirement Plan*" and the "*Pension Benefits for 2016*" table below for more information.

(8) Amounts in this column include the following for 2016:

- Mr. Evans: 401(k) matching contributions of $13,250, cash dividends related to restricted stock grants of $51,856 and life insurance premiums of $5,640;
- Ms. Ray: 401(k) matching contributions of $13,250 and cash dividends related to restricted stock grants of $20,160;
- Mr. Wiley: 401(k) matching contributions of $13,250 and cash dividends related to restricted stock grants of $38,640;
- Mr. Brinson: 401(k) matching contributions of $13,250, cash dividends related to restricted stock grants of $20,160, aggregate perquisites of $42,900, of which $42,000 related to reimbursements of housing expenses in Atlanta and $900 related to the reimbursement of cell phone charges, and life insurance premiums of $113; and
- Mr. Childers: 401(k) matching contributions of $13,250, life insurance premiums of $2,280 and cash dividends related to restricted stock grants of $44,261.

As described below under "*Life Insurance Benefits,*" the life insurance premiums paid for (a) Mr. Evans and Mr. Childers were pursuant to a split-dollar life insurance agreement entered into between the Company and the executive officer on December 1, 2012 and (b) for Mr. Brinson were pursuant to a split-dollar life insurance agreement entered into between First Bank of Georgia and Mr. Brinson on October 9, 2013.

Grants of Plan-Based Awards in Fiscal Year 2016

The following table provides a summary regarding plan-based equity and non-equity incentive awards granted to the named executive officers in 2016. Except for incentive cash payments, we granted no plan-based awards to our named executive officers in 2016.

	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards[1]		
Name	Threshold ($)	Target ($)	Maximum ($)
Joseph W. Evans	125,000	250,000	375,000
Sheila E. Ray	52,500	105,000	157,500
Remer Y. Brinson III	84,000	168,000	252,000
Kim M. Childers	90,000	180,000	270,000
J. Thomas Wiley, Jr.	112,500	225,000	337,500

(1) For each named executive officer, amounts reported represent the potential payouts pursuant to our Incentive Plan, with all payments subject to achievement of Company performance objectives and subject to negative discretion as discussed in "*Compensation Discussion and Analysis—Annual Cash Incentive Payments*." Actual amounts earned by each named executive officer are included in the column titled "*Non-Equity Incentive Plan Compensation*" of the "*Summary Compensation Table*" above.

Outstanding Equity Awards at 2016 Fiscal Year-End

The following table provides a summary of equity awards outstanding as of December 31, 2016 for the named executive officers.

	Stock Awards			
Name	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Joseph W. Evans	39,800[1]	1,069,028	52,800[5]	1,418,208
Sheila E. Ray	7,200[2]	193,392	28,800[5]	773,568
Remer Y. Brinson III	7,200[2]	193,392	28,800[5]	773,568
Kim M. Childers	34,238[3]	919,633	44,800[5]	1,203,328
J. Thomas Wiley, Jr.	24,200[4]	650,012	44,800[5]	1,203,328

(1) Represents the following shares of unvested restricted stock granted to Mr. Evans:

- 5,100 shares that vest on September 20, 2017, 12,500 that vest on July 24, 2018 and 9,000 shares that vest on July 29, 2019, provided that (a) Mr. Evans remains in our employment through that date, (b) vesting will be accelerated upon Mr. Evans's death or disability or upon a change in control as defined in the Equity Plan and (c) if Mr. Evans retires, these shares will vest six months following his retirement; and
- 13,200 shares for which the performance conditions have been met under the 2015 restricted stock agreements and for which vesting has accrued, provided that (a) Mr. Evans remains employed through December 31, 2019 and (b) vesting will be accelerated upon Mr. Evans' death, permanent disability or voluntary termination without cause.

(2) Represents 7,200 shares of unvested shares of restricted stock granted for which the performance conditions have been met under the 2015 restricted stock agreements and for which vesting has accrued, provided that (a) the executive remains employed through December 31, 2019 and (b) vesting will be accelerated upon the executive's death, permanent disability or involuntary termination without cause.

(3) Represents the following shares of unvested restricted stock granted to Mr. Childers:
- 5,100 shares that vest on September 20, 2017, 10,938 shares that vest on July 24, 2018 and 7,000 shares that vest on July 29, 2019, provided that (a) Mr. Childers remains in our employment through that date, (b) vesting will be accelerated upon Mr. Childers's death or disability or upon a change in control of the Company as defined in the Equity Plan and (c) if Mr. Childers retires, these shares will vest six months following such retirement; and
- 11,200 shares for which the performance conditions have been met under the 2015 restricted stock agreements and for which vesting has accrued, provided that (a) Mr. Childers remains employed through December 31, 2019 and (b) vesting will be accelerated upon Mr. Childers' death, permanent disability or voluntary termination without cause.

(4) Represents the following shares of unvested restricted stock granted to Mr. Wiley:
- 6,000 shares that vest on July 24, 2018 and 7,000 shares that vest on July 29, 2019, provided that (a) Mr. Wiley remains in our employment through that date, (b) vesting will be accelerated upon Mr. Wiley's death or disability or upon a change in control of the Company as defined in the Equity Plan and (c) if Mr. Wiley retires, these shares will vest six months following his retirement; and
- 11,200 shares for which the performance conditions have been met under the 2015 restricted stock agreements and for which vesting has accrued, provided that (a) Mr. Wiley remains employed through December 31, 2019 and (b) vesting will be accelerated upon Mr. Wiley's death, permanent disability or voluntary termination without cause.

(5) Represents restricted shares granted in 2015 that vest over a ten-year period, subject to both the achievement of pre-established performance targets and the officer's continued service with the Company, with no shares vesting until at least December 31, 2019. For the first five years (2015 through 2019), officers can accrue up to 10% of restricted stock for vesting annually, if the performance targets and service requirements are met. Thereafter, 10% of the remaining shares will vest on December 31 over the remaining five years (2020 through 2024), subject to both achievement of the performance targets and service requirements. Only those shares that have not accrued for vesting based on the achievement of the annual performance targets are included in this column. For a more detailed description of the terms of these restricted stock awards, see "*Compensation Discussion and Analysis—Long-Term Incentive Program.*" If an officer's employment is terminated because of death, permanent disability or involuntary termination without cause before all shares have vested, the maximum number of award shares subject to vesting will be determined on a pro rated basis calculated by reference to the most recently completed fiscal quarter. In addition, all award shares will become vested concurrent with a consummation of a change in control (as defined in the Incentive Plan), subject to certain performance conditions. For an explanation of the terms of vesting on a change in control, see "*Potential Payments Upon Termination or Change in Control—Restricted Stock Agreements*" below.

Option Exercises and Stock Vested in 2016

No stock awards held by our named executive officers vested during 2016. As of December 31, 2016, we had not issued any stock options to our named executive officers.

Equity Compensation Plan Information

The following table provides certain information with respect to all of our equity compensation plans in effect as of December 31, 2016.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders(1)	28,918	$14.37	1,892,322
Equity compensation plans not approved by security holders	—	—	—
Total	28,918	$14.37	1,892,322

(1) Consists solely of awards granted under our Equity Plan.

Proxy

Supplemental Executive Retirement Plan

Mr. Brinson is a participant in the SERP which the Company assumed as a result of the merger of Georgia-Carolina Bancshares with and into the Company. The SERP was amended in connection with the merger transaction to confirm that consummation of the merger would vest 80% of Mr. Brinson's "normal retirement benefit" upon consummation of the merger, as described below. Mr. Brinson will be entitled to vest in the remaining 20% of his normal retirement benefit as the Company accrues the expense on our books, which generally occurs in equal amounts on a monthly basis through his expected normal retirement at age 65 (in August 2025).

In addition, vesting of this remaining 20% will accelerate immediately if, prior to reaching age 65:

- Mr. Brinson is terminated without "cause" by the Company or Mr. Brinson terminates his employment with the Company for "good reason" (each as defined in the SERP), with payments commencing when he reaches age 65; or

- Mr. Brinson dies or incurs a "disability" (as defined in the SERP), while still employed with the Company, with payments commencing immediately.

The "normal retirement benefit" provides an annual payment of $128,000 per year payable from age 65 until death, with a minimum payout of at least 15 years. In the case of disability while employed with the Company and prior to reaching age 65, the Company will pay Mr. Brinson the actuarial equivalent of his normal retirement benefit in five equal annual installments. In the event of his death, whether or not employed with the Company and before payments have commenced, Mr. Brinson's beneficiary(ies) will receive the actuarial equivalent for a period of ten years. If Mr. Brinson's employment is terminated for other reasons before he reaches age 65, he will be eligible to receive annual payments of his normal retirement benefit when he reaches age 65, but only to the extent vested as of the date of his termination.

Pension Benefits for 2016

Name	Plan Name	Number of Years Credited Service (#)(1)	Present Value of Accumulated Benefit ($)(2)	Payments During Last Fiscal Year ($)
Remer Y. Brinson III	Supplemental Executive Retirement Plan	9.2	1,075,977	—

(1) This includes years of service with First Bank of Georgia, a former wholly-owned subsidiary of Georgia-Carolina Bancshares which was merged with the Company on January 1, 2015. As noted above, the SERP was assumed by us in the merger and Mr. Brinson vested in 80% of his “normal retirement benefit” payable at age 65 under the SERP upon consummation of the merger. Mr. Brinson will be entitled to vest in the remaining 20% of his normal retirement benefit under the SERP ratably each month until he reaches age 65 (in August 2025) or if accelerated sooner upon certain events, as described above.

(2) The SERP is accounted for in accordance with FASB ASC Topic 710 using a discount rate of 4.00% at December 31, 2016.

Employment Agreements

Employment Agreements for Mr. Evans, Mr. Childers and Mr. Wiley

On December 31, 2014, the Company and State Bank entered into amended and restated employment agreements with:

- Mr. Evans to serve as Chief Executive Officer of the Company and Chairman of the Company and State Bank;
- Mr. Childers to serve as Chief Risk Officer and Vice Chairman of the Company and State Bank; and
- Mr. Wiley to serve as Chief Executive Officer of State Bank and President and Vice Chairman of the Company and State Bank.

The agreements of each of Mr. Evans, Mr. Childers and Mr. Wiley were amended and restated in 2014 to add the Company as a party to the agreements, as well as to revise and add certain tax and regulatory compliance provisions. In addition, the agreements were amended to require the executive to execute and not revoke a release of claims as a condition to receiving severance benefits. As applicable, the agreements were also amended to reflect any change in position or title, to consolidate any prior amendments and to update certain outdated provisions.

Each employment agreement has a term of three years that automatically renews each day after the effective date so that the term remains a three-year term until either party notifies the other that the automatic renewals should discontinue. Under the employment agreement, each executive officer is eligible to receive:

- an annual incentive payment, with a target incentive amount of 50% of the executive’s base salary, and may also participate in the Company’s equity incentive programs;
- benefits available to senior executives of the Company, including business and professional association reimbursements and paid vacation; and

- an annual base salary that is to be reviewed at least annually by the Independent Directors Committee and the Company, and the officer will be entitled to any increases in base salary determined by the committee.

Each of the employment agreements provides for payments upon termination of employment, including in connection with a change in control, as described below under "*Potential Payments Upon Termination or Change in Control—Employment Agreements of Mr. Evans, Mr. Childers and Mr. Wiley*." Each employment agreement also requires the executive officer to keep confidential bank information and trade secrets during employment and for 12 months following termination of the employment agreement. In addition, each executive officer is subject to provisions for non-competition and non-solicitation of customers and employees, as described below under "*Potential Payments Upon Termination or Change in Control—Employment Agreements of Mr. Evans, Mr. Childers and Mr. Wiley*." Controversies or claims related to the employment agreements will be settled by binding arbitration, with State Bank paying the fees and expenses of the arbitration proceeding. If litigation to enforce an arbitration award is brought, State Bank will advance to the executive officer reasonable fees, costs and expenses, and the executive officer will reimburse the advances within 60 days of the final disposition of the matter, unless the arbitrators or court has ruled in favor of the executive officer on the merits of the substantive issues in dispute.

Ms. Ray's Offer Letter

On October 14, 2014, Ms. Ray entered into an offer letter with the Company and State Bank, which became effective on January 1, 2015, to serve as Chief Financial Officer of the Company and State Bank. Under the offer letter, Ms. Ray:

- receives an initial annual base salary of $250,000;
- is eligible to participate in the Company's annual incentive plan with an initial target incentive of 35% of her base salary; and
- is entitled to participate in incentive, retirement, health, dental, welfare and other benefit plans and programs of the Company and State Bank applicable to employees generally, which benefits include business and professional association reimbursements and paid vacation.

Ms. Ray also has a separation agreement with the Company and State Bank that provides for certain payments upon a change in control of the Company, as described below under "*Potential Payments Upon Termination or Change in Control—Separation Agreement for Ms. Ray*."

Mr. Brinson's Offer Letter

On June 24, 2014, in connection with our acquisition of Georgia-Carolina Bancshares and its subsidiary bank, First Bank of Georgia, we entered into an offer letter with Mr. Brinson, First Bank of Georgia and the Company which became effective on January 1, 2015, the effective date of the merger. Pursuant to the offer letter, Mr. Brinson served as President and Chief Executive Officer of First Bank of Georgia until it was merged into State Bank on July 24, 2015. Mr. Brinson currently serves as President of State Bank and as an Executive Vice President of the Company. Under the offer letter, Mr. Brinson:

- receives an initial annual base salary of $336,000;
- is eligible to participate in the Company's annual incentive plan with an initial target incentive of 50% of his base salary; and
- is entitled to participate in incentive, retirement, health, dental, welfare and other benefit plans and programs of the Company and State Bank applicable to employees generally, which benefits include business and professional association reimbursements and paid vacation.

Mr. Brinson's offer letter also contains provisions related to non-competition and non-solicitation. These provisions generally prohibit Mr. Brinson, through the earlier of January 1, 2018 or the one year anniversary of his termination of employment, from soliciting, either directly or indirectly, any customer with whom he had contact on our behalf for a competing business or soliciting our employees. Mr. Brinson is also prohibited through the earlier of January 1, 2017 or the one-year anniversary of his termination of employment from competing, directly or indirectly, with us within Richmond, Columbia, Burke, Jefferson, McDuffie and Warren Counties in Georgia and Aiken County in South Carolina.

Mr. Brinson also has a separation agreement with the Company and State Bank that provides for certain payments upon a change in control of the Company, as described below under "*Potential Payments Upon Termination or Change in Control—Separation Agreement for Mr. Brinson*."

Potential Payments Upon Termination or Change in Control

Employment Agreements of Mr. Evans, Mr. Childers and Mr. Wiley

For purposes of the benefits provided in the employment agreements of Mr. Evans, Mr. Childers and Mr. Wiley, a change in control is deemed to occur, in general, if:

- a person or group of persons acquires 30% or more of the Company's common stock;
- within any twelve-month period, individuals who, at the beginning of such period, are directors of the Company cease to constitute at least a majority of the board of directors (with certain exceptions provided, including that 2/3 of the incumbent directors may approve or recommend election of a non-incumbent director);
- the shareholders of the Company approve a reorganization, merger or consolidation of the Company with respect to which shareholders of the Company immediately before such reorganization, merger or consolidation do not immediately thereafter own more than 50% of the combined voting power of the surviving entity; or
- the sale, transfer or assignment of all or substantially all of the assets of the Company and its subsidiaries to any third party.

If the officer chooses to terminate his employment within the period commencing three months before and ending 12 months after a change in control and upon 30 days written notice, the officer is entitled to receive a severance payment in a lump sum amount equal to (a) the greater of (x) his current annual base salary divided by 12 or (y) his average monthly compensation; (b) multiplied by the number of months from the effective date of his termination through the unexpired portion of the term of the employment agreement or, if greater, 24. For purposes of these calculations, "average monthly compensation" means: (a) the sum of (x) the officer's then current annual base salary plus (y) his most recent annual incentive payment or, if greater, his average incentive payment for the three prior years; (b) divided by 12. In addition, State Bank will also pay the officer an amount equal to the cost of COBRA health continuation coverage for the officer and his eligible dependents for the longer of (a) the unexpired portion of the term of the employment agreement, (b) 24 months or (c) the period during which the officer and his eligible dependents are entitled to COBRA health continuation coverage.

In addition, if the officer's employment is terminated (a) by State Bank and the Company other than for "cause," or (b) by the officer for "cause," the officer will be entitled to receive a severance payment in a lump sum amount equal to the greater of (x) his current annual base salary divided by 12, or (y) his average monthly compensation (as defined above); multiplied by 12. For purposes of the employment agreements:

"Cause" is generally defined to mean the following with respect to termination of the officer by State Bank and the Company:

- a material breach of the terms of the employment agreement by the officer;
- conduct by the officer that constitutes fraud, dishonesty, gross malfeasance of duty or conduct grossly inappropriate to the officer's office and is demonstrably likely to lead to material injury to the Company and State Bank or which results in direct or indirect personal enrichment of the officer, as confirmed by a vote of the board of directors following written notice and an opportunity to be heard by the board of directors;
- conduct resulting in the conviction of the officer of a felony; or
- conduct that results in the permanent removal of the officer from his position as an officer of the Company or State Bank under a written order by any regulatory agency.

"Cause" is generally defined to mean the following with respect to termination by the officer:

- a material diminution in the powers, responsibilities, duties or total compensation of the officer;
- the failure of the board of directors to maintain the officer's appointment to his role as officer of the Company or State Bank, the Company's and State Bank's non-renewal of the employment agreement or the failure of the shareholders of the Company or State Bank to elect the officer as a director of the Company or State Bank; or
- a material breach of the employment agreement by the Company and State Bank.

With respect to termination by the officer for cause, the officer must give 30 days' written notice to the Company and State Bank, other than for failure of the board of directors to maintain the officer's appointment or non-renewal of the employment agreement.

In addition, if the officer's employment is terminated by the Company and State Bank other than for "cause" or by the officer for "cause," as described above, the officer will also be entitled to receive an amount equal to the cost of COBRA health continuation coverage costs for the officer and his eligible dependents for the longer of 12 months or the period during which the officer and his eligible dependents are entitled to COBRA health continuation coverage from the Company and State Bank.

The employment agreements also provide that during the term of each officer's employment and for 36 months following his termination of employment, the officer agrees not to compete with the Company and State Bank within designated counties in Georgia. In addition, during the term of each officer's employment and for 24 months following his termination of employment, the officer agrees not to solicit any of the Company's and State Bank's customers with whom he had material contact or employees of the Company and State Bank. The agreement not to compete and not to solicit customers or employees does not apply if:

- the Company and State Bank terminates the officer's employment without "cause;" or
- the officer terminates his employment for "cause."

For at least 12 months following the termination of the employment agreement, the officer will not disclose the Company's and State Bank's confidential information and will protect the Company's and State Bank's trade secrets for so long as permitted by applicable law.

The employment agreements also provide that if the payments on termination of employment would constitute a "parachute payment" as defined in Code Section 280G, the officer shall receive the total payments made under the employment agreement, provided that if the after-tax amount retained by the officer after taking into account the excise taxes would have a lesser aggregate value than the after-tax amount retained by the officer if the total payments were reduced so that no Code Section 280G taxes would be incurred, the officer will receive reduced payments. Under the employment agreement, the Company and State Bank may offer and the officer may agree to provide post-termination personal services to the Company and State Bank for payments that might otherwise be designated "parachute payments" to the extent needed to comply with Code Section 280G and to avoid excise taxes under Code Section 4999.

The employment agreements provide for automatic termination of the agreement upon death or permanent disability. Permanent disability is defined as a condition providing for payments under any long-term disability coverage provided by the Company and State Bank or in the absence of such coverage, when the officer is unable to perform the material aspects of his duties for at least 180 days. Upon termination for permanent disability, the officer is paid his average monthly compensation for each full month until long term disability benefits become payable, or if longer, six months.

The employment agreements are intended to comply with Code Section 409A, including any applicable exemption under Code Section 409A. If an officer is a "specified employee" (within the meaning of Code Section 409A) when the officer separates from service with the Company or State Bank, any deferred compensation subject to Code Section 409A will be paid on the first day of the seventh month following the termination of employment, unless an exemption is otherwise available.

Separation Agreement for Ms. Ray

On January 1, 2015, Ms. Ray entered into a separation agreement with State Bank that provides for severance payments upon termination of her employment in certain circumstances upon a change in control, described below. Ms. Ray's separation agreement has a one year term that automatically renews each day after the effective date so that the term remains a one-year term until State Bank notifies Ms. Ray at least 90 days prior to the next renewal date that the automatic renewal should discontinue. Ms. Ray's separation agreement with the Company provides "double trigger" benefits, meaning that certain severance benefits are paid only in the event of her termination without cause by us or for good reason by her following a change in control.

Upon providing proper notice, if, during the one-year period commencing after a change in control (or in the event of an anticipatory termination, the period commencing up to six months prior to the consummation of a change in control), State Bank terminates Ms. Ray without cause or Ms. Ray terminates her employment for good reason, Ms. Ray will be entitled to receive a severance payment in a lump sum equal to one times the average of her base salary over the last three full fiscal years (or her average annualized base salary for such shorter period of time as she has been employed by State Bank).

For purposes of the benefits provided in Ms. Ray's separation agreement, a change in control is deemed to occur, in general, if:

- a person or group of persons acquires voting securities of the Company or State Bank, if, after the transaction such person or group or persons owns, controls or holds more than 51% of any class of voting securities of the Company or State Bank;

- the approval by the shareholders of State Bank or the Company of a reorganization, merger or consolidation, with respect to which persons who were the shareholders of State Bank or the Company immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own more than 50% of the combined voting power of the surviving entity; or

- the sale, transfer or assignment of all or substantially all of the assets of State Bank or the Company and its subsidiaries to any third party.

For purposes of Ms. Ray's separation agreement, "good reason" is generally defined as (a) a material diminution in her compensation, duties and responsibilities or (b) the transfer of her current location to another location more than 30 miles away. With respect to termination by Ms. Ray for good reason, Ms. Ray must notify State Bank within 90 days following her knowledge of the existence of the event that constitutes good reason. In addition, under the separation agreement, "cause" is generally defined to mean the following:

- conduct that constitutes fraud, dishonesty, gross malfeasance of duty or conduct grossly inappropriate to her office and is demonstrably likely to lead to material injury to State Bank or which resulted or was intended to result in her direct or indirect gain or personal enrichment;
- conduct resulting in her conviction of a felony or any crime involving dishonesty, moral turpitude, theft or fraud;
- a material breach of her obligations under the separation agreement;
- an intentional breach by her of any of State Bank's policies and procedures;
- performance in job duties which results in her not attaining pre-determined performance goals and objectives;
- the failure to perform her assigned duties or to follow reasonable instructions from her supervisor; or
- conduct which results in her permanent removal as an officer or employee of State Bank pursuant to a written order by any regulatory agency with authority or jurisdiction over State Bank.

Ms. Ray's separation agreement also provides that during the term of her employment and for one year following her termination, she will not solicit any of State Bank's customers with whom she had contact during the 12 months prior to her termination or our employees to join a competing business. In addition, Ms. Ray is obligated to hold State Bank's confidential information in strict confidence for a period of three years or so long as such information remains confidential, whichever is shorter, following her termination and to hold State Bank's trade secrets in strict confidence for so long as permitted by applicable law.

The separation agreement is intended to comply with Code Section 409A, including any applicable exemption under Code Section 409A. If any amount paid under the agreement is deferred compensation (within the meaning of Code Section 409A) and Ms. Ray is a "specified employee" (within the meaning of Code Section 409A) as of the date of her termination, amounts that would be otherwise payable within the six-month period immediately following the date of her termination shall instead be paid on the first business day after the date that is six months following her "separation from service" (within the meaning of Code Section 409A).

Separation Agreement for Mr. Brinson

On June 23, 2014, Mr. Brinson entered into a separation agreement with Georgia-Carolina Bancshares's wholly-owned subsidiary bank, First Bank of Georgia, that became effective immediately after the consummation of the Company's merger with Georgia-Carolina Bancshares, which occurred on January 1, 2015. First Bank of Georgia remained a separate subsidiary of the Company following the merger until it was merged into State Bank on July 24, 2015. Under the terms of the separation agreement, State Bank assumed the obligations under the separation agreement upon the merger of First Bank of Georgia and State Bank, which we refer to as the bank merger, and any references to First Bank of Georgia in the separation agreement are now considered references to State Bank. Mr. Brinson's separation agreement further clarified that neither the merger and acquisition of Georgia-Carolina Bancshares by the Company nor the subsequent bank merger would constitute a change in control.

Mr. Brinson's separation agreement has a one year term that automatically renews each day after the effective date so that the term remains a one-year term until State Bank provides Mr. Brinson at least 90 days notice of no further renewals. Mr. Brinson's separation agreement with the Company provides "double trigger" benefits, meaning that certain severance benefits are paid only in the event of his termination without cause by us or for good reason by him following a change in control.

Upon providing proper notice, if, during the one-year period commencing after a change in control (or in the event of an anticipatory termination, the period commencing up to six months prior to the consummation of a change in control), State Bank terminates Mr. Brinson without cause or Mr. Brinson terminates his employment for good reason, Mr. Brinson will be entitled to receive a severance payment in a lump sum equal to two times the average of his base salary over the last three full fiscal years (or his average annualized compensation for such shorter period of time as he has been employed by First Bank of Georgia or State Bank).

For purposes of the benefits provided in Mr. Brinson's separation agreement, a change in control is deemed to occur, in general, if:

- a person or group of persons acquires voting securities of the Company or State Bank, if, after the transaction such person or group or persons owns, controls or holds more than 50% of any class of voting securities of the Company or State Bank;

- the approval by the shareholders of State Bank or the Company of a reorganization, merger or consolidation, with respect to which persons who were the shareholders of State Bank or the Company immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own more than 50% of the combined voting power of the surviving entity;

- the sale, transfer or assignment of all or substantially all of the assets of State Bank or the Company and its subsidiaries to any third party; or

- within any twelve-month period, individuals who, at the beginning of such period, are directors of the Company cease to constitute at least a majority of the board of directors (with certain exceptions provided, including that 2/3 of the incumbent directors may approve or recommend election of a non-incumbent director).

For purposes of Mr. Brinson's separation agreement, "good reason" is generally defined as (a) a material diminution in his compensation, duties and responsibilities or (b) the transfer of his current location to another location more than 30 miles away. With respect to termination by Mr. Brinson for good reason, he must notify State Bank within 30 days following his knowledge of the existence of the event that constitutes good reason. In addition, under the separation agreement, "cause" is generally defined to mean the following:

- conduct that constitutes fraud, dishonesty, gross malfeasance of duty or conduct grossly inappropriate to his office and is demonstrably likely to lead to material injury to State Bank or which resulted or was intended to result in his direct or indirect gain or personal enrichment;

- conduct resulting in his conviction of a felony or any crime involving dishonesty, moral turpitude, theft or fraud;

- a material breach of his obligations under the separation agreement;

- an intentional breach by him of any of State Bank's policies and procedures;

- the failure to perform his assigned duties or to follow reasonable instructions from his supervisor; or

- conduct which results in his permanent removal as an officer or employee of State Bank pursuant to a written order by any regulatory agency with authority or jurisdiction over State Bank.

Mr. Brinson's separation agreement provides that during the term of his employment and for one year following his termination, he will not solicit any of State Bank's or its affiliates customers with whom he had contact during the 12 months prior to his termination or State Bank's or its affiliates' employees to join a competing business. The separation agreement also provides that while employed with State Bank and, if Mr. Brinson has received the severance payment described above, for 12 months following his termination of employment, Mr. Brinson agrees not to compete with State Bank within designated counties in Georgia. In addition, Mr. Brinson is obligated to hold State Bank's confidential information in strict confidence for a period of three years following his termination or so long as such information remains confidential, whichever is shorter, and to hold State Bank's trade secrets in strict confidence for so long as permitted by applicable law.

Mr. Brinson's separation agreement is intended to comply with Code Section 409A, including any applicable exemption under Code Section 409A. If any amount paid under the agreement is deferred compensation (within the meaning of Code Section 409A) and Mr. Brinson is a "specified employee" (within the meaning of Code Section 409A) as of the date of his termination, amounts that would be otherwise payable within the six-month period immediately following the date of his termination shall instead be paid on the first business day after the date that is six months following his "separation from service" (within the meaning of Code Section 409A).

Mr. Brinson's separation agreement also provides that if the severance payment would constitute a "parachute payment" as defined in Code Section 280G, Mr. Brinson will receive the total payment made under the separation agreement, provided that if the after-tax amount retained by Mr. Brinson after taking into account the excise taxes would have a lesser aggregate value than the after-tax amount retained by Mr. Brinson if the total payments were reduced so that no Code Section 280G taxes would be incurred, Mr. Brinson will receive a reduced payment.

Restricted Stock Agreements

Service-Based Restricted Stock Grants. Before 2015, our historical grants of restricted stock consisted of restricted stock that vested solely based on continued service with the Company. Under these restricted stock agreements, all unvested shares of restricted stock held by our named executive officers will be vested concurrent with the consummation of a "change in control" as defined in the Equity Plan. If such officer's employment with the Company or State Bank ceases for any reason, all unvested shares of restricted stock will be immediately and automatically forfeited and canceled on the date of termination of employment, except that all unvested shares of restricted stock will be fully vested (a) on the named executive officer's death or permanent disability, as defined in the Equity Plan, or (b) six months following the officer's retirement, as defined in the restricted stock agreement by and between the Company and the officer.

2015 Performance-Based and Serviced-Based Restricted Stock Grants. As discussed above, in 2015, the Independent Directors Committee approved grants of restricted stock that are subject to the achievement of both Company performance metrics and continued service with the Company. Under the 2015 restricted stock agreements, all unvested shares of restricted stock held by our named executive officers will be vested concurrent with the consummation of a "change in control" as defined in the Equity Plan, if the Company's per share closing price on the date of the change in control is 20% higher than the stock's per share closing price on the grant date. If the Company's per share closing price on the date of the change in control is not 20% higher than the stock's per share closing price on the grant date, then the number of award shares that become vested will be determined based upon a pro-rata percentage equal to the stock's per share closing price on the date of the change in control over the price per share equal to a 20% increase in share price since the grant date. By way of example only, if the Company's per share closing price on the grant date was $10, then a 20% increase in share price since the grant date would be $12. If the stock's per share closing price on the date of the change in control is $11, then only 50% of the award shares would vest on the date of the change in control.

In addition, under the 2015 restricted stock agreement, if the officer's employment with the Company or State Bank ceases for any reason, all shares that have not vested will be immediately and automatically forfeited and canceled on the date of termination of employment, except that if the officer's employment is terminated due to death, involuntary termination without cause or permanent disability, as defined in the Equity Plan, the number of shares subject to vesting under the agreement as of the most recently completed fiscal quarter shall vest as determined on a pro-rata basis.

For the market value of the unvested shares of restricted stock held by each named executive officer as of December 31, 2016, see the "*Outstanding Equity Awards at 2016 Fiscal Year-End*" table above.

Table Showing Potential Post-Employment Payments Due to Mr. Evans, Mr. Childers and Mr. Wiley. The following table summarizes the potential post-employment payments due to Mr. Evans, Mr. Childers and Mr. Wiley upon termination from the Company or State Bank or a change in control of the Company assuming those events occurred on the last business day of the last fiscal year, which was December 30, 2016. If we terminate such named executive officer's employment for "cause," or such named executive officer leaves our employment without "cause," then we have no further obligation to such named executive officer except for payment of any amounts earned and unpaid as of the effective date of the termination. Accordingly, those events are omitted from the table. We report amounts in the table without any reduction for possible delay in the commencement or timing of payments.

Name	Scenario	Cash Severance ($)(1)	Restricted Stock Vesting ($)(2)	Benefits ($)(3)	Total ($)
Joseph W. Evans	Termination by Executive for Cause	743,553	—	39,383	782,936
	Termination by Company without Cause	743,553	354,552(5)	39,383	1,137,488
	Change in Control (Voluntary Termination of Employment)(4)	2,230,659	2,487,236(6)	78,765	4,796,660
	Permanent Disability	371,777	1,069,028(7)	—	1,440,805
	Death	—	1,069,028(7)	—	1,069,028
Kim M. Childers	Termination by Executive for Cause	548,014	—	26,498	574,512
	Termination by Company without Cause	548,014	300,832(5)	26,498	875,344
	Change in Control (Voluntary Termination of Employment)(4)	1,644,042	2,122,961(6)	52,995	3,819,998
	Permanent Disability	274,007	919,633(7)	—	1,193,640
	Death	—	919,633(7)	—	919,633
J. Thomas Wiley, Jr.	Termination by Executive for Cause	671,402	—	31,898	703,300
	Termination by Company without Cause	671,402	300,832(5)	31,898	1,004,132
	Change in Control (Voluntary Termination of Employment)(4)	2,014,206	1,853,340(6)	63,795	3,931,341
	Permanent Disability	335,701	650,012(7)	—	985,713
	Death	—	650,012(7)	—	650,012

(1) Based on average monthly compensation as determined by dividing the sum of the named executive officer's current base salary and the average of incentive payments paid over the three most recent years by 12. The remaining term of the employment agreement used is three years assuming that no notice of non-renewal has been given by either party.

(2) The value is based on the closing market price of a share of our common stock on December 30, 2016.

(3) The COBRA health continuation coverage rate for an employee and family (based on each employee's age) in effect at December 31, 2016 was multiplied by the number of months over which the amount would be paid.

(4) Upon the named executive officer's termination of employment on account of a change in control under the terms of the employment agreement, the amounts reported could be reduced if such reduced amount would provide a greater value to the named executive officer after taking into account Code Section 4999 excise taxes and other taxes. For purposes of this table, only the maximum amounts are shown.

(5) No shares vest under the service-based restricted stock agreements if we terminate the executive without cause. Under the 2015 restricted stock agreements, if we terminate an executive without cause, the number of shares subject to vesting under the agreement as of the most recently completed fiscal quarter will vest as determined on a pro-rated basis. At December 31, 2016, the Company met the AROAA target set forth in the restricted stock agreement and, therefore, an additional 10% of each executive's restricted shares accrued for vesting on December 31, 2016 for a total of 20% of each executive's restricted share award having accrued for vesting. The following number of shares would have vested on a termination without cause on such date: Mr. Evans–13,200 shares; Mr. Childers–11,200 shares; and Mr. Wiley–11,200 shares.

(6) Represents full vesting of all service-based restricted shares on a change in control regardless of whether the executive voluntarily terminates his employment. Under the 2015 restricted stock agreements, if the closing price of our stock on the date of the change in control is 20% higher than the per share closing price of our stock on the February 11, 2015 grant date, all shares will vest, regardless of whether the executive voluntarily terminates his employment. If, however, the per share closing price of our stock on the date of the change in control is not 20% higher than our per share closing price on the February 11, 2015 grant date, the number of shares that vest on a change in control is determined based on a pro-rata percentage equal to the per share closing price on the date of the

change in control over the price per share equal to a 20% increase in share price since the grant date, regardless of whether the executive voluntarily terminates his employment. On December 30, 2016, the closing price per share of our common stock was 41.22% higher than the stock's per share closing price on February 11, 2015. Therefore, under the 2015 restricted stock agreement, all shares would have vested on a change in control in the following amounts: Mr. Evans–66,000 shares; Mr. Childers–56,000 shares; and Mr. Wiley–56,000 shares.

(7) Represents full vesting of all service-based shares. Under the 2015 restricted stock agreements, if the executive's employment is terminated because of death or permanent disability, the number of shares subject to vesting under the agreement as of the most recently completed fiscal quarter will vest as determined on a pro-rated basis. At December 31, 2016, the Company met the AROAA target set forth in the restricted stock agreement and, therefore, an additional 10% of each executive's restricted shares accrued for vesting on December 31, 2016 for a total of 20% of each executive's restricted share award having accrued for vesting. The following number of shares would have vested on the executive's death or permanent disability on such date: Mr. Evans–13,200 shares; Mr. Childers–11,200 shares; and Mr. Wiley–11,200 shares.

Table Showing Potential Post-Employment Payments Due to Ms. Ray and Mr. Brinson. The following table summarizes the potential post-employment payments due to Ms. Ray and Mr. Brinson upon termination from the Company or State Bank or a change in control of the Company assuming those events occurred on the last business day of the last fiscal year, which was December 30, 2016. If we terminate Ms. Ray's employment for "cause," or Ms. Ray leaves our employment without "good reason," then we have no further obligation to Ms. Ray except for payment of any amounts earned and unpaid as of the effective date of the termination. Accordingly, those events are omitted from the table with respect to Ms. Ray. We report amounts in the table without any reduction for possible delay in the commencement or timing of payments. Benefit amounts do not include any benefits available generally to all salaried employees.

Name	**Scenario**	**Cash Severance ($)**	**Restricted Stock Vesting ($)**	**Benefits ($)[5]**	**Total ($)**
Sheila E. Ray	Change in Control no termination	—	966,960[3]	—	966,960
	Change in Control plus termination without "Cause" by the Company	248,333[1]	966,960[3]	—	1,215,293
	Change in Control plus termination for "Good Reason" by Executive	248,333[1]	966,960[3]	—	1,215,293
	Termination by Executive for "Good Reason"	—	—	—	—
	Termination by Company without Cause	—	193,392[4]	—	193,392
	Permanent Disability	—	193,392[4]	—	193,392
	Death	—	193,392[4]	—	193,392
Remer Y. Brinson III	Change in Control no termination	—	966,960[3]	—	966,960
	Change in Control plus termination without "Cause" by the Company	661,333[2]	966,960[3]	1,328,443	2,956,736
	Change in Control plus termination for "Good Reason" by Executive	661,333[2]	966,960[3]	1,328,443	2,956,736
	Termination by Executive for "Good Reason"	—	—	1,328,443	1,328,443
	Termination by Company without Cause	—	193,392[4]	1,328,443	1,521,835
	Permanent Disability	—	193,392[4]	1,328,443	1,521,835
	Death	—	193,392[4]	1,328,443	1,521,835
	Termination by Executive without "Good Reason"	—	—	1,075,977	1,075,977
	Termination by Company for "Cause"	—	—	1,075,977	1,075,977

[Footnotes are included on the following page]

Proxy

(1) Based on the average annualized base salary paid from October 14, 2014 to December 31, 2016.

(2) Based on the average base salary paid by First Bank of Georgia from January 1, 2014 to December 31, 2014 and by State Bank from January 1, 2015 to December 31, 2016.

(3) Neither Ms. Ray nor Mr. Brinson holds any service-based restricted stock. Under the 2015 restricted stock agreements, if the closing price of our stock on the date of the change in control is 20% higher than the per share closing price of our stock on the February 11, 2015 grant date, all shares will vest (regardless of whether the executive's employment is terminated for any reason). If, however, the per share closing price of our stock on the date of the change in control is not 20% higher than our per share closing price on the February 11, 2015 grant date, the number of shares that vest on a change in control is determined based on a pro-rata percentage equal to the per share closing price on the date of the change in control over the price per share equal to a 20% increase in share price since the grant date, regardless of whether the executive employment is terminated. On December 30, 2016, the closing price per share of our common stock was 41.22% higher than the stock's per share closing price on February 11, 2015. Therefore, under the 2015 restricted stock agreement, all shares would have vested on a change in control in the following amounts: Ms. Ray—36,000 shares; and Mr. Brinson—36,000 shares.

(4) Under the 2015 restricted stock agreements, if the executive's employment is terminated because of death or permanent disability, the number of shares subject to vesting under the agreement as of the most recently completed fiscal quarter will vest as determined on a pro-rated basis. At December 31, 2016, the Company met the AROAA target set forth in the restricted stock agreement and, therefore, an additional 10% of each executive's restricted shares accrued for vesting on December 31, 2016 for a total of 20% of each executive's restricted share award having accrued for vesting. The following number of shares would have vested on the executive's death or permanent disability on such date: Ms. Ray—7,200 shares; and Mr. Brinson—7,200 shares.

(5) The figures for Mr. Brinson reflect the present actuarial value of his SERP benefit, which becomes payable upon the listed triggers as set forth in the SERP, which is described in the section titled "*Supplemental Executive Retirement Plan*" above. As of January 1, 2015, the consummation of our merger with Georgia-Carolina Bancshares, Mr. Brinson was 80% vested in his "normal retirement benefit" with the remaining 20% vesting ratably each month until age 65, provided that vesting accelerates immediately if he is terminated without "cause" by the Company or if he terminates his employment with the Company for "good reason," with payments commencing when he reaches age 65; or if he dies or incurs a "disability" while still employed with the Company, with payments commencing immediately. The "normal retirement benefit" provides an annual payment of $128,000 per year payable from age 65 until death, with a minimum payout of at least 15 years. In the case of disability while employed with the Company and prior to reaching age 65, the Company will pay Mr. Brinson the actuarial equivalent of his normal retirement benefit in five equal annual installments. In the event his death, whether or not employed with the Company and before payments have commenced, Mr. Brinson's beneficiary(ies) will receive the actuarial equivalent of his normal retirement for a period of ten years. If Mr. Brinson's employment is terminated for other reasons before he reaches age 65, he will be eligible to receive annual payments of his normal retirement benefit when he reaches age 65, but only to the extent vested as of the date of his termination. There are no special change in control provisions in the SERP.

Life Insurance Benefits

Life Insurance Benefits for Mr. Evans and Mr. Childers

The Company has entered into a split dollar life insurance agreement, or bank owned life insurance agreement, with each of Mr. Evans and Mr. Childers. Under each agreement, the Company has purchased a life insurance policy on the life of each executive, and the executive's designated beneficiary(ies) will receive a portion of the death benefit under the policy upon the executive officer's death. The Company has not entered into a split dollar life insurance agreement with Mr. Wiley or Ms. Ray. Mr. Brinson's life insurance benefits are described below.

The following table summarizes the death benefits under each split dollar life insurance agreement that will be due to the executive officer's designated beneficiary(ies) upon his death, assuming his death occurred on the last business day of the last fiscal year, which was December 30, 2016.

Name	Death Benefit Following Termination of Employment ($)[1]	Death Benefit Following Change in Control or Death During Employment ($)[2]
Joseph W. Evans	2,000,000	2,000,000
Kim M. Childers	833,333	2,000,000

(1) This amount reflects the death benefit due upon the executive's death assuming the executive terminated his full-time employment on December 30, 2016 prior to his death for any reason other than following a change in control of the Company or State Bank.

(2) This amount reflects the death benefit due upon the executive's death (a) during his full-time employment with the Company or State Bank or (b) after termination of his employment following a change in control of the Company or State Bank.

Life Insurance Benefits for Mr. Brinson

On October 9, 2013, Mr. Brinson entered into a death benefit plan for select management with First Bank of Georgia (the "First Bank Life Insurance Plan"). On January 1, 2015, the effective date of the merger, the Company assumed the terms of the First Bank Life Insurance Plan. Under this plan, the Company assumed a life insurance policy on the life of Mr. Brinson, and his designated beneficiary(ies) will receive a portion of the death benefit under the policy upon the his death.

The following table summarizes the death benefits under the First Bank Life Insurance Plan that will be due to Mr. Brinson's designated beneficiary(ies) upon his death, assuming his death occurred on the last business day of the last fiscal year, which was December 30, 2016.

Name	Death Benefit Following Termination of Employment ($)	Death Benefit Following Change in Control ($)	Death Benefit Prior to Officer's Termination of Employment ($)
Remer Y. Brinson III	—	—	108,000[1]

(1) This amount reflects the death benefit due upon Mr. Brinson's death during his full-time employment with the Company or State Bank.

Proxy

PROPOSAL 2 – ADVISORY VOTE ON EXECUTIVE COMPENSATION

The SEC Rules adopted under the Dodd-Frank Wall Street Reform and Consumer Protection Act require us to give shareholders the opportunity to vote to approve, on a non-binding, advisory basis, the compensation of our named executives officers as disclosed in this proxy statement in accordance with the compensation disclosure rules of the SEC.

For this proposal to be approved, the number of votes cast favoring the proposal must exceed the number of votes cast opposing it, provided a quorum is present. Abstentions, broker non-votes and the failure to return a signed proxy will have no effect on the outcome of this vote.

As described in greater detail in the section titled Compensation Discussion and Analysis above, we seek to align the interests of our named executive officers with the interests of our shareholders. Our compensation programs are designed to reward our named executive officers for the achievement of strategic and operational goals and the achievement of increased shareholder value, while at the same time avoiding the encouragement of unnecessary or excessive risk-taking. We believe that our compensation policies and procedures are competitive, focused on pay for performance principles and strongly aligned with the interests of our shareholders. We also believe that both the Company and our shareholders benefit from responsive corporate governance policies and constructive and consistent dialogue. The proposal described below, commonly known as a “Say-on-Pay” proposal, gives you as a shareholder the opportunity to express your views regarding the compensation for the named executive officers by voting to approve or not approve that compensation as described in this proxy statement.

This vote is advisory, which means that it is not binding on us, the board of directors or the Independent Directors Committee. The vote on this resolution is not intended to address any specific element of compensation but rather relates to the overall compensation of our named executive officers, as described in this proxy statement in accordance with the compensation disclosure rules of the SEC.

The board asks our shareholders to vote in favor of the following resolution at the annual meeting:

> “RESOLVED, that the compensation paid to the Company’s named executive officers, as disclosed in the Company’s proxy statement for the 2017 Annual Meeting of Shareholders under the compensation disclosure rules of the SEC, including the Compensation Discussion and Analysis, the compensation tables and any related narrative discussion in the proxy statement, is hereby APPROVED.”

The board of directors recommends that you vote FOR the approval of the resolution related to the compensation of our named executive officers.

PROPOSAL 3 – ADVISORY VOTE ON THE FREQUENCY OF AN ADVISORY VOTE ON EXECUTIVE COMPENSATION

The Dodd-Frank Wall Street Reform and Consumer Protection Act requires us to give shareholders the opportunity to vote, on a non-binding, advisory basis, for their preference as to how frequently we should conduct an advisory Say-on-Pay vote. Shareholders may indicate whether they would prefer that we conduct future Say-on-Pay votes every year, every two years or every three years. Shareholders also may abstain from casting a vote on this proposal. In 2011, shareholders voted to recommend that the Company conduct a Say-on-Pay vote every year. The board of directors agreed with the recommendation of its shareholders and has conducted a Say-on-Pay vote every year.

After careful consideration, the board of directors has determined that continuing to hold an advisory vote on executive compensation every year is the most appropriate policy for us at this time, and the board recommends that shareholders vote for future advisory votes on executive compensation to occur EVERY YEAR. While our executive compensation programs are designed to promote a long-term connection between pay and performance, the board of directors recognizes that executive compensation disclosures are made annually.

We believe that an annual advisory vote on executive compensation is consistent with our practice of seeking input and engaging in dialogue with our shareholders on corporate governance matters, including our practice of having all directors elected annually and annually providing shareholders the opportunity to ratify the Audit Committee's selection of independent auditors, in addition to our executive compensation philosophy, policies and practices.

This advisory vote on the frequency of future advisory votes on executive compensation is non-binding on the board of directors. Shareholders will be able to specify one of four choices for this proposal on the proxy card: one year, two years, three years or abstain. Shareholders are not voting to approve or disapprove the board's recommendation. Although the voting results are non-binding, the board and the Independent Directors Committee will carefully review them. Notwithstanding the board's recommendation and the outcome of the shareholder vote, the board may in the future decide to conduct advisory votes on a more or less frequent basis and may vary its practice based on factors such as discussions with shareholders and the adoption of material changes to compensation programs.

The board of directors recommends that you vote to conduct future advisory votes on executive compensation EVERY YEAR.

PROPOSAL 4 – RATIFICATION OF APPOINTMENT OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Our Independent Registered Public Accounting Firm

Our Audit Committee has appointed Dixon Hughes Goodman LLP as our independent registered public accounting firm to audit the consolidated financial statements of the Company and its subsidiaries for the year ending December 31, 2017 and to prepare a report on this audit. A representative of Dixon Hughes Goodman LLP is expected to be present at the annual meeting and will be available to respond to appropriate questions. The representative will also have an opportunity to make a statement if he or she desires to do so.

We are asking our shareholders to ratify the appointment of Dixon Hughes Goodman LLP as our independent registered public accounting firm for 2017. Although the ratification is not required by our bylaws or other governing documents, the board is submitting the selection of Dixon Hughes Goodman LLP to our shareholders for ratification as a matter of good corporate practice. Even if the shareholders do ratify the appointment, our Audit Committee in its discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if it believes that such a change would be in the best interest of the Company and our shareholders.

For this proposal to be approved, the number of votes cast favoring the proposal must exceed the number of votes cast opposing it, provided a quorum is present. Abstentions, broker non-votes and the failure to return a signed proxy will have no effect on the outcome of this vote.

The board of directors recommends a vote FOR the ratification of the appointment of Dixon Hughes Goodman LLP as our independent registered public accounting firm for 2017.

Audit and Related Fees

Our independent auditors for the year ended December 31, 2016 were Dixon Hughes Goodman LLP.

The following table shows the fees that we paid for services performed in the years ended December 31, 2016 and 2015 to Dixon Hughes Goodman LLP:

	2016	**2015**
Audit Fees	$489,500	$494,500
Audit-Related Fees	50,500	30,500
Tax Fees	—	—
All Other Fees	—	—
Total	$540,000	$525,000

Audit Fees. This category includes the aggregate fees billed for professional services rendered by the independent auditors during our 2016 and 2015 fiscal years for the audit of our consolidated annual financial statements and the review of financial statements included in our quarterly reports.

Audit-Related Fees. This category includes the aggregate fees billed for non-audit services, exclusive of the fees disclosed relating to audit fees, during the fiscal years ended December 31, 2016 and 2015. These services principally include the assistance for various filings with the SEC, consultations regarding accounting and disclosure matters and due diligence services related to acquisition activity.

Tax Fees. Dixon Hughes Goodman LLP did not bill us for any services related to corporate tax compliance, tax advice or tax planning services.

All Other Fees. Dixon Hughes Goodman LLP did not bill us for any services for the fiscal years ended December 31, 2016 and 2015 other than for the services described above.

Pre-Approval Policy

Our Audit Committee's pre-approval guidelines with respect to pre-approval of audit and non-audit services are summarized below.

General. The Audit Committee is required to pre-approve all audit and non-audit services performed by the independent auditor to assure that the provision of such services does not impair the auditor's independence. The independent auditors provide the Audit Committee with an annual engagement letter outlining the scope of the audit and permissible non-audit services proposed for the fiscal year, along with a fee proposal. The scope and fee proposal is reviewed with the internal auditor, the Audit Committee chair, and, when appropriate, our management for their input (but not their approval). Once approved by the Audit Committee, the services outlined in the engagement letter will have specific approval. All other audit and permissible non-audit services that have not been approved in connection with the independent auditor's engagement letter for the applicable year must be specifically pre-approved by the Audit Committee under the same process as noted above, where practicable. The independent auditors shall not perform any prohibited non-audit services described in Section 10A(g) of the Securities Exchange Act of 1934. The Audit Committee must specifically pre-approve any proposed services that exceed pre-approved cost levels.

Tax Services. The Audit Committee believes that the independent auditor can provide tax services to us, such as tax compliance, tax planning and tax advice, without impairing the auditor's independence. The Audit Committee will not permit the retention of the independent auditor in connection with a transaction initially recommended by the independent auditor, the purpose of which may be tax avoidance and the tax treatment of which may not be supported in the Internal Revenue Code and related regulations.

Delegation. The Audit Committee may delegate pre-approval authority to one or more of its members. The Audit Committee delegates specific pre-approval authority to its chair, provided that the estimated fee for any such proposed pre-approved services does not exceed $10,000. The chair is required to report any pre-approval decisions to the Audit Committee at its next scheduled meeting.

Report of the Audit Committee

Our Audit Committee operates under a written charter adopted by the board of directors. The Audit Committee is responsible for providing oversight of the independent audit process and the independent auditors, reviewing our financial statements and discussing them with management and the independent auditors, in addition to reviewing and discussing with management and the independent auditors the adequacy and effectiveness of our internal accounting and disclosure controls and procedures and providing oversight of legal and regulatory compliance and ethics programs. The Audit Committee communicates regularly with our management, including our Chief Financial Officer, our Director of Internal Audit and our independent auditors. The Audit Committee is also responsible for conducting an appropriate review of and approving all related person transactions. The Audit Committee approved the delegation of its authority to approve related person transactions to the Chair of the Audit Committee (or the Chair's designee), and the decision of the Chair of Audit Committee (or the Chair's designee) regarding a related person transaction is presented to and reviewed by the Audit Committee at its next meeting. The Audit Committee is also responsible for evaluating the effectiveness of the Audit Committee charter at least annually.

To comply with the Sarbanes-Oxley Act of 2002, the Audit Committee adopted a policy that pre-approves specified audit services to be provided by our independent auditors. The policy forbids our independent auditors from providing the services enumerated in Section 201(a) of the Sarbanes-Oxley Act.

In performing all of these functions, the Audit Committee acts only in an oversight capacity. In its oversight role, the Audit Committee relies on the work and assurances of our management, which has the primary responsibility for financial statements and reports, and of the independent auditors, who express an opinion on the conformity of our annual financial statements to accounting principles generally accepted in the United States of America in their report.

The Audit Committee has reviewed and discussed our 2016 audited financial statements with management. The Audit Committee has discussed with Dixon Hughes Goodman LLP, our independent registered public accounting firm, those matters required to be discussed by the auditors with the Audit Committee under the rules adopted by the Public Company Accounting Oversight Board. The Audit Committee has received the written disclosures and the letter from Dixon Hughes Goodman LLP required by the Public Company Accounting Oversight Board regarding Dixon Hughes Goodman LLP's communications with the Audit Committee concerning independence. The Audit Committee has discussed with Dixon Hughes Goodman LLP their independence from the Company and our management. The Audit Committee reported its findings to our board of directors.

Based on the reviews and discussions described above, the Audit Committee recommended to our board of directors that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 for filing with the SEC. A copy of our Annual Report on Form 10-K is part of the Annual Report to Shareholders enclosed with these proxy materials.

The Audit Committee
John D. Houser, Chairman
Virginia A. Hepner
William D. McKnight
Major General (Ret.) Robert H. McMahon

The Audit Committee's report shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate the information contained in the report by reference, and it shall not be deemed filed under such acts.

VOTING PROCEDURES AND RELATED MATTERS

Who is seeking my proxy?

The board of directors of the Company is soliciting the enclosed proxy for use at its annual meeting of shareholders. If the meeting is adjourned, we may also use the proxy at any later meetings for the purposes stated in the notice of annual meeting.

Who is eligible to vote?

Shareholders of record at the close of business on April 7, 2017 are entitled to be present and to vote at the annual meeting or any adjourned meeting. We are mailing these proxy materials to shareholders on or about April 13, 2017.

What are the rules for voting?

As of the record date, we had 38,939,203 shares of common stock outstanding and entitled to vote at the annual meeting. Each share of our common stock entitles the holder to one vote on all matters voted on at the meeting. All of the shares of common stock vote as a single class.

If you hold shares in your own name, you may vote by selecting one of the following options:

Vote By Proxy:

If you choose to vote by proxy, simply mark your proxy card, date and sign it and return it in the postage-paid envelope provided. If you receive more than one proxy card, it means that you have multiple accounts at the transfer agent. Please sign and return all proxy cards to be certain that all your shares are voted.

Vote in Person:

You may choose to vote in person at the meeting. We will distribute written ballots to any shareholder of record who wishes to vote at the meeting.

If your shares are held in the name of a bank, broker or other holder of record, you are considered the beneficial owner of shares held in "street name," and you will receive instructions from such holder of record that you must follow for your shares to be voted. Please follow their instructions carefully. Also, please note that if the holder of record of your shares is a bank, broker or other nominee and you wish to vote in person at the annual meeting, you must request a legal proxy or broker's proxy from your bank, broker or other nominee that holds your shares and present that proxy and proof of identification at the annual meeting.

Shares represented by signed proxies will be voted as instructed. If you sign the proxy but do not mark your vote, your shares will be voted as the directors have recommended. Voting results will be tabulated and certified by our transfer agent, American Stock Transfer & Trust Company, LLC.

A majority of our outstanding shares of common stock as of the record date must be present at the meeting, either in person or by proxy, to hold the meeting and conduct business. This is called a quorum. In determining whether we have a quorum at the annual meeting for purposes of all matters to be voted on, all votes "for" or "against" and all votes to "abstain" will be counted. Shares will be counted for quorum purposes if they are represented at the meeting for any purpose other than solely to object to holding the meeting or transacting business at the meeting.

If you hold your shares in street name, your brokerage firm may vote your shares under certain circumstances. Brokerage firms have authority under stock exchange rules to vote their customers' unvoted shares on certain "routine" matters. We expect that brokers will be allowed to exercise discretionary authority for beneficial owners who have not provided voting instructions ONLY with respect to Proposal 4 – the ratification of the appointment of Dixon Hughes Goodman LLP as our independent registered public accounting firm for 2017 but not with respect to any of the other proposals to be voted on at the annual meeting. **If you hold your shares in**

street name, please provide voting instructions to your bank, broker or other nominee so that your shares may be voted on all other proposals.

When a brokerage firm votes its customers' unvoted shares on routine matters, these shares are counted for purposes of establishing a quorum to conduct business at the meeting. If a brokerage firm indicates on a proxy that it does not have discretionary authority to vote certain shares on a particular matter, then those shares will be treated as "broker non-votes." Shares represented by broker non-votes will be counted in determining whether there is a quorum.

Election of Directors. Provided a quorum is present, directors will be elected by the affirmative vote of a majority of the shares of our common stock present in person or by proxy at the annual meeting. Shareholders do not have cumulative voting rights. If you hold your shares in street name and do not complete and return voting instructions to your broker or other nominee, this will have the same effect as a vote "AGAINST" the election of our director nominees. Abstentions will also have the same effect as a vote "AGAINST" the election of our director nominees. All of our nominees are currently serving as directors. If a nominee does not receive the required vote for re-election, the director will continue to serve on the board as a "holdover" director until his or her death, written resignation, retirement, disqualification or removal, or his or her successor is elected.

Other Proposals. For all other matters to be approved at the annual meeting, the number of votes cast favoring the matter must exceed the number of votes cast opposing the matter, provided a quorum is present. Abstentions, broker non-votes and the failure to return a signed proxy will have no effect on the outcome of such matters.

How can I revoke my proxy?

If you are a shareholder of record (*i.e.*, you hold your shares directly instead of through a brokerage account) and you change your mind after you return your proxy, you may revoke it and change your vote at any time before the polls close at the meeting. You may do this by:

- signing, dating and returning another proxy with a later date; or
- voting in person at the meeting.

If you hold your shares through a brokerage account, you must contact your brokerage firm to revoke your proxy.

How will we solicit proxies, and who will pay for the cost of the solicitation?

We will solicit proxies principally by mailing these materials to the shareholders, but our directors, officers and employees may also solicit proxies by telephone or in person. We will pay all of the costs of soliciting proxies, which primarily include the costs of preparing, photocopying and mailing these materials.

How can a shareholder propose business to be brought before next year's annual meeting?

We must receive any shareholder proposals intended to be presented at our 2018 annual meeting of shareholders on or before December 14, 2017 for a proposal to be eligible to be included in the proxy statement and form of proxy to be distributed by the board of directors for that meeting. Any shareholder proposal intended to be presented from the floor at our 2017 annual meeting of shareholders must comply with the advance notice provisions and other requirements of our bylaws and be delivered not more than 60 days and not less than 30 days before the annual meeting; provided, however, that if less than 31 days' notice of the meeting is given, such notice of a shareholder proposal must be delivered or mailed not later than the tenth day following the day on which notice of the meeting was mailed.

Will other business be transacted at the annual meeting?

We do not know of any business to be presented for action at the annual meeting other than those items listed in the Notice of Annual Meeting of Shareholders. Your shares will be voted at the directors' discretion on any of the following matters:

- any matter about which we did not receive written notice in a reasonable time before we mailed these proxy materials to our shareholders; and
- matters incident to the conduct of the meeting.

How can a shareholder receive a paper copy of our 2016 Annual Report on Form 10-K or of exhibits to it?

Included with these proxy materials is a copy of our 2016 Annual Report on Form 10-K without exhibits, as filed with the SEC. We will furnish to each person whose proxy is solicited, on the written request of that person, a copy of the exhibits to that annual report for a charge of ten cents per page. We will also mail to you without charge, upon request, a copy of any document specifically referenced or incorporated by reference in this proxy statement. Please direct your request to Corporate Secretary, State Bank Financial Corporation, 3399 Peachtree Road NE, Suite 1900, Atlanta, Georgia 30326 or by calling 404-475-6599.

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

FORM 10-K

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

For the fiscal year ended December 31, 2016

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)
Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value per share	The NASDAQ Stock Market LLC

Securities registered under Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

As of the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's common stock held by nonaffiliates of the registrant was approximately $710.7 million.

The number of shares outstanding of the registrant’s common stock, as of February 23, 2017 was 38,869,395.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Annual Report on Form 10-K is incorporated by reference from the registrant's definitive proxy statement relating to the 2017 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Annual Report on Form 10-K relates.

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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 statements related to our strategic plans to continue organic growth and pursue other strategic opportunities, such as acquisitions, that our direct banking strategy will assist us in obtaining the deposits from local customers, the use of the mortgage and Small Business Administration ("SBA") platforms from our recent 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 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 that our total risk-weighted assets will increase, our belief that our recorded deferred tax assets are fully recoverable, our expected dividend capacity in 2017, 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" 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").

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, for a description of some of the important factors that may affect actual outcomes.

PART I

Item 1. Description of Business.

General Overview

State Bank Financial Corporation (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 (the "Bank" or "State Bank"). State Bank is a Georgia state-chartered bank that opened in October 2005 in Pinehurst, Georgia, which initially operated as a small community bank with two branch offices located in Dooly County, Georgia. Between July 24, 2009 and December 31, 2016, we successfully completed 16 bank acquisitions totaling $5.1 billion in assets and $4.5 billion in deposits. State Bank principally operates through 31 full-service branches throughout seven of Georgia's eight largest metropolitan statistical areas, or MSAs.

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. Additionally, we refer to each of the financial institutions we have acquired collectively as the "Acquired Banks."

As a result of our acquisitions, we have transformed from a small community bank to a much larger commercial bank. We offer a variety of community banking services to individuals and businesses within our markets. Our product lines include loans to small and medium-sized businesses, residential and commercial construction and development loans, commercial real estate loans, farmland and agricultural production loans, residential mortgage loans, home equity loans, consumer loans and a variety of commercial and consumer demand, savings and time deposit products. We also offer online banking and bill payment services, online cash management, safe deposit box rentals, debit card and ATM card services and the availability of a network of ATMs for our customers. In addition to the banking services noted above, we offer payroll and insurance services, through Altera Payroll and Insurance, a division of State Bank, to small and medium-size businesses. These services include fully automated human resources information system, payroll, benefits and labor management.

At December 31, 2016, our total assets were approximately $4.2 billion, our total loans receivable were approximately $2.8 billion, our total deposits were approximately $3.4 billion and our total shareholders' equity was approximately $613.6 million. The Company is headquartered at 3399 Peachtree Road, N.E., Suite 1900, Atlanta, Georgia 30326. State Bank's main office is located at 4219 Forsyth Road, Macon, Georgia 31210.

Our History and Growth

On July 24, 2009, State Bank raised approximately $292.1 million in gross proceeds (before expenses) from investors in a private offering of its common stock. Since that date and through October 2011, State Bank has acquired $3.9 billion in total assets and assumed $3.6 billion in deposits from the Federal Deposit Insurance Corporation (the "FDIC"), as receiver, in 12 different failed bank acquisition transactions.

Concurrent with each of our failed bank acquisitions, we entered into loss share agreements with the FDIC that covered certain of the acquired loans and other real estate owned. Historically, we have referred to loans subject to loss share agreements with the FDIC as “covered loans” and loans that are not subject to loss share agreements with the FDIC as “noncovered loans.” However, with the early termination of all of our loss share agreements as discussed below, we now segregate our loan portfolio into the following three categories:

(1) organic loans, which refers to loans not purchased in the acquisition of an institution or credit impaired portfolio,

(2) purchased non-credit impaired loans ("PNCI"), which refers to loans acquired in our acquisitions that did not show signs of credit deterioration at acquisition, and

(3) purchased credit impaired loans ("PCI"), which refers to loans we acquired that, at acquisition, we determined it was probable that we would be unable to collect all contractual principal and interest payments due.

All of the loans we acquired in our 12 FDIC assisted transactions, which we refer to as our failed bank transactions, and all of the loans acquired in our purchase of a loan portfolio from the FDIC in July 2014, were deemed purchased credit impaired loans at acquisition. The indemnification asset previously associated with the FDIC loss share agreements related to our failed bank transactions is referred to as the "FDIC receivable." The FDIC receivable was eliminated with the early termination of our loss share agreements discussed below.

On October 1, 2014, we closed on our acquisition of Atlanta Bancorporation, Inc. and its wholly-owned subsidiary bank, Bank of Atlanta. Atlanta Bancorporation, Inc. was immediately merged into the Company followed by the merger of Bank of Atlanta with and into State Bank. We paid approximately $25.2 million in cash for all of the outstanding shares of Atlanta Bancorporation. With the acquisition of Bank of Atlanta, we acquired one branch in midtown Atlanta and one branch in Duluth, Georgia. Simultaneously with the acquisition, State Bank announced that our existing midtown Atlanta branch would be closed and merged into Bank of Atlanta's midtown Atlanta branch.

On January 1, 2015, we completed our merger with Georgia-Carolina Bancshares, Inc., the holding company for First Bank of Georgia ("First Bank"). We paid approximately $88.9 million for all of the outstanding shares of Georgia-Carolina Bancshares, Inc. consisting of $31.8 million in cash and $57.0 million of our common stock. Immediately following the merger, First Bank, a Georgia state-chartered bank, became a wholly-owned subsidiary bank of the Company. With the acquisition of First Bank, we acquired three branches in Augusta, Georgia, two branches in Martinez, Georgia, one branch in Evans, Georgia and one branch in Thomson, Georgia. Additionally with the First Bank acquisition, we acquired four mortgage origination offices in Aiken, South Carolina, Augusta, Georgia, Savannah, Georgia and Pooler, Georgia. On July 24, 2015, First Bank merged with and into State Bank.

On May 21, 2015, we entered into an agreement with the FDIC to terminate our loss share agreements for all 12 of our FDIC-assisted acquisitions, resulting in a one-time after-tax charge of approximately $8.9 million, or $14.5 million pre-tax. All rights and obligations of the parties under the FDIC loss share agreements, including the clawback provisions and the settlement of historical loss share expense reimbursement claims, were eliminated under the early termination agreement. All future charge-offs, recoveries, gains, losses and expenses related to assets previously covered by FDIC loss share agreements will now be recognized entirely by us since the FDIC will no longer be sharing in such charge-offs, recoveries, gains, losses and expenses. Despite the termination of the loss share agreements, the terms of the purchase and assumption agreements for our FDIC-assisted acquisitions continue to provide for the FDIC to indemnify us against certain claims, including claims with respect to assets, liabilities or any affiliate not acquired or otherwise assumed by us and with respect to claims based on any action by directors, officers or employees of the failed banks for the term provided in the agreements.

On October 22, 2015, we closed on the acquisition of the equipment finance origination platform of Patriot Capital Corporation ("Patriot Capital"). Patriot Capital, which now operates as a division of State Bank, is a leading provider of equipment financing to the retail petroleum industry. Patriot Capital originates loans throughout the United States.

On December 31, 2016, we closed on our acquisition of NBG Bancorp, Inc. ("NBG Bancorp") and its wholly-owned subsidiary bank, The National Bank of Georgia ("National Bank of Georgia"). NBG Bancorp was immediately merged into the Company followed by the merger of National Bank of Georgia with and into State Bank. We paid approximately $77.9 million for all of the outstanding shares of NBG Bancorp consisting of $34.2 million in cash and $43.7 million of 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.

On December 31, 2016, we also closed on our acquisition of S Bankshares, Inc. ("S Bankshares") and its wholly-owned subsidiary bank, S Bank. S Bankshares was immediately merged into the Company followed by the merger of S Bank with and into State Bank. We paid approximately $12.6 million for all of the outstanding shares of S Bankshares consisting of $4.3 million in cash and $8.3 million of our common stock. With the acquisition of S Bank, we acquired four branches located in Savannah, Glennville, Reidsville and Hinesville, Georgia.

Strategic Plan

As a result of our 12 FDIC-assisted acquisitions since July 2009, and the fair value discounts associated with each such acquisition, we anticipate that a significant portion of our earnings over the next year or two will continue to be derived from the realization of accretable discounts on the loans that we purchased. (See below "Lending Activities-General" for an explanation of "accretable discounts"). We also plan to continue growing our loan portfolio organically over the coming year and to add additional clients to our cash management and payments business, including our payroll processing services. For the year ended December 31, 2016, we had organic loan growth of $316.2 million, or 17.8%, from 2015.

In addition to organic growth, we plan to seek other strategic opportunities, such as acquisitions of select loan portfolios, whole loans and loan participations from correspondent banks and specialty lenders, open bank acquisitions and acquisitions that leverage our expertise in failed bank transactions and distressed debt resolutions. We will also consider the purchase of select lines of business that we believe will complement our existing operations.

To achieve our goals, we have assembled an experienced senior management team, combining extensive market knowledge with an energetic and entrepreneurial culture. The members of our management team have close ties to, and are actively involved in, the communities in which we operate, which is critical to our relationship banking focus.

Our Market Area

Our primary market areas are Middle Georgia (including Macon), Metropolitan Atlanta, Greater Savannah, Athens, Gainesville and Augusta, Georgia. In addition to our administrative office, located at 3399 Peachtree Road, N.E., Suite 1900, Atlanta, Georgia 30326, at December 31, 2016, we operated 31 full-service banking offices in the following counties in Georgia: Bibb, Chatham, Clarke, Cobb, Columbia, Dooly, Fulton, Gwinnett, Hall, Houston, Jones, Liberty, McDuffie, Richmond and Tattnall. We also operated eight mortgage production offices.

The following table shows key deposit and demographic information about our market areas and our presence in these markets:

	State Bank and Trust Company			Total Market Area				
	2016 State Bank Deposits in Market ($000) (1)	2016 Total Market Share (1)	2016 Rank in Market (1)	2016 Total Deposits in Market Area ($000) (1)	2016 Population (2)	2017-2022 Projected Population Growth (2)	2016 Median Household Income (2)	2017-2022 Projected Growth in Household Income (2)
Middle Georgia								
Bibb	$ 842,704	29.96%	1	$ 2,813,056	153,056	.83%	$ 38,134	6.93%
Dooly	26,676	19.38	3	137,652	13,822	(2.08)	28,446	(3.59)
Houston	258,302	19.50	2	1,324,691	151,976	5.35	53,565	2.20
Jones	154,238	52.98	1	291,112	28,302	.61	55,999	8.14
Metro Atlanta								
Cobb	166,180	1.21	16	13,785,646	757,707	6.62	69,945	8.34
Fulton	980,353	1.11	9	88,592,983	1,031,774	6.79	61,084	7.26
Gwinnett	85,746	.58	24	14,798,376	923,142	8.11	63,148	5.34
Augusta								
Columbia	132,633	7.52	5	1,764,758	150,080	9.74	69,878	1.89
McDuffie	66,873	23.48	1	284,866	21,506	1.15	41,331	9.72
Richmond	225,450	6.39	5	3,526,729	202,265	2.35	37,955	2.50
Greater Savannah (3)								
Chatham	13,725	.22	19	6,314,712	292,924	6.54	51,261	7.94
Liberty	19,740	5.04	4	391,610	61,070	(2.06)	43,191	(3.05)
Tattnall	57,914	19.60	3	295,532	25,176	1.15	35,995	3.57
Athens/Gainesville (3)								
Clarke	225,302	7.97	6	2,826,332	126,464	6.17	32,847	4.06
Hall	98,359	3.04	11	3,239,570	197,797	6.61	56,020	10.06

(1) Source: SNL Financial. This data is as of June 30, 2016 and the market information includes only retail branches for banks, thrifts, and savings banks and does not include credit unions.
(2) Source: Nielsen, as provided by SNL Financial. Demographic data is provided by Nielsen, based primarily on U.S. Census data. For non-census year data, Nielsen uses samples and projections to estimate the demographic data.
(3) Reflects new markets entered into as a result of our acquisitions of S Bankshares, Inc. and NBG Bancorp, Inc. each on December 31, 2016. Deposit data reflects deposits held by S Bank (Greater Savannah) and National Bank of Georgia (Athens/Gainesville) as of June 30, 2016.

Competition

The banking business is highly competitive, and we experience competition in our market areas from many other financial institutions. We offer a competitive suite of products coupled with personalized service. Delivery of customized product sets specifically designed to meet the needs of middle market businesses give us a competitive advantage with our target customers. Competition among financial institutions is based on interest rates offered on deposit accounts, structure, terms and interest rates charged on loans, other credit and service charges relating to loans, the quality and scope of products and services rendered, the convenience of banking facilities, and, in the case of loans to commercial borrowers, relative lending limits. We compete with commercial banks, credit unions, savings institutions, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, as well as super-regional, national and international financial institutions that operate in our market areas and elsewhere. In addition, we compete with payroll processing businesses in providing payroll services.

We compete with financial institutions both in attracting deposits and in making loans. In addition, we have to attract our customer base from other existing financial institutions and from new residents. Many of our competitors are well-established, larger financial institutions, such as SunTrust, Bank of America, Wells Fargo, and BB&T. These institutions offer some services, such as extensive and established branch networks and more complex financial products, which we do not provide. In addition, many of our nonbank competitors are not subject to the same extensive governmental regulations applicable to bank holding companies and federally insured banks such as ours.

Lending Activities

General

We offer a range of lending services, including commercial and residential real estate mortgage loans, real estate construction loans, commercial and industrial loans, agriculture and consumer loans. Our customers are generally individuals, owner-managed businesses, farmers, professionals, real estate investors, home builders, counties and municipalities within our market areas. We also offer equipment finance agreements and certain Small Business Administration loan programs to customers nationally. At December 31, 2016, we had net total loans of $2.8 billion, representing 71.2% of our total earning assets.

We recorded the loans we acquired in each of our acquisitions at their estimated fair values on the date of each acquisition. We calculated the fair value of loans by discounting scheduled cash flows through the estimated maturity date of the loan, using estimated market discount rates that reflect the credit risk inherent in the loan. We refer to the excess cash flows expected at acquisition over the estimated fair value as the "accretable discount." The accretable discount for purchased non-credit impaired loans is recognized as interest income over the remaining life of the loan. The accretable discount for purchased credit impaired loans is recognized as accretion income over the remaining life of the loan. The "nonaccretable discount" is the difference, calculated at acquisition, between contractually required payments and the cash flows expected to be collected. We re-estimate our cash flow expectations for purchased credit impaired loans on a quarterly basis, which involves estimates of expected cash flows and significant judgment on timing of loan resolution. If our assumptions prove to be incorrect, our current allowance for loan and lease losses may not be sufficient, and adjustments may be necessary to allow for different economic conditions or adverse developments in our loan portfolio.

Real Estate Loans

Loans secured by real estate are the principal component of our loan portfolio. Real estate loans are subject to the same general risks as other loans and are particularly sensitive to fluctuations in the value of real estate. Increases in interest rates, declines in occupancy rates, fluctuations in the value of real estate, as well as other factors arising after a loan has been made, could negatively affect a borrower's cash flow, creditworthiness and ability to repay the loan. When we make loans, we obtain a security interest in real estate whenever possible, in addition to any other available collateral, to increase the likelihood of the ultimate repayment of the loan. To control concentration risk, we monitor collateral type and industry concentrations within this portfolio.

- *Other Commercial Real Estate Loans.* At December 31, 2016, other commercial real estate loans amounted to $1.0 billion, or 36.4%, of our loan portfolio. These loans generally have terms of five years or less, although payments may be structured on a longer amortization. We evaluate each loan on an individual basis and attempt to determine the business risks and credit profile of each borrower.

- *Residential Real Estate Loans.* We generally originate and hold certain first mortgage and traditional second mortgage residential real estate loans, adjustable rate mortgages and home equity lines of credit. We also originate fixed and adjustable rate residential real estate loans with terms of up to 30 years for third-party investors. At December 31, 2016, residential real estate loans amounted to $343.4 million, or 12.2%, of our loan portfolio, of which home equity loans totaled $77.9 million, or 22.7%, of the residential real estate loan portfolio.

Real Estate Construction and Development Loans

At December 31, 2016, real estate construction and development loans amounted to $567.8 million, or 20.2%, of our loan portfolio. We offer fixed and adjustable rate residential and commercial construction loans to builders and developers and to consumers who wish to build their own homes. Construction and development loans generally carry a higher degree of risk than long-term financing of existing properties because repayment depends on the ultimate completion of the project and usually on the subsequent leasing and/or sale of the property. Specific risks include:

- cost overruns;
- mismanaged construction;
- inferior or improper construction techniques;
- economic changes or downturns during construction;
- a downturn in the real estate market;
- rising interest rates which may prevent sale of the property; and
- failure to lease or sell completed projects in a timely manner.

We attempt to reduce the risks associated with construction and development loans by obtaining personal guarantees, as appropriate, monitoring the construction process, and by keeping the loan-to-value ratio of the completed project within regulations as promulgated by both the FDIC and the Georgia Department of Banking and Finance.

We make residential land loans to both commercial entities and consumer borrowers for the purpose of financing land upon which to build a residential home. Residential land loans are reclassified as residential construction loans once construction of the residential home commences. These loans are further categorized as:

- pre-sold commercial, which is a loan to a commercial entity with a pre-identified buyer for the finished home;
- owner-occupied consumer, which is a loan to an individual who intends to occupy the finished home; and
- nonowner-occupied commercial (speculative), which is a loan to a commercial entity intending to lease or sell the finished home.

Form 10-K

We make commercial land loans to commercial entities for the purpose of financing land on which to build a commercial project. These loans are for projects that typically involve small-and medium-sized single and multi-use commercial buildings.

We make commercial construction loans to borrowers for the purpose of financing the construction of a commercial development. These loans are further categorized depending on whether the borrower intends (a) to occupy the finished development (owner-occupied) or (b) to lease or sell the finished development (nonowner-occupied). At issuance of the certificate of occupancy these loans are no longer considered construction loans.

Commercial, Financial and Agricultural and Owner-Occupied Real Estate Loans

- *Commercial, Financial and Agricultural.* At December 31, 2016, commercial, financial and agricultural loans amounted to $368.1 million, or 13.1%, of our total loan portfolio. We make loans for commercial purposes in various lines of businesses, including the manufacturing, professional service, and crop production industries. Commercial, financial and agricultural loans also includes loans to states and political subdivisions, as well as equipment finance agreements originated through Patriot Capital, a division of State Bank. While these loans may have real estate as partial collateral, many are secured by various other assets of the borrower including but not limited to accounts receivable, inventory, furniture, fixtures, and equipment. Our underwriting and management of the credit take into consideration the fluid nature of receivables and inventory collateral, where appropriate. Our repayment analysis includes a consideration of the cash conversion cycle, historical cash flow coverage, the predictability of future cash flows, together with the overall capitalization of the borrower. We also participate in loan syndications of senior secured commercial loans either directly with the lead bank or through purchases in the secondary market. These loans are primarily to large publicly traded companies throughout the United States and are secured by all assets of the issuing company. These loans are underwritten to the same standards as our organic portfolio.
- *Owner-Occupied Real Estate Loans.* At December 31, 2016, owner-occupied real estate loans amounted to $395.9 million, or 14.1%, of our loan portfolio. These loans are underwritten based on the borrower's ability to service the debt from income from the business, as cash flow from the business is considered the primary source of repayment.

Leases

At December 31, 2016 leases amounted to $71.7 million, or 2.5%, of our loan portfolio. Leases include purchased commercial, business purpose and municipal leases. For purchased leases, the stream of payments and a first security interest in the collateral is assigned to us. Our lease funding is based on a present value of the lease payments at a discounted interest rate, which is determined based on the credit quality of the lessee, the term of the lease compared to expected useful life, and the type of collateral. Types of collateral include, but are not limited to, medical equipment, rolling stock, franchise restaurant equipment and hardware/software. Servicing of purchased leases is primarily retained by the loan originator, as well as ownership of all residuals, if applicable. Lease financing is underwritten by our Specialized Finance Group using similar underwriting standards as would be applied to a secured commercial loan requesting high loan-to-value financing. Risks that are involved with lease financing receivables are credit underwriting and borrower industry concentrations.

Consumer

At December 31, 2016, consumer loans amounted to $42.6 million, or 1.5%, of our loan portfolio. We make a variety of loans to individuals for personal and household purposes, including secured and unsecured installment loans and revolving lines of credit. We underwrite consumer loans based on the borrower's income, current debt level, personal financial statement composition, past credit history and the availability and value of collateral. Consumer loan interest rates are both fixed and variable. Although we typically require monthly payments of interest and a portion of the principal on our loan products, we may offer consumer loans with a single maturity date when a specific source of repayment is available. Consumer loans not secured by real estate are generally considered to have higher risk because they may be unsecured, or, if they are secured, the value of the collateral may be more difficult to assess, more likely to decrease in value, and is more difficult to control, than real estate. During 2015, we began emphasizing the underwriting of consumer loans secured by cash value life insurance policies which presents a lower collateral risk than other non-real estate secured consumer loans. We also purchase pools of retail installment contracts which are underwritten by our Specialized Finance Group. Servicing of purchased retail installment contracts is primarily retained by the loan originator. These loans are underwritten to the same standards as our organic portfolio.

Loan Approval

Certain credit risks are inherent in making loans. These credit risks include repayment risks, risks resulting from uncertainties in the future value of collateral, risks resulting from changes in economic and industry conditions and risks inherent in dealing with individual borrowers. We attempt to mitigate repayment risks by adhering to internal credit policies and procedures. We employ consistent analysis and underwriting to examine credit information and prepare underwriting documentation. We monitor and approve exceptions to policy as required, and we also track and address document exceptions.

Our loan approval policy generally provides for all consumer and commercial relationship exposures less than $500,000 to be handled through a centralized underwriting group. We also have specific officer lending limits entrusted to senior sales leadership. Approval concurrence from experienced credit risk managers is required as the size of the transaction increases. Loans underwritten outside of our Centralized Underwriting group are required to be post reported to our Loan Committees. Our Loan Committees include the Enterprise Risk Officer, President of State Bank, Chief Credit Officer, Senior Credit Officer, Regional Credit Officers, Director of Credit Administration, Retail Credit Manager and Director of The Commercial Financial Group. State Bank maintains an internal single borrower lending limit of $20.0 million and no more than $5.0 million may be unsecured. Internal policy has established lending authority up to $40.0 million for any relationship, of which no more than $10.0 million may be unsecured. During Credit Steering Committee meetings all (i) single transaction requests greater than $10.0 million, (ii) non-recourse single transaction requests $5.0 million or greater, (iii) single transaction requests greater than $1.0 million resulting in total credit exposure greater than $20.0 million, or (iv) transaction requests resulting in unsecured total credit exposure of $5.0 million or greater are post reported to our executive officers.

State Bank maintains a policy not to originate loans to any director, employee (officer or non-officer), or principal shareholder, or the related interests (as defined in Regulation O) of each. This prohibition does not apply to residential mortgage loans originated for sale in the secondary market to employees not designated as Regulation O officers. Certain of the Acquired Banks previously extended loans from time to time to certain of their directors, their related interests and members of the immediate families of the directors, executive officers and employees of the Acquired Banks. These loans were made in the ordinary course of business on substantially the same terms, including interest rates, collateral and repayment terms, as those prevailing at the time for comparable transactions with persons not affiliated with the Acquired Banks, and did not involve more than the normal risk of collectability or present other unfavorable features. All loans made to previous Acquired Bank directors or executive officers, their related interests and members of the immediate families of the directors and executive officers who continued in a similar role at State Bank were paid off.

Credit Administration and Loan Review

Organic loans are rated at inception according to our credit grading system. Purchased credit impaired loans and purchased non-credit impaired loans are rated at acquisition date. Purchased non-credit impaired loans are subsequently managed and monitored in the same manner as organic loans. The credit rating for consumer loans and commercial loans with relationship debt less than $500,000 is determined by our Centralized Underwriting group. The credit rating for commercial loans is recommended by the relationship manager and ultimately determined by the applicable approval authority of the loan. It is the responsibility of the relationship manager to assess the accuracy of the credit ratings assigned to relationships with total credit exposure greater than $100,000 on a quarterly basis. The credit rating on loans less than $100,000 will remain unchanged unless the loan is part of a larger relationship or payment issues arise. As such, the primary review mechanism for managing these loans is the past due report. In our quarterly analysis of the allowance for loan and lease losses on organic and purchased non-credit impaired loans, loans that are less than $100,000 and are over 60 days past due are reclassified and are treated as substandard and are reserved for as a homogeneous pool, subject to the appropriate loss factor. A reassessment of a loan's credit rating may also be triggered by the noncompliance with financial or reporting covenants, review of financial information, or changes in the primary collateral securing the loan.

Our Credit Administration and Risk Departments assess portfolio trends, concentration risk, and other loan portfolio measurements to gauge the systemic risk that may be inherent in our lending practices and procedures. Our loan review activity is primarily coordinated by the Internal Loan Review Department. Our internal loan review is risk-based, concentrating on those areas with the highest perceived risk. For the year ended December 31, 2016, loans reviewed totaled $1.0 billion, representing 41.0% of recorded investment balances at year-end excluding the loans acquired in our acquisitions of National Bank of Georgia and S Bank. The objective of each review was to assess the accuracy of our internal risk ratings; adherence to applicable regulations and bank policies; documentation exceptions; and potential loan administration deficiencies.

Lending Limits

Our lending activities are subject to a variety of lending limits imposed by federal and state law. In general, State Bank is subject to a legal limit on loans to a single borrower equal to 15% of the bank's capital and unimpaired surplus, or 25% if the loan is fully secured. This limit increases or decreases as the bank's capital increases or decreases. Based upon the capitalization of State Bank at December 31, 2016, our legal lending limits were approximately $59.5 million (15%) and $99.2 million (25%), and we maintained a relationship internal lending limit of $10.0 million (if unsecured) and $40.0 million (if secured). We may seek to sell participations in our larger loans to other financial institutions, which will allow us to manage the risk involved in these loans and to meet the lending needs of our customers requiring extensions of credit in excess of these limits.

Mortgage Banking Activity

We engage in mortgage banking as part of an overall strategy to deliver fixed and variable rate residential real estate loan products to customers. The loans are primarily originated for sale into the secondary market with servicing released, and are approved for purchase by a third party investor prior to closing. We also operate wholesale lending to facilitate the purchase of loans from qualified brokers and correspondents for resale in the secondary market. We bear minimal interest rate risk on these loans and only hold the loans temporarily until documentation can be completed to finalize the sale to the investor. In addition, we originate and hold certain first mortgage and traditional second mortgage residential real estate loans and adjustable rate mortgages in our residential real estate loan portfolio.

Deposit Products

We offer a full range of deposit products and services that are typically available in most banks and savings institutions, including checking accounts, commercial operating accounts, savings and money market accounts, individual retirement accounts and short-term to longer-term certificates of deposit. Transaction accounts and certificates of deposit are tailored to and offered at rates competitive to those offered in our primary market areas. We solicit accounts from individuals, businesses, associations, organizations and governmental authorities. We believe that our direct banking strategy will assist us in obtaining deposits from local customers in the future.

Treasury and Management Services

We provide advanced treasury management tools and payment solutions to small business, business and commercial customers. We have embraced market payment solutions to initiate deeper core operating relationships in targeted segments and industry verticals. Payment solutions for funds collection and concentration services include ACH origination, Electronic Bill Presentment and Payment (EBPP), Remote Deposit Capture, Remote Cash Deposit, retail and wholesale lockbox, and wire services. Our cash management accounts include enhanced analysis with complex grouping structures, targeted balance sweeps, zero balance accounts, and multiple entity grouping. Our disbursement services include ACH origination, wire services, enhanced on-line bill pay, person-to-person payments and bank-to-bank transfers. Our enhanced fraud controls include Positive Pay, ACH Decisioning, and IBM® Security Trusteer Rapport® malware protection. Our on-line cash management systems can be controlled and managed from multiple locations, through multiple access devices including mobile and desktop with around-the-clock access.

Payroll Services

In October 2012, we acquired substantially all of the assets of Altera Payroll, Inc., a payroll services company. The acquisition diversified our revenue beyond existing business lines and complements our other commercial banking services. Altera Payroll and Insurance, formed from the Altera Payroll acquisition, operates as a division of State Bank, in partnership with treasury services, to provide payroll services, human resources services, payroll cards and employee health insurance. Altera Payroll and Insurance can also provide property and casualty insurance, employer liability insurance and workman's compensation may also be provided through licensed insurance agents.

Employees

At December 31, 2016, we had 731 employees on a full-time equivalent basis.

Availability of Information

Our investor website can be accessed at *www.statebt.com* under "Investors." Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished to the Securities and Exchange Commission (the "SEC") pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our investor website under the caption "SEC Filings" promptly after we electronically file such materials with, or furnish such materials to, the SEC. No information contained on any of our websites is intended to be included as part of, or incorporated by reference into, this Annual Report on Form 10-K. Documents filed with the SEC are also available free of charge on the SEC's website at *www.sec.gov.*

SUPERVISION AND REGULATION

State Bank Financial Corporation, and our subsidiary bank, State Bank are subject to extensive state and federal banking regulations that impose restrictions on and provide for general regulatory oversight of their operations. These laws generally are intended to protect depositors and not shareholders. The following summary is qualified by reference to the statutory and regulatory provisions discussed. Changes in applicable laws or regulations may have a material effect on our business and prospects. Our operations may be affected by legislative changes and the policies of various regulatory authorities. We cannot predict the effect that fiscal or monetary policies, economic conditions or new federal or state legislation may have on our business and earnings in the future.

The following discussion is not intended to be a complete list of all of the activities regulated by the banking laws or of the impact of those laws and regulations on our operations. It is intended only to briefly summarize some material provisions.

Legislative and Regulatory Initiatives to Address the Financial Crisis

Although the financial crisis has now passed, two legislative and regulatory responses - the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Basel III-based capital rules - will continue to have an impact on our operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law, which, among other things, changed the oversight and supervision of banks, bank holding companies, and other financial institutions, revised minimum capital requirements, created a new federal agency to regulate consumer financial products and services and implemented changes to corporate governance and compensation practices. Several provisions affect us, including:

- *Deposit Insurance Modifications.* The Dodd-Frank Act modified the FDIC's assessment base upon which deposit insurance premiums are calculated. The new assessment base equals our average total consolidated assets minus the sum of our average tangible equity during the assessment period. The FDIC has continued to modify some of the rules on assessments. The Dodd-Frank Act also permanently raised the standard maximum federal deposit insurance limits from $100,000 to $250,000.

- *Creation of New Governmental Authorities.* The Dodd-Frank Act created various new governmental authorities such as the Financial Stability Oversight Council and the Consumer Financial Protection Bureau (the “CFPB”), an independent regulatory authority housed within the Federal Reserve. The CFPB has broad authority to regulate the offering and provision of consumer financial products. The CFPB officially came into being on July 21, 2011, and rulemaking authority for a range of consumer financial protection laws (such as the Truth in Lending Act, the Electronic Funds Transfer Act and the Real Estate Settlement Procedures Act, among others) transferred from the Federal Reserve and other federal regulators to the CFPB on that date. The act gives the CFPB authority to supervise and examine depository institutions with more than $10 billion in assets for compliance with these federal consumer laws. The authority to supervise and examine depository institutions with $10 billion or less in assets for compliance with federal consumer laws will remain largely with those institutions’ primary regulators. However, the CFPB may participate in examinations of these smaller institutions on a “sampling basis” and may refer potential enforcement actions against such institutions to their primary regulators. The CFPB may participate in examinations of our subsidiary bank, which currently has assets of less than $10 billion, and could supervise and examine our other direct or indirect subsidiaries that offer consumer financial products or services. In addition, the act permits states to adopt consumer protection laws and regulations that are stricter than the regulations promulgated by the CFPB, and state attorneys general are permitted to enforce consumer protection rules adopted by the CFPB against certain institutions. The Dodd-Frank Act also authorized the CFPB to establish certain minimum standards for the origination of residential mortgages, including a determination of the borrower’s ability to repay. Under the act, financial institutions may not make a residential mortgage loan unless they make a “reasonable and good faith determination” that the consumer has a “reasonable ability” to repay the loan. The act allows borrowers to raise certain defenses to foreclosure but provides a full or partial safe harbor from such defenses for loans that are “qualified mortgages.” CFPB rules now in effect specify the types of income and assets that may be considered in the ability-to-repay determination, the permissible sources for verification, and the required methods of calculating a loan’s monthly payments. The rules also extend the requirement that creditors verify and document a borrower’s income and assets to include all information that creditors rely on in determining repayment ability. The rules also define “qualified mortgages,” imposing both underwriting standards - for example, a borrower’s debt-to-income ratio may not exceed 43% - and limits on the terms of such loans. Points and fees are subject to a relatively stringent cap, and payments that may be made in the course of closing a loan are limited as well. Certain loans, including interest-only loans and negative amortization loans, cannot be qualified mortgages.

- *Executive Compensation and Corporate Governance Requirements.* The Dodd-Frank Act addresses many investor protection, corporate governance and executive compensation matters that will affect most U.S. publicly traded companies, including the Company. The Dodd-Frank Act (1) grants shareholders of U.S. publicly traded companies an advisory vote on executive compensation; (2) enhances independence requirements for compensation committee members; (3) requires the SEC to adopt rules directing national securities exchanges to establish listing standards requiring all listed companies to adopt incentive-based compensation clawback policies for executive officers; and (4) provides the SEC with authority to adopt proxy access rules that would allow shareholders of publicly traded companies to nominate candidates for election as a director and have those nominees included in a company's proxy materials. The SEC has completed the bulk (although not all) of the rulemaking necessary to implement these provisions.

Separately, the Dodd-Frank Act requires several federal agencies, including the banking agencies and the SEC, to jointly issue a rule restricting incentive compensation arrangements at financial institutions, including bank holding companies and banks. The agencies proposed a rule in 2011, which was replaced with a new proposed rule in May 2016, but the rule has not yet been finalized.

Basel Capital Standards

Regulatory capital rules released in July 2013 to implement capital standards referred to as Basel III and developed by an international body known as the Basel Committee on Banking Supervision, impose higher minimum capital requirements for bank holding companies and banks. The rules apply to all national and state banks and savings associations regardless of size and bank holding companies and savings and loan holding companies with more than $1 billion in total consolidated assets. More stringent requirements are imposed on “advanced approaches” banking organizations-those organizations with $250 billion or more in total consolidated assets, $10 billion or more in total foreign exposures, or that have opted in to the Basel II capital regime. The requirements in the rule began to phase in on January 1, 2015 for us. The requirements in the rule will be fully phased in by January 1, 2019.

The rule includes certain new and higher risk-based capital and leverage requirements than those previously in place. Specifically, the following minimum capital requirements apply to us:

- a new common equity Tier 1 risk-based capital ratio of 4.5%;
- a Tier 1 risk-based capital ratio of 6% (increased from the former 4% requirement);
- a total risk-based capital ratio of 8% (unchanged from the former requirement); and
- a leverage ratio of 4% (also unchanged from the former requirement).

Under the rule, Tier 1 capital is redefined to include two components: Common Equity Tier 1 capital and additional Tier 1 capital. The new and highest form of capital, Common Equity Tier 1 capital, consists solely of common stock (plus related surplus), retained earnings, accumulated other comprehensive income, and limited amounts of minority interests that are in the form of common stock. Additional Tier 1 capital includes other perpetual instruments historically included in Tier 1 capital, such as noncumulative perpetual preferred stock. Tier 2 capital consists of instruments that currently qualify in Tier 2 capital plus instruments that the rule has disqualified from Tier 1 capital treatment. Cumulative perpetual preferred stock, formerly includable in Tier 1 capital, is now included only in Tier 2 capital. Accumulated other comprehensive income ("AOCI") is presumptively included in Common Equity Tier 1 capital and often would operate to reduce this category of capital. The rule provided a one-time opportunity at the end of the first quarter of 2015 for covered banking organizations to opt out of much of this treatment of AOCI. We made this opt-out election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of our investment securities portfolio.

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. As of January 1, 2017, we are required to hold a capital conservation buffer of 1.25%, increasing by 0.625% each successive year until 2019.

In general, the rules have had the effect of increasing capital requirements by increasing the risk weights on certain assets, including high volatility commercial real estate, certain loans past due 90 days or more or in nonaccrual status, mortgage servicing rights not includable in Common Equity Tier 1 capital, equity exposures, and claims on securities firms, that are used in the denominator of the three risk-based capital ratios.

Volcker Rule

Section 619 of the Dodd-Frank Act, known as the “Volcker Rule,” prohibits any bank, bank holding company, or affiliate (referred to collectively as “banking entities”) from engaging in two types of activities: “proprietary trading” and the ownership or sponsorship of private equity or hedge funds that are referred to as “covered funds.” Proprietary trading is, in general, trading in securities on a short-term basis for a banking entity's own account. Funds subject to the ownership and sponsorship prohibition are those not required to register with the SEC because they have only accredited investors or no more than 100 investors. In 2013, the federal banking agencies together with the SEC and the Commodity Futures Trading Commission, issued the final Volcker Rule regulations. The Volcker rule does not have a material effect on our operations as we do not engage in proprietary trading or own or sponsor covered funds. The Company may incur costs to adopt additional policies and systems to ensure compliance with the Volcker Rule, but any such costs are not expected to be material.

State Bank Financial Corporation

We own 100% of the outstanding capital stock of State Bank, and therefore we are required to be registered as a bank holding company under the federal Bank Holding Company Act of 1956, as amended (the "Bank Holding Company Act"). As a result, we are primarily subject to the supervision, examination and reporting requirements of the Board of Governors of the Federal Reserve (the "Federal Reserve") under the Bank Holding Company Act and the regulations promulgated under it. As a bank holding company located in Georgia, the Georgia Department of Banking and Finance also regulates and monitors our operations.

Permitted Activities

Under the Bank Holding Company Act, a bank holding company is generally permitted to engage in, or acquire direct or indirect control of more than 5% of the voting shares of any company engaged in, the following activities:

- banking or managing or controlling banks;
- furnishing services to or performing services for its subsidiaries; and
- any activity that the Federal Reserve determines to be so closely related to banking as to be a proper incident to the business of banking.

Activities that the Federal Reserve has found to be so closely related to banking as to be a proper incident to the business of banking include:

- factoring accounts receivable;
- making, acquiring, brokering or servicing loans and usual related activities;
- leasing personal or real property;
- operating a nonbank depository institution, such as a savings association;
- trust company functions;
- financial and investment advisory activities;
- conducting discount securities brokerage activities;
- underwriting and dealing in government obligations and money market instruments;
- providing specified management consulting and counseling activities;
- performing selected data processing services and support services;
- acting as agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions; and
- performing selected insurance underwriting activities.

Our only subsidiary is State Bank. Additionally, we do not currently engage in other activities other than the management and control of State Bank, although we may choose to engage in other activities in the future. As a bank holding company, we also can elect to be treated as a "financial holding company," which would allow us to engage in a broader array of activities. In sum, a financial holding company can engage in activities that are financial in nature or incidental or complementary to financial activities, including insurance underwriting, sales and brokerage activities, providing financial and investment advisory services and underwriting services, and engaging in limited merchant banking activities. We have not sought financial holding company status, but we may elect that status in the future as our business matures. If we were to elect in writing for financial holding company status, we would be required to be well capitalized and well managed, and each insured depository institution we control would also have to be well capitalized, well managed and have at least a satisfactory rating under the Community Reinvestment Act (discussed below).

The Federal Reserve has the authority to order a bank holding company or its subsidiaries to terminate any of these activities or to terminate its ownership or control of any subsidiary when it has reasonable cause to believe that the bank holding company's continued ownership, activity or control constitutes a serious risk to the financial safety, soundness or stability of it or any of its bank subsidiaries.

Change in Control

Two statutes, the Bank Holding Company Act and the Change in Bank Control Act, together with regulations promulgated under them, require some form of regulatory review before any company acquires “control” of a bank or a bank holding company. Under the Bank Holding Company Act, control is deemed to exist if a company acquires 25% or more of any class of voting securities of a bank holding company; controls the election of a majority of the members of the board of directors; or exercises a controlling influence over the management or policies of a bank or bank holding company. In guidance issued in 2008, the Federal Reserve has stated that it would not expect control to exist if a person acquires, in aggregate, less than 33% of the total equity of a bank or bank holding company (voting and nonvoting equity), provided such person’s ownership does not include 15% or more of any class of voting securities. Prior Federal Reserve approval is necessary before an entity acquires sufficient control to become a bank holding company. Natural persons, certain non-business trusts, and other entities are not treated as companies (or bank holding companies), and their acquisitions are not subject to review under the Bank Holding Company Act. State laws generally, including Georgia law, require state approval before an acquirer may become the holding company of a state bank.

Under the Change in Bank Control Act, a person or company is required to file a notice with the Federal Reserve if it will, as a result of the transaction, own or control 10% or more of any class of voting securities or direct the management or policies of a bank or bank holding company and either if the bank or bank holding company has registered securities or if the acquirer would be the largest holder of that class of voting securities after the acquisition. For a change in control at the holding company level, both the Federal Reserve and the subsidiary bank's primary federal regulator must approve the change in control; at the bank level, only the bank's primary federal regulator is involved. Transactions subject to the Bank Holding Company Act are exempt from Change in Control Act requirements. For state banks, state laws, including that of Georgia, typically require approval by the state bank regulator as well.

Source of Strength

The Dodd-Frank Act confirmed a longstanding Federal Reserve policy that a bank holding company must serve as a source of financial strength to its subsidiary bank and to commit resources to support the bank in circumstances in which the bank holding company might not otherwise do so. If State Bank was to become "undercapitalized," we would be required to provide a guarantee of the Bank's plan to return to capital adequacy. (See "Bank Regulation-Prompt Corrective Action" below.) Additionally, under the Bank Holding Company Act, the Federal Reserve may require a bank holding company to terminate any activity or relinquish control of a nonbank subsidiary, other than a nonbank subsidiary of a bank, upon the Federal Reserve's determination that the activity or control constitutes a serious risk to the financial soundness or stability of any depository institution subsidiary of the bank holding company. Federal bank regulatory authorities have additional discretion to require a bank holding company to divest itself of any bank or nonbank subsidiaries if the agency determines that divestiture may aid the depository institution's financial condition. Further, any loans by a bank holding company to a subsidiary bank are subordinate in right of payment to deposits and certain other indebtedness of the subsidiary bank. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank at a certain level would be assumed by the bankruptcy trustee and entitled to priority payment.

Dividends and Capital Requirements

The Federal Reserve imposes certain capital requirements on bank holding companies under the Bank Holding Company Act, including a minimum leverage ratio and minimum ratios of capital to risk-weighted assets. These requirements are essentially the same as those that apply to State Bank and are described above under “Basel Capital Standards” and below under "Bank Regulation-Prompt Corrective Action." Subject to our capital requirements and certain other restrictions, including the consent of the Federal Reserve, we are able to borrow money to make capital contributions to State Bank, and these loans may be repaid from dividends paid from State Bank to the Company.

Our ability to pay dividends depends on State Bank's ability to pay dividends to us, which is subject to regulatory restrictions as described below in "Bank Regulation-Dividends." The Federal Reserve imposes limits on dividends paid by a bank holding company, but because we have no operations apart from management of State Bank, the bank-level restrictions dictate our ability to make capital distributions. We are also able to raise capital for contribution to State Bank by issuing securities without having to receive regulatory approval, subject to compliance with federal and state securities laws.

Bank Regulation

State Bank operates as a state bank incorporated under the laws of the State of Georgia and is subject to examination by the Georgia Department of Banking and Finance and the FDIC. The deposits of State Bank are insured by the FDIC up to a maximum amount of $250,000.

The Georgia Department of Banking and Finance and the FDIC regulate or monitor virtually all areas of State Bank's operations, including:

- security devices and procedures;
- adequacy of capitalization and loss reserves;
- loans;
- investments;
- borrowings;
- deposits;
- mergers;
- issuances of securities;
- payment of dividends;
- interest rates payable on deposits;
- interest rates or fees chargeable on loans;
- establishment of branches;
- corporate reorganizations;
- maintenance of books and records; and
- adequacy of staff training to carry on safe lending and deposit gathering practices.

These agencies and the federal and state laws applicable to State Bank’s operations extensively regulate various aspects of our banking business, including, among other things, permissible types and amounts of loans, investments and other activities, capital adequacy, branching, interest rates on loans and on deposits, the maintenance of reserves on demand deposit liabilities, and the safety and soundness of our banking practices.

All insured depository institutions must undergo regular on-site examinations by their appropriate banking agency. The cost of examinations of insured depository institutions and any affiliates may be assessed by the appropriate agency against each institution or affiliate as it deems necessary or appropriate. Insured depository institutions file quarterly call reports with their federal regulatory agency and their state supervisor, when applicable. The FDIC has developed a method for insured depository institutions to provide supplemental disclosure of the estimated fair market value of assets and liabilities, to the extent feasible and practicable, in any balance sheet, financial statement, report of condition or any other report of any insured depository institution. The FDIC and the other federal banking regulatory agencies also have issued standards for all insured depository institutions relating, among other things, to the following:

- internal controls;
- information systems and audit systems;
- loan documentation;
- credit underwriting;
- interest rate risk exposure; and
- asset quality.

Prompt Corrective Action

As an insured depository institution, State Bank is required to comply with the capital requirements promulgated under the Federal Deposit Insurance Act and the regulations under it, which set forth five capital categories, each with specific regulatory consequences. The following is a list of the criteria for each prompt corrective action category:

- *Well Capitalized* - The institution exceeds the required minimum level for each relevant capital measure. A well capitalized institution:

  - has a total risk-based capital ratio of 10% or greater; and
  - has a Tier 1 risk-based capital ratio of 8% or greater; and
  - has a common equity Tier 1 risk-based capital ratio of 6.5% or greater; and
  - has a leverage capital ratio of 5% or greater; and
  - is not subject to any order or written directive to meet and maintain a specific capital level for any capital measure.

- *Adequately Capitalized* - The institution meets the required minimum level for each relevant capital measure. The institution may not make a capital distribution if it would result in the institution becoming undercapitalized. An adequately capitalized institution:

  - has a total risk-based capital ratio of 8% or greater; and
  - has a Tier 1 risk-based capital ratio of 6% or greater; and
  - has a common equity Tier 1 risk-based capital ratio of 4.5% or greater; and
  - has a leverage capital ratio of 4% or greater.

- *Undercapitalized* - The institution fails to meet the required minimum level for any relevant capital measure. An undercapitalized institution:

  - has a total risk-based capital ratio of less than 8%; or
  - has a Tier 1 risk-based capital ratio of less than 6%; or
  - has a common equity Tier 1 risk-based capital ratio of less than 4.5% or greater; or
  - has a leverage capital ratio of less than 4%.

- *Significantly Undercapitalized* - The institution is significantly below the required minimum level for any relevant capital measure. A significantly undercapitalized institution:

  - has a total risk-based capital ratio of less than 6%; or
  - has a Tier 1 risk-based capital ratio of less than 4%; or
  - has a common equity Tier 1 risk-based capital ratio of less than 3% or greater; or
  - has a leverage capital ratio of less than 3%.

- *Critically Undercapitalized* - The institution fails to meet a critical capital level set by the appropriate federal banking agency. A critically undercapitalized institution has a ratio of tangible equity to total assets that is equal to or less than 2%.

If the FDIC determines, after notice and an opportunity for hearing, that the institution is in an unsafe or unsound condition, the FDIC is authorized to reclassify the institution to the next lower capital category (other than critically undercapitalized) and require the submission of a plan to correct the unsafe or unsound condition.

If the institution is not well capitalized, it cannot accept brokered deposits without prior FDIC approval. Even if approved, the rates the institution may pay on the brokered deposits will be limited. In addition, a bank that is undercapitalized cannot offer an effective yield in excess of 75 basis points over the "national rate" paid on deposits (including brokered deposits, if approval is granted for the bank to accept them) of comparable size and maturity. The "national rate" is defined as a simple average of rates paid by insured depository institutions and branches for which data are available and is published weekly by the FDIC. Institutions subject to the restrictions that believe they are operating in an area where the rates paid on deposits are higher than the "national rate" can use the local market to determine the prevailing rate if they seek and receive a determination from the FDIC that it is operating in a high-rate area. Regardless of the determination, institutions must use the national rate to determine conformance for all deposits outside their market areas.

Moreover, if the institution becomes less than adequately capitalized, it must adopt a capital restoration plan acceptable to the FDIC. The institution also would become subject to increased regulatory oversight, and is increasingly restricted in the scope of its permissible activities. Each company having control over an undercapitalized institution also must provide a limited guarantee that the institution will comply with its capital restoration plan. Except under limited circumstances consistent with an accepted capital restoration plan, an undercapitalized institution may not grow. An undercapitalized institution may not acquire another institution, establish additional branch offices or engage in any new line of business unless it is determined by the appropriate federal banking agency to be consistent with an accepted capital restoration plan, or unless the FDIC determines that the proposed action will further the purpose of prompt corrective action. The appropriate federal banking agency may take any action authorized for a significantly undercapitalized institution if an undercapitalized institution fails to submit an acceptable capital restoration plan or fails in any material respect to implement a plan accepted by the agency. A critically undercapitalized institution is subject to having a receiver or conservator appointed to manage its affairs and the loss of its charter to conduct banking activities.

An insured depository institution may not pay a management fee to a bank holding company controlling that institution or any other person having control of the institution if, after making the payment, the institution would be undercapitalized. In addition, an institution cannot make a capital distribution, such as a dividend or other distribution that is in substance a distribution of capital, to the owners of the institution if following such a distribution the institution would be undercapitalized.

At December 31, 2016, State Bank's regulatory capital surpassed the levels required to be considered "well capitalized."

Transactions with Affiliates and Insiders

The Company is a legal entity separate and distinct from State Bank. Various legal limitations restrict State Bank from lending or otherwise supplying funds to the Company or its nonbank subsidiaries, if any. The Company and State Bank are subject to Sections 23A and 23B of the Federal Reserve Act and Federal Reserve Regulation W.

Section 23A of the Federal Reserve Act places limits on the amount of loans or extensions of credit by a bank to any affiliate, including its holding company, and on a bank's investments in, or certain other transactions with, affiliates and on the amount of advances by a bank to third parties that are collateralized by the securities or obligations of any affiliates of the bank. Section 23A also applies to derivative transactions, repurchase agreements and securities lending and borrowing transactions that cause a bank to have credit exposure to an affiliate. The aggregate of all covered transactions is limited in amount, as to any one affiliate, to 10% of State Bank's capital and surplus and, as to all affiliates combined, to 20% of State Bank's capital and surplus. Furthermore, within the foregoing limitations as to amount, each extension of credit or certain other credit exposures must meet specified collateral requirements. These limits apply to any transaction with a third party if the proceeds of the transaction benefit an affiliate of a bank. State Bank is forbidden to purchase low quality assets from an affiliate.

Section 23B of the Federal Reserve Act, among other things, prohibits a bank from engaging in certain transactions with certain affiliates unless the transactions are on terms and under circumstances, including credit standards, that are substantially the same, or at least as favorable to such bank or its subsidiaries, as those prevailing at the time for comparable transactions with or involving other nonaffiliated companies. If there are no comparable transactions, a bank’s (or one of its subsidiaries’) affiliate transaction must be on terms and under circumstances, including credit standards, that in good faith would be offered to, or would apply to, nonaffiliated companies. These requirements apply to all transactions subject to Section 23A as well as to certain other transactions.

The affiliates of a bank include any holding company of the bank, any other company under common control with the bank (including any company controlled by the same shareholders who control the bank), any subsidiary of the bank that is itself a bank, any company in which the majority of the directors or trustees also constitute a majority of the directors or trustees of the bank or holding company of the bank, any company sponsored and advised on a contractual basis by the bank or an affiliate, and any mutual fund advised by a bank or any of the bank's affiliates. Regulation W generally excludes all nonbank subsidiaries of banks from treatment as affiliates, except for subsidiaries engaged in certain nonbank financial activities or to the extent that the Federal Reserve decides to treat these subsidiaries as affiliates.

State Bank is also subject to certain restrictions on extensions of credit to executive officers, directors, certain principal shareholders, and their related interests. Extensions of credit include derivative transactions, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions to the extent that such transactions cause a bank to have credit exposure to an insider. Any extension of credit to an insider:

- must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties; and
- must not involve more than the normal risk of repayment or present other unfavorable features.

In some circumstances, approval of an extension of credit to an insider must be approved by a majority of the disinterested directors. Extensions of credit to any one insider are capped at 10% of a bank's unimpaired capital and unimpaired surplus, with an additional 10% for loans secured by readily marketable collateral. Extensions of credit to all insiders are capped at 100% of unimpaired capital and unimpaired surplus. State Bank has a policy not to extend credit to its employees, directors, certain principal shareholders and their related interests.

In addition, State Bank may not purchase an asset from or sell an asset to an insider unless the transaction is on market terms and, if representing more than 10% of capital, is approved in advance by the majority of disinterested directors.

Branching

Under current Georgia and federal law, we may open branch offices throughout Georgia with the prior approval of the Georgia Department of Banking and Finance and the FDIC. In addition, with prior regulatory approval, we will be able to acquire branches of existing banks located in Georgia. Furthermore, the Dodd-Frank Act authorizes a state or national bank to branch into any state as if they were chartered in that state.

Anti-Tying Restrictions

Under amendments to the Bank Holding Company Act and Federal Reserve regulations, a bank is prohibited from engaging in certain tying or reciprocity arrangements with its customers. In general, a bank may not extend credit, lease, sell property, or furnish any services or fix or vary the consideration for these on the condition that:

- the customer obtain or provide some additional credit, property, or services from or to the bank, the bank holding company or its subsidiaries; or
- the customer may not obtain some other credit, property, or services from a competitor, except to the extent reasonable conditions are imposed to ensure the soundness of the credit extended.

Certain arrangements are permissible: a bank may offer combined-balance products and may otherwise offer more favorable terms if a customer obtains two or more traditional bank products, and certain foreign transactions are exempt from the general rule. A bank holding company or any bank affiliate also is subject to anti-tying requirements in connection with electronic benefit transfer services.

Community Reinvestment Act

The Community Reinvestment Act requires a financial institution's primary regulator, which is the FDIC for State Bank, to evaluate the record of each financial institution in meeting the credit needs of the communities within the institution's assessment area, including low- and moderate-income neighborhoods and individuals. This record is considered in evaluating mergers, acquisitions and applications to open a branch or facility. Failure to adequately address the needs for bank products and services in low- and moderate-income communities and by low- and moderate-income individuals could result in the imposition of additional requirements and limitations on the institution. Additionally, the institution must publicly disclose the terms of various Community Reinvestment Act-related agreements. In its most recent CRA examination, State Bank was rated Satisfactory.

Financial Subsidiaries

Under the Gramm-Leach-Bliley Act (the "GLBA"), subject to certain conditions imposed by their respective banking regulators, national and state-chartered banks are permitted to form "financial subsidiaries" that may conduct financial or incidental activities, thereby permitting bank subsidiaries to engage in certain activities that previously were impermissible. The GLBA imposes several safeguards and restrictions on financial subsidiaries, including that the parent bank's equity investment in the financial subsidiary be deducted from the bank's assets and tangible equity for purposes of calculating the bank's capital adequacy. In addition, the GLBA imposes restrictions on transactions between a bank and its financial subsidiaries similar to restrictions applicable to transactions between banks and nonbank affiliates. State Bank has no financial subsidiaries

Consumer Protection Regulations

Activities of State Bank are subject to a variety of statutes and regulations designed to protect consumers. Interest and other charges collected or contracted for by State Bank are subject to state usury laws and federal laws concerning interest rates. The loan operations of State Bank are also subject to federal laws applicable to credit transactions, such as:

- the Truth-In-Lending Act and Regulation Z, governing disclosures of credit and servicing terms to consumer borrowers and including substantial new requirements for mortgage lending and servicing, as mandated by the Dodd-Frank Act;
- the Home Mortgage Disclosure Act of 1975 and Regulation C, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the communities they serve;
- the Equal Credit Opportunity Act and Regulation B, prohibiting discrimination on the basis of race, color, religion, or other prohibited factors in extending credit;
- the Fair Credit Reporting Act of 1978, as amended by the Fair and Accurate Credit Transactions Act and Regulation V, as well as the rules and regulations of the FDIC governing the use and provision of information to credit reporting agencies, certain identity theft protections and certain credit and other disclosures;
- the Fair Debt Collection Practices Act and Regulation F, governing the manner in which consumer debts may be collected by collection agencies; and
- the Real Estate Settlement Procedures Act and Regulation X, which governs aspects of the settlement process for residential mortgage loans.

The deposit operations of State Bank are also subject to federal laws, such as:

- the Federal Deposit Insurance Act, which, among other things, limits the amount of deposit insurance available per account to $250,000 and imposes other limits on deposit-taking;
- the Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- the Electronic Funds Transfer Act and Regulation E, which governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services; and
- the Truth in Savings Act and Regulation DD, which requires depository institutions to provide disclosures so that consumers can make meaningful comparisons about depository institutions and accounts.

Enforcement Powers

State Bank and its respective "institution-affiliated parties," including its respective managements, employees, agents, independent contractors and consultants, such as attorneys and accountants and others who participate in the conduct of the financial institution's affairs, are subject to potential civil and criminal penalties for violations of law, regulations or written orders of a government agency. These practices can include the failure of an institution to timely file required reports or the filing of false or misleading information or the submission of inaccurate reports. Civil penalties may be as high as $1,375,000 a day for certain violations. Criminal penalties for some financial institution crimes have been increased to 20 years.

In addition, regulators have considerable flexibility to commence enforcement actions against institutions and institution-affiliated parties. Possible enforcement actions include the termination of deposit insurance. Furthermore, banking agencies have expansive power to issue cease-and-desist orders. These orders may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts or take other actions as determined by the ordering agency to be appropriate.

The number of government entities authorized to take action against State Bank has expanded under the Dodd-Frank Act. The FDIC continues to have primary enforcement authority. The CFPB has back-up enforcement authority with respect to the consumer protection statutes above. Specifically, the CFPB may request reports from and conduct limited examinations of State Bank in conducting investigations involving the consumer protection statutes. Further, state attorneys general may bring civil actions or other proceedings under the Dodd-Frank Act or regulations against state-chartered banks, including State Bank. Prior notice to the CFPB and the FDIC would be necessary for a state civil action against State Bank.

Anti-Money Laundering

Financial institutions must maintain anti-money laundering programs governed by the Bank Secrecy Act, that include established internal policies, procedures and controls; a designated compliance officer; an ongoing employee training program; and testing of the program by an independent audit function. Financial institutions are prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence and "knowing your customer" in their dealings with foreign financial institutions, foreign customers and other high risk customers. Financial institutions must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious transactions. Recent laws provide law enforcement authorities with increased access to financial information maintained by banks. Anti-money laundering obligations have been substantially strengthened as a result of the USA PATRIOT Act, enacted in 2001 and renewed through 2019, as described below. Bank regulators routinely examine institutions for compliance with these obligations and are required immediately to consider compliance in connection with the regulatory review of applications. In recent years, several merger and acquisition transactions have been held up because of regulatory concerns about compliance with anti-money laundering requirements. The regulatory authorities have been active in imposing "cease and desist" orders and money penalty sanctions against institutions that have not complied with these requirements.

USA PATRIOT Act

The USA PATRIOT Act became effective on October 26, 2001, and amended the Bank Secrecy Act. The USA PATRIOT Act provides, in part, for the facilitation of information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering by enhancing anti-money laundering and financial transparency laws, as well as enhanced information collection tools and enforcement mechanisms for the U.S. government, including:

- standards for verifying customer identification at account opening;
- rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering;
- reports of nonfinancial trades and businesses filed with the Treasury Department's Financial Crimes Enforcement Network for transactions exceeding $10,000; and
- filing suspicious activities reports by brokers and dealers if they believe a customer may be violating U.S. laws and regulations.

The USA PATRIOT Act requires financial institutions to undertake enhanced due diligence of private bank accounts or correspondent accounts for non-U.S. persons that they administer, maintain or manage. Bank regulators routinely examine institutions for compliance with these obligations and are required to consider compliance in connection with the regulatory review of applications.

Under the USA PATRIOT Act, the Financial Crimes Enforcement Network (“FinCEN”) can send State Bank lists of the names of persons suspected of involvement in terrorist activities or money laundering. State Bank may be requested to search its records for any relationships or transactions with persons on those lists. If State Bank identifies any such relationships or transactions, it must report those relationships or transactions to FinCEN.

The Office of Foreign Assets Control

The Office of Foreign Assets Control ("OFAC"), which is an office in the U.S. Department of the Treasury, is responsible for helping to ensure that United States entities do not engage in transactions with "enemies" of the United States, as defined by various Executive Orders and Acts of Congress. OFAC publishes lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts. If a bank finds a name on any transaction, account or wire transfer that is on an OFAC list, it must freeze or block the transaction on the account. State Bank has appointed an OFAC compliance officer to oversee the inspection of its accounts and the filing of any notifications. State Bank actively checks high-risk OFAC areas such as new accounts, wire transfers and customer files. These checks are performed using software that is updated each time a modification is made to the lists provided by OFAC and other agencies of Specially Designated Nationals and Blocked Persons.

Privacy, Data Security and Credit Reporting

Financial institutions are required to protect the confidentiality of the nonpublic personal information of individual customers and to disclose their policies for doing so. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions requested by the consumer or when the financial institution is jointly sponsoring a product or service with a nonaffiliated third party. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers. State Bank's policy is not to disclose any personal information unless permitted by law.

Recent cyber attacks against banks and other institutions that resulted in unauthorized access to confidential customer information have prompted the Federal banking agencies to issue several warnings and extensive guidance on cyber security. The agencies are likely to devote more resources to this part of their safety and soundness examination than they have in the past.

Like other lending institutions, State Bank uses credit bureau data in its underwriting activities. Use of that data is regulated under the Federal Credit Reporting Act on a uniform, nationwide basis. The act and its implementing regulation, Regulation V, cover credit reporting, prescreening, sharing of information between affiliates, and the use of credit data. The Fair and Accurate Credit Transactions Act of 2003 allows states to enact identity theft laws that are not inconsistent with the conduct required by the provisions of the act.

Payment of Dividends

The Company is a legal entity separate and distinct from its subsidiary, State Bank. While there are various legal and regulatory limitations under federal and state law on the extent to which State Bank can pay dividends or otherwise supply funds to the Company, the principal source of the Company's cash revenues is dividends from State Bank. The relevant federal and state regulatory agencies also have authority to prohibit a bank or bank holding company, which would include the Company and State Bank, from engaging in what, in the opinion of the regulatory body, constitutes an unsafe or unsound practice in conducting its business. The payment of dividends could, depending upon the financial condition of the subsidiary, be deemed to constitute an unsafe or unsound practice in conducting its business.

Under Georgia law, the prior approval of the Georgia Department of Banking and Finance is required before any cash dividends may be paid by a state bank if:

- total classified assets at the most recent examination of the bank exceed 80% of the equity capital (as defined, which includes the allowance for loan and lease losses) of the bank;
- the aggregate amount of dividends declared or anticipated to be declared in the calendar year exceeds 50% of the net profits (as defined) for the previous calendar year; and
- the ratio of equity capital to adjusted total assets is less than 6%.

Effect of Governmental Monetary Policies

Our earnings are affected by domestic economic conditions and the monetary policies of the United States Government and its agencies. The Federal Open Market Committee's monetary policies have had, and are likely to continue to have, an important effect on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve Board have major effects on the levels of bank loans, investments and deposits through its open market operations in United States government securities and through its regulation of the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. We cannot predict the nature or effect of future changes in monetary policies. In December 2016, the Federal Open Market Committee raised the target range for the federal funds rate by 25 basis points, and indicated the potential for further gradual increases in the federal funds rate depending on the economic outlook.

Insurance of Accounts and Regulation by the FDIC

The deposits of State Bank are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. The Dodd Frank Act permanently increased the maximum amount of deposit insurance for banks, savings associations and credit unions to $250,000 per account. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the insurance fund.

FDIC-insured institutions are required to pay a Financing Corporation assessment to fund the interest on bonds issued to resolve thrift failures in the 1980s. These assessments, which may be revised based upon the level of deposits, will continue until the bonds mature in the years 2017 through 2019.

The FDIC may terminate the deposit insurance of any insured depository institution if it determines after a notice and hearing that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, remain insured for a period of six months to two years, as determined by the FDIC.

Limitations on Incentive Compensation

In June 2010, the Federal Reserve, the FDIC, the Office of the Comptroller of the Currency and the Office of Thrift Supervision issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

The Dodd-Frank Act required the federal banking agencies, the SEC, and certain other federal agencies to jointly issue a regulation on incentive compensation. The agencies proposed such a rule in 2011, which reflected the 2010 guidance. However, the 2011 proposal was replaced with a new proposed rule in May 2016, which makes explicit that the involvement of risk management and control personnel includes not only compliance, risk management and internal audit, but also legal, human resources, accounting, financial reporting, and finance roles responsible for identifying, measuring, monitoring or controlling risk-taking. A final rule had not been adopted as of December 31, 2016.

Proposed Legislation and Regulatory Action

New regulations and statutes are regularly proposed that contain wide-ranging provisions for altering the structures, regulations and competitive relationships of the nation's financial institutions. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

Item 1A. Risk Factors.

Our business is subject to certain risks, including those described below. If any of the events described in the following risk factors actually occurs, then our business, results of operations and financial condition could be materially adversely affected. More detailed information concerning these risks is contained in other sections of this report, including "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Risks Related to Our Business

A return of recessionary conditions could result in increases in our level of nonperforming loans and/or reduce demand for our products and services, which could have an adverse effect on our results of operations.

Economic conditions have improved since the end of the economic recession; however, economic growth has been slow and uneven, unemployment remains relatively high, and concerns still exist over the federal deficit, government spending and economic risks. A return of recessionary conditions and/or negative developments in the domestic and international credit markets may significantly affect the markets in which we do business, the value of our loans and investments, and our ongoing operations, costs and profitability. Declines in real estate value and sales volumes and high unemployment levels may result in higher than expected loan delinquencies and a decline in demand for our products and services. These negative events may cause us to incur losses and may adversely affect our capital, liquidity and financial condition.

Furthermore, the Board of Governors of the Federal Reserve System, in an attempt to help the overall economy, has among other things, kept interest rates low through its targeted federal funds rate and the purchase of U.S. Treasury and mortgage-backed securities. The Federal Reserve Board increased the target range for the federal funds rate by 25 basis points in December 2016 and indicated the potential for further gradual increases in the target rate depending on the economic outlook. As the federal funds rate increases, market interest rates will likely rise, which may negatively impact the housing markets and the U.S. economic recovery.

An adverse change in real estate market values may result in losses and otherwise adversely affect our profitability.

At December 31, 2016, approximately 82.9% of our loan portfolio was comprised of loans with real estate as a primary or secondary component of collateral. The real estate collateral in each loan provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. At December 31, 2016, approximately 56.6% of our loan portfolio consists of loans secured by commercial real estate, comprising $1.6 billion of total loans.

A decline in real estate values could impair the value of our collateral and our ability to sell the collateral upon any foreclosure. In the event of a default with respect to any of these loans, the amounts we receive on the sale of the collateral may be insufficient to recover the outstanding principal and interest on the loan. As a result, our profitability and financial condition may be adversely affected.

If we fail to effectively manage credit risk, our business and financial condition will suffer.

We must effectively manage credit risk. There are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks relating to proper loan underwriting and guidelines, risks resulting from changes in economic and industry conditions, risks inherent in dealing with individual borrowers and risks resulting from uncertainties as to the future value of collateral. There is no assurance that our credit risk monitoring and loan approval procedures are or will be adequate or will reduce the inherent risks associated with lending. Our credit administration personnel, policies and procedures may not adequately adapt to changes in economic or any other conditions affecting customers and the quality of our loan portfolio. Any failure to manage such credit risks may materially adversely affect our business and our results of operations and financial condition.

To the extent that we are unable to identify and consummate attractive acquisitions, or increase loans through organic loan growth, we may be unable to successfully implement our growth strategy, which could materially and adversely affect us.

A substantial part of our historical growth has been a result of acquisitions of other financial institutions and we intend to continue to grow our business through strategic acquisitions of banking franchises coupled with organic loan growth. Previous availability of attractive acquisition targets may not be indicative of future acquisition opportunities, and we may be unable to identify any acquisition targets that meet our investment objectives. To the extent that we are unable to find suitable acquisition candidates, an important component of our strategy may be lost. If we are able to identify attractive acquisition opportunities, we must generally satisfy a number of conditions prior to completing any such transaction, including obtaining certain bank regulatory approvals, which may involve time-consuming applications and discussions with regulators and which ultimately may not be granted. Additionally, any future acquisitions may not produce the revenue, earnings or synergies that we anticipated. As our purchased credit impaired loan portfolio, which produces substantially higher yields than our organic and purchased non-credit impaired loan portfolios, is paid down, we expect downward pressure on our income. For the year ended December 31, 2016, we recognized $43.3 million of accretion income, or 26.2% of our total interest income for the year, from the realization of accretable discounts on our purchased credit impaired loans. If we are unable to replace our purchased credit impaired loans and the related accretion with a significantly higher level of new performing loans and other earning assets due to our inability to identify attractive acquisition opportunities, a decline in loan demand, competition from other financial institutions in our markets, stagnation or continued deterioration of economic conditions, or other conditions, our financial condition and earnings may be adversely affected.

Our strategic growth plan contemplates additional acquisitions, which could expose us to additional risks.

We periodically evaluate opportunities to acquire additional financial institutions. As a result, we may engage in negotiations or discussions that, if they were to result in a transaction, could have a material effect on our operating results and financial condition, including short and long-term liquidity.

Our acquisition activities could be material and could require us to use a substantial amount of common stock, cash, other liquid assets, and/or incur debt. In addition, if goodwill recorded in connection with our prior or potential future acquisitions were determined to be impaired, then we would be required to recognize a charge against our earnings, which could materially and adversely affect our results of operations during the period in which the impairment was recognized.

Our acquisition activities could involve a number of additional risks, including the risks of:

- incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in management's attention being diverted from the operation of our existing business;
- using inaccurate estimates and judgments to evaluate credit, operations, management and market risks with respect to the target institution or assets;
- incurring time and expense required to integrate the operations and personnel of the combined businesses, creating an adverse short-term effect on results of operations; and
- losing key employees and customers as a result of an acquisition.

Future acquisitions may be delayed, impeded, or prohibited due to regulatory issues.

Future acquisitions by the Company, particularly those of financial institutions, are subject to approval by a variety of federal and state regulatory agencies. The process for obtaining these required regulatory approvals has become substantially more difficult in recent years. Regulatory approvals could be delayed, impeded, restrictively conditioned or denied due to existing or new regulatory issues we have, or may have, with regulatory agencies, including, without limitation, issues related to anti-money laundering/Bank Secrecy Act compliance, fair lending laws, fair housing laws, consumer protection laws, unfair, deceptive, or abusive acts or practices regulations, Community Reinvestment Act issues, and other similar laws and regulations. We may fail to pursue, evaluate or complete strategic and competitively significant acquisition opportunities as a result of our inability, or perceived or anticipated inability, to obtain regulatory approvals in a timely manner, under reasonable conditions or at all. Difficulties associated with potential acquisitions that may result from these factors could have a material adverse effect on our business, and, in turn, our financial condition and results of operations.

We may be exposed to difficulties in combining the operations of acquired institutions into our own operations, which may prevent us from achieving the expected benefits from our acquisition activities.

We may not be able to fully achieve the strategic objectives and operating efficiencies that we anticipate in our acquisition activities. Inherent uncertainties exist in integrating the operations of an acquired institution. In addition, the markets in which we and our potential acquisition targets operate are highly competitive. We may lose existing customers, or the customers of an acquired institution, as a result of an acquisition. We also may lose key personnel from the acquired institution as a result of an acquisition. We may not discover all known and unknown factors when examining an institution for acquisition during the due diligence period. These factors could produce unintended and unexpected consequences. Undiscovered factors as a result of an acquisition could bring civil, criminal and financial liabilities against us, our management and the management of the institutions we acquire. In addition, if difficulties arise with respect to the integration process, the economic benefits expected to result from acquisitions might not occur. Failure to successfully integrate businesses that we acquire could have an adverse effect on our profitability, return on equity, return on assets, or our ability to implement our strategy, any of which in turn could have a material adverse effect on our business, financial condition and results of operations. These factors could contribute to our not achieving the expected benefits from our acquisitions within desired time frames, if at all.

Lack of seasoning of our organic loan portfolio may increase the risk of credit defaults in the future.

We have significantly grown our organic loan portfolio over the past several years. Due to this rapid growth, a large portion of our organic loan portfolio and of our lending relationships are of relatively recent origin. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process we refer to as "seasoning." As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Because a significant majority of our organic loan portfolio is relatively new, the current level of delinquencies and defaults in our organic loan portfolio may not be representative of the level that will prevail when the portfolio becomes more seasoned, which may be higher than current levels. If delinquencies and defaults increase, we may be required to increase our provision for loan losses, which would adversely affect our results of operations and financial condition.

Our business is subject to interest rate risk, and fluctuations in interest rates may adversely affect our earnings and capital levels and overall results.

The majority of our assets and liabilities are monetary in nature and, as a result, we are subject to significant risk from changes in interest rates. Changes in interest rates may affect our net interest income as well as the valuation of our assets and liabilities. Our earnings depend significantly on our net interest income, which is the difference between interest income on interest-earning assets, such as loans and securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. We expect to periodically experience "gaps" in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates move contrary to our position, this "gap" may work against us, and our earnings may be adversely affected.

An increase in the general level of interest rates may also, among other things, adversely affect our current borrowers' ability to repay variable rate loans, the demand for loans and our ability to originate loans. Conversely, a decrease in the general level of interest rates, among other things, may lead to prepayments on our loan and mortgage-backed securities portfolios and increased competition for deposits. Accordingly, changes in the general level of market interest rates may adversely affect our net yield on interest-earning assets, loan origination volume and our overall results.

Although our asset-liability management strategy is designed to control and mitigate exposure to the risks related to changes in the general level of market interest rates, those rates are affected by many factors outside of our control, including inflation, recession, unemployment, money supply, international disorder, instability in domestic and foreign financial markets and policies of various governmental and regulatory agencies, particularly the Board of Governors of the Federal Reserve. Adverse changes in the U.S. monetary policy or in economic conditions could materially and adversely affect us. We may not be able to accurately predict the likelihood, nature and magnitude of those changes or how and to what extent they may affect our business. We also may not be able to adequately prepare for or compensate for the consequences of such changes. Any failure to predict and prepare for changes in interest rates or adjust for the consequences of these changes may adversely affect our earnings and capital levels and overall results.

We could be subject to changes in tax laws, regulations and interpretations or challenges to our income tax provision.

We compute our income tax provision based on enacted tax rates in the jurisdictions in which we operate. Any change in enacted tax laws, rules or regulatory or judicial interpretations, or any change in the pronouncements relating to accounting for income taxes could adversely affect our effective tax rate, tax payments and results of operations. The taxing authorities in the jurisdictions in which we operate may challenge our tax positions, which could increase our effective tax rate and harm our financial position and results of operations. We are subject to audit and review by U.S. federal and state tax authorities. Any adverse outcome of such a review or audit could have a negative effect on our financial position and results of operations. In addition, changes in enacted tax laws, such as adoption of a lower income tax rate in any of the jurisdictions in which we operate, could impact our ability to obtain the future tax benefits represented by our deferred tax assets. In addition, the determination of our provision for income taxes and other liabilities requires significant judgment by management. Although we believe that our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and could have a material adverse effect on our financial results in the period or periods for which such determination is made.

Any expansion into new lines of business might not be successful

As part of our ongoing strategic plan, we will continue to consider expansion into new lines of business through the acquisition of third parties or through organic growth and development. There are substantial risks associated with such efforts, including risks that (a) revenues from such activities might not be sufficient to offset the development, compliance, and other implementation costs, (b) competing products and services and shifting market preferences might affect the profitability of such activities, and (c) our internal controls might be inadequate to manage the risks associated with new activities. Furthermore, it is possible that our unfamiliarity with new lines of business might adversely affect the success of such actions. If any such expansions into new product markets are not successful, there could be an adverse effect on our financial condition and results of operations.

We depend on our management team, and the loss of our senior executive officers or other key employees could impair our relationship with customers and adversely affect our business and financial results.

Our success largely depends on the continued service and skills of our existing senior executive management team, as well as other key employees with long-term customer relationships. Our growth strategy is built primarily on our ability to retain employees with experience and business relationships within their respective segments. The loss of one or more of these key personnel could have an adverse effect on our business because of their skills, knowledge of our markets, years of industry experience and the difficulty of finding qualified replacement personnel.

We are subject to extensive regulation that could limit or restrict our activities and adversely affect our earnings.

We operate in a highly regulated industry and are subject to examination, supervision and comprehensive regulation by various federal and state agencies, including the Federal Reserve, the FDIC and the Georgia Department of Banking and Finance, among others. Our compliance with these regulations is costly and restricts our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits and locations of offices. Our failure to comply with these requirements can lead to, among other remedies, administrative enforcement actions, termination or suspension of our licenses, rights of rescission for borrowers, and class action lawsuits. Many of these regulations are intended to protect depositors, the public and the FDIC rather than our shareholders. The burden of regulatory compliance has increased under current legislation and banking regulations and is likely to continue to have or may have a significant impact on the financial services industry. Legislative and regulatory changes, including increases in capital requirements, as well as changes in regulatory enforcement policies and capital adequacy guidelines, are increasing our costs of doing business and, as a result, may create an advantage for our competitors who may not be subject to similar legislative and regulatory requirements. In addition, future regulatory changes, including changes to regulatory capital requirements, could have an adverse impact on our future results. Furthermore, the federal and state bank regulatory authorities who supervise us have broad discretionary powers to take enforcement actions against banks for failure to comply with applicable regulations and laws. If we fail to comply with applicable laws or regulations, we could become subject to enforcement actions that have a material adverse effect on our future results.

This and other potential changes in government regulation or policies could increase our costs of doing business and could adversely affect our operations and the manner in which we conduct our business.

The final Basel III capital rules generally require insured depository institutions and their holding companies to hold more capital, which could adversely affect our financial condition and operations.

In July 2013, the federal banking agencies published new regulatory capital rules based on the international standards, known as Basel III, that had been developed by the Basel Committee on Banking Supervision. The new rules raised the risk-based capital requirements and revised the methods for calculating risk-weighted assets, usually resulting in higher risk weights. The new rules became effective as applied to the Company and State Bank on January 1, 2015, with a phase in period that generally extends from January 1, 2015 through January 1, 2019.

The Basel III-based rules increase capital requirements and include two new capital measurements that will affect us, a risk-based common equity Tier 1 ratio and a capital conservation buffer. Common Equity Tier 1 (CET1) capital is a subset of Tier 1 capital and is limited to common equity (plus related surplus), retained earnings and certain other items. Other instruments that have historically qualified for Tier 1 treatment, including noncumulative perpetual preferred stock, are consigned to a category known as Additional Tier 1 capital and must be phased out of CET1 over a period of nine years beginning in 2014. Tier 2 capital consists of instruments that have historically been placed in Tier 2, as well as cumulative perpetual preferred stock.

Beginning on January 1, 2015, our Basel III-based minimum risk-based capital requirements were (i) a CET1 ratio of 4.5%, (ii) a Tier 1 capital (CET1 plus Additional Tier 1 capital) of 6% (up from 4%) and (iii) a total capital ratio of 8% (unchanged from the former requirement). Our leverage ratio requirement will remain at the 4% level now required. These requirements remain in place today. Beginning in 2016, a capital conservation buffer began to phase in over three years, ultimately resulting in a requirement of 2.5% on top of the CET1, Tier 1 and total capital requirements, resulting in a required CET1 ratio of 7%, a Tier 1 ratio of 8.5%, and a total capital ratio of 10.5%. As of January 1, 2017, our capital conservation buffer is 1.25%. Failure to maintain the buffer or to satisfy any of these three capital requirements will result in limits on paying dividends, engaging in share repurchases and paying discretionary bonuses. These limitations will establish a maximum percentage of eligible retained income that could be utilized for such actions. While the final rules results in higher regulatory capital standards, it is not expected to significantly impact the Company and State Bank as our current capital levels far exceed those required under the new rules.

In addition to the higher required capital ratios and the new deductions and adjustments, the final rules increased the risk weights for certain assets, meaning that we will have to hold more capital against these assets. For example, commercial real estate loans that do not meet certain new underwriting requirements must be risk-weighted at 150%, rather than the former requirement of 100%. We will also be required to hold capital against short-term commitments that are not unconditionally cancelable. All changes to the risk weights took effect in full in 2015.

In addition, in the current economic and regulatory environment, bank regulators may impose capital requirements that are more stringent than those required by applicable existing regulations. The application of more stringent capital requirements for us could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions if we are unable to comply with such requirements. Implementation of changes to asset risk weightings for risk-based capital calculations, items included or deducted in calculating regulatory capital or additional capital conservation buffers, could result in management modifying our business strategy and could limit our ability to make distributions, including paying dividends or buying back our shares.

The federal banking agencies are implementing new liquidity standards that could result in our having to lengthen the term of our funding, restructure our business lines by forcing us to seek new sources of liquidity for them, and/or increase our holdings of liquid assets.

In 2014, the federal banking agencies adopted a "liquidity coverage ratio" requirement for banking holding companies with $250 billion or more in total assets or $10 billion or more in on-balance sheet foreign exposures and their subsidiary depository institutions with $10 billion or more in total consolidated assets. The requirement calls for sufficient “high quality liquid assets” to meet liquidity needs for a 30 calendar day liquidity stress scenario. In 2016, the agencies proposed a net stable funding ratio for these institutions, which imposes a similar requirement over a one-year period. Neither the liquidity coverage standard nor the net stable funding standard apply directly to us, but the substance of the standards - adequate liquidity over a 30-day period and one-year periods - may inform the regulators’ assessment of our liquidity. We could be required to reduce our holdings of illiquid assets which could adversely affect our results of operations and financial condition. The U.S. regulators have not yet proposed a net stable funding ratio requirement.

We incur increased costs as a result of being a public company.

As a public company, we incur significant legal, accounting and other expenses, including costs associated with public company reporting requirements. We also incur costs associated with the Sarbanes-Oxley Act, the Dodd-Frank Act and related rules implemented or to be implemented by the SEC and the NASDAQ Stock Market. In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to continue to invest resources to comply with evolving laws, regulations and standards and this continued investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business may be adversely affected.

The value of securities in our investment portfolio may decline in the future.

As of December 31, 2016, we owned $914.2 million of investment securities. The fair value of our investment securities may be adversely affected by market conditions, including changes in interest rates, and the occurrence of any events adversely affecting the issuer of particular securities in our investments portfolio. We analyze our securities on a quarterly basis to determine if an other-than-temporary impairment has occurred. The process for determining whether impairment is other-than-temporary usually requires complex, subjective judgments about the future financial performance of the issuer in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting issuers, we may be required to recognize other-than-temporary impairment in future periods, which could have a material adverse effect on our business, financial condition or results of operations.

If our allowance for loan and lease losses and fair value adjustments with respect to acquired loans is not sufficient to cover actual loan losses, our earnings will be adversely affected.

Our success depends significantly on the quality of our assets, particularly loans. Like other financial institutions, we are exposed to the risk that our borrowers may not repay their loans according to their terms, and the collateral securing the payment of these loans may be insufficient to fully compensate us for the outstanding balance of the loan plus the costs to dispose of the collateral. As a result, we may experience significant loan losses that may have a material adverse effect on our operating results and financial condition.

We maintain an allowance for loan and lease losses with respect to our loan portfolio, in an attempt to cover loan losses inherent in our loan portfolio. In determining the size of the allowance, we rely on an analysis of our loan portfolio, our experience and our evaluation of general economic conditions. We also make various assumptions and judgments about the collectability of our loan portfolio, including the diversification in our loan portfolio, the effect of changes in the economy on real estate and other collateral values, the results of recent regulatory examinations, the effects on the loan portfolio of current economic conditions and their probable impact on borrowers, the amount of charge-offs for the period and the amount of nonperforming loans and related collateral security.

The application of the acquisition method of accounting in our acquisitions has impacted our allowance for loan and lease losses. Under the acquisition method of accounting, all acquired loans were recorded in our consolidated financial statements at their fair values at the time of acquisition and the related allowance for loan and lease losses was eliminated because credit quality, among other factors, was considered in the determination of fair value. To the extent that our estimates of fair values are too high, we will incur losses associated with the acquired loans. The allowance associated with our purchased credit impaired loans reflects deterioration in cash flows since acquisition resulting from our quarterly re-estimation of cash flows which involves complex cash flow projections and significant judgment on timing of loan resolution.

If our analysis or assumptions prove to be incorrect, our current allowance may not be sufficient, and adjustments may be necessary to allow for different economic conditions or adverse developments in our loan portfolio. Material additions to the allowance for loan and lease losses would materially decrease our net income and adversely affect our general financial condition.

In addition, federal and state regulators periodically review our allowance for loan and lease losses and may require us to increase our allowance for loan and lease losses or recognize further loan charge-offs, based on judgments different than those of our management. Any increase in our allowance for loan and lease losses or loan charge-offs required by these regulatory agencies could have a material adverse effect on our operating results and financial condition.

We are exposed to higher credit risk by construction and development, other commercial real estate, and commercial, financial and agricultural lending.

Construction and development, commercial real estate, and commercial, financial and agricultural lending may involve higher credit risks than other forms of lending. At December 31, 2016, the following loan types accounted for the stated percentages of our total loan portfolio: real estate construction and development — 20.2%, other commercial real estate — 36.4%, and commercial, financial and agricultural — 13.1%.

Risk of loss on a construction and development loan depends largely upon whether our initial estimate of the property's value at completion of construction equals or exceeds the cost of the property construction (including interest), the availability of permanent take-out financing and the builder's ability to ultimately sell the property. During the construction phase, a number of factors can result in delays and cost overruns. If estimates of value are inaccurate or if actual construction costs exceed estimates, the value of the property securing the loan may be insufficient to ensure full repayment when completed through a permanent loan or by seizure of collateral.

Other commercial real estate loans may be affected to a greater extent than residential loans by adverse conditions in real estate markets or the economy because commercial real estate borrowers' ability to repay their loans depends on successful development of their properties, in addition to the factors affecting residential real estate borrowers. These loans also involve greater risk because they generally are not fully amortizing over the loan period but have a balloon payment due at maturity. A borrower's ability to make a balloon payment typically will depend on being able to either refinance the loan or sell the underlying property in a timely manner.

Commercial, financial and agricultural loans are typically based on the borrowers' ability to repay the loans from the cash flow of their businesses. These loans may involve greater risk because the availability of funds to repay each loan depends substantially on the success of the business itself. In addition, the assets securing the loans have the following characteristics: (a) they depreciate over time, (b) they are difficult to appraise and liquidate, and (c) they fluctuate in value based on the success of the business.

Construction and development loans, other commercial real estate loans, and commercial, financial and agricultural loans are more susceptible to a risk of loss during a downturn in the business cycle. Our underwriting, review and monitoring cannot eliminate all of the risks related to these loans.

At December 31, 2016, our outstanding commercial real estate loans were equal to 325.2% of the Bank's total risk-based capital. Our commercial real estate level is considered to be a concentration by the banking regulators. The banking regulators are giving commercial real estate lending greater scrutiny, and require banks with concentrations in commercial real estate loans such as us to have an appropriate risk management framework consisting of (i) board and management oversight, (ii) portfolio management, (iii) market analysis, (iv) credit underwriting standards, (v) portfolio stress testing and sensitivity analysis and (vi) credit risk review function.

During 2015 and 2016, the banking regulators issued several warnings about higher credit risk in commercial lending, particularly in commercial real estate loans.

We face additional risks due to our increase in mortgage banking activities that could negatively impact our net income and profitability.

We acquired mortgage banking operations in our acquisitions of Bank of Atlanta and First Bank of Georgia, which in addition to our legacy mortgage banking operations, expose us to risks that are different from our retail and commercial banking operations. During higher and rising interest rate environments, the demand for mortgage loans and the level of refinancing activity tends to decline, which can lead to reduced volumes of business and lower revenues, which could negatively impact our earnings. While we have been experiencing historically low interest rates, the low interest rate environment likely will not continue indefinitely. Because we sell a substantial portion of the mortgage loans we originate, the profitability of our mortgage banking operations also depends in large part on our ability to aggregate a high volume of loans and sell them in the secondary market at a gain. Thus, in addition to our dependence on the interest rate environment, we are dependent upon (a) the existence of an active secondary market and (b) our ability to profitably sell loans into that market. If our level of mortgage production declines, the profitability will depend upon our ability to reduce our costs commensurate with the reduction of revenue from our mortgage operations. In addition, mortgages sold to third-party investors are typically subject to certain repurchase provisions related to borrower refinancing, defaults, fraud or other reasons stipulated in the applicable third-party investor agreements. If the fair value of a loan when repurchased is less than the fair value when sold, we may be required to charge such shortfall to earnings.

A failure in or breach of our operational or security systems or infrastructure, or those of our third party vendors and other service providers or other third parties, including as a result of cyber attacks, could disrupt our businesses, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.

We rely heavily on communications and information systems to conduct our business. Information security risks for financial institutions such as ours have generally increased in recent years in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties. As client, public, and regulatory expectations regarding operational and information security have increased, our operational systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions, and breakdowns. Our business, financial, accounting and data processing systems, or other operating systems and facilities may stop operating properly or become disabled or damaged as a result of a number of factors, including events that are wholly or partially beyond our control. For example, there could be electrical or telecommunications outages; natural disasters such as earthquakes, tornadoes, and hurricanes; disease pandemics; events arising from local or larger scale political or social matters, including terrorist acts; and, as described below, cyber attacks.

As noted above, our business relies on our digital technologies, computer and email systems, software, and networks to conduct its operations. Although we have information security procedures and controls in place, our technologies, systems, networks, and our clients' devices may become the target of cyber attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our clients' confidential, proprietary and other information, or otherwise disrupt our or our clients' or other third parties' business operations. Third parties with whom we do business or that facilitate our business activities, including financial intermediaries, or vendors that provide services or security solutions for our operations, and other third parties could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints.

While we have disaster recovery and other policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of our information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. Our risk and exposure to these matters remains heightened because of the evolving nature of these threats. As a result, cybersecurity and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a focus for us. As threats continue to evolve, we may be required to expend additional resources to continue to modify or enhance our protective measures or to investigate and remediate information security vulnerabilities. Disruptions or failures in the physical infrastructure or operating systems that support our businesses and clients, or cyber attacks or security breaches of the networks, systems or devices that our clients use to access our products and services could result in client attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially adversely affect our results of operations or financial condition.

We may not be able to retain or develop a strong core deposit base or other low-cost funding sources.

We depend on checking, savings and money market deposit account balances and other forms of customer deposits as our primary source of funding for our lending activities. Our future growth will largely depend on our ability to retain and grow a strong deposit base. If we are unable to continue to attract and retain core deposits, to obtain third party financing on favorable terms, or to have access to interbank or other liquidity sources, our cost of funds will increase, adversely affecting the ability to generate the funds necessary for lending operations, reducing net interest margin and negatively affecting results of operations. We derive liquidity through core deposit growth, maturity of money market investments, and maturity and sale of investment securities and loans. Additionally, we have access to financial market borrowing sources on an unsecured and a collateralized basis for both short-term and long-term purposes including, but not limited to, the Federal Reserve and Federal Home Loan Banks, of which we are a member. If these funding sources are not sufficient or available, we may have to acquire funds through higher-cost sources.

We face strong competition for customers, which could prevent us from obtaining customers or may cause us to pay higher interest rates to attract customer deposits.

The banking business is highly competitive, and we experience competition in our markets from many other financial institutions. Customer loyalty can be easily influenced by a competitor's new products, especially offerings that could provide cost savings or a higher return to the customer. Moreover, this competitive industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. We compete with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, as well as super-regional, national and international financial institutions that operate offices in our primary market areas and elsewhere.

We compete with these institutions both in attracting deposits and in making loans. In addition, we have to attract our customer base from other existing financial institutions and from new residents. Many of our competitors are well-established, larger financial institutions, such as SunTrust Bank, Bank of America, Wells Fargo and BB&T. We also compete with regional and local community banks in our market. We may not be able to compete successfully with other financial institutions in our market, and we may have to pay higher interest rates to attract deposits, accept lower yields on loans to attract loans and pay higher wages for new employees, resulting in reduced profitability. In addition, competitors that are not depository institutions are generally not subject to the extensive regulations that apply to us.

Future growth or operating results may require us to raise additional capital, but that capital may not be available or may be dilutive.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. We may at some point need to raise additional capital to support our operations and any future growth.

Our ability to raise capital will depend on conditions in the capital markets, which are outside of our control and largely do not depend on our financial performance. Accordingly, we may be unable to raise capital when needed or on favorable terms. If we cannot raise additional capital when needed, we will be subject to increased regulatory supervision and the imposition of restrictions on our growth and business. These restrictions could negatively affect our ability to operate or further expand our operations through loan growth, acquisitions or the establishment of additional branches. These restrictions may also result in increases in operating expenses and reductions in revenues that could have a material adverse effect on our financial condition, results of operations and the price of our common stock.

Our deposit insurance premiums could be substantially higher in the future, which could have a material adverse effect on our future earnings.

The FDIC insures deposits at FDIC-insured depository institutions, such as State Bank, up to $250,000 per account. The amount of a particular institution's deposit insurance assessment is based on that institution's risk classification under an FDIC risk-based assessment system. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to its regulators. As a result of recent FDIC assessment charges, banks are now assessed deposit insurance premiums based on the bank's average consolidated total assets less the sum of its average tangible equity, and the FDIC has modified certain risk-based adjustments, which increase or decrease a bank's overall assessment rate. This has resulted in increases to the deposit insurance assessment rates and thus raised deposit premiums for many insured depository institutions. If these increases are insufficient for the Deposit Insurance Fund to meet its funding requirements, further special assessments or increases in deposit insurance premiums may be required. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures, we may be required to pay higher FDIC premiums than the recent levels. Any future additional assessments, increases or required prepayments in FDIC insurance premiums could reduce our profitability, may limit our ability to pursue certain business opportunities or otherwise negatively impact our operations.

Any deficiencies in our financial reporting or internal controls could materially and adversely affect us, including resulting in material misstatements in our financial statements, and could materially and adversely affect the market price of our common stock.

If we fail to maintain effective internal controls over financial reporting, our operating results could be harmed and it could result in a material misstatement in our financial statements in the future. Inferior controls and procedures or the identification of accounting errors could cause our investors to lose confidence in our internal controls and question our reported financial information, which, among other things, could have a negative impact on the trading price of our common stock. Additionally, we could become subject to increased regulatory scrutiny and a higher risk of shareholder litigation, which could result in significant additional expenses and require additional financial and management resources.

The accuracy of our financial statements and related disclosures could be affected if the judgments, assumptions or estimates used in our critical accounting policies are inaccurate.

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires us to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Our critical accounting policies, which are included in this report, describe those significant accounting policies and methods used in the preparation of our consolidated financial statements that we consider "critical" because they require judgments, assumptions and estimates that materially affect our consolidated financial statements and related disclosures. As a result, if future events differ significantly from the judgments, assumptions and estimates in our critical accounting policies, those events or assumptions could have a material impact on our consolidated financial statements and related disclosures.

We face a risk of noncompliance with the Bank Secrecy Act and other anti-money laundering statutes and regulations and corresponding enforcement proceedings.

The federal Bank Secrecy Act, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (which we refer to as the “PATRIOT Act”) and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti-money laundering programs and to file suspicious activity and currency transaction reports as appropriate. FinCEN, established by the U.S. Treasury Department to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and has engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. There is also increased scrutiny of compliance with the rules enforced by the OFAC. Federal and state bank regulators also have focused on compliance with Bank Secrecy Act and anti-money laundering regulations. If our policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that we have already acquired or may acquire in the future are deficient, we would be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans, which would negatively impact our business, financial condition and results of operations. Sanctions that the regulators have imposed on banks that have not complied with all requirements have been especially severe. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us.

We must respond to rapid technological changes, and these changes may be more difficult or expensive than anticipated.

We will have to respond to future technological changes. Specifically, if our competitors introduce new banking products and services embodying new technologies, or if new banking industry standards and practices emerge, then our existing product and service offerings, technology and systems may be impaired or become obsolete. Further, if we fail to adopt or develop new technologies or to adapt our products and services to emerging industry standards, then we may lose current and future customers, which could have a material adverse effect on our business, financial condition and results of operations. The financial services industry is changing rapidly, and to remain competitive, we must continue to enhance and improve the functionality and features of our products, services and technologies. These changes may be more difficult or expensive than we anticipate.

We are subject to losses due to the errors or fraudulent behavior of employees or third parties.

We are exposed to many types of operational risk, including the risk of fraud by employees and outsiders, clerical record-keeping errors and transactional errors. Our business is dependent on our employees as well as third-party service providers to process a large number of increasingly complex transactions. We could be materially adversely affected if one of our employees causes a significant operational breakdown or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates our operations or systems. When we originate loans, we rely upon information supplied by loan applicants and third parties, including the information contained in the loan application, property appraisal and title information, if applicable, and employment and income documentation provided by third parties. If any of this information is misrepresented and such misrepresentation is not detected prior to loan funding, we generally bear the risk of loss associated with the misrepresentation. Any of these occurrences could result in a diminished ability of us to operate our business, potential liability to customers, reputational damage and regulatory intervention, which could negatively impact our business, financial condition and results of operations.

Risks Related to the Acquisition of our Acquired Banks

We are subject to risks related to our acquisition transactions.

The ultimate success of our past acquisition transactions and any acquisitions (whether FDIC-assisted or unassisted transactions) in which we may participate in the future, will depend on a number of factors, including our ability:

- to fully integrate, and to integrate successfully, the branches acquired into our operations;
- to limit the outflow of deposits held by our new customers in the acquired branches and to successfully retain and manage interest-earning assets (loans) acquired;
- to retain existing deposits and to generate new interest-earning assets in the geographic areas previously served by the acquired banks;
- to effectively compete in new markets in which we did not previously have a presence;
- to control the incremental noninterest expense from the acquired operations in a manner that enables us to maintain a favorable overall efficiency ratio;
- to retain and attract the appropriate personnel to staff the acquired operations;
- to earn acceptable levels of interest and noninterest income, including fee income, from the acquired operations; and
- to reasonably estimate cash flows for acquired loans to mitigate exposure greater than estimated losses at the time of acquisition.

As with any acquisition involving a financial institution there may be higher than average levels of service disruptions that would cause inconveniences to our new or existing customers or potentially increase the effectiveness of competing financial institutions in attracting our customers. We anticipate challenges and opportunities because of the unique nature of each acquisition. Integration efforts will also likely divert our management's attention and resources. We may be unable to integrate acquired branches or their personnel successfully, and the integration process could result in the loss of key employees, the disruption of ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of our acquisition transactions. We may also encounter unexpected difficulties or costs during the integration that could adversely affect our results of operation and financial condition, perhaps materially. Additionally, we may be unable to achieve results in the future similar to those achieved by our existing banking business, to compete effectively in the market areas previously served by the acquired branches or to manage effectively any growth resulting from our acquisition transactions.

The accounting for loans acquired in connection with our acquisitions is based on numerous subjective determinations that may prove to be inaccurate and have a negative impact on our results of operations.

The loans we acquired in connection with our acquisitions have been recorded at their estimated fair value on the respective acquisition date without a carryover of the related allowance for loan and lease losses. In general, the determination of estimated fair value of acquired loans requires management to make subjective determinations regarding discount rate, estimates of losses on defaults, market conditions and other factors that are highly subjective in nature. Although we have recorded fair value adjustments based on our estimates at the date of acquisition, the loans we acquired may become impaired or may further deteriorate in value, resulting in additional losses and charge-offs to the loan portfolio. The fluctuations in national, regional and local economic conditions, including those related to local residential, commercial real estate and construction markets, may increase the level of charge-offs that we make to our loan portfolio and consequently reduce our capital. These fluctuations are not predictable, cannot be controlled and may have a material adverse impact on our results of operations and financial condition even if other favorable events occur.

Loans we acquired in connection with acquisitions that have evidence of credit deterioration since origination and for which it is probable at the date of acquisition that we will not collect all contractually required principal and interest payments are accounted for under ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, or ASC 310-30. These purchased credit impaired loans, like purchased non-credit impaired loans, acquired in connection with our acquisitions, have been recorded at their estimated fair value on the respective acquisition date, based on subjective determinations regarding risk ratings, expected future cash flows and fair value of the underlying collateral, without a carryover of the related allowance for loan and lease losses. We evaluate these loans quarterly to assess expected cash flows. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows result in a 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. Because the accounting for these loans is based on subjective measures that can change frequently, we may experience fluctuations in our net interest income and provisions for loan losses attributable to these loans. These fluctuations could negatively impact our results of operations.

Risks Related to Our Common Stock

Shares of our common stock are subject to dilution.

At February 23, 2017, we had 38,869,395 shares of common stock issued and outstanding, warrants outstanding to purchase another 114,912 shares of our common stock, and options to purchase 28,918 shares of our common stock. Our outstanding shares of common stock include 991,909 shares of restricted stock. In addition, we have 1,892,322 unallocated shares under our 2011 Omnibus Equity Compensation Plan, as amended, that remain available for future grants. If we issue additional shares of common stock in the future and do not issue those shares to all then-existing common shareholders proportionately to their interests, the issuance will result in dilution to each shareholder by reducing the shareholder's percentage ownership of the total outstanding shares of our common stock.

The market price of our common stock may be volatile, which could cause the value of an investment in our common stock to decline.

The market price of our common stock may fluctuate substantially due to a variety of factors, many of which are beyond our control, including:

- general market conditions;
- domestic and international economic factors unrelated to our performance;
- actual or anticipated fluctuations in our quarterly operating results;
- changes in or failure to meet publicly disclosed expectations as to our future financial performance;
- downgrades in securities analysts' estimates of our financial performance or lack of research and reports by industry analysts;
- changes in market valuations or earnings of similar companies;
- any future sales of our common stock or other securities; and
- additions or departures of key personnel.

The stock markets in general have experienced substantial volatility that has often been unrelated to the operating performance of particular companies. These types of broad market fluctuations may adversely affect the trading price of our common stock. In the past, shareholders have sometimes instituted securities class action litigation against companies following periods of volatility in the market price of their securities. Any similar litigation against us could result in substantial costs, divert management's attention and resources and harm our business or results of operations.

We may issue shares of preferred stock that would adversely affect the rights of our common shareholders.

Our authorized capital stock includes 2,000,000 shares of preferred stock of which no preferred shares are issued or outstanding. Our board of directors, in its sole discretion, may designate and issue one or more series of preferred stock from the authorized and unissued shares of preferred stock. Subject to limitations imposed by law or our articles of incorporation, our board of directors is empowered to determine:

- the designation of, and the number of, shares constituting each series of preferred stock;
- the dividend rate for each series;
- the terms and conditions of any voting, conversion and exchange rights for each series;
- the amounts payable on each series on redemption or our liquidation, dissolution or winding-up;
- the provisions of any sinking fund for the redemption or purchase of shares of any series; and
- the preferences and the relative rights among the series of preferred stock.

We could issue preferred stock with voting and conversion rights that could adversely affect the voting power of the shares of our common stock and with preferences over the common stock with respect to dividends and in liquidation.

Our securities are not FDIC-insured.

Our securities, including our common stock, are not savings or deposit accounts or other obligations of the Bank, are not insured by the Deposit Insurance Fund, the FDIC or any other governmental agency and are subject to investment risk, including the possible loss of principal.

Form 10-K

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The Company is headquartered at 3399 Peachtree Road, N.E., Suite 1900, Atlanta, Georgia 30326 and State Bank's main office is located at 4219 Forsyth Road, Macon, Georgia 31210. We lease the Company's main office and own State Bank's main office location. We currently operate 30 additional full-service branches located in Bibb, Chatham, Clarke, Cobb, Columbia, Dooly, Fulton, Gwinnett, Hall, Houston, Jones, Liberty, McDuffie, Richmond, and Tattnall counties, Georgia. We lease five of our branches and own the remaining locations. We also operate eight mortgage origination offices. We lease seven of our mortgage origination offices and own the remaining office. State Bank also leases office spaces in Macon, Dunwoody and Dalton, Georgia for its payroll, equipment finance and insurance divisions, respectively.

Item 3. 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 is any pending or threatened proceeding against us, which, if determined adversely, would have a material effect on our business, results of operations, or financial condition.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information and Holders of Record

On April 14, 2011, our common stock became listed on The NASDAQ Capital Market under the symbol "STBZ".

The following table shows the high and low sales prices for shares of our common stock reported by the NASDAQ Capital Market and the dividends we paid per common share for the periods indicated:

	2016			2015		
	High	Low	Cash Dividends Per Share	High	Low	Cash Dividends Per Share
Fourth Quarter	$ 27.50	$ 21.15	$ .14	$ 23.73	$ 19.28	$ .14
Third Quarter	23.30	19.77	.14	22.95	18.72	.07
Second Quarter	21.99	18.65	.14	22.59	19.47	.06
First Quarter	20.81	17.34	.14	21.19	17.98	.05

At February 23, 2017, we had 38,869,395 shares of common stock issued and outstanding and approximately 569 shareholders of record.

Dividends

Our ability to pay dividends depends on the ability of our subsidiary bank to pay dividends to us. Under Georgia law, the prior approval of the Georgia Department of Banking and Finance is required before State Bank may pay any cash dividends if:

a. total classified assets at the Bank's most recent examination exceed 80% of equity capital (which includes the allowance for loan and lease losses);

b. the aggregate amount of dividends declared or anticipated to be declared in the calendar year exceeds 50% of the net profits for the previous calendar year; or

c. the Bank's ratio of equity capital to adjusted total assets is less than 6%.

As noted in the above table, we paid cash dividends totaling $.56 and $.32 per common share for the years ended December 31, 2016 and 2015, respectively. On February 8, 2017, we declared a quarterly dividend of $.14 per common share to be paid on March 14, 2017 to shareholders of record of our common stock as of March 6, 2017.

Unregistered Sales of Equity Securities

On November 18, 2016, we issued 924 shares of our common stock in a cashless exchange for a warrant to purchase 1,667 shares of our common stock. Pursuant to the terms of the warrant, the holder of the warrant used the amount by which 743 shares were deemed to be "in the money" as consideration for the $11.21 per share exercise price for the 924 shares we issued, and the entire warrant was canceled in the exchange. The shares issued were exempt from registration under Section 3(a)(9) of the Securities Act of 1933, as amended, because we exchanged the shares with our existing security holder exclusively, and no commission or other remuneration was paid or given directly or indirectly for soliciting the exchange.

On November 21, 2016, we issued 2,009 shares of our common stock in a cashless exchange for a warrant to purchase 3,333 shares of our common stock. Pursuant to the terms of the warrant, the holder of the warrant used the amount by which 1,324 shares were deemed to be "in the money" as consideration for the 10.00 per share exercise price for the 2,009 shares we issued, and the entire warrant was canceled in the exchange. The shares issued were exempt from registration under Section 3(a)(9) of the Securities Act of 1933, as amended, because we exchanged the shares with our existing security holder exclusively, and no commission or other remuneration was paid or given directly or indirectly for soliciting the exchange.

On December 13, 2016, we issued 20,000 shares of our common stock pursuant to the exercise by the holder of a warrant to purchase 20,000 shares of our common stock at $10.00 per share, resulting in cash consideration to us of $200,000. The 20,000 shares issued were exempt from registration as a transaction by an issuer not involving a public offering under Section 4(a)(2) of the Securities Act of 1933, as amended, and, in particular, the safe harbor provisions afforded by Rule 506 of Regulation D, as promulgated thereunder.

All of the warrants were exercised by certain of our current and former employees.

Repurchases of Common Stock

The following table provides information regarding the Company's purchase of common stock during the three months ended December 31, 2016:

Period	(a) Total Number of Shares Purchased (1)	(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 October 1, 2016 - October 31, 2016	2,621	$ 22.82	—	1,229,285
Repurchases from November 1, 2016 - November 30, 2016	—	—	—	1,229,285
Repurchases from December 1, 2016 - December 31, 2016	—	—	—	1,229,285
Total	2,621	$ 22.82	—	1,229,285

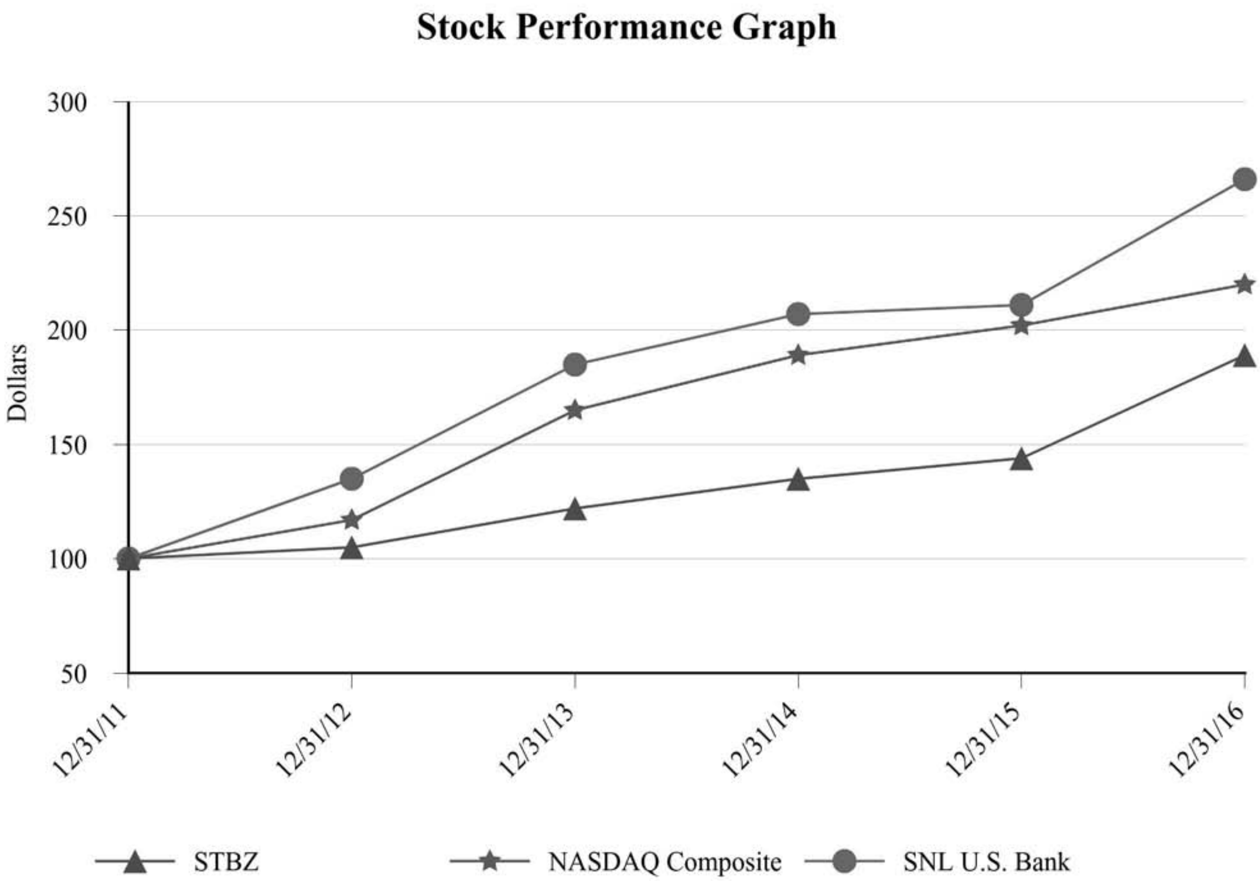
(1) Represents shares of the Company's common stock acquired by the Company in connection with satisfaction of tax withholding obligations on vested restricted stock.

(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. On February 10, 2017, the Company extended this existing written trading plan for an additional year. The trading plan will now expire on the earlier of (a) February 24, 2018, (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 by the Company under the plan.

Stock Performance Graph

The following stock performance graph and related information shall not be deemed "soliciting material" or to be "filed" with the SEC, or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall such information be incorporated by reference into any future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, each as amended, except to the extent the Company specifically incorporates it by reference into such filing. The stock performance graph represents past performance and should not be considered an indication of future performance.

The stock performance graph compares the cumulative annual shareholder return over the past five years on the Company's common stock, assuming an investment of $100 on December 31, 2011 and the reinvestment of dividends thereafter, with the cumulative total return of such an amount on the SNL U.S. Bank Index and the common stocks reported in the NASDAQ Composite Index. The SNL U.S. Bank Index was made up of 324 U.S. bank stocks as of December 31, 2016. The NASDAQ Composite Index is a market capitalization-weighted index and includes all domestic and international based common type stocks listed on The NASDAQ Stock Market.



	Cumulative Total Return (1)					
	December 31					
	2011	2012	2013	2014	2015	2016
State Bank Financial Corporation (STBZ)	$ 100	$ 105	$ 122	$ 135	$ 144	$ 189
NASDAQ Composite	100	117	165	189	202	220
SNL U.S. Bank	100	135	185	207	211	266

(1) Total return includes reinvestment of dividends.

Item 6. Selected Financial Data.

The following table provides selected historical consolidated financial information at the dates indicated and for the periods presented. This data should be read in conjunction with the consolidated financial statements and the notes thereto in Item 8, the information contained in this Item 6, including Table 2 below, "*Non-GAAP Measure Reconciliation*", and with "*Management's Discussion and Analysis of Results of Operations and Financial Condition*" contained in Item 7.

The historical GAAP information at and for the years ended December 31, 2016 and 2015 is derived from our audited consolidated financial statements that appear in this report. The historical results shown below and elsewhere in this report, including GAAP and non-GAAP financial measures, are not necessarily indicative of our future performance.

Table 1 - Financial Highlights
Selected Financial Information

	December 31				
(dollars in thousands, except per share data)	**2016**	**2015**	**2014**	**2013**	**2012**
SELECTED RESULTS OF OPERATIONS					
Interest income on loans	$ 103,024	$ 92,938	$ 64,176	$ 61,010	$ 55,228
Accretion income on loans	43,310	49,830	78,857	122,466	102,413
Interest income on invested funds	18,923	15,823	10,488	10,198	11,390
Total interest income	165,257	158,591	153,521	193,674	169,031
Interest expense	9,619	7,922	7,520	7,933	9,749
Net interest income	155,638	150,669	146,001	185,741	159,282
Provision for loan and lease losses (organic & PNCI loans)	3,596	2,951	2,775	1,920	5,035
Provision for loan and lease losses (purchased credit impaired loans)	(3,359)	535	121	(4,407)	10,081
Total provision for loan losses	237	3,486	2,896	(2,487)	15,116
Amortization of FDIC receivable for loss share agreements	—	(16,488)	(15,785)	(87,884)	(32,569)
Other noninterest income (1)	39,301	36,599	15,387	16,937	12,803
Total noninterest income	39,301	20,111	(398)	(70,947)	(19,766)
Total noninterest expense	120,927	123,422	93,468	97,967	89,236
Income before income taxes	73,775	43,872	49,239	19,314	35,164
Income tax expense	26,184	15,449	18,321	6,567	12,422
Net income	47,591	28,423	30,918	12,747	22,742
COMMON SHARE DATA					
Basic net income per share	$ 1.29	$ .79	$ .96	$ .40	$ .72
Diluted net income per share	1.28	.77	.93	.39	.69
Cash dividends declared per share	.56	.32	.15	.12	.06
Book value per share	15.80	14.47	14.38	13.62	13.48
Tangible book value per share (2)	13.48	13.22	13.97	13.24	13.06
Dividend payout ratio	43.75 %	41.56%	16.13%	30.77%	8.70%
COMMON SHARES OUTSTANDING					
Common stock	38,845,573	37,077,848	32,269,604	32,094,145	31,908,665
Weighted average shares outstanding:					
Basic	35,931,528	34,810,855	31,723,971	31,640,284	31,540,628
Diluted	36,033,643	36,042,719	32,827,943	32,654,104	32,567,780

Form 10-K

Table 1 - Financial Highlights
Selected Financial Information

(dollars in thousands, except per share data)	December 31 2016	2015	2014	2013	2012
AVERAGE BALANCE SHEET HIGHLIGHTS					
Loans (3)	$ 2,354,276	$ 2,109,908	$ 1,481,730	$ 1,427,501	$ 1,512,367
Assets	3,550,650	3,366,505	2,661,512	2,600,583	2,666,606
Deposits	2,892,726	2,773,351	2,166,229	2,107,198	2,165,606
Equity	551,420	528,682	449,552	428,383	420,157
Tangible common equity (2)	506,062	487,876	437,095	415,474	411,882
SELECTED ACTUAL BALANCES					
Total assets	$ 4,224,859	$ 3,470,067	$ 2,882,210	$ 2,605,388	$ 2,662,575
Investment securities	914,241	887,705	640,086	387,048	303,901
Organic loans	2,090,564	1,774,332	1,320,393	1,123,475	985,502
Purchased non-credit impaired loans	563,362	240,310	107,797	—	—
Purchased credit impaired loans	160,646	145,575	206,339	257,494	474,713
Allowance for loan and lease losses	(26,598)	(29,075)	(28,638)	(34,065)	(70,138)
Interest-earning assets	3,917,356	3,266,042	2,748,397	2,359,145	2,202,452
Total deposits	3,431,165	2,861,962	2,391,682	2,128,325	2,148,436
Interest-bearing liabilities	2,521,831	2,069,737	1,817,158	1,667,085	1,768,264
Noninterest-bearing liabilities	1,089,395	863,840	600,957	501,120	464,095
Shareholders' equity	613,633	536,490	464,095	437,183	430,216
PERFORMANCE RATIOS					
Return on average assets	1.34 %	.84%	1.16%	.49 %	.85%
Return on average equity	8.63	5.38	6.88	2.98	5.41
Cost of funds	.33	.28	.35	.38	.45
Net interest margin (4)	4.68	4.78	5.91	8.32	7.59
Net interest margin excluding accretion income (5)	3.52	3.39	3.00	3.35	3.94
Interest rate spread (4)	4.50	4.64	5.76	8.20	7.52
Efficiency ratio (6)	62.03	72.27	64.19	85.34	63.96
CAPITAL RATIOS (7)					
Average equity to average assets	15.53 %	15.70%	16.89%	16.47%	15.76%
Leverage ratio	14.90	14.48	15.90	16.55	15.49
CET1 risk-based capital ratio	14.78	17.71	N/A	N/A	N/A
Tier 1 risk-based capital ratio	14.78	17.71	23.12	27.85	29.25
Total risk-based capital ratio	15.53	18.75	24.37	29.11	30.54

Table 1 - Financial Highlights
Selected Financial Information

(dollars in thousands, except per share data)	December 31 2016	2015	2014	2013	2012
ORGANIC ASSET QUALITY RATIOS					
Net charge-offs (recoveries) to total average organic loans	.16 %	—%	.08%	(.01)%	.07%
Nonperforming organic loans to organic loans	.30	.29	.42	.20	.48
Nonperforming organic assets to organic loans + OREO	.31	.29	.43	.29	.59
Past due organic loans to organic loans	.06	.10	.17	.09	.37
Allowance for loan and lease losses on organic loans to organic loans	1.01	1.20	1.39	1.48	1.49
PURCHASED NON-CREDIT IMPAIRED ASSET QUALITY RATIOS					
Net charge-offs (recoveries) on PNCI loans to average PNCI loans	.08 %	.01%	—%	— %	—%
Nonperforming PNCI loans to PNCI loans	.60	.77	.10	—	—
Nonperforming PNCI assets to PNCI loans + OREO	.60	.77	.10	—	—
Past due PNCI loans to PNCI loans	.68	.39	.46	—	—
Allowance for loan and lease losses on PNCI loans to PNCI loans	.08	.02	—	—	—
PURCHASED CREDIT IMPAIRED ASSET QUALITY RATIOS (8)					
Net (recoveries) charge-offs on PCI loans to average PCI loans	(.48)%	2.30%	1.96%	1.03 %	8.34%
Past due PCI loans to PCI loans	8.92	16.64	15.62	20.03	41.06
Allowance for loan and lease losses on PCI loans to PCI loans	3.16	5.36	4.97	6.76	11.69

(1) Includes all line items of noninterest income other than amortization of FDIC receivable for loss share agreements.
(2) 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.
(3) Includes average nonaccrual loans of $8.9 million for 2016, $5.6 million for 2015, $2.9 million for 2014, $3.3 million for 2013, $3.7 million for 2012.
(4) Interest income calculated on a fully tax-equivalent basis using a tax rate of 35%.
(5) Excludes accretion income on loans and average purchased credit impaired loans.
(6) Noninterest expenses divided by net interest income plus noninterest income.
(7) Beginning January 1, 2015, the Company's ratios are calculated using the Basel III framework. Capital ratios for prior periods were calculated using the Basel I framework. The Common Equity Tier 1 (CET1) capital ratio is a new ratio introduced under the Basel III framework.
(8) For each period presented, a portion of the Company's purchased credit impaired loans were contractually 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, purchased credit impaired loans are not considered to be nonperforming assets.

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 measures exclude the effect of the period end or average balance of intangible assets. Management believes that these non-GAAP 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

	December 31				
(dollars in thousands, except per share data)	2016	2015	2014	2013	2012
TANGIBLE BOOK VALUE PER COMMON SHARE RECONCILIATION					
Book value per common share (GAAP)	$ 15.80	$ 14.47	$ 14.38	$ 13.62	$ 13.48
Effect of goodwill and other intangibles	(2.32)	(1.25)	(.41)	(.38)	(.42)
Tangible book value per share	$ 13.48	$ 13.22	$ 13.97	$ 13.24	$ 13.06
AVERAGE TANGIBLE EQUITY RECONCILIATION					
Average equity (GAAP)	$ 551,420	$ 528,682	$ 449,552	$ 428,383	$ 420,157
Effect of average goodwill and other intangibles	(45,358)	(40,806)	(12,457)	(12,909)	(8,275)
Average tangible equity	$ 506,062	$ 487,876	$ 437,095	$ 415,474	$ 411,882

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our consolidated financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes. Historical results of operations and the percentage relationships among any amounts included, and any trends that may appear, may not indicate trends in operations or results of operations for any future periods.

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 that 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" at the beginning of this report.

Introduction

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. State Bank is a Georgia state-chartered bank that opened in October 2005 in Pinehurst, Georgia. From October 2005 until July 23, 2009, State Bank operated as a small community bank from two branch offices located in Dooly County.

On July 24, 2009, State Bank raised approximately $292.1 million in gross proceeds (before expenses) from investors in a private offering of its common stock. In connection with the private offering, the FDIC and the Georgia Department of Banking and Finance approved the Interagency Notice of Change in Control application filed by our new management team, which took control of State Bank on July 24, 2009. As a result of our private offering and acquisition, we were transformed from a small community bank to a much larger commercial bank.

Between July 24, 2009 and December 31, 2016, we successfully completed 16 bank acquisitions totaling $5.1 billion in assets and $4.5 billion in deposits. The acquisitions included 12 different failed bank transactions in which we acted as receiver for the FDIC, which we refer to as our FDIC-assisted transactions or failed bank transactions. Concurrently with each of the failed bank transactions, we entered into loss share agreements with the FDIC that covered certain of the acquired loans and other real estate owned. Our acquisitions also include the acquisition of Atlanta Bancorporation, Inc. and its wholly-owned subsidiary bank, Bank of Atlanta, in October 2014, the acquisition of Georgia-Carolina Bancshares, Inc., the holding company for First Bank of Georgia ("First Bank"), in January 2015, the acquisition of NBG Bancorp, Inc. and its wholly-owned subsidiary bank, The National Bank of Georgia, in December 2016, and the acquisition of S Bankshares, Inc. and its wholly-owned subsidiary bank, S Bank, in December 2016.

We are now operating 31 full-service branches throughout seven of Georgia's eight largest MSAs. We also operate eight mortgage origination offices. At December 31, 2016, our total assets were approximately $4.2 billion, our total loans receivable were approximately $2.8 billion, our total deposits were approximately $3.4 billion and our total shareholders' equity was approximately $613.6 million.

During the second quarter of 2015, we entered into an agreement with the FDIC to terminate our loss share agreements for all 12 of our FDIC-assisted acquisitions, resulting in a one-time after-tax charge of approximately $8.9 million, or $14.5 million pre-tax. All rights and obligations of the parties under the FDIC loss share agreements, including the clawback provisions and the settlement of historic loss share expense reimbursement claims, were eliminated under the early termination agreement. All future charge-offs, recoveries, gains, losses and expenses related to assets previously covered by FDIC loss share agreements will now be recognized entirely by us since the FDIC will no longer be sharing in such charge-offs, recoveries, gains, losses and expenses.

Historically, we have referred to loans subject to loss share agreements with the FDIC as “covered loans” and loans that are not subject to loss share agreements with the FDIC as “noncovered loans.” With the early termination of all of our loss share agreements as discussed above, we now segregate our loan portfolio into the following three categories:

(1) organic loans, which refers loans not purchased in the acquisition of an institution or credit impaired portfolio,

(2) purchased non-credit impaired loans ("PNCI"), which refers to loans acquired in our acquisitions that did not show signs of credit deterioration at acquisition, and

(3) purchased credit impaired loans ("PCI"), which refers to loans we acquired that, at acquisition, we determined it was probable that we would be unable to collect all contractual principal and interest payments due.

Overview

The following provides an overview of the major factors impacting our financial performance in 2016 as well as information on certain important recent events.

- Net income for the year ended December 31, 2016 was $47.6 million, or $1.28 per diluted share, compared to net income of $28.4 million for 2015, or $.77 per diluted share.
- Noninterest income was $39.3 million for the year ended December 31, 2016, compared to $20.1 million for 2015. The increase is partially due to the $16.5 million decrease in amortization of the FDIC receivable for loss share agreements as a result of ceasing amortization on the FDIC receivable after we terminated our loss share coverage in May 2015. Mortgage banking, payroll fee income and SBA income also contributed $2.6 million to the increase in 2016.
- Our net interest income on a taxable equivalent basis was $156.2 million for 2016, an increase of $5.0 million, or 3.3%, from 2015. Our interest income increased $6.7 million in 2016, primarily as a result of an increase of $10.1 million in interest income on loans and an increase of $3.4 million in interest income on investment securities which was partially offset by a $6.5 million decline in accretion income.
- We completed our acquisitions of NBG Bancorp, Inc. and S Bankshares, Inc. on December 31, 2016.
- We experienced strong loan growth in 2016. At December 31, 2016, total organic loans were $2.1 billion, an increase of $316.2 million, or 17.8%, from 2015.
- The accretable discount on purchased credit impaired loans, which represents the excess cash flows expected at acquisition over the estimated fair value of the loans, decreased $16.8 million to $69.3 million at December 31, 2016, compared to $86.1 million at December 31, 2015. The decrease is primarily a result of $43.3 million in accretion income recognized on purchased credit impaired loans, offset by additions from acquisitions of $5.8 million and transfers from nonaccretable to accretable discount of $20.7 million during 2016.
- Asset quality remained solid at December 31, 2016 with a ratio of nonperforming assets to total loans plus other real estate owned of .73% and a ratio of nonperforming loans to total loans of .34%.
- Our cost of deposits remained low as the average cost of funds was 33 basis points for the year ended December 31, 2016, compared to 28 basis points for the year ended December 31, 2015.
- The Company's capital ratios exceeded all regulatory "well capitalized" guidelines, with a Tier 1 leverage ratio of 14.90%, CET1 and Tier 1 risk-based capital ratios of 14.78% and a Total risk-based capital ratio of 15.53% at December 31, 2016.
- In 2016, we paid cash dividends totaling $.56 per common share to our shareholders.
- On February 8, 2017, we declared a quarterly dividend of $.14 per common share to be paid on March 14, 2017 to shareholders of record of our common stock as of March 6, 2017.

Critical Accounting Policies

In preparing financial statements, management is required to apply significant judgment to various accounting, reporting and disclosure matters. Management must use assumptions and estimates to apply these principles where actual measurement is not possible or practical. The accounting principles and methods we use conform with accounting principles generally accepted in the United States and general banking practices. Estimates and assumptions most significant to us relate primarily to the calculation of the allowance for loan and lease losses, the accounting for acquired loans and, with respect to those loans subject to loss share agreements with the FDIC before the early termination of our loss share agreements, the related FDIC receivable for loss share agreements on such covered assets, the valuation of goodwill and income taxes. These significant estimates and assumptions are summarized in the following discussion and are further analyzed in the notes to the consolidated financial statements.

Acquisition Accounting

We determined the fair value of our acquired assets and liabilities in accordance with accounting requirements for fair value measurement and acquisition transactions as promulgated in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (ASC 310-30), ASC Topic 805, *Business Combinations* (ASC 805), and ASC Topic 820, *Fair Value Measurements and Disclosures.* The determination of the initial fair values on loans and other real estate purchased in an acquisition require significant judgment and complexity. All identifiable assets acquired, including loans, are recorded at fair value. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic No. 820. These fair value estimates associated with the purchased loans include estimates related to expected prepayments and the amount and timing of expected principal, interest and other cash flows.

Where a loan exhibits evidence of credit deterioration since origination and it is probable at the acquisition date that we will not collect all principal and interest payments in accordance with the terms of the loan agreement, we account for the loan under ASC 310-30, as a purchased credit impaired loan. We account for our purchased credit impaired loans by dividing them into two categories, either: (1) specifically-reviewed loans or, (2) loans accounted for as part of a loan pool. We create loan pools by grouping loans with similar risk characteristics with the intent of creating homogeneous pools based on a combination of various factors including product type, cohort, risk classification and term. Loans accounted for in pools remain in the assigned pool until they are resolved. Any gains or losses are deferred and retained in the pool until the pool closes, which is either when all the loans are resolved or the pool's recorded investment reaches zero.

Allowance for Loan and Lease Losses (ALLL)

The ALLL represents the amount considered adequate by management to absorb losses inherent in the loan portfolio at the balance sheet date. The ALLL is adjusted through provisions for loan losses charged or credited to operations. The provisions are generated through loss analyses performed on organic loans, estimated additional losses arising on PNCI loans subsequent to acquisition and impairment recognized as a result of decreased expected cash flows on PCI loans due to further credit deterioration since the previous quarterly cash flow re-estimation. The ALLL consists of both specific and general components. Individual loans are charged off against the ALLL when management determines them to be uncollectible. Subsequent recoveries, if any, of loans previously charged-off are credited to the ALLL.

All known and inherent losses that are both probable and reasonable to estimate are recorded. While management utilizes available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance. Such agencies may require adjustments to the ALLL based on their judgment about information available at the time of their examination.

The Company assesses the adequacy of the ALLL quarterly with respect to organic and purchased loans. The assessment begins with a standard evaluation and analysis of the loan portfolio. All loans are consistently graded and monitored for changes in credit risk and possible deterioration in the borrower's ability to repay the contractual amounts due under the loan agreements.

Allowance for loan and lease losses for organic loans

The ALLL for organic loans consists of two components:

(1) a specific amount against identified credit exposures where it is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreements; and

(2) a general amount based upon historical losses that are then adjusted for qualitative factors representative of various economic indicators and risk characteristics of the loan portfolio.

Management establishes the specific amount by examining impaired loans. The majority of the Company's impaired loans are collateral dependent; therefore, nearly all of the specific allowances are calculated based on the fair value of the collateral less disposal costs, if applicable.

Management establishes the general amount by reviewing the remaining loan portfolio (excluding those impaired loans discussed above) and incorporating allocations based on historical losses. The calculation of the general amount is subjected to qualitative factors that are somewhat subjective. The qualitative testing attempts to correlate the historical loss rates with current economic factors and current risks in the portfolio. The qualitative factors consist of but are not limited to:

(1) economic factors including changes in the local or national economy;

(2) the depth of experience in lending staff, credit administration and internal loan review;

(3) asset quality trends; and

(4) seasoning and growth rate of the portfolio segments.

After assessing the applicable factors, the remaining amount is evaluated based on management's experience and the level of the organic ALLL is compared with historical trends and peer information as a reasonableness test.

Allowance for loan and lease losses for purchased loans

Purchased loans are initially recorded at their acquisition date fair values. The carryover of ALLL is prohibited as any credit losses in the loans are included in the determination of the fair value of the loans at the acquisition date. Fair values for purchased loans are based on a discounted cash flow methodology that involves assumptions and judgments as to credit risk, default rates, loss severity, collateral values, discount rates, payment speeds, prepayment risk and liquidity risk.

The Company maintains an ALLL on purchased loans based on credit deterioration subsequent to the acquisition date. Purchased credit impaired loans are accounted for under ASC 310-30. Management establishes an allowance for credit deterioration subsequent to the date of acquisition by quarterly re-estimating expected cash flows with any decline in expected cash flows recorded as impairment in the provision for loan losses. Impairment is measured as the excess of the recorded investment in a loan over the present value of expected future cash flows discounted at the pre-impairment accounting yield of the loan. For any increases in cash flows expected to be collected, the Company first reverses only previously recorded ALLL, then adjusts the amount of accretable yield recognized on a prospective basis over the loan’s remaining life.

For purchased loans that are not deemed impaired at acquisition, also referred to as 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. Subsequent to 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.

Accounting for the FDIC Receivable

In conjunction with our FDIC-assisted acquisitions, State Bank entered into loss share agreements with the FDIC and we recorded an indemnification asset which reflected the reimbursements expected to be received from the FDIC, using an appropriate discount rate, that discounted future cash flows and other uncertainties for losses incurred on the covered assets. We refer to the FDIC indemnification asset as the "FDIC Receivable." The FDIC receivable at acquisition was recognized at the same time as the covered loans and was measured on the same basis, subject to contractual limitations or collectability. We made various estimates when assessing collectability, including the likelihood that a loss would be incurred or that concerns raised by the FDIC on claims initially denied could be resolved before the loss share period ended.

The FDIC receivable was measured on the same basis as the related formerly covered loans. All of the covered loans were deemed to be purchased credit impaired loans and therefore, subject to the accounting prescribed by ASC Topic 310-30. Deterioration in the credit quality or cash flows of the formerly covered loans were immediately recorded as an adjustment to the allowance for loan and lease losses which immediately increased the basis of the FDIC receivable, with the offset recorded through our consolidated statement of income. Improvements in the credit quality or cash flows on formerly covered loans (reflected as an adjustment to yield and accreted into income over the remaining life of the formerly covered loans) decreased the basis of the FDIC receivable, with such decreases being amortized as expense in non-interest income over the remaining life of the covered loan or the life of the loss share agreement, whichever was shorter. Loss assumptions used during the re-estimation of cash flows on formerly covered loans were consistent with the loss assumptions used to measure the FDIC receivable. Fair value accounting incorporated into the fair value of the FDIC receivable an element of the time value of money, which was accreted back into income over the life of the related loss share agreement.

Upon the determination of an incurred loss on a covered asset, the FDIC receivable was reduced by the amount owed by the FDIC. A corresponding claim receivable was recorded until cash was received from the FDIC. The FDIC receivable and claims receivable from the FDIC are both included in "FDIC Receivable for Loss Share Agreements" on our Consolidated Statements of Financial Condition. On May 21, 2015, State Bank entered into an agreement to terminate loss share coverage on all 12 FDIC-assisted acquisitions. The early termination resulted in the elimination of the FDIC receivable for loss share agreements and the associated clawback liability.

For further discussion of our acquisitions, loan and indemnification asset accounting, see Notes 1, 4, 5 and 10 of the notes to the consolidated financial statements located in Item 8 of this Annual Report on Form 10-K.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in a business combination. We review goodwill for impairment annually, or more frequently if deemed necessary, as goodwill is deemed to have an indefinite life. On our annual assessment date, December 31, we performed a qualitative assessment of whether it was more likely than not that the fair value exceeded carrying value. Based on this assessment, we determined that it was more likely than not that the fair value exceeded its carrying value, resulting in no impairment to goodwill.

Income Taxes

Income Tax Expense. The calculation of our income tax expense requires significant judgment and the use of estimates. We periodically assess tax positions based on current tax developments, including enacted statutory, judicial, regulatory and industry guidance. In analyzing our overall tax position, we consider the amount and timing of recognizing income tax liabilities and benefits. In applying the tax and accounting guidance to the facts and circumstances, we adjust income tax balances appropriately through the income tax provision. We maintain reserves for income tax uncertainties at levels we believe are adequate to absorb probable payments. Actual amounts paid, if any, could differ significantly from these estimates.

Deferred Income Taxes. We use the asset and liability method of accounting for income taxes. Under this method, we recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We assess deferred tax assets based on expected realizations, and we establish a valuation allowance in situations where it is more likely than not that a deferred tax asset is not realizable. Management has reviewed all evidence, both positive and negative, and concluded that no valuation allowance against the net deferred tax asset is needed at December 31, 2016.

Results of Operations

Net Income

We reported net income of $47.6 million, $28.4 million, and $30.9 million for December 31, 2016, 2015, and 2014, respectively. Diluted earnings per common share was $1.28, $.77, and $.93 for December 31, 2016, 2015, and 2014, respectively.

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.

2016 compared to 2015

Our net interest income on a taxable equivalent basis was $156.2 million for 2016, an increase of $5.0 million, or 3.3%, from 2015. This increase was primarily attributable to increases in average loans, excluding purchased credit impaired loans, of $287.1 million and investment securities of $68.2 million compared to the year ended December 31, 2015. A decrease of $6.5 million in accretion income on purchased credit impaired loans, a decline in the yield on average loans, excluding purchased credit impaired loans, of 17 basis points and an increase in average interest-bearing deposits of $25.4 million compared to the year ended December 31, 2015 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 4.50% for 2016, compared to 4.64% for 2015, a decrease of 14 basis points. Our net interest margin on a taxable equivalent basis, which is net interest income divided by average interest-earning assets, was 4.68% for 2016, compared to 4.78% for 2015, a decrease of 10 basis points.

The yield on average earning assets was 4.96% for 2016, compared to 5.03% for 2015, a decrease of seven basis points, driven primarily by a decline in our yield on loans, excluding purchased credit impaired loans. Our yield on loans, excluding purchased credit impaired loans, was 4.66% for 2016, compared to 4.83% for 2015, a decrease of 17 basis points. The decrease primarily resulted from a combination of payoffs of higher-yielding loans and new lower-yielding loan originations. The decrease in yield on loans, excluding purchased credit impaired loans, was partially offset by increases in the yields on purchased credit impaired loans and investment securities. Our yield on purchased credit impaired loans was 32.66% for 2016, compared to 28.41% for 2015, an increase of 425 basis points. 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 increase in our yield on purchased credit impaired loans in 2016 was primarily due to gains on loan pool closings of $6.4 million in relation to average purchased credit impaired loans. The yield on our investment portfolio was 2.08% for 2016 and 1.84% for 2015. The increase of 24 basis points was primarily driven by variable rate securities repricing due to changes in index rates.

The average rate on interest-bearing liabilities was .46% for 2016, an increase of seven basis points from 2015. The average rate paid on interest-bearing deposits was .46% for 2016, an increase of eight basis points from 2015. This is primarily due to the increase in amortization on our interest rate caps of $625,000, as well as the reduction of $537,000 in amortization of time deposit premiums acquired in our acquisitions of First Bank of Georgia and Bank of Atlanta. Also contributing to the increase was a local time deposit special run during the fourth quarter of 2015 and the first quarter of 2016 as part of management's strategy to grow new retail deposits. Our cost of funds was 33 basis points for 2016, an increase of five basis points from 2015.

2015 compared to 2014

Our net interest income on a taxable equivalent basis was $151.2 million for 2015, an increase of $4.9 million, or 3.4%, from 2014. Our net interest spread on a taxable equivalent basis was 4.64% for 2015, compared to 5.76% for 2014, a decrease of 112 basis points. Our net interest margin on a taxable equivalent basis was 4.78% for 2015, compared to 5.91% for 2014, a decrease of 113 basis points.

The yield on average earning assets was 5.03% for 2015, compared to 6.21% for 2014, a decrease of 118 basis points, driven primarily by a $29.0 million decline in accretion income on purchased credit impaired loans. Our yield on purchased credit impaired loans was 28.41% for 2015, compared to 35.26% for 2014, a decrease of 685 basis points. 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 decline in our yield on purchased credit impaired loans in 2015 was primarily due to a decrease of $19.9 million in gains on loan pool closings in relation to average purchased credit impaired loans. Our yield on loans, excluding purchased credit impaired loans, was 4.83% for 2015, compared to 5.12% for 2014, a decrease of 29 basis points. The decrease primarily resulted from a combination of payoffs of higher-yielding loans and new lower-yielding loan originations. The yield on our investment portfolio was 1.84% for 2015 and 1.81% for 2014. The increase of three basis points was primarily driven by our purchase of higher yielding investments.

The average rate on interest-bearing liabilities was .39% for 2015, a decrease of six basis points from 2014. The average rate paid on interest-bearing deposits was .38% for 2015 and .43% for 2014. The five basis point decrease was primarily the result of time deposits acquired in our acquisition of First Bank because the interest expense on these deposits incorporated the benefit of the fair value adjustment. Our cost of funds was 28 basis points for 2015, a decrease of seven basis points from 2014.

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 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.

	Years Ended December 31								
	2016			2015			2014		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets:									
Interest-bearing deposits in other financial institutions	$ 88,072	$ 294	.33%	$ 224,637	$ 609	.27%	$ 483,523	$ 1,276	.26%
Investment securities (1)	897,521	18,633	2.08%	829,370	15,253	1.84%	510,142	9,245	1.81%
Loans, excluding purchased credit impaired loans (2) (3)	2,221,650	103,586	4.66%	1,934,530	93,453	4.83%	1,258,074	64,462	5.12%
Purchased credit impaired loans	132,626	43,310	32.66%	175,378	49,830	28.41%	223,656	78,857	35.26%
Total earning assets	3,339,869	165,823	4.96%	3,163,915	159,145	5.03%	2,475,395	153,840	6.21%
Total nonearning assets	210,781			202,590			186,117		
Total assets	$3,550,650			$3,366,505			$2,661,512		
Liabilities:									
Interest-bearing liabilities:									
Interest-bearing transaction accounts	$ 540,593	$ 661	.12%	$ 518,770	$ 701	.14%	$ 386,112	$ 491	.13%
Savings & money market deposits	1,078,496	5,855	.54%	1,059,523	4,915	.46%	910,748	4,120	.45%
Time deposits less than $250,000	333,286	2,098	.63%	303,745	920	.30%	248,696	1,316	.53%
Time deposits $250,000 or greater	59,803	428	.72%	55,539	380	.68%	33,466	263	.79%
Brokered and wholesale time deposits	28,938	289	1.00%	78,135	757	.97%	97,458	966	.99%
Other borrowings	60,593	288	.48%	20,238	249	1.23%	4,865	364	7.48%
Total interest-bearing liabilities	2,101,709	9,619	.46%	2,035,950	7,922	.39%	1,681,345	7,520	.45%
Noninterest-bearing liabilities:									
Noninterest-bearing demand deposits	851,610			757,639			489,749		
Other liabilities	45,911			44,234			40,866		
Shareholders' equity	551,420			528,682			449,552		
Total liabilities and shareholders' equity	$3,550,650			$3,366,505			$2,661,512		
Net interest income		$156,204			$151,223			$146,320	
Net interest spread			4.50%			4.64%			5.76%
Net interest margin			4.68%			4.78%			5.91%
Net interest margin excluding accretion income			3.52%			3.39%			3.00%
Cost of funds			.33%			.28%			.35%

(1) Reflects taxable equivalent adjustments using the statutory tax rate of 35% in adjusting interest on tax-exempt securities to a fully taxable basis. The taxable equivalent adjustments included above are $4,000, $39,000 and $33,000 for 2016, 2015 and 2014, respectively.

(2) Includes average nonaccrual loans of $8.9 million, $5.6 million and $2.9 million for 2016, 2015 and 2014, respectively.

(3) Reflects taxable equivalent adjustments using the statutory tax rate of 35% in adjusting tax-exempt loan interest income to a fully taxable basis. The taxable equivalent adjustments included above are $562,000, $515,000 and $286,000 for 2016, 2015 and 2014, 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)*:

	Years Ended December 31					
	2016 compared to 2015			2015 compared to 2014		
	Change Attributable to			Change Attributable to		
	Volume	Rate	Total Increase (Decrease)(1)	Volume	Rate	Total Increase (Decrease)(1)
Interest income:						
Loans	$ 13,479	$ (3,346)	$ 10,133	$ 32,869	$ (3,878)	$ 28,991
Loan accretion	(13,272)	6,752	(6,520)	(15,282)	(13,745)	(29,027)
Investment securities	1,316	2,064	3,380	5,869	139	6,008
Interest-bearing deposits in other financial institutions	(432)	117	(315)	(701)	34	(667)
Total interest income	1,091	5,587	6,678	22,755	(17,450)	5,305
Interest expense:						
Deposits	98	1,560	1,658	1,345	(828)	517
Other borrowings	264	(225)	39	390	(505)	(115)
Total interest expense	362	1,335	1,697	1,735	(1,333)	402
Net interest income	$ 729	$ 4,252	$ 4,981	$ 21,020	$ (16,117)	$ 4,903

(1) Amounts shown as increase (decrease) due to changes in either volume or rate include 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 allowance and corresponding provision for loan losses considers ongoing evaluations of the credit quality and level of credit risk inherent in various segments of the loan portfolio and of individually significant credits, levels of nonperforming loans and charge-offs, statistical trends and economic and other relevant factors. Please see the allowance for loan and leases losses (ALLL) discussion 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

We recorded a provision for loan and lease losses related to organic loans of $3.1 million, $2.9 million and $2.8 million, for the years ended December 31, 2016, 2015 and 2014, 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 allowance for loan and lease losses. For the year ended December 31, 2016, the activity in our ALLL on purchased non-credit impaired loans included charge-offs of $223,000 and recoveries of $63,000 with a provision for loan and leases losses of $546,000, resulting in a $439,000 ending allowance on purchased non-credit impaired loans at December 31, 2016. For the year ended December 31, 2015, the activity in our ALLL on purchased non-credit impaired loans included charge-offs of $48,000 and recoveries of $7,000 with a provision for loan and leases losses of $94,000, resulting in a $53,000 ending allowance on purchased non-credit impaired loans at December 31, 2015. Our purchased non-credit impaired loan portfolio was established during the fourth quarter of 2014; therefore, we recorded no provision for loan and leases losses on purchased non-credit impaired loans in 2014.

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 value 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 and we record a provision for loan and lease losses during the period for any decline in expected cash flows. Conversely, any improvement in expected cash flows is recognized prospectively as an adjustment to the yield on the purchased credit impaired loan once any previously recorded impairment is recaptured. Before the early termination of our loss share agreements with the FDIC, we recorded the amount of provision for formerly covered assets through the FDIC receivable for loss share agreements. Now that our loss share agreements have been terminated, the impact of any provision related to formerly covered assets will not be offset by changes in the FDIC receivable for loss share agreements, which may result in greater volatility. We recorded a negative provision for loan and lease losses related to purchased credit impaired loans of $3.4 million for the year ended December 31, 2016, and a provision of $535,000 and $121,000 for the years ended December 31, 2015 and 2014, respectively.

Noninterest Income

Noninterest income for 2016 totaled $39.3 million, up $19.2 million from 2015. Noninterest income for 2015 totaled $20.1 million, up $20.5 million from 2014. The following table presents the components of noninterest income for the periods indicated *(dollars in thousands)*:

	December 31		
	2016	**2015**	**2014**
Service charges on deposits	$ 5,440	$ 5,976	$ 4,834
Mortgage banking income	12,319	11,250	835
SBA income	6,458	5,539	477
Payroll fee income	4,929	4,283	3,700
ATM income	3,008	2,981	2,471
Bank-owned life insurance income	1,930	1,926	1,334
Prepayment fees	797	3,149	1,336
Gain on sale of investment securities	489	354	246
Other	3,931	1,141	154
Noninterest income before amortization of FDIC receivable for loss share agreements	39,301	36,599	15,387
Amortization of FDIC receivable for loss share agreements	—	(16,488)	(15,785)
Total noninterest income	$ 39,301	$ 20,111	$ (398)

2016 compared to 2015

Mortgage banking income increased $1.1 million, or 9.5% in 2016 from 2015. The increase in mortgage banking income is primarily a result of increased gains on sale of loans. SBA income was $6.5 million in 2016, compared to $5.5 million in 2015. The $919,000, or 16.6%, increase in SBA income is due to increased gains on sale of loans and fee income of $1.1 million and $378,000, respectively, partially offset by unfavorable fair value adjustments on SBA servicing rights of $512,000.

Payroll fee income increased $646,000, or 15.1%, in 2016 from 2015. This increase was attributable to an increase in the number of payroll customers compared to 2015. Prepayment fees decreased $2.4 million, or 74.7%, in 2016 from 2015, resulting from a drop off in the number of fixed rate loans that were paid off early which had increased during the first half of 2015. Other noninterest income increased $2.8 million, or 244.5%, in 2016 from 2015, attributable in part to writedowns and losses totaling $747,000 on premises and equipment primarily associated with closed branches disposed of or transferred to OREO during 2015. Additionally, the increase in other noninterest income for 2016 also results from fee income and gains on sale of equipment finance loans totaling $1.3 million and the mark-to-market on interest rate swaps and hedged assets improving by $414,000 compared to 2015.

Noninterest income includes the amortization of the FDIC receivable for loss share agreements, which represents amortization expense on the FDIC receivable for loss share agreements. The $16.5 million decrease in the amortization of the FDIC receivable for loss share agreements in 2016 from 2015, mainly resulted from our ceasing to amortize the FDIC receivable when we terminated our loss share agreements with the FDIC in the second quarter of 2015.

2015 compared to 2014

Mortgage banking income increased $10.4 million, or 1,247% in 2015 from 2014. The increase in mortgage banking income is primarily a result of our acquisition of First Bank, which increased our originations and sales of mortgage loans. SBA income was $5.5 million in 2015, compared to $477,000 in 2014. The $5.1 million, or 1,061%, increase in SBA income is directly related to our acquisition of Bank of Atlanta in the fourth quarter of 2014.

Bank-owned life insurance income increased $592,000, or 44.4%, from 2014 to 2015 primarily from insurance contracts acquired from First Bank. Prepayment fees increased $1.8 million, or 135.7%, in 2015 from 2014, resulting from increased activity on early payoffs of fixed rate loans. Other noninterest income increased $987,000, or 640.9%, in 2015 from 2014. The increase is mainly attributed to a $468,000 improvement in hedge ineffectiveness from 2014 as well as $426,000 in insurance commissions from our acquisition of Boyett Agency, LLC in the first quarter of 2015.

Noninterest income includes the amortization of the FDIC receivable for loss share agreements, which represents amortization expense on the FDIC receivable for loss share agreements, inclusive of the $14.5 million one-time charge we incurred as a result of terminating our loss share agreements with the FDIC in the second quarter of 2015. The amortization of FDIC receivable for loss share agreements increased $703,000, or 4.5%, to $16.5 million in 2015 from 2014. The increase was primarily the result of the early termination of our loss share agreements with the FDIC which resulted in our write-off of amortization expense on the FDIC receivable scheduled to be recognized during future quarters.

Noninterest Expense

Noninterest expense for 2016 totaled $120.9 million, down $2.5 million from 2015. Noninterest expense totaled $123.4 million for 2015, up $30.0 million from 2014. The following table presents the components of noninterest expense for the periods indicated *(dollars in thousands)*:

	December 31		
	2016	**2015**	**2014**
Salaries and employee benefits	$ 78,775	$ 83,295	$ 62,093
Occupancy and equipment	12,169	12,432	9,898
Data processing	8,514	9,190	7,053
Legal and professional fees	4,695	5,071	3,440
Merger-related expenses	3,961	1,730	795
Marketing	2,216	2,318	1,824
Federal deposit insurance premiums and other regulatory fees	1,744	2,100	1,420
Loan collection costs and OREO activity	(579)	(1,597)	480
Amortization of intangibles	2,102	1,804	694
Other	7,330	7,079	5,771
Total noninterest expense	$ 120,927	$ 123,422	$ 93,468

2016 compared to 2015

Salaries and employee benefits decreased $4.5 million, or 5.4%, to $78.8 million in 2016 from 2015. The decrease is attributable to reduction in staffing in certain support areas as a result of efficiency initiatives announced in the third quarter of 2015. The efficiency initiatives resulted in severance costs of $3.8 million for 2015 with no such amounts in 2016. The decrease in severance costs for 2016 and staffing reductions in certain support areas were partially offset by an increase in staff additions in our SBA and equipment finance lending areas and increased commission expense related to our increase in mortgage and SBA production volume during the same period.

Legal and professional fees decreased $376,000, or 7.4% in 2016 from 2015, primarily due to reductions in payments to certain vendors associated with our efficiency initiatives, lower spending related to infrastructure needed to support assets previously covered under our loss share agreements with the FDIC, which were terminated in the second quarter of 2015, and lower employee recruiting fees during 2016. These reductions were partially offset by costs incurred in connection with a support system project during the last half of 2016. Our FDIC deposit insurance premiums and other regulatory fees decreased $356,000 or 17.0% in 2016 from 2015, due to a reduction in assessment rates beginning with the third quarter as the Deposit Insurance Fund Reserve Ratio exceeded 1.15%. Amortization of intangibles increased $298,000, or 16.5%, to $2.1 million in 2016 from 2015, primarily due to an increase in amortization of intangibles related to the Patriot Capital acquisition.

Loan collection costs and OREO activity includes rental fees on OREO properties as well as gains and losses on OREO, which may result in a net benefit to expense. Loan collection costs and OREO activity increased $1.0 million, or 63.7%, to negative $579,000 in 2016 from 2015. The increase is attributable to a $2.5 million decrease in gains in sales of OREO, partially offset by a net reduction of $1.5 million in loan collection expenses and rental fees for 2016.

Merger-related expenses increased $2.2 million, or 129.0%, to $4.0 million for 2016 from $1.7 million in 2015. Merger-related expenses in 2016 were directly related to our acquisitions and integrations of NBG Bancorp, Inc. and S Bankshares, Inc. The merger-related expenses in 2015 were directly related to our acquisitions and integrations of Bank of Atlanta and First Bank of Georgia.

2015 compared to 2014

Salaries and employee benefits, including severance costs, increased $21.2 million, or 34.1%, to $83.3 million in 2015 from 2014. Approximately $14.4 million of the increase was related to our acquisition of First Bank and the expansion of State Bank's legacy mortgage banking activities. Additionally, the increase was due to the full year impact of the Bank of Atlanta integration totaling $2.1 million and an increase in equity compensation in 2015 of $1.6 million. Severance costs increased $2.0 million, or 112.6%, to $3.8 million in 2015 from 2014. The increase resulted from the organizational realignment driven by our overall efficiency initiative related to the early termination of loss share, efficiencies from the consolidation of First Bank into State Bank, and the consolidation of State Bank's finance, legal, risk, credit, operations, and technology functions.

Legal and professional fees increased $1.6 million, or 47.4% in 2015 from 2014, primarily due to the acquisition and integration of First Bank as well as the full year impact of the Bank of Atlanta integration. Our FDIC deposit insurance premiums and other regulatory fees increased $680,000 or 47.9% in 2015 from 2014, due to our acquisitions of First Bank and Bank of Atlanta as well as asset growth outside of our acquisitions. Amortization of intangibles increased $1.1 million, or 159.9%, to $1.8 million in 2015 from 2014, of which $840,000 was related to intangibles recorded and amortized from the First Bank acquisition.

Loan collection costs and OREO activity, which includes rental fees on OREO properties as well as gains and losses on OREO, decreased $2.1 million, or 432.7%, to negative $1.6 million in 2015 from 2014. The decrease is attributed to net gains from OREO activity and higher rental fees of $3.0 million in 2015 from 2014, offset by $904,000 of increased loan collection expenses in 2015 from 2014.

Noninterest expense includes merger-related expenses. Merger-related expenses increased $935,000, or 117.6%, to $1.7 million in 2015 from 2014 which was directly related to the acquisition and integration of First Bank.

Income Taxes

Our provision for income taxes was $26.2 million, $15.4 million, and $18.3 million in 2016, 2015, and 2014, respectively. Our effective income tax rates were 35.5%, 35.2% and 37.2% for 2016, 2015 and 2014, respectively. The effective tax rates for all periods were affected by various factors including amounts of non-taxable income, non-deductible expenses and tax credits. A reconciliation between the income tax expense and the amounts computed by applying the statutory federal income tax rate for the years ended December 31, 2016, 2015 and 2014 is included in Note 22 to the Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

Fourth Quarter Results

Net income for the fourth quarter of 2016 was $10.3 million, or $.28 per diluted common share, compared to $12.4 million, or $.34 per diluted common share, in the third quarter of 2016.

Net interest income was $39.1 million for the fourth quarter ended December 31, 2016, compared to $38.1 million for the third quarter ended September 30, 2016. The increase in net interest income of $1.0 million was primarily a result of a $936,000 increase in accretion income on purchased credit impaired loans. The increase in accretion income was primarily due to $2.2 million in gains on loan pool closings in the fourth quarter compared to no gains on loan pool closings in the third quarter. Interest expense remained relatively flat in the fourth quarter as compared to the third quarter, with a slight increase of $127,000.

Our provision for loan and lease loss expense was $277,000 for the fourth quarter ended December 31, 2016, compared to $88,000 for the third quarter ended September 30, 2016. The increase was largely driven by a $431,000 provision for loan and lease losses on purchased non-credit impaired loans and was partially offset by a negative $131,000 provision for loan and lease losses on organic loans due to an improvement in historical loss rates on certain loan pools.

Total noninterest income was $9.9 million for the fourth quarter ended December 31, 2016, compared to $9.8 million for the third quarter ended September 30, 2016. The increase was primarily due to increases of $235,000 in payroll fee income and $582,000 in mark-to-market on interest rate swaps and hedged assets, partially offset by a decrease of $705,000 in mortgage banking income.

Total noninterest expense was $32.9 million for the fourth quarter ended December 31, 2016, compared to $28.5 million for the third quarter ended September 30, 2016, an increase of $4.4 million. The increase is mainly attributable to merger-related expenses of $3.5 million, directly related to our acquisitions of NBG Bancorp, Inc. and S Bankshares, Inc. This increase is also attributable to a $638,000 increase in legal and professional fees, due to expenses incurred related to a support system project.

Balance Sheet Review

General

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, $10.9 million in other real estate owned 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.

At December 31, 2015, we had total assets of approximately $3.5 billion, consisting principally of $1.8 billion in net organic loans, $240.3 million in net purchased non-credit impaired loans, $137.8 million in net purchased credit impaired loans, $887.7 million in investment securities, $10.5 million in other real estate owned and $175.4 million in cash and cash equivalents. Our liabilities at December 31, 2015 totaled $2.9 billion, consisting principally of $2.9 billion in deposits. At December 31, 2015, our shareholders' equity was $536.5 million.

Investments

Our investment portfolio consists of U.S. Government sponsored agency mortgage-backed securities, nonagency mortgage-backed securities, U.S. Government agency securities, municipal securities, corporate bonds and asset-backed securities. 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 December 31, 2016, we had $847.2 million in our available-for-sale investment securities portfolio representing approximately 20.1% of our total assets, compared to $887.7 million, or 25.6% of total assets, at December 31, 2015. Our decreased investment in securities available-for-sale totaling $40.5 million, or 4.6%, compared to December 31, 2015 was primarily due to the transfer of certain investment securities available-for-sale to held-to-maturity during the first quarter of 2016 and paydowns on existing securities, partially offset by additional purchases of available-for-sale securities. Management also continued to invest excess cash to receive a higher return on liquid assets. The securities we purchased had short durations and no material impact on our overall liquidity or interest rate risk profile.

At December 31, 2016, we had $67.1 million in held-to-maturity securities compared to no such securities at December 31, 2015. During the first quarter of 2016, we reclassified $56.6 million in investment securities from available-for-sale to held-to-maturity. We reclassified these securities, which are expected to be held to maturity, to minimize the impact of future interest rate changes on accumulated other comprehensive income (loss). This reclassification will remain in effect until the investments are called or mature.

At December 31, 2016, $88.6 million, or 9.7%, of our investment securities were invested in securities of U.S. Government agencies, compared to $103.3 million, or 11.6%, at December 31, 2015. 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 December 31, 2016, $529.3 million, or 57.9%, of our investment securities were invested in agency mortgage-backed securities, compared to $503.7 million, or 56.7%, as of December 31, 2015. 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 Federal National Mortgage Association (Fannie Mae) and 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 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 December 31, 2016, $154.0 million, or 16.8% of our investment securities were invested in nonagency mortgage-backed securities, compared to $150.7 million, or 17.0%, at December 31, 2015. The underlying collateral consists of mortgages originated prior to 2006 with the majority being 2004 and earlier. None of the collateral is subprime and we own the senior tranche of each bond.

At December 31, 2016, $56.8 million, or 6.2%, of our investment securities were invested in asset-backed securities, compared to $46.2 million, or 5.2%, as of December 31, 2015. Asset-backed securities currently consist of highly-rated collateralized loan obligations. The growth in this asset class was due to management's decision to invest in securities with significant credit support and variable rate structures that would provide higher returns than other variable rate securities without adding significant risk. At December 31, 2016, $85.2 million or 9.3%, of our investment securities were invested in corporate securities, compared to $82.0 million, or 9.2%, at December 31, 2015. Corporate securities currently consist of short duration debt. 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)*:

	December 31					
	2016		2015		2014	
Investment Securities Available-for-Sale	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
U.S. Government securities	$ 89,044	$ 88,649	$ 103,525	$ 103,272	$ 116,830	$ 117,349
States and political subdivisions	300	301	1,809	1,813	5,881	5,897
Residential mortgage-backed securities — nonagency	151,519	154,009	146,832	150,702	109,344	115,031
Residential mortgage-backed securities — agency	533,479	529,302	507,168	503,688	351,769	352,528
Asset-backed securities	—	—	46,570	46,245	26,820	26,700
Corporate securities	74,793	74,917	82,245	81,985	22,577	22,581
Total investment securities available-for-sale	$ 849,135	$ 847,178	$ 888,149	$ 887,705	$ 633,221	$ 640,086

	December 31					
	2016		2015		2014	
Investment Securities Held-to-Maturity	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Asset-backed securities	$ 56,804	$ 57,085	$ —	$ —	$ —	$ —
Corporate securities	10,259	10,350	—	—	—	—
Total investment securities available-for-sale	$ 67,063	$ 67,435	$ —	$ —	$ —	$ —

The following table shows 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)**				
December 31, 2016	**1 Year or Less**	**1-5 Years**	**5-10 Years**	**After 10 Years**	**Total**
Amortized Cost (1):					
U.S. Government securities	$ —	$ 89,044	$ —	$ —	$ 89,044
States and political subdivisions	—	300	—	—	300
Residential mortgage-backed securities — nonagency	—	—	—	151,519	151,519
Residential mortgage-backed securities — agency	—	20,379	343,078	170,022	533,479
Asset-backed securities	—	—	—	—	—
Corporate securities	7,656	65,254	—	1,883	74,793
Total debt securities	$ 7,656	$ 174,977	$ 343,078	$ 323,424	$ 849,135
Fair Value (1):					
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	—	20,402	341,503	167,397	529,302
Asset-backed securities	—	—	—	—	—
Corporate securities	7,647	65,387	—	1,883	74,917
Total debt securities	$ 7,647	$ 174,739	$ 341,503	$ 323,289	$ 847,178
Weighted Average Yield (2):					
Total debt securities	1.45%	1.69%	1.37%	2.59%	1.90%

Investment Securities Held-to-Maturity	**Distribution of Maturities (1)**				
December 31, 2016	**1 Year or Less**	**1-5 Years**	**5-10 Years**	**After 10 Years**	**Total**
Amortized Cost (1):					
Asset-backed securities	$ —	$ —	$ 31,681	$ 25,123	$ 56,804
Corporate securities	—	—	10,259	—	10,259
Total debt securities	$ —	$ —	$ 41,940	$ 25,123	$ 67,063
Fair Value (1):					
Asset-backed securities	$ —	$ —	$ 31,924	$ 25,161	$ 57,085
Corporate securities	—	—	10,350	—	10,350
Total debt securities	$ —	$ —	$ 42,274	$ 25,161	$ 67,435
Weighted Average Yield (2):					
Total debt securities	—%	—%	3.73%	2.85%	3.40%

(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 $2.8 billion at December 31, 2016 and $2.1 billion at December 31, 2015. 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

Our organic loans increased $316.2 million, or 17.8%, to $2.1 billion at December 31, 2016 from December 31, 2015. The $316.2 million increase was a result of stable economic conditions within our markets, leading to increased loan demand which included approximately $1.7 billion in new loan fundings, offset by approximately $1.4 billion in paydowns. 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, to organic loans.

Purchased Non-Credit Impaired Loans

Purchased non-credit impaired loans were $563.4 million at December 31, 2016, an increase of $323.1 million, or 134.4%, from December 31, 2015. The increase was attributed to $385.2 million in purchased non-credit impaired loans acquired from The National Bank of Georgia and S Bank offset by $62.2 million in loan paydowns or payoffs.

Purchased Credit Impaired Loans

Our purchased credit impaired loans increased $15.1 million, or 10.4%, to $160.6 million at December 31, 2016 from December 31, 2015. The increase was attributed to $38.8 million in purchased credit impaired loans acquired from The National Bank of Georgia and S Bank offset by $23.8 million in loan paydowns and charge-offs.

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

	Years Ended December 31									
	2016					2015				
	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	% of Gross Total
Construction, land & land development	$ 500,018	$ 51,208	$ 16,537	$ 567,763	20.2%	$ 482,087	$ 18,598	$ 14,252	$ 514,937	23.9%
Other commercial real estate	754,790	209,531	60,742	1,025,063	36.4%	661,062	74,506	40,742	776,310	35.9%
Total commercial real estate	1,254,808	260,739	77,279	1,592,826	56.6%	1,143,149	93,104	54,994	1,291,247	59.8%
Residential real estate	144,295	144,596	54,507	343,398	12.2%	140,613	69,053	64,011	273,677	12.6%
Owner-occupied real estate	256,317	115,566	23,980	395,863	14.1%	219,636	61,313	25,364	306,313	14.2%
Commercial, financial & agricultural	327,381	36,206	4,533	368,120	13.1%	181,513	14,216	1,050	196,779	9.1%
Leases	71,724	—	—	71,724	2.5%	71,539	—	—	71,539	3.3%
Consumer	36,039	6,255	347	42,641	1.5%	17,882	2,624	156	20,662	1.0%
Total gross loans receivable, net of deferred fees	2,090,564	563,362	160,646	2,814,572	100.0%	1,774,332	240,310	145,575	2,160,217	100.0%
Allowance for loan and lease losses	(21,086)	(439)	(5,073)	(26,598)		(21,224)	(53)	(7,798)	(29,075)	
Total loans, net	$2,069,478	$ 562,923	$ 155,573	$2,787,974		$1,753,108	$ 240,257	$ 137,777	$2,131,142	

	2014					2013				2012			
	Organic Loans	Purchased Non-Credit Impaired Loans	Purchased Credit Impaired Loans	Total Amount	% of Gross Total	Organic Loans	Purchased Credit Impaired Loans	Total Amount	% of Gross Total	Organic Loans	Purchased Credit Impaired Loans	Total Amount	% of Gross Total
Construction, land & land development	$ 310,987	$ 2,166	$ 24,544	$ 337,697	20.7%	$ 251,043	$ 35,383	$ 286,426	20.7%	$ 230,448	$ 81,288	$ 311,736	21.3%
Other commercial real estate	609,478	26,793	58,680	694,951	42.5%	550,474	67,573	618,047	44.8%	457,729	139,010	596,739	40.9%
Total commercial real estate	920,465	28,959	83,224	1,032,648	63.2%	801,517	102,956	904,473	65.5%	688,177	220,298	908,475	62.2%
Residential real estate	91,448	43,669	78,793	213,910	13.1%	66,835	95,240	162,075	11.7%	43,179	142,032	185,211	12.7%
Owner-occupied real estate	188,933	22,743	42,168	253,844	15.5%	174,858	54,436	229,294	16.6%	172,445	86,612	259,057	17.7%
Commercial, financial & agricultural	90,930	11,635	1,953	104,518	6.4%	71,006	4,289	75,295	5.5%	73,680	24,980	98,660	6.8%
Leases	19,959	—	—	19,959	1.2%	—	—	—	—%	—	—	—	—%
Consumer	8,658	791	201	9,650	.6%	9,259	573	9,832	.7%	8,021	791	8,812	0.6%
Total gross loans receivable, net of deferred fees	1,320,393	107,797	206,339	1,634,529	100.0%	1,123,475	257,494	1,380,969	100.0%	985,502	474,713	1,460,215	100.0%
Allowance for loan and lease losses	(18,392)	—	(10,246)	(28,638)		(16,656)	(17,409)	(34,065)		(14,660)	(55,478)	(70,138)	
Total loans, net	$1,302,001	$ 107,797	$ 196,093	$1,605,891		$1,106,819	$ 240,085	$1,346,904		$ 970,842	$ 419,235	$1,390,077	

Years Ended December 31

Maturities and Sensitivity of Loans to Changes in Interest Rates

Information included in the following tables is based on the contractual maturities of individual loans, including loans that may be subject to renewal at their contractual maturities. Renewal of these loans is subject to review and credit approval, as well as modification of terms upon maturity. Actual repayments of loans may differ from the maturities reflected below because some borrowers have the right to prepay obligations without prepayment penalties.

The following table summarizes the maturity distribution of our held for investment loan portfolio by type (*dollars in thousands)*:

December 31, 2016	One year or less	After one but within five years	After five years	Total
Commercial real estate	$ 479,472	$ 899,094	$ 214,260	$ 1,592,826
Residential real estate	59,641	141,479	142,278	343,398
Owner-occupied real estate	46,936	164,718	184,209	395,863
Commercial, financial & agricultural	64,348	185,248	118,524	368,120
Leases	—	56,939	14,785	71,724
Consumer	6,552	21,641	14,448	42,641
Total gross loans	$ 656,949	$ 1,469,119	$ 688,504	$ 2,814,572

The following table summarizes loans held for investment with maturity dates after one year and their interest rate characteristics *(dollars in thousands)*:

	December 31, 2016
Fixed interest rates	$ 1,054,978
Floating or adjustable interest rates	1,102,645
Total gross loans	$ 2,157,623

FDIC Receivable for Loss Share Agreements and Clawback Liability

During the second quarter of 2015, we entered into an agreement with the FDIC to terminate the loss share agreements for all 12 of our FDIC-assisted acquisitions, resulting in a one-time after-tax charge of $8.9 million, or $14.5 million pre-tax. Approximately $9.3 million of the one-time charge was related to amortization on the FDIC receivable scheduled to be recognized during future quarters with the remainder of the one-time charge primarily consisting of our payment to the FDIC to eliminate all rights and obligations between State Bank and the FDIC under the loss share agreements and settle outstanding claims for reimbursement between the parties. All rights and obligations of the parties under the FDIC loss share agreements, including the clawback provisions and the settlement of historic loss share expense reimbursement claims, were eliminated under the early termination agreement. All future charge-offs, recoveries, gains, losses and expenses related to assets previously covered by FDIC loss share will now be recognized entirely by us since the FDIC will no longer be sharing in such charge-offs, recoveries, gains, losses and expenses.

The following table presents a summary of the calculation of the loss recognized as a result of the termination of the FDIC loss share agreements in 2015, including the clawback provisions and settlement of historic loss share and expense reimbursement claims *(dollars in thousands)*:

	For the Year Ended December 31, 2015
Cash paid to the FDIC to settle loss share agreements	$ (3,100)
FDIC loss share receivable	(16,959)
FDIC clawback payable	5,511
Loss on termination of FDIC loss share	(14,548)
Net amortization of FDIC receivable for loss share agreements during the period	(1,940)
Amortization of FDIC receivable for loss share agreements	$ (16,488)

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 December 31, 2016, our total ALLL for the loan portfolio was $26.6 million, a decrease of $2.5 million compared to December 31, 2015. The ALLL reflected $2.7 million of net charge-offs and a $237,000 provision for loan and lease losses on our total loan portfolio for the year ended December 31, 2016.

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 borrower's 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 non-impaired 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, interest 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. The provision for loan and lease losses will be affected by the loss potential of impaired loans and trends in the delinquency of loans, nonperforming loans and net charge-offs, which may be more than our historical experience.

At December 31, 2016, our organic ALLL was $21.1 million, a decrease of $138,000 compared to December 31, 2015. The decrease in our organic ALLL at December 31, 2016 is primarily from $3.2 million of net charge-offs partially offset by a $3.1 million provision for loan and lease losses charged to expense for the year ended December 31, 2016.

Purchased Non-Credit Impaired Loans

In accordance with the accounting guidance for business combinations, there was no allowance for loan and lease losses brought forward on any purchased non-credit impaired loan at acquisition, as we adjusted the unpaid principal balance of such loans to reflect credit discounts representing the principal losses expected over the life of the loans which was a component of the initial fair value. This adjustment is accreted into earnings as a yield adjustment, using the effective yield method, over the remaining life of each loan. After the acquisition date, the method used to evaluate the sufficiency of the credit discount is similar to the method we use for organic loans, and if necessary, we recognize additional reserves in the allowance for loan and lease losses. Any provision for loan and lease losses will be affected by the loss potential of impaired loans and trends in the delinquency of loans, nonperforming loans and net charge-offs, which may be more than our historical experience.

At December 31, 2016, our purchased non-credit impaired ALLL was $439,000, an increase of $386,000 compared to December 31, 2015. The increase in our purchased non-credit impaired ALLL at December 31, 2016 is primarily due to the calculated ALLL exceeding the remaining discount on certain credits and loan pools.

Purchased Credit Impaired Loans

In accordance with the accounting guidance for business combinations, there was no allowance for loan and lease losses brought forward on any purchased credit impaired loans at acquisition, as we adjusted the loan balances to fair value based on a discounted cash flow methodology that involves assumptions and judgments related to credit risk, default rates, loss severity, collateral values, discounts rates, payment speeds, prepayment risk, and liquidity risk. We then determined which purchased credit impaired loans would be placed into homogeneous risk pools and which would be specifically reviewed as part of the periodic cash flow re-estimation process.

We maintain an allowance for loan and lease losses on purchased credit impaired loans subsequent to the acquisition date which represents management's estimates of the potential impairment of the purchased credit impaired loans or pools of loans based on expected future cash flows, which is re-estimated on a quarterly basis. If a loan is placed in a pool, the overall performance of the pool will determine if any future ALLL is required. 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 "loan accretion" 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 up to the amount of the ALLL previously recorded. Before the early termination of our FDIC loss share agreements in the second quarter of 2015, we recorded the provision for loan and lease losses on purchased credit impaired loans covered by loss share agreements with the FDIC net of the amount that we expected to recover under the related FDIC loss share agreements.

At December 31, 2016, our purchased credit impaired ALLL was $5.1 million, a decrease of $2.7 million compared to December 31, 2015. The decrease in the purchased credit impaired ALLL was primarily due to a decrease in the balance of our purchased credit impaired loan portfolio of $23.8 million, excluding the purchased credit impaired loans acquired from The National Bank of Georgia and S Bank. The loans acquired from The National Bank of Georgia and S Bank were recorded at fair value on December 31, 2016 with no related ALLL. The overall purchased credit impaired loan portfolio continues to perform better than our initial projections at the applicable acquisition dates, although the performance is not uniform across all asset classes within specifically reviewed loans and loan pools. The provision for loan and lease losses charged to expense was negative $3.4 million in 2016, compared to $535,000 in 2015, net of the amount recorded through the FDIC receivable. The decrease in provision expense was primarily attributed to improved cash flow expectations on specifically reviewed loans and net recoveries during 2016.

The following table summarizes the activity in our ALLL related to our organic loans for the years presented *(dollars in thousands)*:

ALLL: Organic Loans	Years Ended December 31 2016	2015	2014	2013	2012
Balance, beginning of year	$ 21,224	$ 18,392	$ 16,656	$ 14,660	$ 10,207
Charge-offs:					
Construction, land & land development	(2,122)	(3)	(1,267)	(4)	(287)
Other commercial real estate	—	—	—	(186)	(223)
Total commercial real estate	(2,122)	(3)	(1,267)	(190)	(510)
Residential real estate	(53)	—	(1)	(38)	(75)
Owner-occupied real estate	—	—	—	(49)	—
Commercial, financial & agricultural	(653)	(289)	(256)	(114)	(75)
Leases	(486)	—	—	—	—
Consumer	(97)	(21)	(28)	(26)	(9)
Total charge-offs	$ (3,411)	$ (313)	$ (1,552)	$ (417)	$ (669)
Recoveries:					
Construction, land & land development	—	—	291	160	3
Other commercial real estate	—	173	1	279	71
Total commercial real estate	—	173	292	439	74
Residential real estate	6	10	26	20	2
Owner-occupied real estate	45	—	5	5	—
Commercial, financial & agricultural	154	98	186	24	6
Leases	11	—	—	—	—
Consumer	7	7	4	5	5
Total recoveries	$ 223	$ 288	$ 513	$ 493	$ 87
Net (charge-offs) recoveries	(3,188)	(25)	(1,039)	76	(582)
Provision for loan and lease losses	3,050	2,857	2,775	1,920	5,035
Balance, end of year	$ 21,086	$ 21,224	$ 18,392	$ 16,656	$ 14,660
ALLL to organic loans	1.01%	1.20%	1.39%	1.48 %	1.49%
Ratio of net charge-offs (recoveries) to average organic loans outstanding	.16%	—%	.08%	(.01)%	.07%

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Our purchased non-credit impaired portfolio was established in the fourth quarter of 2014 and we did not have any charge-off or recovery activity on the purchased non-credit impaired portfolio until 2015. The following table summarizes the activity in our ALLL related to our purchased non-credit impaired loans for the year presented *(dollars in thousands)*:

	Year Ended December 31	
ALLL: Purchased Non-Credit Impaired Loans	**2016**	**2015**
Balance, beginning of year	$ 53	$ —
Charge-offs:		
Residential real estate	(83)	(24)
Commercial, financial & agricultural	(137)	—
Consumer	(3)	(24)
Total charge-offs	$ (223)	$ (48)
Recoveries:		
Residential real estate	45	1
Consumer	18	6
Total recoveries	$ 63	$ 7
Net charge-offs (recoveries)	(160)	(41)
Provision for loan and lease losses	546	94
Balance, end of year	$ 439	$ 53
ALLL to purchased non-credit impaired loans	.08%	.02%
Ratio of net charge-offs to average purchased non-credit impaired loans outstanding	.08%	.01%

The following table summarizes the activity in our ALLL related to our purchased credit impaired loans for the years presented *(dollars in thousands)*:

	Years Ended December 31				
ALLL: Purchased Credit Impaired Loans	**2016**	**2015**	**2014**	**2013**	**2012**
Balance, beginning of year	$ 7,798	$ 10,246	$ 17,409	$ 55,478	$ 59,277
Charge-offs:					
Construction, land & land development	(724)	(3,173)	(4,619)	(15,942)	(40,101)
Other commercial real estate	(212)	(4,078)	(7,683)	(9,612)	(10,158)
Total commercial real estate	(936)	(7,251)	(12,302)	(25,554)	(50,259)
Residential real estate	(977)	(1,441)	(1,228)	(2,697)	(4,544)
Owner-occupied real estate	(298)	(1,374)	(2,775)	(4,619)	(5,038)
Commercial & industrial	(273)	(1,929)	(1,409)	(2,856)	(2,123)
Consumer	(56)	(138)	(64)	(263)	(12)
Total charge-offs	$ (2,540)	$ (12,133)	$ (17,778)	$ (35,989)	$ (61,976)
Recoveries:					
Construction, land & land development	402	2,905	5,194	13,296	6,342
Other commercial real estate	1,879	2,421	3,488	5,365	657
Total commercial real estate	2,281	5,326	8,682	18,661	6,999
Residential real estate	401	382	1,491	5,500	169
Owner-occupied real estate	207	1,120	1,429	3,637	357
Commercial & industrial	232	1,080	1,714	3,494	15
Consumer	53	197	68	1,223	—
Total recoveries	$ 3,174	$ 8,105	$ 13,384	$ 32,515	$ 7,540
Net recoveries (charge-offs)	634	(4,028)	(4,394)	(3,474)	(54,436)
Provision for loan and lease losses before amount attributable to FDIC loss share agreements	(3,359)	1,580	(2,769)	(34,595)	50,637
Amount attributable to FDIC loss share agreements	—	(1,045)	2,890	30,188	(40,556)
Total provision for loan and lease losses charged to operations	$ (3,359)	$ 535	$ 121	$ (4,407)	$ 10,081
Provision for loan and lease losses recorded through the FDIC loss share receivable	—	1,045	(2,890)	(30,188)	40,556
Balance, end of year	$ 5,073	$ 7,798	$ 10,246	$ 17,409	$ 55,478
ALLL to purchased credit impaired loans	3.16 %	5.36%	4.97%	6.76%	11.69%
Ratio of net (recoveries) charge-offs to average purchased credit impaired loans outstanding	(.48)%	2.30%	1.96%	1.03%	8.34%

Form 10-K

Allocation of Allowance for Loan and Lease Losses

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

	December 31									
	2016		2015		2014		2013		2012	
Organic Loans	ALLL	% of Loans to Total Loans	ALLL	% of Loans to Total Loans	ALLL	% of Loans to Total Loans	ALLL	% of Loans to Total Loans	ALLL	% of Loans to Total Loans
Construction, land & land development	$ 5,705	17.8%	$ 8,185	22.3%	$ 6,199	19.0%	$ 3,667	18.2%	$ 3,479	15.8%
Other commercial real estate	6,062	26.8%	5,422	30.6%	6,935	37.3%	7,496	39.9%	6,016	31.4%
Total commercial real estate	11,767	44.6%	13,607	52.9%	13,134	56.3%	11,163	58.1%	9,495	47.2%
Residential real estate	1,786	5.1%	2,053	6.4%	1,190	5.6%	1,015	4.8%	1,050	3.0%
Owner-occupied real estate	2,239	9.1%	1,920	10.2%	1,928	11.5%	2,535	12.7%	2,486	11.8%
Commercial, financial & agricultural	4,093	11.6%	2,509	8.4%	1,770	5.6%	1,799	5.1%	1,497	5.1%
Leases	655	2.5%	865	3.3%	262	1.2%	—	—%	—	—%
Consumer	546	1.3%	270	.8%	108	.5%	144	.7%	132	.5%
Organic loans total	21,086	74.2%	21,224	82.0%	18,392	80.7%	16,656	81.4%	14,660	67.6%
Purchased credit impaired loans total	5,073	5.9%	7,798	6.8%	10,246	12.7%	17,409	18.6%	55,478	32.4%
Purchased non-credit impaired loans total	439	19.9%	53	11.2%	—	6.6%	—	—%	—	—%
Total	$ 26,598	100.0%	$ 29,075	100.0%	$ 28,638	100.0%	$ 34,065	100.0%	$ 70,138	100.0%

Our purchased non-credit impaired loans portfolio was established in the fourth quarter of 2014. We did not record an ALLL for purchased non-credit impaired loans in 2014. The following table presents the allocation of the ALLL for purchased non-credit impaired loans and the percentage of the total amount of purchased non-credit impaired loans in each loan category listed at the dates indicated *(dollars in thousands)*:

	December 31				
	2016		2015		2014
Purchased Non-Credit Impaired Loans	ALLL	% of Loans to Total Loans	ALLL	% of Loans to Total Loans	% of Loans to Total Loans
Construction, land & land development	$ 88	1.8%	$ —	.9%	.1%
Other commercial real estate	—	7.4%	—	3.4%	1.6%
Total commercial real estate	88	9.2%	—	4.3%	1.7%
Residential real estate	72	5.1%	53	3.2%	2.7%
Owner-occupied real estate	44	4.1%	—	2.8%	1.4%
Commercial, financial & agricultural	235	1.3%	—	.7%	.6%
Consumer	—	0.2%	—	.2%	.1%
Purchased non-credit impaired loans total	439	19.9%	53	11.2%	6.6%
Organic loans total	21,086	74.2%	21,224	82.0%	80.7%
Purchased credit impaired loans total	5,073	5.9%	7,798	6.8%	12.7%
Total	$ 26,598	100.0%	$ 29,075	100.0%	100.0%

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

	December 31									
	2016		2015		2014		2013		2012	
Purchased Credit Impaired Loans	ALLL	% of Loans to Total Loans	ALLL	% of Loans to Total Loans	ALLL	% of Loans to Total Loans	ALLL	% of Loans to Total Loans	ALLL	% of Loans to Total Loans
Construction, land & land development	$ 754	0.6%	$ 1,516	0.7%	$ 1,987	1.6%	$ 4,341	2.5%	$ 13,522	5.5%
Other commercial real estate	1,429	2.2%	1,872	1.9%	3,474	3.6%	6,885	4.9%	13,630	9.5%
Total commercial real estate	2,183	2.8%	3,388	2.6%	5,461	5.2%	11,226	7.4%	27,152	15.0%
Residential real estate	1,196	2.0%	1,893	3.0%	2,298	4.8%	2,481	6.9%	21,545	9.7%
Owner-occupied real estate	1,655	0.9%	2,449	1.2%	1,916	2.6%	1,950	3.9%	4,021	5.9%
Commercial, financial & agricultural	38	.2%	60	—%	567	.1%	1,680	.3%	2,607	1.7%
Consumer	1	—%	8	—%	4	—%	72	—%	153	.1%
Purchased credit impaired loans total	5,073	5.9%	7,798	6.8%	10,246	12.7%	17,409	18.6%	55,478	32.4%
Organic loans total	21,086	74.2%	21,224	82.0%	18,392	80.7%	16,656	81.4%	14,660	67.6%
Purchased non-credit impaired loans total	439	19.9%	53	11.2%	—	6.6%	—	—%	—	—%
Total	$ 26,598	100.0%	$ 29,075	100.0%	$ 28,638	100.0%	$ 34,065	100.0%	$ 70,138	100.0%

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Nonperforming Assets

Nonperforming assets consist of nonaccrual loans, troubled debt restructurings, and other real estate owned. 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.

We do not consider our purchased credit impaired loans, which showed evidence of deteriorated credit quality at acquisition, to be nonperforming assets as long as their cash flows and the timing of such 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.

Loans $500,000 or greater, excluding purchased credit impaired loans, 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, if collateral dependent, the fair value of the collateral less estimated costs to sell. The majority of these loans are collateral dependent and, therefore, are valued using the fair value of collateral. The fair value of collateral is determined using a current and valid appraisal. A current appraisal is one that has been performed in the last twelve months. 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. Upon determining that an appraisal is both current and valid, management assesses the recovery value of the collateral to estimate the impairment amount. The recovery value 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. In addition, we require a new appraisal at the time of foreclosure or repossession of the underlying collateral.

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.

Nonperforming loans, excluding purchased credit impaired loans, 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 December 31, 2016, 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 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. Management periodically reviews the carrying value of OREO for impairment and adjusts the values as appropriate through noninterest expense. At December 31, 2016, OREO totaled $10.9 million, an increase of $367,000 from December 31, 2015. The increase is mainly attributed to OREO acquired through foreclosure of loans receivable totaling $3.3 million in addition to OREO acquired from our acquisitions of The National Bank of Georgia and S Bank totaling $1.0 million, offset by $3.3 million in sales of OREO.

The following tables set forth our nonperforming assets at the years indicated *(dollars in thousands)*:

	December 31				
	2016	2015	2014	2013	2012
Organic Assets					
Nonaccrual loans	$ 6,234	$ 5,096	$ 5,546	$ 2,265	$ 3,533
Accruing TDRs	—	—	—	—	1,183
Total nonperforming loans	6,234	5,096	5,546	2,265	4,716
Other real estate owned	282	33	74	965	1,115
Total nonperforming organic assets	$ 6,516	$ 5,129	$ 5,620	$ 3,230	$ 5,831
Accruing loans 90 days or more past due	—	—	—	—	—
Nonperforming organic loans to total organic loans	.30%	.29%	.42%	.20%	.48%
Nonperforming organic assets to total organic loans and other real estate owned	.31%	.29%	.43%	.29%	.59%
Purchased Non-Credit Impaired Assets					
Nonaccrual loans	$ 3,381	$ 1,280	$ 107	$ —	$ —
Accruing TDRs	—	577	—	—	—
Total nonperforming loans	3,381	1,857	107	—	—
Other real estate owned	—	—	—	—	—
Total nonperforming PNCI assets	$ 3,381	$ 1,857	$ 107	$ —	$ —
Accruing loans 90 days or more past due	—	—	—	—	—
Nonperforming PNCI loans to total PNCI loans	.60%	.77%	.10%	—%	—%
Nonperforming PNCI assets to total PNCI loans and other real estate owned	.60%	.77%	.10%	—%	—%
Purchased Credit Impaired Assets					
Other real estate owned	$ 10,615	$ 10,497	$ 8,494	$ 46,222	$ 45,062
Total nonperforming PCI assets	$ 10,615	$ 10,497	$ 8,494	$ 46,222	$ 45,062
Nonperforming PCI assets to total PCI other real estate owned	6.20%	6.73%	3.95%	15.22%	8.67%
Total Nonperforming Assets					
Total nonperforming loans	$ 9,615	$ 6,953	$ 5,653	$ 2,265	$ 4,716
Total nonperforming assets	$ 20,512	$ 17,483	$ 14,221	$ 49,452	$ 50,893
Total nonperforming loans to total loans	.34%	.32%	.35%	.16%	.32%
Total nonperforming assets to total loans and other real estate owned	.73%	.81%	.87%	3.46%	3.38%

Nonperforming assets, defined as nonaccrual loans, troubled debt restructurings and other real estate owned, totaled $20.5 million, or .7% of total loans and other real estate owned, at December 31, 2016, compared to $17.5 million, or .8% at December 31, 2015. The $3.0 million increase in nonperforming assets is related to the migration of a small group of credits to nonaccrual and an increase of $367,000 in OREO.

At December 31, 2016 and 2015, we did not have any organic or purchased non-credit impaired loans greater than 90 days past due and still accruing interest. At December 31, 2016 and 2015, 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 $627,000 for 2016. Interest income recognized on organic and purchased non-credit impaired nonaccrual loans was approximately $27,000 for 2016.

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. Management classifies potential problem loans as "Substandard" or "Doubtful". Potential problem loans not included in the nonperforming assets table above totaled $1.9 million, or .1% of total organic and purchased non-credit impaired loans outstanding, at December 31, 2016.

Deferred Tax Assets

At December 31, 2016, we had $27.2 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 $165.7 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.

Deposits

Total deposits at December 31, 2016 were $3.4 billion, an increase of $569.2 million from December 31, 2015. The increase was largely due to $413.4 million of deposits assumed in our acquisitions of The National Bank of Georgia and S Bank and organic deposit growth of $155.8 million. Interest rates paid on specific deposit types are determined based on (i) interest rates offered by competitors, (ii) anticipated amount and timing of funding needs, (iii) availability and cost of alternative sources of funding, and (iv) anticipated future economic conditions and interest rates. We regard our deposits as attractive sources of funding because of their stability and relative cost. Deposits are an important part of our overall client relationship, which provide us opportunities to cross sell other services.

The change in our overall deposit mix continued its trend through 2016, as we grew our noninterest-bearing deposits to $984.4 million, representing 28.7% of total deposits. Of the $158.2 million increase from December 31, 2015, $74.8 million was assumed in our acquisitions of The National Bank of Georgia and S Bank and $83.4 million was attributable to organic growth. Average noninterest-bearing deposits increased $94.0 million, or 12.4%, for the year ended December 31, 2016 compared to the same period in 2015.

Our interest-bearing transaction accounts increased $76.0 million from December 31, 2015 to December 31, 2016, of which $40.4 million were assumed in our acquisitions of The National Bank of Georgia and S Bank and $35.5 million was attributable to organic growth. Interest-bearing deposits in savings and money market accounts increased $218.7 million from December 31, 2015, primarily resulting from $205.4 million assumed in our acquisitions of The National Bank of Georgia and S Bank and $13.3 million attributable to organic growth.

Time deposits, excluding brokered and wholesale, increased $146.0 million during 2016, primarily due to our acquisitions of The National Bank of Georgia and S Bank and a local time deposit special run during the fourth quarter of 2015 and the first quarter of 2016 as part of management's strategy to grow new retail deposits.

Our continued focus on growing low cost deposit relationships resulted in an average cost of funds of 33 basis points for the year ended December 31, 2016, compared to 28 basis points for the year ended December 31, 2015.

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

	December 31					
	2016		2015		2014	
	Amount	% of total	Amount	% of total	Amount	% of total
Noninterest-bearing demand deposits	$ 984,419	28.7%	$ 826,216	28.9%	$ 577,295	24.1%
Interest-bearing transaction accounts	664,350	19.4%	588,391	20.6%	495,966	20.7%
Savings and money market deposits	1,292,867	37.7%	1,074,190	37.5%	954,626	39.9%
Time deposits less than $250,000	388,164	11.3%	279,449	9.8%	247,757	10.4%
Time deposits $250,000 or greater	78,685	2.3%	41,439	1.4%	18,946	0.8%
Brokered and wholesale time deposits	22,680	.6%	52,277	1.8%	97,092	4.1%
Total deposits	$ 3,431,165	100.0%	$ 2,861,962	100.0%	$ 2,391,682	100.0%

The maturity distribution of our time deposits of $250,000 or greater is as follows *(dollars in thousands)*:

	December 31, 2016
Three months or less	$ 8,337
Over three through six months	35,278
Over six though twelve months	15,802
Over twelve months	19,268
Total time deposits of $250,000 or greater	$ 78,685

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

	Years Ended December 31					
	2016		2015		2014	
	Average Amount	Average Rate	Average Amount	Average Rate	Average Amount	Average Rate
Noninterest-bearing demand deposits	$ 851,610	—%	$ 757,639	—%	$ 489,749	—%
Interest-bearing transaction accounts	540,593	.12%	518,770	.14%	386,112	.13%
Savings and money market deposits	1,078,496	.54%	1,059,523	.46%	910,748	.45%
Time deposits less than $250,000	333,286	.63%	303,745	.30%	248,696	.53%
Time deposits $250,000 or greater	59,803	.72%	55,539	.68%	33,466	.79%
Brokered and wholesale time deposits	28,938	1.00%	78,135	.97%	97,458	.99%
Total deposits	$ 2,892,726		$ 2,773,351		$ 2,166,229	

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Capital Resources

We maintain an adequate capital base to support our activities in a safe manner while at the same time attempting to maximize shareholder returns. At December 31, 2016, shareholders' equity was $613.6 million, or 14.5% of total assets, compared to $536.5 million, or 15.5% of total assets, at December 31, 2015. The primary factors affecting changes in shareholders' equity was the issuance of $52.0 million in common stock in connection with our acquisitions of NBG Bancorp and S Bankshares and our net income, offset by dividends declared during the year ended December 31, 2016.

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 changed 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 are not expected to significantly impact the Company or State Bank in the near term 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 dates indicated are presented in the table below:

	December 31, 2016		December 31, 2015	
Capital Ratio Requirements	**Minimum Requirement**	**Well-capitalized (1)**	**Minimum Requirement**	**Well-capitalized (1)**
Common Equity Tier 1 Capital (CET1)	4.50%	6.50%	4.50%	6.50%
Tier 1 Capital	6.00%	8.00%	6.00%	8.00%
Total Capital	8.00%	10.00%	8.00%	10.00%
Tier 1 Leverage	4.00%	5.00%	4.00%	5.00%

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

At December 31, 2016 and 2015, the Company and State Bank exceeded all regulatory capital adequacy requirements to which they were subject. The following table shows the regulatory capital ratios for both the Company and State Bank at the dates indicated:

	December 31	
	2016	**2015**
Company		
Tier 1 leverage ratio	14.90%	14.48%
CET1 capital ratio	14.78	17.71
Tier 1 risk-based capital ratio	14.78	17.71
Total risk-based capital ratio	15.53	18.75
State Bank		
Tier 1 leverage ratio	13.18%	12.62%
CET1 capital ratio	13.07	15.42
Tier 1 risk-based capital ratio	13.07	15.42
Total risk-based capital ratio	13.82	16.47

At December 31, 2016, the leverage ratios for both the Company and State Bank increased compared to December 31, 2015, primarily due to the increases in Tier 1 Capital related to the acquisitions of NBG Bancorp, Inc. and S Bankshares, Inc. on December 31, 2016, while the average assets did not include any effect from the acquisitions. At December 31, 2016, Tier 1 and Total Risk-Based Capital ratios declined for both the Company and State Bank compared to December 31, 2015 as a result of the increase in risk-weighted assets during the year ended December 31, 2016. The increase in risk-weighted assets was attributable to the assets acquired from NBG Bancorp, Inc. and S Bankshares, Inc. and our deployment of excess cash into higher risk-weighted investment securities and loans.

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. At December 31, 2016, State Bank had no capacity to pay dividends to the Company without prior regulatory approval. In 2017, State Bank expects to have the capacity to pay $24.4 million in dividends to the Company without prior regulatory approval.

At December 31, 2016, the Company had $79.1 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. During February 2017, $34.2 million of cash consideration was paid by the Company to the former shareholders of NBG Bancorp, Inc. related to the acquisition. On February 8, 2017, we declared a quarterly dividend of $.14 per common share to be paid on March 14, 2017 to shareholders of record of our common stock as of March 6, 2017.

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. In accordance with this approach, we closed on mergers with Atlanta Bancorporation, Inc. in 2014, Georgia-Carolina Bancshares, Inc. in 2015, and each of NBG Bancorp, Inc. and S Bankshares, Inc. in 2016. We also purchased Boyett Agency, LLC, an independent insurance agency, and the equipment finance origination platform of Patriot Capital Corporation in 2015. 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, paying a special dividend and/or repurchasing shares (including purchases under the Rule 10b-18 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, which may require the payment of a fee by the borrower. At December 31, 2016, unfunded commitments to extend credit were $671.3 million. A significant portion of the unfunded commitments related to commercial and residential real estate construction and consumer equity lines of credit. Based on experience, we anticipate 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 December 31, 2016, there were commitments totaling approximately $10.2 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 20 to our consolidated financial statements located in Part II, Item 8 of this Annual Report on Form 10-K, 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)*:

December 31, 2016	Total	Payments Due by Period Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Contractual Obligations:					
Time deposits, including accrued interest payable	$ 491,483	$ 370,134	$ 91,189	$ 30,160	$ —
Operating lease obligations	23,235	3,670	6,946	6,180	6,439
Repurchase agreements	25,722	25,722	—	—	—
Total contractual obligations	$ 540,440	$ 399,526	$ 98,135	$ 36,340	$ 6,439

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 maturing interest-bearing deposits with other banks are also sources of funding.

At December 31, 2016, our liquid assets, which consist of cash and amounts due from banks, interest-bearing deposits in other financial institutions and federal funds sold, amounted to $149.6 million, or 3.5% of total assets, compared to $175.4 million, or 5.1% of total assets at December 31, 2015. The decline in our liquid assets was primarily due to funding organic loan growth. Our available-for-sale securities at December 31, 2016 amounted to $847.2 million, or 20.1% of total assets, compared to $887.7 million, or 25.6% of total assets at December 31, 2015. Investment securities with an aggregate fair value of $368.3 million and $424.8 million at December 31, 2016 and December 31, 2015, respectively, were pledged to secure public deposits and repurchase agreements. The increase in our unpledged securities was due to investment of excess cash and reductions in pledging requirements as a result of decreases in public funds and 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, excluding brokered deposits, have historically provided a sizeable source of relatively stable and low-cost funds. At December 31, 2016, customer deposits, excluding brokered deposits. were 119.7% of net loans, compared with 130.6% at December 31, 2015. 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 whom we can borrow for leverage or liquidity purposes. The FHLB requires that securities and qualifying loans be pledged to secure any advances. At December 31, 2016, we had $47.0 million advances from the FHLB and a remaining credit availability of $256.0 million. In addition, we maintain a line with the Federal Reserve Bank's discount window of $476.2 million 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 are able to efficiently manage the interest rate risk identified in specific assets and liabilities on our balance sheet. At December 31, 2016, we had interest rate swaps and caps, designated as hedging instruments, with aggregate notional amounts of $161.8 million and $200.0 million, respectively. The fair value of these derivative financial assets was $1.8 million at December 31, 2016, compared to $1.3 million at December 31, 2015 and the fair value of these derivative financial liabilities was $641,000 at December 31, 2016, compared to $1.5 million at December 31, 2015. Note 14 to the consolidated financial statements located in Part II, Item 8 of this Annual Report on Form 10-K 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. Typically, 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 January 1, 2017. Based on the simulation run at December 31, 2016, annual net interest income would be expected to increase approximately 6.17%, 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 13.05%. If rates decreased 100 basis points from current rates, net interest income is projected to decrease approximately 4.26%. 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 slight increase in asset sensitivity at December 31, 2016 was primarily due to growth in longer duration deposits, specifically noninterest bearing deposits and CDs.

	% Change in Projected Baseline Net Interest Income	
Shift in Interest Rates (in basis points)	**December 31, 2016**	**December 31, 2015**
+200	13.05 %	11.34 %
+100	6.17	4.95
-100	(4.26)	(2.47)
-200	Not meaningful	Not meaningful

Item 7A. 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 the Company's December 31, 2016 Annual Report on Form 10-K under the heading "Asset/Liability Management", which information is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data.

Selected Quarterly Financial Data (Unaudited)

	2016			
	Quarterly Periods Ended			
(dollars in thousands, except per share amounts)	December 31	September 30	June 30	March 31
Selected Results of Operations				
Interest income	$ 41,777	$ 40,629	$ 44,093	$ 38,758
Interest expense	2,631	2,504	2,371	2,113
Net interest income	39,146	38,125	41,722	36,645
Provision for loan and lease losses	277	88	6	(134)
Amortization of FDIC receivable for loss share agreements	—	—	—	—
Other noninterest income	9,911	9,769	10,230	9,391
Noninterest expense	32,875	28,480	30,674	28,898
Income before income taxes	15,905	19,326	21,272	17,272
Income taxes	5,578	6,885	7,287	6,434
Net income	$ 10,327	$ 12,441	$ 13,985	$ 10,838
Common Share Data				
Basic earnings per share	$ .28	$ .34	$ .38	$ .29
Diluted earnings per share	$ .28	$ .34	$ .37	$ .29
Cash dividends declared per share	$ .14	$ .14	$ .14	$ .14
Weighted Average Common Shares Outstanding				
Basic	35,904,009	35,863,183	35,822,654	36,092,269
Diluted	36,009,098	35,965,948	35,923,691	36,187,662
Market Data				
High Sales Price	$ 27.50	$ 23.30	$ 21.99	$ 20.81
Low Sales Price	$ 21.15	$ 19.77	$ 18.65	$ 17.34
Period-end Closing	$ 26.86	$ 22.82	$ 20.35	$ 19.76
Average Daily Trading Volume	109,794	63,102	88,128	129,013

Selected Quarterly Financial Data (Unaudited) (Continued)

	2015			
	Quarterly Periods Ended			
(dollars in thousands, except per share amounts)	**December 31**	**September 30**	**June 30**	**March 31**
Selected Results of Operations				
Interest income	$ 42,629	$ 39,424	$ 35,467	$ 41,071
Interest expense	1,994	1,977	1,972	1,979
Net interest income	40,635	37,447	33,495	39,092
Provision for loan and lease losses	494	(265)	64	3,193
Accretion (amortization) of FDIC receivable for loss share agreements	—	—	(15,040)	(1,448)
Other noninterest income	8,136	8,894	9,319	10,250
Noninterest expense	29,562	32,416	31,357	30,087
Income before income taxes	18,715	14,190	(3,647)	14,614
Income taxes	6,594	5,071	(1,626)	5,410
Net income (loss)	$ 12,121	$ 9,119	$ (2,021)	$ 9,204
Common Share Data				
Basic earnings per share	$ .33	$ .26	$ (.06)	$ .27
Diluted earnings per share	$ .33	$ .25	$ (.06)	$ .26
Cash dividends declared per share	$ .14	$ .07	$ .06	$ .05
Weighted Average Common Shares Outstanding				
Basic	35,208,607	34,687,354	34,654,689	33,593,687
Diluted	36,140,474	36,003,068	34,654,689	34,862,324
Market Data				
High Sales Price	$ 23.73	$ 22.95	$ 22.59	$ 21.19
Low Sales Price	$ 19.28	$ 18.72	$ 19.47	$ 17.98
Period-end Closing	$ 21.03	$ 20.68	$ 21.70	$ 21.00
Average Daily Trading Volume	127,980	128,473	125,713	211,841

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of State Bank Financial Corporation (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The internal control process has been designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2016, utilizing the framework established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2016 is effective.

Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's independent registered public accounting firm, Dixon Hughes Goodman LLP, has issued an audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. The report, which expresses an unqualified opinion on the Company's internal control over financial reporting as of December 31, 2016, is included in this Report on Form 10-K.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
State Bank Financial Corporation

We have audited the internal control over financial reporting of State Bank Financial Corporation and Subsidiary ("Company") as of December 31, 2016, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, State Bank Financial Corporation and Subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of State Bank Financial Corporation and Subsidiary as of December 31, 2016 and 2015 and for each of the years in the three-year period ended December 31, 2016, and our report dated February 24, 2017, expressed an unqualified opinion on those consolidated financial statements.

/s/ Dixon Hughes Goodman LLP

Atlanta, Georgia
February 24, 2017

DHG
DIXON HUGHES GOODMAN LLP

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
State Bank Financial Corporation

We have audited the accompanying consolidated statements of financial condition of State Bank Financial Corporation and Subsidiary (the “Company”) as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of State Bank Financial Corporation and Subsidiary as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 24, 2017, expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

/s/ Dixon Hughes Goodman LLP

Atlanta, Georgia
February 24, 2017

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

	December 31	
	2016	**2015**
Assets		
Cash and amounts due from depository institutions	$ 13,219	$ 12,175
Interest-bearing deposits in other financial institutions	132,851	163,187
Federal funds sold	3,523	—
Cash and cash equivalents	149,593	175,362
Investment securities available-for-sale	847,178	887,705
Investment securities held-to-maturity	67,063	—
Loans	2,814,572	2,160,217
Allowance for loan and lease losses	(26,598)	(29,075)
Loans, net	2,787,974	2,131,142
Loans held-for-sale (includes loans at fair value of $35,813 and $48,803 at 2016 and 2015, respectively)	52,169	54,933
Other real estate owned	10,897	10,530
Premises and equipment, net	52,056	42,980
Goodwill	77,084	36,357
Other intangibles, net	12,749	10,101
SBA servicing rights	3,477	2,626
Bank-owned life insurance	65,371	58,819
Other assets	99,248	59,512
Total assets	$ 4,224,859	$ 3,470,067
Liabilities and Shareholders' Equity		
Liabilities:		
Noninterest-bearing deposits	$ 984,419	$ 826,216
Interest-bearing deposits	2,446,746	2,035,746
Total deposits	3,431,165	2,861,962
Federal funds purchased and securities sold under agreements to repurchase	27,673	32,179
FHLB Borrowings	47,014	—
Notes payable	398	1,812
Other liabilities	104,976	37,624
Total liabilities	3,611,226	2,933,577
Shareholders' equity:		
Preferred stock, $1 par value; 2,000,000 shares authorized, no shares issued and outstanding at 2016 and 2015, respectively	—	—
Common stock, $.01 par value; 100,000,000 shares authorized; 38,845,573 and 37,077,848 shares issued and outstanding at 2016 and 2015, respectively	388	371
Additional paid-in capital	409,736	358,671
Retained earnings	205,966	179,082
Accumulated other comprehensive loss, net of tax	(2,457)	(1,634)
Total shareholders' equity	613,633	536,490
Total liabilities and shareholders' equity	$ 4,224,859	$ 3,470,067

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31		
	2016	**2015**	**2014**
Interest income:			
Loans	$ 103,024	$ 92,938	$ 64,176
Loan accretion	43,310	49,830	78,857
Investment securities	18,629	15,214	9,212
Deposits with other financial institutions	294	609	1,276
Total interest income	165,257	158,591	153,521
Interest expense:			
Deposits	9,331	7,673	7,156
FHLB borrowings	140	3	1
Notes payable	105	210	362
Federal funds purchased and repurchase agreements	43	36	1
Total interest expense	9,619	7,922	7,520
Net interest income	155,638	150,669	146,001
Provision for loan and lease losses	237	3,486	2,896
Net interest income after provision for loan and lease losses	155,401	147,183	143,105
Noninterest income:			
Amortization of FDIC receivable for loss share agreements	—	(16,488)	(15,785)
Service charges on deposits	5,440	5,976	4,834
Mortgage banking income	12,319	11,250	835
SBA income	6,458	5,539	477
Payroll fee income	4,929	4,283	3,700
ATM income	3,008	2,981	2,471
Bank-owned life insurance income	1,930	1,926	1,334
Prepayment fees	797	3,149	1,336
Gain on sale of investment securities	489	354	246
Other	3,931	1,141	154
Total noninterest income	39,301	20,111	(398)
Noninterest expense:			
Salaries and employee benefits	78,775	83,295	62,093
Occupancy and equipment	12,169	12,432	9,898
Data processing	8,514	9,190	7,053
Legal and professional fees	4,695	5,071	3,440
Merger-related expenses	3,961	1,730	795
Marketing	2,216	2,318	1,824
Federal deposit insurance premiums and other regulatory fees	1,744	2,100	1,420
Loan collection costs and OREO activity	(579)	(1,597)	480
Amortization of intangibles	2,102	1,804	694
Other	7,330	7,079	5,771
Total noninterest expense	120,927	123,422	93,468
Income before income taxes	73,775	43,872	49,239
Income tax expense	26,184	15,449	18,321
Net income	$ 47,591	$ 28,423	$ 30,918
Basic earnings per share	$ 1.29	$ .79	$ .96
Diluted earnings per share	$ 1.28	$ .77	$ .93
Cash dividends declared per common share	$ .56	$ .32	$ .15
Weighted Average Shares Outstanding:			
Basic	35,931,528	34,810,855	31,723,971
Diluted	36,033,643	36,042,719	32,827,943

See accompanying notes to consolidated financial statements.

STATE BANK FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

(Dollars in thousands)

	Years Ended December 31		
	2016	**2015**	**2014**
Net income	$ 47,591	$ 28,423	$ 30,918
Other comprehensive loss, net of tax:			
Net change in unrealized losses	(1,910)	(9,249)	(1,574)
Amortization of net unrealized losses on securities transferred to held-to-maturity	(3)	—	—
Amounts reclassified for losses realized and included in earnings	682	192	13
Other comprehensive loss, before income taxes	(1,231)	(9,057)	(1,561)
Income tax benefit	(408)	(3,503)	(311)
Other comprehensive loss, net of income taxes	(823)	(5,554)	(1,250)
Comprehensive income	$ 46,768	$ 22,869	$ 29,668

See accompanying notes to consolidated financial statements.

STATE BANK FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Shareholders' Equity
(Dollars in thousands, except per share amounts)

	Warrants	Common Shares	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2013	2,623,824	32,094,145	$ 321	$ 295,379	$ 136,313	$ 5,170	$ 437,183
Exercise of stock warrants	(42,633)	38,477	—	195	—	—	195
Share-based compensation	—	—	—	2,035	—	—	2,035
Restricted stock activity	—	136,982	2	(130)	(28)	—	(156)
Other comprehensive loss	—	—	—	—	—	(1,250)	(1,250)
Common stock dividends, $.15 per share	—	—	—	—	(4,830)	—	(4,830)
Net income	—	—	—	—	30,918	—	30,918
Balance, December 31, 2014	2,581,191	32,269,604	$ 323	$ 297,479	$ 162,373	$ 3,920	$ 464,095
Exercise of stock warrants	(2,408,446)	1,401,188	14	533	—	—	547
Share-based compensation	—	—	—	3,595	—	—	3,595
Restricted stock activity	—	552,086	6	50	(83)	—	(27)
Issuance of common stock	—	2,854,970	28	57,014	—	—	57,042
Other comprehensive loss	—	—	—	—	—	(5,554)	(5,554)
Common stock dividends, $.32 per share	—	—	—	—	(11,631)	—	(11,631)
Net income	—	—	—	—	28,423	—	28,423
Balance, December 31, 2015	172,745	37,077,848	$ 371	$ 358,671	$ 179,082	$ (1,634)	$ 536,490
Exercise of stock warrants	(38,833)	30,180	—	200	—	—	200
Share-based compensation	—	—	—	3,889	—	—	3,889
Repurchase of common stock	—	(270,715)	(3)	(5,125)	—	—	(5,128)
Restricted stock activity	—	71,016	1	85	(26)	—	60
Issuance of common stock	—	1,937,244	19	52,016	—	—	52,035
Other comprehensive loss	—	—	—	—	—	(823)	(823)
Common stock dividends, $.56 per share	—	—	—	—	(20,681)	—	(20,681)
Net income	—	—	—	—	47,591	—	47,591
Balance, December 31, 2016	133,912	38,845,573	$ 388	$ 409,736	$ 205,966	$ (2,457)	$ 613,633

See accompanying notes to consolidated financial statements.

Form 10-K

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

	Years Ended December 31		
	2016	2015	2014
Cash Flows from Operating Activities			
Net income	$ 47,591	$ 28,423	$ 30,918
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation, amortization, and accretion	11,330	11,393	7,534
Provision for loan and lease losses	237	3,486	2,896
Accretion on acquisitions, net	(43,310)	(47,890)	(63,072)
Gains on sales of other real estate owned	(1,672)	(4,532)	(14,928)
Writedowns of other real estate owned	587	969	13,173
Net decrease in FDIC receivable for covered losses	—	6,250	21,597
Funds (paid to) collected from FDIC	—	(1,784)	45,251
Loss share termination	—	16,959	—
Deferred income tax expense (benefit)	13,045	(24,828)	(10,181)
Proceeds from sales of mortgage loans held-for-sale	534,597	512,466	35,204
Proceeds from sales of SBA loans held-for-sale	59,081	46,512	2,784
Originations of mortgage loans held-for-sale	(509,355)	(508,117)	(36,632)
Originations of SBA loans held-for-sale	(63,882)	(48,254)	(2,603)
Mortgage banking activities	(12,319)	(11,250)	(835)
Gains on sales of SBA loans	(5,425)	(4,387)	(181)
Gains on sales of available-for-sale securities	(489)	(354)	(246)
Share-based compensation expense	3,889	3,595	2,035
Changes in fair value of SBA servicing rights	472	(40)	38
Changes in other assets and other liabilities, net	(14,957)	(7,402)	12,924
Net cash provided by (used in) operating activities	19,420	(28,785)	45,676
Cash flows from Investing Activities			
Purchase of investment securities available-for-sale	(298,814)	(648,133)	(431,402)
Proceeds from sales and calls of investment securities available-for-sale	113,589	364,023	112,944
Proceeds from maturities and paydowns of investment securities available-for-sale	183,123	155,493	107,484
Purchase of investment securities held-to-maturity	(10,500)	—	—
Loan originations, repayments and resolutions, net	(191,683)	(195,373)	(65,627)
Purchases of loans	(1,300)	—	(23,649)
Net purchases of premises and equipment	(1,747)	(720)	(4,348)
Proceeds from sales of other real estate owned	4,987	17,608	72,312
Net cash received (paid) in excess of assets and liabilities acquired in purchase business combinations	3,661	(14,958)	(25,154)
Net cash used in investing activities	(198,684)	(322,060)	(257,440)

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

	Years Ended December 31		
	2016	2015	2014
Cash Flows from Financing Activities			
Net increase in noninterest-bearing customer deposits	83,422	168,033	81,704
Net increase (decrease) in interest-bearing customer deposits	103,519	(115,408)	32,863
Repayment of other borrowed funds	—	—	(5,000)
Proceeds from FHLB advances	655,000	60,000	5,000
Repayments of FHLB advances	(655,000)	(60,000)	(5,000)
Net (decrease) increase in federal funds purchased and securities sold under repurchase agreements	(6,457)	4,591	(7,692)
Payment of contingent consideration	150	—	—
Net decrease in notes payable	(1,414)	(959)	(2,911)
Repurchase of common stock	(5,128)	—	—
Issuance of common stock	200	547	195
Restricted stock activity	(116)	(124)	(156)
Dividends paid to shareholders	(20,681)	(11,631)	(4,830)
Net cash provided by financing activities	153,495	45,049	94,173
Net decrease in cash and cash equivalents	(25,769)	(305,796)	(117,591)
Cash and cash equivalents, beginning	175,362	481,158	598,749
Cash and cash equivalents, ending	$ 149,593	$ 175,362	$ 481,158
Cash Paid During the Period for:			
Interest expense	$ 7,576	$ 7,158	$ 7,239
Income taxes	21,815	36,170	23,836
Supplemental Disclosure of Noncash Investing and Financing Activities:			
Goodwill and fair value acquisition adjustments	$ 40,727	$ 25,751	$ 225
Unrealized losses on securities and cash flow hedges, net of tax	(823)	(5,554)	(1,250)
Transfer of investment securities available-for-sale to held-to-maturity	56,595	—	—
Transfers of loans to other real estate owned	3,260	9,825	30,318
Transfers of banking premises to other real estate owned	—	560	—
Acquisitions:			
Assets acquired	$ 484,158	$ 529,172	$ 185,973
Liabilities assumed	434,398	462,050	161,044
Net assets	49,760	67,122	24,929

See accompanying notes to consolidated financial statements.

NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of State Bank Financial Corporation and Subsidiary (the "Company") include the financial statements of State Bank Financial Corporation and its wholly-owned subsidiary, State Bank and Trust Company (the "Bank" or "State Bank"). All intercompany transactions and balances have been eliminated in consolidation. Certain reclassifications of prior year amounts have been made to conform with the current year presentations. These reclassifications had no impact on prior years' net income, as previously reported.

State Bank and Trust Company was organized as a Georgia-state chartered bank, which opened October 4, 2005 in Pinehurst, Georgia. The Bank is primarily regulated by the FDIC and undergoes periodic examinations by this regulatory authority. On July 24, 2009, State Bank and Trust Company closed on investment agreements under which new investors infused $292.1 million, gross (before expenses), of additional capital into the Bank, which resulted in a successor entity. This significant recapitalization resulted in a change of control and a new basis of accounting was applied. At the annual shareholders' meeting held March 11, 2010, approval was granted through proxy vote for the formation of a bank holding company. The required regulatory approval was obtained in July 2010 and the holding company reorganization was completed July 23, 2010.

Between July 24, 2009 and December 31, 2016, the Company successfully completed 16 bank acquisitions totaling $5.1 billion in assets and $4.5 billion in deposits. The acquisitions include the Company's acquisitions of NBG Bancorp, Inc. and S Bankshares, Inc., the holding companies for The National Bank of Georgia and S Bank, respectively, both of which closed on December 31, 2016.

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America and to prevailing practices within the financial institutions industry. The following is a summary of the significant accounting policies that the Company follows in presenting its consolidated financial statements.

Nature of Business

State Bank Financial Corporation is a bank holding company whose primary business is conducted through 31 full-service branch offices of State Bank and Trust Company, its wholly-owned banking subsidiary. Through the Bank, the Company operates a full service banking business and offers a broad range of commercial and retail banking products to its customers throughout seven of Georgia's eight largest MSAs. The Company also operates eight mortgage origination offices. The Company is subject to regulations of certain federal and state agencies and is periodically examined by those regulatory agencies.

Basis of Presentation

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenue and expenses for the period. Actual results could differ significantly from those estimates.

Significant estimates include the allowance for loan and lease losses, the valuation of other real estate owned, the amount and timing of expected cash flows from purchased credit impaired loans, the fair value of investment securities and other financial instruments, and the valuation of goodwill.

A substantial portion of the Company's loans are secured by real estate located in its market area. Accordingly, the ultimate collectability of a substantial portion of the Company's loan portfolio is susceptible to changes in the real estate market conditions.

As defined by authoritative guidance, segment disclosures require reporting information about a company's operating segments using a “management approach.” Reportable segments are identified as those revenue-producing components for which separate financial information is produced internally and which are subject to evaluation by the chief operating decision maker in deciding how to allocate resources to segments. The Company operates as one reportable segment.

Cash and Cash Equivalents

Cash and cash equivalents, as presented in the consolidated financial statements, includes cash on hand, cash items in process of collection, federal funds sold, and interest-bearing deposits with other financial institutions with maturities less than 90 days.

Investments

Management determines the appropriate classifications of investment securities at the time of purchase and reevaluates such designation as needed. At December 31, 2016 and 2015, the Company classified all of its investment securities as either available-for-sale or held-to-maturity. Investment securities available-for-sale are reported at fair value, as determined by independent quotations. Investment securities held-to-maturity represent those securities management has the positive intent and ability to hold to maturity and are reported at amortized cost. Purchase premiums and discounts on investment securities are amortized and accreted to interest income using the effective interest rate method over the remaining lives of the securities, taking into consideration assumed prepayment patterns. Realized gains and losses are derived using the specific identification method for determining the cost of securities sold and are recognized on the trade date.

The Company reclassified certain of its investment securities available-for-sale to held-to-maturity during the year ended December 31, 2016. The difference between book value and fair value at the date of transfer will continue to be reported in a separate component of accumulated other comprehensive income (loss), and will be amortized into income over the remaining life of the securities as an adjustment of yield. The difference between fair value at the date of transfer and par value is being amortized back to par value over the remaining life of the security as an adjustment to yield.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. In connection with the assessment for other-than-temporary impairment of investment securities, management obtains fair value estimates by independent quotations, assesses current credit ratings and related trends, reviews relevant delinquency and default information, assesses expected cash flows and coverage ratios, assesses the relative strength of credit support from less senior tranches of the securities, reviews average credit score data of underlying mortgages, and assesses other current data. 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.

Unrealized holding losses, other than those determined to be other-than-temporary, and unrealized holding gains on available-for-sale are excluded from net income and are reported, net of tax, in other comprehensive income and in accumulated other comprehensive income (loss), a separate component of shareholders' equity. A decline in the market value of any security below cost that is deemed other-than-temporary results in a charge to earnings and the establishment of a new cost basis for that security. At December 31, 2016 and 2015, the Company did not have any securities with other than temporary impairment.

Investment in stock of the Federal Home Loan Bank ("FHLB") is required of every federally insured financial institution which utilizes the FHLB's services. The investment in FHLB stock is included in "other assets" at its original cost basis, as cost approximates fair value since there is no readily determinable market value for such investments. The Company acquired Federal Reserve Bank ("FRB") stock in its acquisition of NBG Bancorp, Inc. The investment in FRB stock is included in "other assets" at its original cost basis, as cost approximates fair value since there is no readily determinable market value for such investments.

Organic Loans

Organic loans, defined as loans not purchased in the acquisition of an institution or credit impaired portfolio, are loans management has the intent and ability to hold for the foreseeable future, until maturity, or until payoff. Organic loans are reported at their principal amounts outstanding, net of unearned income, net of deferred loan fees and origination costs, net of unamortized premiums or discounts on purchased participation loans, and net of the allowance for loan and lease losses. Interest income is recognized using the simple interest method on the daily balance of the principal amount outstanding. Unearned income, primarily arising from deferred loan fees net of certain origination costs, is amortized over the lives of the underlying loans using the effective interest rate method.

Past due status is based on the contractual terms of the loan agreement. Generally, the accrual of interest income is discontinued and loans are placed on nonaccrual status when reasonable doubt exists as to the full, timely collection of interest or principal. Interest previously accrued but not collected is reversed against current period interest income when such loans are placed on nonaccrual status. Interest on nonaccrual loans when ultimately collected is recorded as a principal reduction. Nonaccrual loans are returned to accrual status when all principal and interest amounts contractually due are brought current. In addition, the future payments must be reasonably assured along with a period of at least six months of repayment performance by the borrower depending on the contractual payment terms. When it has been determined that a loan cannot be collected in whole or in part, then the uncollectible portion is charged-off.

The Company considers an organic loan 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. Additionally, loans for which the terms have been modified and for which (i) the borrower is experiencing financial difficulties and (ii) a concession has been granted to the borrower by the Company are considered troubled debt restructurings ("TDRs") and are included in impaired loans. The Company's policy requires that all impaired loans with contractual balances of $500,000 and greater be individually reviewed for impairment. Loans are reviewed for impairment based on the present value of expected future cash flows, discounted at the loan's effective interest rate, or the loan's observable market price, or the fair value of the collateral less disposal costs, as applicable, if the loan is collateral dependent. The Company's policy requires that large pools of smaller balance homogeneous loans, such as consumer, residential and installment loans, be collectively evaluated for impairment by the Company. Impairment losses are included in the allowance for loan and lease losses through a provision charge to earnings. All loans considered impaired are placed on nonaccrual status in accordance with policy. The interest portion of cash receipts on impaired loans are recorded as income when received unless full recovery of principal is in doubt whereby cash received is recorded as a reduction to the Company's recorded investment in the loan.

All organic impaired loans are reviewed at least quarterly. Reviews may be performed more frequently if material information is available before the next scheduled quarterly review. Existing valuations are reviewed to determine if additional discounts or new appraisals are required. The 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.

Purchased Loans

Purchased non-credit impaired loans ("PNCI loans")

Loans acquired without evidence of deterioration in credit quality since origination, referred to as purchased non-credit impaired loans, are initially recorded at estimated fair value on the acquisition date. Premiums and discounts created when the loans are recorded at their estimated fair values at acquisition are amortized or accreted over the remaining term of the loan as an adjustment to the related loan's yield.

The Company accounts for performing loans acquired in business combinations using the contractual cash flows method whereby premiums and discounts are recognized using the interest method. There is no allowance for loan and lease losses established at the acquisition date for purchased loans. Following the acquisition of these loans, the policies regarding nonaccrual and impaired loan status is consistent with that described above for organic loans. A provision for loan losses is recorded should there be deterioration in these loans subsequent to the acquisition.

Purchased credit impaired loans ("PCI loans")

Purchased credit impaired loans, defined as acquired loans, which at acquisition, management determined it was probable that the Company would be unable to collect all contractual principal and interest payments due, 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, if appropriate, an accretable discount. The nonaccretable discount, which is excluded from the carrying amount of acquired loans, is the difference between the contractually required payments and the cash flows expected to be collected at acquisition. Any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable discount and is recognized in interest income over the remaining life of the loan when there is reasonable expectation about the amount and timing of such cash flows. The difference between actual prepayments and expected prepayments does not affect the nonaccretable discount. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows results in either a reversal of the provision for loan losses or a reclassification of the difference from nonaccretable to accretable.

All loans acquired in failed bank transactions are considered to have evidence of credit deterioration, as limited due diligence is afforded which does not allow a sufficient detailed review to classify the acquired loans into credit deterioration and performing categories.

At the time of acquisition, purchased credit impaired loans are either accounted for as specifically-reviewed or as part of a loan pool. Loan pools are created by grouping loans with similar risk characteristics, the intent being to create homogeneous pools. Loans are grouped into pools based on a combination of various factors including product type, cohort, risk classification and term. Loans remain in the assigned pool until the individual pools have resolved. Gains and losses on individual loans within pools are deferred and retained in the pools until the pool closes, which is either when all the loans are resolved or the pool's aggregate recorded investment reaches zero.

Allowance for Loan and Lease Losses ("ALLL")

The ALLL represents the amount considered adequate by management to absorb losses inherent in the loan portfolio at the balance sheet date. The ALLL is adjusted through provisions for loan losses charged or credited to operations. The provisions are generated through loss analyses performed on organic loans, estimated additional losses arising on PNCI loans subsequent to acquisition and impairment recognized as a result of decreased expected cash flows on PCI loans due to further credit deterioration since the previous quarterly cash flow re-estimation. The ALLL consists of both specific and general components. Individual loans are charged off against the ALLL when management determines them to be uncollectible. Subsequent recoveries, if any, of loans previously charged-off are credited to the ALLL.

All known and inherent losses that are both probable and reasonable to estimate are recorded. While management utilizes available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance. Such agencies may require adjustments to the ALLL based on their judgment about information available at the time of their examination.

The Company assesses the adequacy of the ALLL quarterly with respect to organic and purchased loans. The assessment begins with a standard evaluation and analysis of the loan portfolio. All loans are consistently graded and monitored for changes in credit risk and possible deterioration in the borrower's ability to repay the contractual amounts due under the loan agreements.

Allowance for loan and lease losses for organic loans:

The ALLL for organic loans consists of two components:

(1) a specific amount against identified credit exposures where it is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreements; and
(2) a general amount based upon historical losses that are then adjusted for qualitative factors representative of various economic indicators and risk characteristics of the loan portfolio.

Management establishes the specific amount by examining impaired loans. The majority of the Company's impaired loans are collateral dependent; therefore, nearly all of the specific allowances are calculated based on the fair value of the collateral less disposal costs, if applicable.

Management establishes the general amount by reviewing the remaining loan portfolio (excluding those impaired loans discussed above) and incorporating allocations based on historical losses. The calculation of the general amount is subjected to qualitative factors that are somewhat subjective. The qualitative testing attempts to correlate the historical loss rates with current economic factors and current risks in the portfolio. The qualitative factors consist of but are not limited to:

(1) economic factors including changes in the local or national economy;
(2) the depth of experience in lending staff, credit administration and internal loan review;
(3) asset quality trends; and
(4) seasoning and growth rate of the portfolio segments.

After assessing the applicable factors, the remaining amount is evaluated based on management's experience and the level of the organic ALLL is compared with historical trends and peer information as a reasonableness test.

Allowance for loan and lease losses for purchased loans:

Purchased loans are initially recorded at their acquisition date fair values. The carryover of allowance for loan and lease losses is prohibited as any credit losses in the loans are included in the determination of the fair value of the loans at the acquisition date. Fair values for purchased loans are based on a discounted cash flow methodology that involves assumptions and judgments as to credit risk, default rates, loss severity, collateral values, discount rates, payment speeds, prepayment risk and liquidity risk.

The Company maintains an ALLL on purchased loans based on credit deterioration subsequent to the acquisition date. For purchased credit impaired loans accounted for under ASC 310-30, management establishes an allowance for credit deterioration subsequent to the date of acquisition by quarterly re-estimating expected cash flows with any decline in expected cash flows recorded as impairment in the provision for loan losses. Impairment is measured as the excess of the recorded investment in a loan over the present value of expected future cash flows discounted at the pre-impairment accounting yield of the loan. For any increases in cash flows expected to be collected, the Company first reverses only previously recorded ALLL, then adjusts the amount of accretable yield recognized on a prospective basis over the loan’s remaining life.

For purchased loans that are not deemed impaired at acquisition, also referred to as 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. Subsequent to the purchase date, the method used to evaluate the sufficiency of the credit discount is similar to originated loans, and if necessary, additional reserves are recognized in the allowance for loan and lease losses.

Loans Held-for-Sale

Loans held-for-sale include the majority of originated residential mortgage loans and certain Small Business Administration ("SBA") loans, which the Company has the intent and ability to sell.

Mortgage Loans Held-for-Sale

The Company has elected to record mortgage loans held-for-sale at fair value under the fair value option. The fair value of committed residential mortgage loans held-for-sale is determined by outstanding commitments from investors and the fair value of uncommitted loans is based on current delivery prices in the secondary mortgage market. Net origination fees and costs are recognized in earnings at the time of origination for residential mortgage loans held-for-sale.

Gains and losses on mortgage loan sales are recognized based on the difference between the net sales proceeds, including the estimated value associated with servicing assets or liabilities, and the net carrying value of the loans sold. Adjustments to reflect unrealized gains and losses resulting from changes in fair value of residential mortgage loans held-for-sale, as well as realized gains and losses at the sale of the residential mortgage loans, are classified on the consolidated statements of income as noninterest income - mortgage banking income.

The loan sales agreements generally require that we repurchase or indemnify the investors for losses or costs on loans we sell under certain limited conditions. Some of these conditions include underwriting errors or omissions, fraud or material misstatements by the borrower in the loan application or invalid market value on the collateral property due to deficiencies in the appraisal. In addition to these conditions, our loan sale contracts define a condition in which the borrower defaults during a short period of time, typically 120 days to one year, as an Early Payment Default ("EPD"). In the event of an EPD, we are required to return the premium paid by the investor for the loan as well as certain administrative fees, and in certain situations repurchase the loan or indemnify the investor. Any losses related to loans previously sold are charged against our recourse liability for mortgage loans previously sold. The recourse liability is based on historical loss experience adjusted for current information and events when it is probable that a loss will be incurred.

SBA Loans Held-for-Sale

SBA loans held-for-sale are recorded at the lower of cost or market. Any loans subsequently transferred to the held for investment portfolio are transferred at the lower of cost or market at that time. For SBA loans, fair value is determined primarily based on loan performance and available market information. Origination fees and costs for SBA loans held-for-sale are capitalized as part of the basis of the loan and are included in the calculation of realized gains and losses upon sale. Gains and losses are classified on the consolidated statements of income as noninterest income - SBA income. All SBA loan sales are executed on a servicing retained basis - refer to *SBA Servicing Rights* below for more information.

Other Real Estate Owned ("OREO")

Other real estate owned consists of real property (a) acquired through mergers and acquisitions, (b) acquired through foreclosure in satisfaction of loans receivable, and (c) banking premises formerly, but no longer, used for a specific business purpose. Other real estate is distinguished between organic, purchased non-credit impaired, or purchased credit impaired, consistent with the categories, respectively, at time of transfer.

Real property acquired through mergers and acquisitions are recorded at fair value on Day 1 of the acquisition. Real estate acquired through foreclosure of loans, consisting of properties obtained through foreclosure proceedings or acceptance of a deed in lieu of foreclosure, is reported on an individual asset basis at the lower of cost or fair value, less costs to sell with any excess in loan balance charged against the allowance for loan and lease losses. Banking premises no longer used for a specific business purposes is transferred into OREO at the lower of its carrying value or fair value, less estimated costs to sell with any excess in carrying value charged to noninterest expense.

For all fair value estimates of the real estate properties, fair value is determined on the basis of current appraisals, comparable sales, current market conditions, and other estimates of value obtained principally from independent sources. Management periodically reviews the carrying value of OREO for subsequent declines in fair value and adjusts the values as appropriate through noninterest expense. Gains or losses recognized on the disposition of the properties are recorded on the consolidated statements of income as "loan collection costs and OREO activity". Costs of improvements to real estate are capitalized, while costs associated with holding the real estate are charged to income.

Prior to termination of the Company's loss share agreements with the FDIC in May 2015, OREO formerly covered under the agreements were reported exclusive of expected reimbursement cash flows from the FDIC. Subsequent adjustments to the estimated recoverable value of the other real estate resulted in a reduction of other real estate and a charge to other expense. The FDIC receivable was increased for the estimated amount to be reimbursed, with a corresponding offsetting amount recorded to other expense. Costs associated with holding the formerly covered other real estate were charged to income, net of any expected reimbursements from the FDIC relating to previously covered external expenses.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation, which is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the assets range from 10 to 39 years for buildings and improvements and 3 to 15 years for furniture, fixtures, and equipment. Costs of improvements are capitalized and depreciated, while operating expenses are charged to current earnings.

Goodwill and Other Intangibles, Net

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in a business combination. Goodwill and other intangibles deemed to have an indefinite life are not amortized but instead are subject to review for impairment annually, or more frequently if deemed necessary. Also in connection with business combinations, the Company records core deposit intangibles, representing the value of the acquired core deposit base, and other identifiable intangible assets. Core deposit intangibles and other identifiable intangible assets are amortized on a straight-line basis over their estimated useful lives ranging up to 10 years.

SBA Servicing Rights

All sales of SBA loans, consisting of the guaranteed portion, are executed on a servicing retained basis. The standard sale structure under the SBA Secondary Participation Guaranty Agreement provides for the Company to retain a portion of the cash flow from the interest payment received on the loan. This cash flow is commonly known as a servicing spread. For any guaranteed loans sold at a premium, SBA regulations require the lender to keep a minimum 100 basis points in servicing spread which includes a minimum service fee of 40 basis points and a minimum premium protection fee of 60 basis points. The servicing spread is recognized as a servicing asset to the extent the spread exceeds adequate compensation for the servicing function. The fair value of the servicing asset is measured on a recurring basis at the present value of future cash flows using market-based discount assumptions. The future cash flows for each asset are based on their unique characteristics and 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.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned.

FDIC Receivable for Loss Share Agreements and Clawback Liability

On May 21, 2015, State Bank entered into an agreement with the FDIC to terminate loss share coverage on all 12 FDIC-assisted acquisitions. The termination resulted in the elimination of both the FDIC receivable for loss share agreements and the associated clawback liability. The FDIC receivable for loss share agreements was measured separately from the related formerly covered assets and was not contractually embedded in the assets or transferable if the assets were sold. The fair value of the FDIC receivable was estimated at acquisition using projected cash flows related to loss share agreements based on the expected reimbursements for losses using the applicable loss share percentages. The cash flows were discounted to reflect the estimated timing of the receipt of the loss share reimbursements from the FDIC. The FDIC receivable was reviewed and updated prospectively as loss estimates related to formerly covered assets changed and as reimbursements were received or were expected to be received from the FDIC. Improvements in the credit quality or cash flows of formerly covered loans (reflected as an adjustment to yield and accreted into income over the remaining life of the covered loans) decreased the basis of the FDIC receivable, with decreases being amortized into income over the remaining life of the loan or life of the loss share agreement, whichever was shorter. Any applicable true-up payments owed the FDIC for loss share agreements with clawback provisions were discounted to reflect the estimated timing of the payment and such amount was reported as a liability in "other liabilities" on the consolidated statements of financial condition. In addition, recoveries of FDIC-indemnified losses on loans were reimbursed to the FDIC during the coverage period under the loss share agreements.

Derivative Instruments and Hedging Activities

Interest Rate Swaps and Caps

The Company enters into derivative financial instruments to manage interest rate risk, facilitate asset/liability management strategies and manage other exposures. These instruments may include interest rate swaps and interest rate caps and floors. All derivative financial instruments are recognized on the consolidated statements of financial condition as other assets or other liabilities, as applicable, at estimated fair value. The Company enters into master netting agreements with counterparties and/or requires collateral to cover exposures. In most cases, counterparties post at a zero threshold regardless of rating.

Interest rate swaps are agreements to exchange interest payments based upon notional amounts. Interest rate swaps subject the Company to market risk associated with changes in interest rates, as well as the credit risk that the counterparty will fail to perform. Option contracts involve rights to buy or sell financial instruments on a specified date or over a period at a specified price. These rights do not have to be exercised. Some option contracts such as interest rate caps, involve the exchange of cash based on changes in specified indices. Interest rate caps are contracts to hedge interest rate increases based on a notional amount. Interest rate caps subject the Company to market risk associated with changes in interest rates, as well as the credit risk that the counterparty will fail to perform.

Derivative financial instruments are designated, based on the exposure being hedged, as either fair value or cash flow hedges. Fair value hedge relationships mitigate exposure to the change in fair value of an asset, liability or firm commitment. Under the fair value hedging model, gains or losses attributable to the change in fair value of the derivative instrument, as well as the gains and losses attributable to the change in fair value of the hedged item, are recognized in other noninterest income in the period in which the change in fair value occurs. Hedge ineffectiveness is recognized as other noninterest income to the extent the changes in fair value of the derivative do not offset the changes in fair value of the hedged item. The corresponding adjustment to the hedged asset or liability is included in the basis of the hedged item, while the corresponding change in the fair value of the derivative instrument is recorded as an adjustment to other assets or other liabilities, as applicable. Cash flow hedge relationships mitigate exposure to the variability of future cash flows or other forecasted transactions. For cash flow hedge relationships, the effective portion of the gain or loss related to the derivative instrument is recognized as a component of accumulated other comprehensive income (loss). The ineffective portion of the gain or loss related to the derivative instrument, if any, is recognized in earnings as other noninterest income during the period of change. Amounts recorded in accumulated other comprehensive income (loss) are recognized in earnings in the period or periods during which the hedged item impacts earnings.

The Company formally documents all hedging relationships between hedging instruments and the hedged items, as well as its risk management objective and strategy for entering into various hedge transactions. Methodologies related to hedge effectiveness and ineffectiveness are consistent between similar types of hedge transactions and typically include (i) statistical regression analysis of changes in the cash flows of the actual derivative and a perfectly effective hypothetical derivative, and (ii) statistical regression analysis of changes in the fair values of the actual derivative and the hedged item. The Company performs retrospective and prospective effectiveness testing using quantitative methods and does not assume perfect effectiveness through the matching of critical terms. Assessments of hedge effectiveness and measurements of hedge ineffectiveness are performed at least quarterly for ongoing effectiveness.

Hedge accounting is discontinued prospectively when (i) a derivative is no longer highly effective in offsetting changes in the fair value or cash flows of a hedged item, (ii) a derivative expires or is sold, terminated or exercised, (iii) we elect to discontinue the designation of a derivative as a hedge, or (iv) in a cash flow hedge, a derivative is de-designated because it is not probable that a forecasted transaction will occur. If a derivative that qualifies as a fair value or cash flow hedge is terminated or the designation removed, the realized or then unrealized gain or loss is recognized in income over the life of the hedged item (fair value hedge) or in the period in which the hedged item affects earnings (cash flow hedge). Immediate recognition in earnings is required upon sale or extinguishment of the hedged item (fair value hedge) or if it is probable that the hedged cash flows will not occur (cash flow hedge). Derivatives continued to be held after hedge accounting ceases are carried at fair value on the consolidated statements of financial condition with changes in fair value including in earnings.

Mortgage Derivatives

The Company enters derivative financial instruments to manage interest rate risk and pricing risk associated with is mortgage banking activities. These instruments may include interest rate lock commitments and forward commitments. All mortgage derivatives are recognized on the consolidated statements of financial condition as other assets or other liabilities, as applicable, at estimated fair value and are not accounted for as hedges. Interest rate lock commitments are agreements to fund fixed-rate mortgage loans to customers. Forward commitments are agreements to sell fixed-rate mortgage loans to investors. Changes in fair value are recognized "mortgage banking income" on the consolidated statements of income.

Bank-Owned Life Insurance ("BOLI")

The Company has purchased life insurance policies on certain key executives. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value that is probable at settlement. Increases to cash surrender values are recorded as "Bank-owned life insurance income" on the consolidated statements of income. The Company has entered into a split dollar agreement with certain of its executives whereby the executive’s designated beneficiary will receive a portion of the death benefit upon the executive officer’s death. The Company uses the cost of insurance method whereby a liability is recorded relating to the benefit provided that extends to post-retirement periods.

Share-Based Compensation

The Company has an equity compensation plan providing for the grant of equity awards, which is described more fully in Note 17. The Company uses the fair value method of recognizing expense for share-based compensation, whereby compensation cost is measured at the grant date based on the value of the award and is recognized on a straight-line basis over the vesting period. Compensation expense relating to equity awards is reflected in net income as part of "salaries and employee benefits" on the consolidated statements of income.

Income Taxes

The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies by jurisdiction and entity in making this assessment. Interest and penalties related to the Company’s tax positions are recognized as a component of the income tax provision.

Comprehensive Income

In addition to net income for the period, comprehensive income for the Company consists of changes in unrealized holding gains and losses on investments classified as available-for-sale, changes in unamortized or unaccreted premiums or discounts on investment securities available-for-sale transferred to held-to-maturity and changes in fair value of the effective portion of derivative financial instruments designated as cash flow hedges. The changes are reported net of income taxes and reclassification adjustments.

Acquisitions

Accounting principles generally accepted in the United States of America ("US GAAP") require that the acquisition method of accounting, formerly referred to as the purchase method, be used for all business combinations and that an acquirer be identified for each business combination. Under US GAAP, the acquirer is the entity that obtains control of one or more businesses in the business combination, and the acquisition date is the date the acquirer achieves control. US GAAP requires that the acquirer recognize the fair value of assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date.

Basic and Diluted Earnings Per Share

Basic earnings per share is calculated using the two-class method to determine income attributable to common shareholders. Unvested share-based payment awards that contain nonforfeitable rights to dividends are considered participating securities under the two-class method. Net income attributable to common shareholders is then divided by the weighted average common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the net income of the Company. Diluted earnings per share is computed by dividing net income attributable to common shareholders by the total of the weighted average number of shares outstanding plus the dilutive effect of the outstanding options and warrants.

Adoption of New Accounting Standards

ASU 2017-03 — In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-03, *Accounting Changes and Error Corrections (Topic 250) and Investments - Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings.* The ASU adds an SEC paragraph to ASUs 2014-09, 2016-02 and 2016-13 which specifies the SEC staff view that a registrant should evaluate ASUs that have not yet been adopted to determine the appropriate disclosure about the potential material effects of those ASUs on the financial statements when adopted. The guidance also specifies the SEC staff view on financial statement disclosures when the company does not know or cannot reasonably estimate the impact that adoption of the ASUs will have on the financial statements. The ASU also conforms SEC guidance on accounting for tax benefits resulting from investments in affordable housing projects to the guidance in ASU 2014-01, *Investments - Equity Method and Joint Ventures (Topic 323).* The amendments in this update are effective upon issuance. The guidance did not have a significant impact on our consolidated financial statements.

ASU 2016-15 — In August 2016, FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.* The amendments in this ASU clarify the proper classification for certain cash receipts and cash payments, including clarification on debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, and proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, among others. The amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted and if early adopted, all provisions must be adopted in the same period. We elected to early adopt the amendments in this ASU effective January 1, 2016. The adoption of ASU No. 2016-15 did not have a material impact on our consolidated financial statements.

ASU 2016-09 — In March 2016, FASB issued ASU No. 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.* The amendments in this ASU simplify several aspects of share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. Excess tax benefits and tax deficiencies will be recognized as income tax expense or benefit in the income statement in the period exercise or vesting occurs. In the statement of cash flows, excess tax benefits should be classified with other income tax cash flows as an operating activity. Cash paid by an employer for tax withholding when directly withholding shares should be classified as a financing activity. An entity can make an entity-wide policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The threshold for determining whether an award is classified as equity or a liability is raised to permit withholding up to the maximum statutory tax rate in the applicable jurisdiction. 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 if early adopted, all provisions must be adopted in the same period. If adopted in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. We elected to early adopt the amendments in this ASU effective January 1, 2016. We elected to account for forfeitures when they occur. The adoption of ASU No. 2016-09 reduced income tax expense for 2016 by $282,000.

ASU 2015-16 — In September 2015, FASB issued ASU No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments.* Under current GAAP, the acquirer is required to retrospectively adjust the provisional amounts recognized at the acquisition date with a corresponding adjustment to goodwill and is also required to revise comparative information for prior periods presented in the financial statements. The amendments in this ASU, require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this Update also require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. An entity is required to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustments to the provisional amounts had been recognized as of the acquisition date. We adopted the amendments in this ASU effective January 1, 2016. The adoption of ASU No. 2015-16 did not have a material impact on our consolidated financial statements.

ASC Clarification — In June 2015, FASB issued amendments to clarify the Accounting Standards Codification (ASC), correct unintended application of guidance, and make minor improvements to the ASC that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments were effective upon issuance (June 12, 2015) for amendments that do not have transition guidance. Amendments that are subject to transition guidance were adopted effective January 1, 2016. The adoption of these amendments did not have a material effect on our consolidated financial statements.

ASU 2015-02 — In February 2015, FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain legal entities. The amendments in the standard affect limited partnerships and similar legal entities, evaluating fees paid to a decision maker or a service provider as a variable interest, the effect of fee arrangements on the primary beneficiary determination, the effect of related parties on the primary beneficiary determination, and certain investment funds. We adopted the amendments in this ASU effective January 1, 2016. The adoption of ASU No. 2015-02 did not have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements

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 positions, 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 positions, 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 2016-05 — In March 2016, FASB issued 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 the 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 guidance is not expected to have a significant impact on the Company's financial position, results of operations or disclosures.

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 expire 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*, and ASU 2016-20 *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers* — 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 provides 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.

NOTE 2: ACQUISITIONS

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

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, Inc. common stock was converted into the right to receive either $45.45 in cash or 2.1642 shares of the Company's common stock. Elections by NBG Bancorp shareholders were prorated 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 merger completion 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, Inc. 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.

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 close that was deemed to be a more accurate representation of fair value.

(c) Adjustment reflects the fair value adjustment based on State Bank's third party valuation report 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 based on State Bank's third party valuation report.

(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 third party valuation report.

(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 discloses the impact of the merger with NBG Bancorp, Inc. (excluding the impact of merger-related expenses) from the acquisition date of December 31, 2016 *(dollars in thousands, except per share amounts)*. The table also presents certain pro forma information as if NBG Bancorp, Inc. had been acquired on January 1, 2014. These results combine the historical results of NBG Bancorp, Inc. 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, 2014. Merger-related costs are not included in the pro forma statements below.

	Twelve Months Ended December 31		
	2016	**2015**	**2014**
	Pro Forma	**Pro Forma**	**Pro Forma**
Net interest income	$ 173,583	$ 170,520	$ 165,449
Net income	49,639	33,152	34,607
Earnings per share:			
Basic	$ 1.29	$ .88	$ 1.02
Diluted	1.28	.86	.99

The following is a summary of the purchased credit impaired loans acquired in the NBG Bancorp, Inc. 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, Inc. transaction was $317.9 million. The contractual balance 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.

Acquisition of S Bankshares, Inc. and S Bank

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, Inc. common stock was converted into the right to receive either $56.70 in cash or 2.7444 shares of the Company's common stock. Elections by S Bankshares shareholders were prorated 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 Inc. 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.

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 close that was deemed to be a more accurate representation of fair value.

(b) Adjustment reflects the fair value adjustment based on State Bank's third party valuation report 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 based on State Bank's third party valuation report.

(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 third party valuation report.

The following table discloses the impact of the merger with S Bankshares Inc. (excluding the impact of merger-related expenses) from the acquisition date of December 31, 2016 *(dollars in thousands, except per share amounts)*. The table also presents certain pro forma information as if S Bankshares Inc. had been acquired on January 1, 2014. These results combine the historical results of S Bankshares Inc. 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, 2014. Merger-related costs are not included in the pro forma statements below.

	Twelve Months Ended December 31		
	2016	2015	2014
	Pro Forma	Pro Forma	Pro Forma
Net interest income	$ 161,450	$ 156,427	$ 150,835
Net income	49,325	29,179	31,083
Earnings per share:			
Basic	$ 1.32	$ .81	$ .96
Diluted	1.32	.78	.92

The following is a summary of the purchased credit impaired loans acquired in the S Bankshares Inc. 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 Inc. transaction was $67.3 million. The contractual balance 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.

Acquisition of Patriot Capital Corporation's Equipment Finance Group

On October 22, 2015, State Bank announced the purchase of the equipment financing origination platform of Patriot Capital Corporation. The acquisition was not material to the financial results of State Bank. Goodwill of $5.3 million and other intangibles of $2.1 million were recorded in the acquisition. None of the goodwill is expected to be deductible for income tax purposes.

Acquisition of Boyett Agency, LLC

On February 26, 2015, State Bank entered into an Asset Purchase Agreement with Boyett Agency, LLC an independent insurance agency, pursuant to which State Bank acquired substantially all of the assets of Boyett Agency, LLC. The acquisition was not material to the financial results of State Bank. Goodwill of $539,000 and other intangibles of $319,000 were recorded in the acquisition. None of the goodwill is expected to be deductible for income tax purposes.

Acquisition of Georgia-Carolina Bancshares Inc. and First Bank of Georgia

On January 1, 2015, the Company completed its merger with Georgia-Carolina Bancshares, Inc., the holding company for First Bank. In the merger, First Bank, a Georgia-state-chartered bank, became a wholly-owned subsidiary bank of the Company. Under the terms of the merger agreement, each share of Georgia-Carolina Bancshares, Inc. common stock was converted into the right to receive $8.85 in cash and .794 shares of the Company's common stock. Total consideration paid was approximately $88.9 million, consisting of $31.8 million in cash and $57.0 million in the Company's common stock. On July 24, 2015, First Bank merged with and into State Bank.

The merger of Georgia-Carolina Bancshares 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. Goodwill of $19.9 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 paid by the Company at the acquisition date *(dollars in thousands)*:

	As Recorded by Georgia-Carolina Bancshares, Inc.	Fair Value Adjustments		As Recorded by the Company
Assets				
Cash and due from banks	$ 20,873	$ —		$ 20,873
Investment securities	130,218	999	(a)	131,217
Loans, net	293,814	590	(b)	294,404
Loans held-for-sale	34,956	—		34,956
Other real estate owned	4,428	2,042	(c)	6,470
Core deposit intangible	—	6,710	(d)	6,710
Premises and equipment, net	9,175	2,803	(e)	11,978
Bank-owned life insurance	15,414	—		15,414
Other assets	9,122	(4,457)	(f)	4,665
Total assets acquired	$ 518,000	$ 8,687		$ 526,687
Liabilities				
Deposits:				
Noninterest-bearing	$ 80,888	$ —		$ 80,888
Interest-bearing	335,889	878	(g)	336,767
Total deposits	416,777	878		417,655
Securities sold under repurchase agreements	27,588	—		27,588
Other liabilities	11,823	652	(h)	12,475
Total liabilities assumed	456,188	1,530		457,718
Net identifiable assets acquired over liabilities assumed	$ 61,812	$ 7,157		$ 68,969
Goodwill	$ —	$ 19,904		$ 19,904
Net assets acquired over liabilities assumed	$ 61,812	$ 27,061		$ 88,873
Consideration:				
State Bank Financial Corporation common shares issued	2,854,970			
Purchase price per share of the Company's common stock	$ 19.98			
Company common stock issued	57,042			
Cash exchanged for shares	31,831			
Fair value of total consideration transferred	$ 88,873			

Explanation of fair value adjustments

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

(b) Adjustment reflects the fair value adjustment based on State Bank's third party valuation report 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 based on State Bank's third party valuation report.

(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 third party valuation report.

(h) Adjustment reflects the fair value adjustment based on State Bank's evaluation of other liabilities and to record certain liabilities directly attributable to the acquisition.

The following table discloses the impact of the merger with Georgia-Carolina Bancshares, Inc. (excluding the impact of merger-related expenses) from the acquisition date of January 1, 2015 through December 31, 2015 *(dollars in thousands, except per share amounts)*. The table also presents certain pro forma information as if Georgia-Carolina Bancshares, Inc. had been acquired on January 1, 2014. These results combine the historical results of Georgia-Carolina Bancshares, Inc. 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, 2014. Merger-related costs of $1.7 million are included in the Company's consolidated statements of income for the year ended December 31, 2015 and are not included in the pro forma statements below.

	Twelve Months Ended December 31	
	2015	2014
	Actual	Pro Forma
Net interest income	$ 150,677	$ 165,820
Net income	30,153	35,066
Earnings per share:		
Basic		$ 1.00
Diluted		.97

The following is a summary of the purchased credit impaired loans acquired in the Georgia-Carolina Bancshares, Inc. transaction on January 1, 2015 *(dollars in thousands)*:

	Purchased Credit Impaired Loans
Contractually required principal and interest at acquisition	$ 3,060
Contractual cash flows not expected to be collected (nonaccretable difference)	(783)
Expected cash flows at acquisition	2,277
Accretable difference	(317)
Basis in acquired loans at acquisition - estimated fair value	$ 1,960

On January 1, 2015, the fair value of the purchased non-credit impaired loans acquired in the Georgia-Carolina Bancshares, Inc. transaction was $292.4 million. The contractual balance of the purchased non-credit impaired loans at acquisition was $355.0 million, of which $6.4 million was the amount of contractual cash flows not expected to be collected.

NOTE 3: INVESTMENT SECURITIES

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

Investment Securities Available-for-Sale	December 31, 2016 Amortized Cost	December 31, 2016 Unrealized Gains	December 31, 2016 Unrealized Losses	December 31, 2016 Fair Value	December 31, 2015 Amortized Cost	December 31, 2015 Unrealized Gains	December 31, 2015 Unrealized Losses	December 31, 2015 Fair Value
U.S. Government securities	$ 89,044	$ 70	$ 465	$ 88,649	$ 103,525	$ 63	$ 316	$ 103,272
States and political subdivisions	300	1	—	301	1,809	5	1	1,813
Residential mortgage-backed securities — nonagency	151,519	3,129	639	154,009	146,832	4,269	399	150,702
Residential mortgage-backed securities — agency	533,479	548	4,725	529,302	507,168	770	4,250	503,688
Asset-backed securities	—	—	—	—	46,570	3	328	46,245
Corporate securities	74,793	207	83	74,917	82,245	229	489	81,985
Total investment securities available-for-sale	$ 849,135	$ 3,955	$ 5,912	$ 847,178	$ 888,149	$ 5,339	$ 5,783	$ 887,705

Investment Securities Held-to-Maturity	December 31, 2016 Amortized Cost	December 31, 2016 Unrealized Gains	December 31, 2016 Unrealized Losses	December 31, 2016 Fair Value	December 31, 2015 Amortized Cost	December 31, 2015 Unrealized Gains	December 31, 2015 Unrealized Losses	December 31, 2015 Fair Value
Asset-backed securities	$ 56,804	$ 295	$ 14	$ 57,085	$ —	$ —	$ —	$ —
Corporate securities	10,259	91	—	10,350	—	—	—	—
Total investment securities held-to-maturity	$ 67,063	$ 386	$ 14	$ 67,435	$ —	$ —	$ —	$ —

The amortized cost and estimated fair value of available-for-sale debt securities by contractual maturities are summarized in the table below *(dollars in thousands)*:

Debt Securities Available-for-Sale	**Distribution of Maturities (1)**				
December 31, 2016	**1 Year or Less**	**1-5 Years**	**5-10 Years**	**After 10 Years**	**Total**
Amortized Cost:					
U.S. Government securities	$ —	$ 89,044	$ —	$ —	$ 89,044
States and political subdivisions	—	300	—	—	300
Residential mortgage-backed securities — nonagency	—	—	—	151,519	151,519
Residential mortgage-backed securities — agency	—	20,379	343,078	170,022	533,479
Asset-backed securities	—	—	—	—	—
Corporate securities	7,656	65,254	—	1,883	74,793
Total debt securities	$ 7,656	$ 174,977	$ 343,078	$ 323,424	$ 849,135
Fair Value:					
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	—	20,402	341,503	167,397	529,302
Asset-backed securities	—	—	—	—	—
Corporate securities	7,647	65,387	—	1,883	74,917
Total debt securities	$ 7,647	$ 174,739	$ 341,503	$ 323,289	$ 847,178

Debt Securities Held-to-Maturity	**Distribution of Maturities (1)**				
December 31, 2016	**1 Year or Less**	**1-5 Years**	**5-10 Years**	**After 10 Years**	**Total**
Amortized Cost:					
Asset-backed securities	$ —	$ —	$ 31,681	$ 25,123	$ 56,804
Corporate securities	—	—	10,259	—	10,259
Total debt securities	$ —	$ —	$ 41,940	$ 25,123	$ 67,063
Fair Value:					
Asset-backed securities	$ —	$ —	$ 31,924	$ 25,161	$ 57,085
Corporate securities	—	—	10,350	—	10,350
Total debt securities	$ —	$ —	$ 42,274	$ 25,161	$ 67,435

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

The following table provides information regarding securities with unrealized losses *(dollars in thousands)*:

	Less than 12 Months		12 Months or More		Total	
Investment Securities Available-for-Sale	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
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
Asset-backed securities	—	—	—	—	—	—
Corporate securities	22,944	83	—	—	22,944	83
Total temporarily impaired securities	$ 526,795	$ 5,271	$ 42,786	$ 641	$ 569,581	$ 5,912
December 31, 2015						
U.S. Government securities	$ 61,723	$ 316	$ —	$ —	$ 61,723	$ 316
States and political subdivisions	1,507	1	—	—	1,507	1
Residential mortgage-backed securities — nonagency	43,112	347	6,578	52	49,690	399
Residential mortgage-backed securities — agency	397,831	3,665	43,112	585	440,943	4,250
Asset-backed securities	41,333	328	—	—	41,333	328
Corporate securities	55,976	489	—	—	55,976	489
Total temporarily impaired securities	$ 601,482	$ 5,146	$ 49,690	$ 637	$ 651,172	$ 5,783

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	Less than 12 Months		12 Months or More		Total	
Investment Securities Held-to-Maturity	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
December 31, 2016						
Asset-backed securities	$ 6,486	$ 14	$ —	$ —	$ 6,486	$ 14
Corporate securities	—	—	—	—	—	—
Total temporarily impaired securities	$ 6,486	$ 14	$ —	$ —	$ 6,486	$ 14
December 31, 2015						
Asset-backed securities	$ —	$ —	$ —	$ —	$ —	$ —
Corporate securities	—	—	—	—	—	—
Total temporarily impaired securities	$ —	$ —	$ —	$ —	$ —	$ —

At December 31, 2016, the Company held 137 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 December 31, 2016, there was no intent to sell any of the available-for-sale 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.

Sales and calls of securities available-for-sale are summarized in the following table *(dollars in thousands)*:

	December 31		
	2016	2015	2014
Proceeds from sales and calls	$ 113,589	$ 364,023	$ 112,944
Gross gains on sales and calls	$ 489	$ 618	$ 266
Gross losses on sales and calls	—	(264)	(20)
Net realized gains on sales and calls	$ 489	$ 354	$ 246

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 $368.3 million and $424.8 million at December 31, 2016 and 2015, respectively, were pledged to secure public deposits and repurchase agreements.

NOTE 4: LOANS

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

	December 31	
Total Loans	2016	2015
Construction, land & land development	$ 567,763	$ 514,937
Other commercial real estate	1,025,063	776,310
Total commercial real estate	1,592,826	1,291,247
Residential real estate	343,398	273,677
Owner-occupied real estate	395,863	306,313
Commercial, financial & agricultural	368,120	196,779
Leases	71,724	71,539
Consumer	42,641	20,662
Total loans	2,814,572	2,160,217
Allowance for loan and lease losses	(26,598)	(29,075)
Total loans, net	$ 2,787,974	$ 2,131,142

Organic loans, which we define as loans not purchased in the acquisition of an institution or credit impaired portfolio, are summarized as follows *(dollars in thousands)*:

	December 31	
Organic Loans	**2016**	**2015**
Construction, land & land development	$ 500,018	$ 482,087
Other commercial real estate	754,790	661,062
Total commercial real estate	1,254,808	1,143,149
Residential real estate	144,295	140,613
Owner-occupied real estate	256,317	219,636
Commercial, financial & agricultural	327,381	181,513
Leases	71,724	71,539
Consumer	36,039	17,882
Total organic loans (1)	2,090,564	1,774,332
Allowance for loan and lease losses	(21,086)	(21,224)
Total organic loans, net	$ 2,069,478	$ 1,753,108

(1) Includes net deferred loan fees that totaled approximately $7.0 million and $5.8 million at December 31, 2016 and 2015, respectively.

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

	December 31	
Purchased Non-Credit Impaired Loans	**2016**	**2015**
Construction, land & land development	$ 51,208	$ 18,598
Other commercial real estate	209,531	74,506
Total commercial real estate	260,739	93,104
Residential real estate	144,596	69,053
Owner-occupied real estate	115,566	61,313
Commercial, financial & agricultural	36,206	14,216
Consumer	6,255	2,624
Total purchased non-credit impaired loans (1)	563,362	240,310
Allowance for loan and lease losses	(439)	(53)
Total purchased non-credit impaired loans, net	$ 562,923	$ 240,257

(1) Includes net discounts that totaled approximately $10.5 million and $6.4 million at December 31, 2016 and 2015, respectively.

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

	December 31	
Purchased Credit Impaired Loans	**2016**	**2015**
Construction, land & land development	$ 16,537	$ 14,252
Other commercial real estate	60,742	40,742
Total commercial real estate	77,279	54,994
Residential real estate	54,507	64,011
Owner-occupied real estate	23,980	25,364
Commercial, financial & agricultural	4,533	1,050
Consumer	347	156
Total purchased credit impaired loans	160,646	145,575
Allowance for loan and lease losses	(5,073)	(7,798)
Total purchased credit impaired loans, net	$ 155,573	$ 137,777

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

	December 31	
Purchased Credit Impaired Loans	**2016**	**2015**
Balance, beginning of year	$ 137,777	$ 196,093
Accretion of fair value discounts	43,310	49,830
Fair value of acquired loans	40,133	1,960
Reductions in principal balances resulting from repayments, write-offs and foreclosures	(68,372)	(112,554)
Change in the allowance for loan and lease losses on purchased credit impaired loans	2,725	2,448
Balance, end of year	$ 155,573	$ 137,777

Purchased credit impaired loans are initially recorded at fair value at the acquisition date. 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 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 are presented in the following table for the periods presented *(dollars in thousands)*:

	December 31		
Changes in Accretable Discount	**2016**	**2015**	**2014**
Balance, beginning of year	$ 86,100	$ 120,061	$ 185,024
Additions from acquisitions	5,824	317	7,351
Accretion	(43,310)	(49,830)	(78,857)
Transfers to accretable discounts and exit events, net	20,687	15,552	6,543
Balance, end of year	$ 69,301	$ 86,100	$ 120,061

The accretable discount changes over time as the purchased credit impaired loan portfolios season. 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 acquired loans.

At December 31, 2016 and 2015, loans with a carrying value of $2.5 billion and $2.0 billion, respectively, were pledged for lines of credit. At December 31, 2016 and 2015, in accordance with Company policy, there were no loans to executive officers, directors and/or their affiliates.

NOTE 5: ALLOWANCE FOR LOAN AND LEASE LOSSES (ALLL)

The following table summarizes the Company's loan loss experience on the total loan portfolio as well as the breakdown between the organic, purchased non-credit impaired, and purchased credit impaired portfolios for the periods presented *(dollars in thousands)*:

	December 31		
	2016	2015	2014
Total Loans			
Balance, beginning of period	$ 29,075	$ 28,638	$ 34,065
Charge-offs	(6,174)	(12,494)	(19,330)
Recoveries	3,460	8,400	13,897
Net charge-offs	(2,714)	(4,094)	(5,433)
Provision for loan and lease losses before amount attributable to FDIC loss share agreements	237	4,531	6
Amount attributable to FDIC loss share agreements	—	(1,045)	2,890
Total provision for loan and lease losses charged to operations	237	3,486	2,896
Provision for loan and lease losses recorded through the FDIC loss share receivable	—	1,045	(2,890)
Balance, end of period	$ 26,598	$ 29,075	$ 28,638
Organic Loans			
Balance, beginning of period	$ 21,224	$ 18,392	$ 16,656
Charge-offs	(3,411)	(313)	(1,552)
Recoveries	223	288	513
Net charge-offs	(3,188)	(25)	(1,039)
Provision for loan and lease losses	3,050	2,857	2,775
Balance, end of period	$ 21,086	$ 21,224	$ 18,392
Purchased Non-Credit Impaired Loans			
Balance, beginning of period	$ 53	$ —	$ —
Charge-offs	(223)	(48)	—
Recoveries	63	7	—
Net charge-offs	(160)	(41)	—
Provision for loan and lease losses	546	94	—
Balance, end of period	$ 439	$ 53	$ —
Purchased Credit Impaired Loans			
Balance, beginning of period	$ 7,798	$ 10,246	$ 17,409
Charge-offs	(2,540)	(12,133)	(17,778)
Recoveries	3,174	8,105	13,384
Net recoveries (charge-offs)	634	(4,028)	(4,394)
Provision for loan and lease losses before amount attributable to FDIC loss share agreements	(3,359)	1,580	(2,769)
Amount attributable to FDIC loss share agreements	—	(1,045)	2,890
Total provision for loan and lease losses charged to operations	(3,359)	535	121
Provision for loan and lease losses recorded through the FDIC loss share receivable	—	1,045	(2,890)
Balance, end of period	$ 5,073	$ 7,798	$ 10,246

Segment and Class Risk Descriptions

Each of our portfolio segments and the classes within those segments are subject to risks that could have an adverse impact on the credit quality of our loan portfolio. Management has identified the most significant risks associated with segments and classes as described below. While the list is not exhaustive, it provides a description of the risks that management has determined are the most significant.

Real Estate Loans

Loans secured by real estate are the principal component of our loan portfolio. Real estate loans are subject to the same general risks as other loans and are particularly sensitive to fluctuations in the value of real estate. Increases in interest rates, decline in occupancy rates, fluctuations in the value of real estate, as well as other factors arising after a loan has been made, could negatively affect a borrower's cash flow, creditworthiness and ability to repay the loan. When we make new real estate loans, we typically obtain a security interest in the real estate, as well as other available credit enhancements, to increase the likelihood of the ultimate repayment of the loan. To control concentration risk, we monitor collateral type concentrations within this portfolio.

In addition to these common risks for the majority of our real estate loans, additional risks are inherent in certain of our classes of real estate loans which are addressed below:

Commercial Real Estate

Commercial real estate loans consist of commercial construction and land development loans and other commercial real estate loans. Commercial construction and land development loans are highly dependent upon the supply and demand for commercial real estate in the markets we serve as well as the demand for newly constructed residential homes and lots that our customers are developing. Construction and development loans generally carry a higher degree of risk than long-term financing of existing properties because repayment depends upon the ultimate completion of the project and usually on the subsequent lease-up and/or sale of the property. Additionally, deterioration in demand could result in significant decreases in the underlying collateral values and make repayment of the outstanding loans more difficult for our customers.

Other commercial real estate loans consist primarily of loans secured by other nonfarm nonresidential properties such as retail, office and hotel/motel and multifamily housing. These loans typically have terms of five years or less, although payments may be structured on a longer amortization basis. We evaluate each borrower on an individual basis and attempt to determine the business risks and credit profile of each borrower. The primary risk associated with loans secured with income-producing property is the inability of that property to produce adequate cash flow to service the debt. High unemployment, generally weak economic conditions and/or an oversupply in the market may result in our customer having difficulty achieving adequate occupancy rates.

Residential Real Estate

Residential real estate loans are typically to individuals and are secured by owner-occupied and investor-owned 1-4 family residential property. We generally originate and hold certain first mortgages and traditional second mortgages, adjustable rate mortgages and home equity lines of credit. We also originate and sell fixed and adjustable rate residential real estate loans in the secondary market. Significant and rapid declines in real estate values can result in residential mortgage loan borrowers having debt levels in excess of the current market value of the collateral.

Owner-Occupied Real Estate

Owner-occupied loans consist of loans secured by nonfarm nonresidential properties, such as office and industrial properties, churches, convenience stores and restaurants occupied by an affiliated tenant. Loan repayment is primarily dependent on the ability of the operating company to achieve business results consistent with those projected at loan origination resulting in cash flow sufficient to service the debt. Adverse changes in the business's results, specifically declines in cash flows, could jeopardize the ability for the loan to be serviced in accordance with the contractual terms.

Commercial, Financial & Agricultural Loans

Commercial, financial and industrial loans include loans to individuals and businesses for commercial purposes in various lines of business, including the manufacturing, professional service, and crop production industries. This segment also includes loans to states and political subdivisions, as well as equipment finance agreements. Repayment is primarily dependent on the ability of the borrower to achieve business results consistent with those projected at loan origination resulting in cash flow sufficient to service the debt. To the extent that a borrower's business results are significantly unfavorable versus the original projections, the ability for the loan to be serviced on a basis consistent with the contractual terms may be at risk. While these loans may be partially secured by real estate, they are generally considered to have greater collateral risk than first or second mortgages on real estate because these loans may be unsecured or, if they are secured, the value of the non-real estate collateral may be difficult to assess and less marketable than real estate, and the control of the collateral is more at risk.

Leases

Leases include purchased commercial, business purpose and municipal leases. The stream of payments and a first security interest in the collateral is assigned to us. Our lease funding is based on a present value of the lease payments at a discounted interest rate, which is determined based on the credit quality of the lessee, the term of the lease compared to expected useful life, and the type of collateral. Types of collateral include, but are not limited to, medical equipment, rolling stock, franchise restaurant equipment and hardware/software. Servicing of purchased leases is primarily retained by the loan originator, as well as ownership of all residuals, if applicable. Lease financing is underwritten using similar underwriting standards as would be applied to a secured commercial loan requesting high loan-to-value financing. Risks that are involved with lease financing receivables are credit underwriting and borrower industry concentrations.

Consumer Loans

The consumer loan portfolio includes loans to individuals for personal, family and household purposes, including secured and unsecured installment loans and revolving lines of credit. Consumer loans not secured by real estate are generally considered to have greater risk than first or second mortgages on real estate because they may be unsecured, or, if they are secured, the value of the collateral may be difficult to assess and more likely to decrease in value, and is more difficult to control, than real estate. Consumer loans may be secured by cash value life insurance policies which presents a lower collateral risk than other non-real estate secured consumer loans.

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

Organic Loans	Commercial Real Estate	Residential Real Estate	Owner-Occupied Real Estate	Commercial, Financial & Agricultural	Leases	Consumer	Total
December 31, 2016							
Beginning balance	$ 13,607	$ 2,053	$ 1,920	$ 2,509	$ 865	$ 270	$ 21,224
Charge-offs	(2,122)	(53)	—	(653)	(486)	(97)	(3,411)
Recoveries	—	6	45	154	11	7	223
Provision	282	(220)	274	2,083	265	366	3,050
Ending balance	$ 11,767	$ 1,786	$ 2,239	$ 4,093	$ 655	$ 546	$ 21,086
December 31, 2015							
Beginning balance	$ 13,134	$ 1,190	$ 1,928	$ 1,770	$ 262	$ 108	$ 18,392
Charge-offs	(3)	—	—	(289)	—	(21)	(313)
Recoveries	173	10	—	98	—	7	288
Provision	303	853	(8)	930	603	176	2,857
Ending balance	$ 13,607	$ 2,053	$ 1,920	$ 2,509	$ 865	$ 270	$ 21,224
December 31, 2014							
Beginning balance	$ 11,163	$ 1,015	$ 2,535	$ 1,799	$ —	$ 144	$ 16,656
Charge-offs	(1,267)	(1)	—	(256)	—	(28)	(1,552)
Recoveries	292	26	5	186	—	4	513
Provision	2,946	150	(612)	41	262	(12)	2,775
Ending balance	$ 13,134	$ 1,190	$ 1,928	$ 1,770	$ 262	$ 108	$ 18,392

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)*:

	Allowance for Loan and Lease Losses			Loans		
Organic Loans	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Allowance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Loans
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
December 31, 2015						
Commercial real estate	$ 189	$ 13,418	$ 13,607	$ 3,557	$ 1,139,592	$ 1,143,149
Residential real estate	394	1,659	2,053	788	139,825	140,613
Owner-occupied real estate	123	1,797	1,920	246	219,390	219,636
Commercial, financial & agricultural	235	2,274	2,509	469	181,044	181,513
Leases	—	865	865	—	71,539	71,539
Consumer	18	252	270	36	17,846	17,882
Total organic loans	$ 959	$ 20,265	$ 21,224	$ 5,096	$ 1,769,236	$ 1,774,332

Activity in the allowance for loan and lease losses on purchased non-credit impaired loans is detailed as follows. There was no allowance for loan and lease loss activity in December 31, 2014.*(dollars in thousands)*:

Purchased Non-Credit Impaired Loans	Commercial Real Estate	Residential Real Estate	Owner-Occupied Real Estate	Commercial, Financial & Agricultural	Consumer	Total
December 31, 2016						
Beginning balance	$ —	$ 53	$ —	$ —	$ —	$ 53
Charge-offs	—	(83)	—	(137)	(3)	(223)
Recoveries	—	45	—	—	18	63
Provision	88	57	44	372	(15)	546
Ending balance	$ 88	$ 72	$ 44	$ 235	$ —	$ 439
December 31, 2015						
Beginning balance	$ —	$ —	$ —	$ —	$ —	$ —
Charge-offs	—	(24)	—	—	(24)	(48)
Recoveries	—	1	—	—	6	7
Provision	—	76	—	—	18	94
Ending balance	$ —	$ 53	$ —	$ —	$ —	$ 53

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 date 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
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
December 31, 2015						
Commercial real estate	$ —	$ —	$ —	$ 24	$ 93,080	$ 93,104
Residential real estate	53	—	53	776	68,277	69,053
Owner-occupied real estate	—	—	—	222	61,091	61,313
Commercial, financial & agricultural	—	—	—	830	13,386	14,216
Consumer	—	—	—	5	2,619	2,624
Total purchased non-credit impaired loans	$ 53	$ —	$ 53	$ 1,857	$ 238,453	$ 240,310

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

Purchased Credit Impaired Loans	Commercial Real Estate	Residential Real Estate	Owner-Occupied Real Estate	Commercial, Financial & Agricultural	Consumer	Total
December 31, 2016						
Beginning balance	$ 3,388	$ 1,893	$ 2,449	$ 60	$ 8	$ 7,798
Charge-offs	(936)	(977)	(298)	(273)	(56)	(2,540)
Recoveries	2,281	401	207	232	53	3,174
Provision for loan and lease losses before amount attributable to FDIC loss share agreements	(2,550)	(121)	(703)	19	(4)	(3,359)
Amount attributable to FDIC loss share agreements	—	—	—	—	—	—
Total provision for loan and lease losses charged to operations	(2,550)	(121)	(703)	19	(4)	(3,359)
Provision for loan and lease losses recorded through the FDIC loss share receivable	—	—	—	—	—	—
Ending balance	$ 2,183	$ 1,196	$ 1,655	$ 38	$ 1	$ 5,073
December 31, 2015						
Beginning balance	$ 5,461	$ 2,298	$ 1,916	$ 567	$ 4	$ 10,246
Charge-offs	(7,251)	(1,441)	(1,374)	(1,929)	(138)	(12,133)
Recoveries	5,326	382	1,120	1,080	197	8,105
Provision for loan and lease losses before amount attributable to FDIC loss share agreements	(148)	654	787	342	(55)	1,580
Amount attributable to FDIC loss share agreements	(313)	(182)	(402)	(140)	(8)	(1,045)
Total provision for loan and lease losses charged to operations	(461)	472	385	202	(63)	535
Provision for loan and lease losses recorded through the FDIC loss share receivable	313	182	402	140	8	1,045
Ending balance	$ 3,388	$ 1,893	$ 2,449	$ 60	$ 8	$ 7,798
December 31, 2014						
Beginning balance	$ 11,226	$ 2,481	$ 1,950	$ 1,680	$ 72	$ 17,409
Charge-offs	(12,302)	(1,228)	(2,775)	(1,409)	(64)	(17,778)
Recoveries	8,682	1,491	1,429	1,714	68	13,384
Provision for loan and lease losses before amount attributable to FDIC loss share agreements	(2,145)	(446)	1,312	(1,418)	(72)	(2,769)
Amount attributable to FDIC loss share agreements	2,239	466	(1,370)	1,480	75	2,890
Total provision for loan and lease losses charged to operations	94	20	(58)	62	3	121
Provision for loan and lease losses recorded through the FDIC loss share receivable	(2,239)	(466)	1,370	(1,480)	(75)	(2,890)
Ending balance	$ 5,461	$ 2,298	$ 1,916	$ 567	$ 4	$ 10,246

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)*:

	Allowance for Loan and Lease Losses			Loans		
Purchased Credit Impaired Loans	**Individually Evaluated for Impairment**	**Collectively Evaluated for Impairment**	**Total Allowance**	**Individually Evaluated for Impairment**	**Collectively Evaluated for Impairment**	**Total Loans**
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
December 31, 2015						
Commercial real estate	$ 1,512	$ 1,876	$ 3,388	$ 26,981	$ 28,013	$ 54,994
Residential real estate	850	1,043	1,893	3,793	60,218	64,011
Owner-occupied real estate	2,213	236	2,449	9,937	15,427	25,364
Commercial, financial & agricultural	6	54	60	300	750	1,050
Consumer	—	8	8	6	150	156
Total purchased credit impaired loans	$ 4,581	$ 3,217	$ 7,798	$ 41,017	$ 104,558	$ 145,575

For each period indicated, a significant 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.

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

Impaired Loans (1):	**December 31, 2016** Unpaid Principal Balance	Recorded Investment	Related Allowance	**December 31, 2015** Unpaid Principal Balance	Recorded Investment	Related Allowance
With no related allowance recorded:						
Construction, land & land development	$ 4,565	$ 2,933	$ —	$ 4,652	$ 3,203	$ —
Other commercial real estate	56	56	—	—	—	—
Total commercial real estate	4,621	2,989	—	4,652	3,203	—
Residential real estate	388	320	—	134	125	—
Owner-occupied real estate	193	188	—	213	222	—
Commercial, financial & agricultural	1,335	1,128	—	903	830	—
Consumer	2	2	—	8	5	—
Subtotal	6,539	4,627	—	5,910	4,385	—
With related allowance recorded:						
Construction, land & land development	4,277	2,124	201	16	15	8
Other commercial real estate	—	—	—	395	363	181
Total commercial real estate	4,277	2,124	201	411	378	189
Residential real estate	891	825	413	1,506	1,439	447
Owner-occupied real estate	1,706	1,687	44	259	246	123
Commercial, financial & agricultural	308	298	146	489	469	235
Consumer	55	54	27	37	36	18
Subtotal	7,237	4,988	831	2,702	2,568	1,012
Total impaired loans	$ 13,776	$ 9,615	$ 831	$ 8,612	$ 6,953	$ 1,012

(1) Includes loans with SBA guaranteed balances of $3.0 million and $1.2 million at December 31, 2016 and December 31, 2015, respectively.

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:	**December 31, 2016** Average Recorded Investment (1)	Interest Income Recognized (2)	**December 31, 2015** Average Recorded Investment (1)	Interest Income Recognized (2)	**December 31, 2014** Average Recorded Investment (1)	Interest Income Recognized (2)
Construction, land & land development	$ 5,824	$ —	$ 3,354	$ 75	$ 669	$ 86
Other commercial real estate	165	—	1,106	56	515	27
Total commercial real estate	5,989	—	4,460	131	1,184	113
Residential real estate	1,641	—	818	18	1,213	8
Owner-occupied real estate	538	3	542	15	103	—
Commercial, financial & agricultural	1,670	24	733	20	216	3
Consumer	43	—	39	1	20	3
Total impaired loans	$ 9,881	$ 27	$ 6,592	$ 185	$ 2,736	$ 127

(1) The average recorded investment for troubled debt restructurings was $6.0 million, $3.5 million and $1.3 million for the years ended December 31, 2016, 2015 and 2014, respectively.

(2) The total interest income recognized on troubled debt restructurings was $24,000, $82,000 and $41,000 for the years ended December 31, 2016, 2015, 2014, respectively.

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

	December 31	
Nonaccrual Loans	**2016**	**2015**
Construction, land & land development	$ 5,057	$ 3,218
Other commercial real estate	56	363
Total commercial real estate	5,113	3,581
Residential real estate	1,146	1,564
Owner-occupied real estate	1,874	468
Commercial, financial & agricultural	1,426	722
Consumer	56	41
Total nonaccrual loans	$ 9,615	$ 6,376

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**
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	$ —
December 31, 2015						
Construction, land & land development	$ 235	$ —	$ 235	$ 481,852	$ 482,087	$ —
Other commercial real estate	—	19	19	661,043	661,062	—
Total commercial real estate	235	19	254	1,142,895	1,143,149	—
Residential real estate	656	417	1,073	139,540	140,613	—
Owner-occupied real estate	127	—	127	219,509	219,636	—
Commercial, financial & agricultural	261	18	279	181,234	181,513	—
Leases	—	—	—	71,539	71,539	—
Consumer	56	20	76	17,806	17,882	—
Total organic loans	$ 1,335	$ 474	$ 1,809	$1,772,523	$1,774,332	$ —

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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
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	$ —
December 31, 2015						
Construction, land & land development	$ 17	$ 24	$ 41	$ 18,557	$ 18,598	$ —
Other commercial real estate	—	—	—	74,506	74,506	—
Total commercial real estate	17	24	41	93,063	93,104	—
Residential real estate	846	38	884	68,169	69,053	—
Owner-occupied real estate	—	—	—	61,313	61,313	—
Commercial & industrial	—	—	—	14,216	14,216	—
Consumer	23	—	23	2,601	2,624	—
Total purchased non-credit impaired loans	$ 886	$ 62	$ 948	$ 239,362	$ 240,310	$ —

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
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
December 31, 2015					
Construction, land & land development	$ 27	$ 3,154	$ 3,181	$ 11,071	$ 14,252
Other commercial real estate	857	5,510	6,367	34,375	40,742
Total commercial real estate	884	8,664	9,548	45,446	54,994
Residential real estate	2,724	6,453	9,177	54,834	64,011
Owner-occupied real estate	2,664	2,823	5,487	19,877	25,364
Commercial, financial & agricultural	—	9	9	1,041	1,050
Consumer	4	—	4	152	156
Total purchased credit impaired loans	$ 6,276	$ 17,949	$ 24,225	$ 121,350	$ 145,575

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
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
December 31, 2015						
Construction, land & land development	$ 460,661	$ 15,124	$ 3,108	$ 3,194	$ —	$ 482,087
Other commercial real estate	637,336	20,660	2,310	756	—	661,062
Total commercial real estate	1,097,997	35,784	5,418	3,950	—	1,143,149
Residential real estate	135,588	2,964	684	1,361	16	140,613
Owner-occupied real estate	204,528	13,932	906	270	—	219,636
Commercial, financial & agricultural	178,069	1,619	1,241	584	—	181,513
Leases	71,539	—	—	—	—	71,539
Consumer	17,590	219	—	71	2	17,882
Total organic loans	$1,705,311	$ 54,518	$ 8,249	$ 6,236	$ 18	$1,774,332

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
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
December 31, 2015						
Construction, land & land development	$ 18,347	$ 227	$ —	$ 24	$ —	$ 18,598
Other commercial real estate	68,462	4,454	1,590	—	—	74,506
Total commercial real estate	86,809	4,681	1,590	24	—	93,104
Residential real estate	64,709	3,240	329	775	—	69,053
Owner-occupied real estate	52,323	8,436	—	554	—	61,313
Commercial, financial & agricultural	12,935	451	—	830	—	14,216
Consumer	2,609	10	—	5	—	2,624
Total purchased non-credit impaired loans	$ 219,385	$ 16,818	$ 1,919	$ 2,188	$ —	$ 240,310

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, at the dates indicated *(dollars in thousands)*:

Purchased Credit Impaired Loans	Pass	Watch	OAEM	Substandard	Doubtful	Total
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
December 31, 2015						
Construction, land & land development	$ 3,915	$ 1,961	$ 722	$ 7,023	$ 631	$ 14,252
Other commercial real estate	10,716	14,960	3,576	10,727	763	40,742
Total commercial real estate	14,631	16,921	4,298	17,750	1,394	54,994
Residential real estate	34,618	8,707	4,008	12,438	4,240	64,011
Owner-occupied real estate	8,657	3,793	1,244	11,319	351	25,364
Commercial, financial & agricultural	328	392	131	192	7	1,050
Consumer	91	48	1	16	—	156
Total purchased credit impaired loans	$ 58,325	$ 29,861	$ 9,682	$ 41,715	$ 5,992	$ 145,575

Troubled Debt Restructurings (TDRs)

Total troubled debt restructurings were $5.0 million and $3.8 million at December 31, 2016 and 2015, respectively, with $148,000 related allowance for loan and lease losses for both periods. At December 31, 2016, there were no commitments to extend credit to a borrower with an existing troubled debt restructuring. At December 31, 2015, there was one commitment totaling $620,000 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.

The following table provides information on troubled debt restructured loans that were modified during the periods presented *(dollars in thousands)*:

	December 31, 2016			December 31, 2015			December 31, 2014		
TDR Additions (1)	**Number of Contracts**	**Pre-Modification Recorded Investment**	**Post-Modification Recorded Investment**	**Number of Contracts**	**Pre-Modification Recorded Investment**	**Post-Modification Recorded Investment**	**Number of Contracts**	**Pre-Modification Recorded Investment**	**Post-Modification Recorded Investment**
Construction, land & land development	1	$ 4,168	$ 4,168	—	$ —	$ —	1	$ 3,427	$ 3,427
Commercial, financial & agricultural	—	—	—	1	577	577	—	—	—
Total modifications	1	$ 4,168	$ 4,168	1	$ 577	$ 577	1	$ 3,427	$ 3,427

(1) The pre-modification and post-modification recorded investments represent amounts at the date of loan modifications. Since the modifications on these loans have been only interest rate concessions and payment term extensions, not principal reductions, the pre-modification and post-modification recorded investment amounts are the same.

During the years ended December 31, 2016, 2015, and 2014, there were no TDRs that subsequently defaulted within twelve months of their modification dates.

NOTE 6: OTHER REAL ESTATE OWNED

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

	December 31	
Other real estate owned	**2016**	**2015**
Construction, land development, and other land	$ 2,393	$ 2,115
Commercial and farmland real estate	6,960	7,098
Residential real estate	1,544	1,317
Total other real estate owned	$ 10,897	$ 10,530

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

	December 31	
Other real estate owned	**2016**	**2015**
Organic OREO	$ 282	$ 33
Purchased Credit Impaired OREO	10,615	10,497
Total other real estate owned	$ 10,897	$ 10,530

At December 31, 2016, consumer mortgage loans secured by residential real estate properties totaling $183,000 were in formal foreclosure proceedings.

NOTE 7: PREMISES & EQUIPMENT

Premises and equipment are summarized as follows *(dollars in thousands)*:

	December 31	
	2016	2015
Land	$ 14,632	$ 11,731
Buildings and improvements	37,856	29,900
Furniture, fixtures, and equipment	16,961	15,375
Construction in progress	426	288
Premises and equipment, gross	69,875	57,294
Accumulated depreciation	(17,819)	(14,314)
Premises and equipment, net	$ 52,056	$ 42,980

Depreciation expense for premises and equipment was $3.5 million, $3.8 million, and $3.0 million for the years ended December 31, 2016, 2015, and 2014, respectively.

Leases

The Company has various operating leases on office locations with lease terms that range up to 15 years. These noncancelable operating leases are subject to renewal options and some leases provide for periodic rate adjustments according to the terms of the agreements.

Future minimum lease commitments under all noncancelable operating leases with terms of one year or more, excluding any renewal options, are as follows *(dollars in thousands)*:

Years Ended December 31	Future Lease Commitments
2017	$ 3,670
2018	3,717
2019	3,229
2020	3,274
2021	2,906
Thereafter	6,439
Total (1)	$ 23,235

(1) The total future minimum lease commitments have not been reduced by minimum sublease rentals of $3.5 million due in the future from noncancelable subleases.

Rent expense was $3.2 million, $3.1 million, and $2.5 million, for the years ended December 31, 2016, 2015, and 2014, respectively.

NOTE 8: GOODWILL & OTHER INTANGIBLE ASSETS

Changes to the carrying amounts of goodwill and identifiable intangible assets are presented in the table below *(dollars in thousands)*:

	December 31	
	2016	2015
Goodwill		
Balance, beginning of year	$ 36,357	$ 10,606
Goodwill attributable to acquisitions	40,727	25,751
Balance, end of year	77,084	36,357
Core deposit and other intangibles		
Balance, beginning of year	16,910	7,757
Core deposit and other intangibles attributable to acquisitions	4,750	9,153
Accumulated amortization	(8,911)	(6,809)
Balance, end of year	12,749	10,101
Total goodwill and other intangibles	$ 89,833	$ 46,458

The Company evaluates goodwill for impairment on at least an annual basis and more frequently if an event occurs or circumstances indicate carrying value exceeds fair value. At December 31, 2016, the Company performed a qualitative assessment to determine if it was more likely than not that the fair value exceeded carrying value. The qualitative assessment indicated that it was more likely than not that the fair value exceeded its carrying value, resulting in no impairment.

Amortization expense of $2.1 million, $1.8 million, and $694,000 was recorded on total intangibles for the years ended December 31, 2016, 2015, and 2014, respectively.

Amortization expense for core deposit and other intangibles for the next five years is expected to be as follows *(dollars in thousands)*:

Years Ended December 31	Core Deposit and Other Intangibles Amortization Expense
2017	$ 2,726
2018	2,353
2019	2,271
2020	1,893
2021	1,568
Thereafter	1,938
Total amortization expense	$ 12,749

NOTE 9: 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 years ended December 31, 2016, 2015 and 2014 the Company sold SBA loans with unpaid principal balances totaling $53.7 million, $42.1 million and $2.6 million, respectively, and recognized $5.4 million, $4.4 million and $181,000, respectively, in gains on the loan sales. 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 $1.3 million, $978,000 and $296,000 for the years ended December 31, 2016, 2015 and 2014, respectively. At December 31, 2016 and 2015, the Company serviced SBA loans for others with unpaid principal balances totaling $142.1 million and $106.8 million, respectively.

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

	December 31		
SBA Servicing Rights	**2016**	**2015**	**2014**
Balance, beginning of year	$ 2,626	$ 1,516	$ —
Bank of Atlanta acquisition	—	—	1,509
Additions	1,323	1,070	45
Fair value adjustments	(472)	40	(38)
Balance, end of year	$ 3,477	$ 2,626	$ 1,516

A summary of the key characteristics, inputs and economic assumptions used to estimate the fair value of the Company's SBA servicing rights asset are as follows *(dollars in thousands)*:

	December 31	
SBA Servicing Rights	**2016**	**2015**
Fair value	$ 3,477	$ 2,626
Weighted average discount rate	12.8 %	12.1 %
Decline in fair value due to a 100 basis point adverse change	$ (122)	$ (95)
Decline in fair value due to a 200 basis point adverse change	(236)	(183)
Prepayment speed	8.0 %	7.6 %
Decline in fair value due to a 10% adverse change	$ (108)	$ (79)
Decline in fair value due to a 20% adverse change	(210)	(153)
Weighted average remaining life (years)	7.1	7.2

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.

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

	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 year ended December 31, 2016**
Serviced for others	$ 142,069	$ 522	$ —	$ —
Held-for-sale	16,356	—	—	—
Held-for-investment	144,351	220	5,580	1,986
Total SBA loans serviced	$ 302,776	$ 742	$ 5,580	$ 1,986

NOTE 10: FDIC RECEIVABLE FOR LOSS SHARE AGREEMENTS

On May 21, 2015, State Bank entered into an agreement with the FDIC to terminate loss share coverage on all 12 of its FDIC-assisted acquisitions which occurred in 2009, 2010, and 2011. The termination resulted in the elimination of both the FDIC receivable for loss share agreements and the associated clawback liability.

The following table presents a summary of the calculation of the loss recognized as a result of the termination of the FDIC loss share agreements, including the clawback provisions and settlement of historic loss share and expense reimbursement claims *(dollars in thousands)*:

	For the Year Ended December 31, 2015
Cash paid to the FDIC to settle loss share agreements	$ (3,100)
FDIC loss share receivable	(16,959)
FDIC clawback payable	5,511
Loss on termination of FDIC loss share	(14,548)
Net amortization of FDIC receivable for loss share agreements during the period	(1,940)
Amortization of FDIC receivable for loss share agreements	$ (16,488)

The following table documents changes in the carrying value of the FDIC receivable for loss share agreements relating to purchased credit impaired loans and acquired other real estate owned previously covered under loss share agreements with the FDIC for the periods indicated *(dollars in thousands)*:

	December 31		
FDIC receivable for loss share agreements	**2016**	**2015**	**2014**
Balance, beginning of year	$ —	$ 22,320	$ 107,843
Provision for loan and lease losses attributable to FDIC for loss share agreements	—	1,045	(2,890)
Wires sent (received)	—	1,784	(45,251)
Net recoveries	—	(6,627)	(28,169)
Amortization	—	(1,940)	(15,785)
External expenses qualifying under loss share agreements	—	377	6,572
Termination of FDIC loss share	—	(16,959)	—
Balance, end of year	$ —	$ —	$ 22,320

NOTE 11: DEPOSITS

Deposits are summarized as follows *(dollars in thousands)*:

	December 31	
	2016	**2015**
Noninterest-bearing demand deposits	$ 984,419	$ 826,216
Interest-bearing transaction accounts	664,350	588,391
Savings and money market deposits	1,292,867	1,074,190
Time deposits less than $250,000	388,164	279,449
Time deposits $250,000 or greater	78,685	41,439
Brokered and wholesale time deposits	22,680	52,277
Total deposits	$ 3,431,165	$ 2,861,962

Overdrawn deposit accounts reclassified as loans were $390,000 and $334,000 at December 31, 2016 and 2015, respectively.

The scheduled maturities of time, brokered, and wholesale deposits were as follows *(dollars in thousands)*:

	December 31, 2016
2017	$ 368,180
2018	69,012
2019	22,177
2020	16,756
2021	13,404
Total time, brokered, and wholesale deposits	$ 489,529

The Company had brokered deposits of $14.3 million and $38.0 million at December 31, 2016 and 2015, respectively. The scheduled maturities of brokered deposits and their weighted average costs were as follows *(dollars in thousands)*:

	December 31, 2016	
	Balance	Average Cost
2017	$ 12,250	.91%
2018	2,000	1.58%
2019	—	—%
Total brokered deposits	$ 14,250	1.01%

NOTE 12: SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

The Company utilizes securities sold under repurchase agreements to facilitate the needs of our 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 agreements bear interest rates determined by the Company. 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 our safekeeping agent.

At December 31, 2016 and 2015, securities sold under repurchase agreements were $25.7 million and $32.2 million, respectively. These securities sold under repurchase agreements had a weighted average interest rate of .12% and .15%, respectively, all of which mature on an overnight and continuous basis. At December 31, 2016 and 2015, investment securities pledged for the outstanding repurchase agreements consisted of U.S. government sponsored agency mortgage-backed securities.

The Company assumed $2.0 million in federal funds purchased at December 31, 2016 through its acquisition of S Bankshares. These federal funds purchased carried a rate of 1.25% at December 31, 2016 and were paid off in January of 2017. There were no federal funds purchased at December 31, 2015.

NOTE 13: OTHER BORROWINGS

The Company has several participation agreements with various provisions regarding collateral position, pricing and other matters where the junior participation interests were sold. The terms of the agreements do not convey proportionate ownership rights with equal priority to each participating interest and entitle the Company to receive principal and interest payments before other participating interest holders. Given the participations sold do not qualify as participating interests, they do not qualify for sale treatment in accordance with generally accepted accounting principles. As a result, the Company recorded the transactions as secured borrowings. The balance of the secured borrowings was $398,000 and $1.8 million at December 31, 2016 and 2015, respectively. The loans are recorded at their gross balances outstanding and are included in organic loans on the consolidated statements of financial condition.

The Company assumed $47.0 million in FHLB borrowings at December 31, 2016 through its acquisitions of NBG Bancorp and S Bankshares. These borrowings were paid off in January of 2017.

NOTE 14: DERIVATIVES 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 in 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 15, 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 December 31, 2016, the termination value of derivatives in a net liability position under these agreements was $736,000, for which the Company posted no cash collateral. Although the Company did not breach any provisions at December 31, 2016, had a breach occurred, the maximum amount of additional collateral the Company would have been required to post to counterparties was $736,000.

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 derivatives at the dates indicated *(dollars in thousands)*:

	Asset Derivatives (1)		Liability Derivatives (1)	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Derivatives Designated as Hedging Instruments				
Interest rate swaps and caps	$ 1,774	$ 1,262	$ 641	$ 1,496
Derivatives Not Designated as Hedging Instruments				
Interest rate swaps	$ 19	$ —	$ 85	$ 174
Mortgage derivatives	1,362	869	459	505

(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.

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 December 31, 2016, the Company had 96 interest rate swaps with an aggregate notional amount of $161.8 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)*:

		December 31		
Interest Rate Products	**Location**	**2016**	**2015**	**2014**
Amount of gain (loss) recognized in income on derivatives	Noninterest income	$ 1,863	$ (956)	$ (3,031)
Amount of (loss) gain recognized in income on hedged items	Noninterest income	(1,680)	815	2,422
Total net gain (loss) recognized in income on fair value hedge ineffectiveness		$ 183	$ (141)	$ (609)

The Company recognized net gains (losses) of $183,000, $(141,000), and $(609,000) during the years ended December 31, 2016, 2015, and 2014, respectively, related to hedge ineffectiveness on the fair value swaps. The Company also recognized a net reduction in interest income of $1.8 million, $2.3 million, and $2.1 million for the years ended December 31, 2016, 2015, and 2014, respectively, related to the fair value hedges, which includes net settlements on derivatives and any amortization adjustment of the basis in the hedged items. Terminations of derivatives and related hedged items for interest rate swap agreements prior to their original maturity date resulted in the recognition of net (losses) gains of $(118,000), $(492,000), and $49,000 in interest income for the years ended December 31, 2016, 2015, and 2014, 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 the 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 years ended December 31, 2016, 2015, or 2014.

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, $1.8 million is expected to be reclassified as a decrease to net interest income.

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

		December 31		
Interest Rate Products	**Location**	**2016**	**2015**	**2014**
Amount of loss recognized in income on derivatives (effective portion)	OCI	$ (714)	$ (2,294)	$ (2,036)
Amount of loss reclassified from AOCI into income (effective portion)	Interest expense	1,171	546	259
Total gain (loss) recognized in consolidated statements of comprehensive income		$ 457	$ (1,748)	$ (1,777)

Derivatives Not Designated as Hedging Instruments

Interest Rate Swaps

At December 31, 2016, the Company had two interest rate swaps with an aggregate notional amount of $6.7 million, an asset fair value of $19,000 and a liability fair value of $85,000 not designated as fair value hedges associated with the Company's fixed rate loan program. The income statement effect from the derivatives not designated as hedging instruments was net losses of $51,000, $147,000, and $47,000 during the years ended December 31, 2016, 2015, and 2014 respectively.

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 December 31, 2016, the fair value of mortgage derivative assets was $1.4 million and the fair value of mortgage derivative liabilities was $459,000. At December 31, 2015, the fair value of mortgage derivative assets was $869,000 and the fair value of mortgage derivative liabilities was $505,000. There were no mortgage derivative fair values or gains/losses in 2014.

At December 31, 2016, the Company had approximately $49.9 million of interest rate lock commitments and $76.7 million of forward commitments for the future delivery of residential mortgage loans. The net (loss) gain related to interest rate lock commitments used for risk management was $(280,000) and $347,000 for the years ended December 31, 2016, and 2015, respectively. The net gain (loss) for forward commitments related to these mortgage loans was $819,000 and $(34,000) for the years ended December 31, 2016, and 2015, respectively. At December 31, 2014, the Company had no interest rate lock commitments and no forward commitments for the future delivery of residential mortgage loans. Because of this, there were no associated gains or losses in the year ended December 31, 2014.

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

Interest Rate Products	Location	December 31 2016	2015	2014
Amount of (loss) gain recognized in income on interest rate lock commitments	Noninterest income	$ (280)	$ 347	$ —
Amount of gain (loss) recognized in income on forward commitments	Noninterest income	819	(34)	—
Amount of loss recognized in income on interest rate swaps	Noninterest income	(51)	(147)	(47)
Amount of gain (loss) recognized in income on derivatives not designated as hedging instruments		$ 488	$ 166	$ (47)

NOTE 15: 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: Financial Instruments	Collateral Received/ Posted (1)	Net Amount
December 31, 2016						
Offsetting Derivative Assets						
Interest rate swaps and caps	$ 1,793	$ —	$ 1,793	$ (718)	$ (1,075)	$ —
Offsetting Derivative 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
December 31, 2015						
Offsetting Derivative Assets						
Interest rate swaps and caps	$ 1,262	$ —	$ 1,262	$ (883)	$ (150)	$ 229
Offsetting Derivative Liabilities						
Interest rate swaps and caps	$ 1,670	$ —	$ 1,670	$ (883)	$ (269)	$ 518
Repurchase agreements	32,179	—	32,179	—	(32,179)	—
Total liabilities	$ 33,849	$ —	$ 33,849	$ (883)	$ (32,448)	$ 518

(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.

NOTE 16: STOCK WARRANTS

The Company has outstanding warrants purchased by current and former executive officers, directors and certain members of senior management. Warrant holders have the right to purchase one share of the Company's common stock at strike prices ranging from $5.00 to $11.21 per share through the ten-year contractual period. The warrants were fully exercisable as of the purchase date. During 2016 and 2015, no new warrants were issued.

The following table represents the activity related to stock warrants:

	December 31			
	2016		2015	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding warrants at beginning of year	172,745	$ 9.52	2,581,191	$ 9.90
Exercised	(38,833)	10.05	(2,408,446)	9.92
Outstanding warrants at end of year	133,912	$ 9.37	172,745	$ 9.52

NOTE 17: SHARE-BASED COMPENSATION

The Company maintains an incentive compensation plan that includes share-based compensation. The State Bank Financial Corporation 2011 Omnibus Equity Compensation Plan (the "Plan") was approved by the Company's shareholders in 2011 and authorizes up to 3,160,000 shares of stock for issuance in accordance with the Plan terms. The Plan provides for the granting of Incentive Stock Options, Non-Qualified Stock Options, Performance Awards, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, Bonus Stock and Stock Awards, or any combination of the foregoing, as the Independent Directors Committee serving as the Compensation Committee determines is best suited to the circumstances of the particular individual.

Stock Option Awards

Option awards are granted with an exercise price equal to or greater than the market price of the Company's common stock at the date of grant. The options include a vesting period, usually three years, and a ten-year contractual period. Certain option grants provide for accelerated vesting if there is a change in control of the Company or certain other conditions are met, as defined in the Plan document. At all times during the term of the Plan, the Company shall retain the number of shares required to satisfy option exercises as authorized and unissued shares in the Company's treasury. Currently, the Company has a sufficient number of shares allocated to satisfy expected share option exercises.

During the periods ended December 31, 2016, 2015 and 2014 there was no stock option activity. There was no compensation expense recognized related to stock options for the years ended December 31, 2016, 2015 or 2014, as all options were vested in 2013.

The following table represents a summary of the activity related to stock options:

	December 31, 2016			
	Number of Options	Weighted Average Exercise Price ($)	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ($000)
Outstanding options, end of year (1)	28,918	$ 14.37	4.65	$ 361,186
Fully vested and exercisable options, end of year	28,918	$ 14.37	4.65	$ 361,186

(1) There were no stock option grants, forfeitures or exercises during 2016.

The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on December 31, 2016. This amount changes based on changes in the market value of the Company’s stock.

Restricted Stock Awards

The Company has issued both time-based and performance-based shares of restricted stock to certain officers and independent directors under the Plan. The Plan allows for the issuance of restricted stock awards that may not be sold or otherwise transferred until certain restrictions have lapsed. The holders of the restricted stock receive dividends, if applicable, and have the right to vote the shares. The fair value of the restricted stock awarded under the Plan is recorded as unearned share-based compensation.

The unearned compensation related to time-based shares of restricted stock is amortized to compensation expense over the vesting period, generally five years. The total share-based compensation expense for these awards is determined based on the market price of the Company's common stock at the date of grant applied to the total number of shares granted and is amortized over the vesting period. During 2016, the Company's Board of Directors approved the accelerated vesting of an aggregate of 7,857 shares of time-based restricted stock to certain award holders based upon their termination.

The performance-based shares of restricted stock entitle the recipient to receive shares of the Company's common stock upon the achievement of performance goals that are specified in the award agreement over a specified performance period. The unearned compensation related to performance-based shares of restricted stock is amortized to compensation expense over the vesting period, generally ten years. The total share-based compensation expense for these awards is determined based on the market price of the Company's common stock at the date of grant applied to the total number of shares granted and is amortized over the vesting period. During 2015, the Company issued 558,000 performance-based shares of restricted stock with a ten year performance period, of which 92,000 were forfeited.

Compensation expense recognized in the Company's consolidated statements of income for restricted stock was $3.9 million, $3.6 million and $2.0 million for the years ended December 31, 2016, 2015 and 2014, respectively. The total recognized tax benefit related to the share-based compensation was $1.8 million, $1.4 million and $692,000 for 2016, 2015 and 2014, respectively. Total unrecognized compensation cost related to unvested share-based compensation was $10.7 million at December 31, 2016 and is expected to be recognized over a weighted-average period of 4.0 years.

The following table represents a summary of the unvested restricted stock award activity:

	December 31, 2016	
	Shares	Weighted Average Grant Date Fair Value
Balance, beginning of year	980,186	$ 18.14
Granted	85,575	19.81
Forfeited	(9,372)	18.21
Earned and issued	(50,337)	18.09
Balance, end of year	1,006,052	$ 18.28

Restricted stock awards of 85,575 shares, 664,706 shares, and 153,232 shares, respectively, were granted during 2016, 2015 and 2014 with a weighted-average grant date fair value of $19.81, $19.33 and $16.60, respectively.

NOTE 18: EMPLOYEE BENEFIT PLAN

The Company offers a defined contribution 401(k) Profit Sharing Plan (the "401(k) Plan") that covers substantially all employees meeting certain eligibility requirements. The 401(k) Plan allows employees to make pre-tax or Roth after-tax salary deferrals to the 401(k) Plan and the Company matches these employee contributions on a basis equal to a uniform percentage of the salary deferrals. During 2016, 2015 and 2014, the Company matched employee contributions dollar-for-dollar up to 5% of eligible compensation, subject to 401(k) Plan and regulatory limits. Participants receive matching contributions the first quarter after completing three months of service and matching contributions made after January 1, 2013 are fully vested, regardless of years of service. Compensation expense related to the 401(k) Plan totaled $2.3 million, $2.2 million, and $2.0 million in 2016, 2015 and 2014, respectively.

NOTE 19: REGULATORY MATTERS

Regulatory Capital Requirements

The Company and State Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company and State Bank. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and State Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Measures of regulatory capital are an important tool used by regulators to monitor the financial health of financial institutions. The primary quantitative measures used to gauge capital adequacy are the Common Equity Tier 1, Tier 1, Total Capital Ratios to risk-weighted assets (risk-based capital ratios) and the ratio of Tier 1 capital to average total assets (leverage ratio). Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the Company and State Bank.

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 2016 is common equity equal to .625% 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 the dates indicated are presented in the table below:

	December 31, 2016		December 31, 2015	
Capital Ratio Requirements	**Minimum Requirement**	**Well-capitalized (1)**	**Minimum Requirement**	**Well-capitalized (1)**
Common Equity Tier 1 Capital (CET1)	4.50%	6.50%	4.50%	6.50%
Tier 1 Capital	6.00%	8.00%	6.00%	8.00%
Total Capital	8.00%	10.00%	8.00%	10.00%
Tier 1 Leverage	4.00%	5.00%	4.00%	5.00%

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

At December 31, 2016 and 2015, 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)*:

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	December 31, 2016			December 31, 2015		
	Actual		Required	Actual		Required
Company	Amount	Ratio	Minimum Amount	Amount	Ratio	Minimum Amount
CET1 Capital	$ 526,282	14.78%	$ 160,229	$ 493,294	17.71%	$ 125,372
Tier 1 Capital	526,282	14.78%	213,638	493,294	17.71%	167,162
Total Capital	552,880	15.53%	284,851	522,369	18.75%	222,883
Tier 1 Leverage	526,282	14.90%	141,273	493,294	14.48%	136,315

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

	December 31, 2016				December 31, 2015			
	Actual		Required		Actual		Required	
State Bank	Amount	Ratio	Minimum Amount	Well Capitalized Amount	Amount	Ratio	Minimum Amount	Well Capitalized Amount
CET1 Capital	$ 463,164	13.07%	$ 159,506	$ 230,397	$ 427,526	15.42%	$ 124,773	$ 180,227
Tier 1 Capital	463,164	13.07%	212,674	283,566	427,526	15.42%	166,364	221,818
Total Capital	489,762	13.82%	283,566	354,457	456,601	16.47%	221,818	277,273
Tier 1 Leverage	463,164	13.18%	140,572	175,715	427,526	12.62%	135,507	169,383

The Company and State Bank entered into a Capital Maintenance Agreement with the FDIC. Under the terms of the Capital Maintenance Agreement, State Bank was required to maintain a leverage ratio of at least 10% and a total risk-based capital ratio of at least 12%. The Capital Maintenance Agreement expired on July 26, 2016.

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 State Bank may distribute without prior regulatory approval. At December 31, 2016, State Bank had no capacity to pay dividends to the Company without prior regulatory approval.

At December 31, 2016, the Company had $79.1 million in cash and due from bank accounts, which can be used for additional capital as needed by the subsidiary bank, payment of holding company expenses, payment of dividends to shareholders or for other corporate purposes.

Other Regulatory Matters

The Company had required reserve balances at the Federal Reserve Bank of $16.2 million and $121.3 million at December 31, 2016 and 2015, respectively.

NOTE 20: 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 for on-balance-sheet instruments.

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

	December 31	
	2016	2015
Commitments to extend credit:		
Fixed	$ 63,166	$ 28,744
Variable	608,176	502,538
Letters of credit:		
Fixed	6,985	1,907
Variable	3,239	4,925
Total commitments	$ 681,566	$ 538,114

The fixed rate loan commitments have maturities ranging from one month to fourteen 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 established a recourse liability for mortgage loans held-for-sale during the first quarter of 2015. The recourse liability was $306,000 and $342,000 at December 31, 2016 and 2015, respectively.

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 21: 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 years ended December 31, 2016 and 2015, 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 records 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. See Note 1, Summary of Significant Accounting Policies.

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 December 31, 2016, 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.

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. After origination and prior to sale, the mortgage loans held-for-sale accrue interest income, recorded in "interest income" on the consolidated statements of income, based on the contractual terms of the loans. Refer to Note 1, Summary of Significant Accounting Policies, for more information on the accounting for mortgage loans held-for-sale.

At December 31, 2016 and 2015, the aggregate fair value of the mortgage loans held-for-sale was $35.8 million and $48.8 million, respectively. At December 31, 2016 and 2015, the contractual balance including accrued interest was $35.6 million and $47.8 million, respectively, with a fair value mark totaling $209,000 and $1.0 million, respectively. None of the loans were 90 days or more past due or on nonaccrual at December 31, 2016 or 2015. The gain recognized for the change in fair value of the mortgage loans held-for-sale, included in "mortgage banking income" on the consolidated statements of income, was $757,000, and $182,000 for the years ended December 31, 2016 and 2015, respectively. For the year ended December 31, 2014 there was no gain or loss recognized for the change in fair value of the mortgage loans held-for-sale, as the Company did not make the election to record mortgage loans held-for-sale at fair value under the fair value option on a prospective basis until January 2015.

Derivative Financial Instruments

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.

The following tables present the 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)*:

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
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	$ —	$ 885,447	$ 4,176	$ 889,623
Liabilities:				
Interest rate swaps and caps	$ —	$ 726	$ —	$ 726
Mortgage derivatives	—	14	445	459
Total recurring liabilities at fair value	$ —	$ 740	$ 445	$ 1,185

December 31, 2015	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	$ —	$ 103,272	$ —	$ 103,272
States and political subdivisions	—	1,813	—	1,813
Residential mortgage-backed securities — nonagency	—	150,702	—	150,702
Residential mortgage-backed securities — agency	—	503,688	—	503,688
Asset-backed securities	—	46,245	—	46,245
Corporate securities	—	81,985	—	81,985
Mortgage loans held-for-sale	—	48,803	—	48,803
Mortgage derivatives	—	218	651	869
Interest rate swaps and caps	—	1,262	—	1,262
SBA servicing rights	—	—	2,626	2,626
Total recurring assets at fair value	$ —	$ 937,988	$ 3,277	$ 941,265
Liabilities:				
Interest rate swaps and caps	$ —	$ 1,670	$ —	$ 1,670
Mortgage derivatives	—	144	361	505
Total recurring liabilities at fair value	$ —	$ 1,814	$ 361	$ 2,175

The following tables present a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the periods presented *(dollars in thousands)*:

	December 31		
SBA Servicing Rights	**2016**	**2015**	**2014**
Balance, beginning of year	$ 2,626	$ 1,516	$ —
Bank of Atlanta acquisition	—	—	1,509
Additions	1,323	1,070	45
Fair value adjustments (1)	(472)	40	(38)
Balance, end of year	$ 3,477	$ 2,626	$ 1,516

(1) Fair value adjustments are recorded as a component of "SBA income" on the consolidated statements of income.

	December 31			
	2016		2015	
Mortgage Derivatives	**Other Assets**	**Other Liabilities**	**Other Assets**	**Other Liabilities**
Balance, beginning of year	$ 651	$ 361	$ —	$ —
Acquired	—	—	272	135
Issuances (1)	2,529	2,041	1,934	1,500
Settlements and closed loans (1)	(2,481)	(1,957)	(1,555)	(1,274)
Balance, end of year	$ 699	$ 445	$ 651	$ 361

(1) Total gain (loss) on the change in fair value, recorded as a component of "mortgage banking income" on the consolidated statements of income, was $(36,000) and $153,000, respectively for the years ended December 31, 2016 and 2015.

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
December 31, 2016				
Impaired loans	$ —	$ —	$ 8,784	$ 8,784
Total nonrecurring assets at fair value	$ —	$ —	$ 8,784	$ 8,784
December 31, 2015				
Impaired loans	$ —	$ —	$ 5,941	$ 5,941
Total nonrecurring assets at fair value	$ —	$ —	$ 5,941	$ 5,941

Impaired loans, excluding purchased credit impaired loans, that are measured for impairment using the fair value of collateral for collateral dependent loans had principal balances of $9.6 million and $7.0 million with respective valuation allowances of $831,000 and $1.0 million at December 31, 2016 and 2015, 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.

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
December 31, 2016				
Other real estate owned	$ —	$ —	$ 13,292	$ 13,292
December 31, 2015				
Other real estate owned	$ —	$ —	$ 12,110	$ 12,110

The following table is a reconciliation of the fair value measurement of other real estate owned disclosed in accordance with ASC Topic 820, *Fair Value Measurements and Disclosures*, to the amount recorded on the consolidated statements of financial condition *(dollars in thousands)*:

	December 31	
Other Real Estate Owned	**2016**	**2015**
Other real estate owned at fair value	$ 13,292	$ 12,110
Estimated selling costs and other adjustments	(2,395)	(1,580)
Other real estate owned	$ 10,897	$ 10,530

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)*:

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%)

December 31, 2015	**Fair Value**	**Valuation Technique**	**Unobservable Inputs**	**Range (Weighted Average)**
SBA servicing rights	$ 2,626	Discounted cash flows	Discount rate	9% - 17% (12%)
			Prepayment speed	4% - 10% (8%)
Mortgage derivatives - asset	$ 651	Pricing model	Pull-through rate	81%
Mortgage derivatives - liability	$ 361	Pricing model	Pull-through rate	81%
Impaired loans - collateral dependent	$ 5,941	Third party appraisal	Management discount for property type and recent market volatility	0% - 50% (15%)
Other real estate owned	$ 12,110	Third party appraisal	Management discount for property type and recent market volatility	0% - 75% (33%)

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 estimated fair value amounts have been determined by the Company 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 December 31, 2016 and 2015.

		December 31, 2016		December 31, 2015	
	Fair Value Hierarchy Level	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:					
Cash and cash equivalents	Level 1	$ 149,593	$ 149,593	$ 175,362	$ 175,362
Investment securities available-for-sale	Level 2	847,178	847,178	887,705	887,705
Investment securities held-to-maturity	Level 2 & 3	67,063	67,435	—	—
Loans held-for-sale	Level 2	52,169	53,770	54,933	55,513
Loans, net	Level 3	2,787,974	2,820,484	2,131,142	2,140,985
Other real estate owned	Level 3	10,897	13,292	10,530	12,110
Interest rate swaps and caps	Level 2	1,793	1,793	1,262	1,262
Mortgage derivatives	Levels 2 & 3	1,362	1,362	869	869
SBA servicing rights	Level 3	3,477	3,477	2,626	2,626
Accrued interest receivable	Level 2	10,210	10,210	8,382	8,382
Federal Home Loan Bank stock	Level 3	5,680	5,680	3,058	3,058
Liabilities:					
Deposits	Level 2	$ 3,431,165	$ 3,430,405	$ 2,861,962	$ 2,860,866
Federal funds purchased and securities sold under agreements to repurchase	Level 2	27,673	27,673	32,179	32,179
FHLB Borrowings	Level 2	47,014	47,014	—	—
Notes payable	Level 2	398	398	1,812	1,812
Interest rate swaps and caps	Level 2	726	726	1,670	1,670
Mortgage derivatives	Levels 2 & 3	459	459	505	505
Accrued interest payable	Level 2	2,312	2,312	1,106	1,106

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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.

NOTE 22: INCOME TAXES

The components of income tax expense were as follows *(dollars in thousands)*:

	Years Ended December 31		
	2016	2015	2014
Current tax provision:			
Federal	$ 12,599	$ 35,151	$ 25,617
State	540	5,126	2,885
Total current tax provision	13,139	40,277	28,502
Deferred tax provision:			
Federal	10,958	(20,831)	(8,970)
State	2,087	(3,997)	(1,211)
Total deferred tax provision	13,045	(24,828)	(10,181)
Total income tax provision	$ 26,184	$ 15,449	$ 18,321

Income tax expense differed from amounts computed by applying the Federal statutory rate of 35% to income before income taxes due to the following factors *(dollars in thousands)*:

	Years Ended December 31		
	2016	2015	2014
Federal taxes at statutory rate	$ 25,821	$ 15,355	$ 17,234
Increase (reduction) in income taxes resulting from:			
State taxes, net of federal benefit	1,708	734	1,088
Tax-exempt interest	(355)	(357)	(177)
Bank-owned life insurance income	(675)	(674)	(467)
Other	(315)	391	643
Income tax expense	$ 26,184	$ 15,449	$ 18,321

The components of the net deferred tax asset included in other assets in the accompanying consolidated statement of financial condition are as follows *(dollars in thousands)*:

	December 31	
	2016	2015
Deferred tax assets		
Allowance for loan and lease losses	$ 10,288	$ 11,246
Net operating losses and credit carryforward	6,649	5,248
Accrued compensation	5,585	7,568
Tax basis difference on acquired assets	6,407	4,108
Other real estate owned	497	1,865
Unrealized losses on cash flow hedges	682	859
Estimated loss on acquired failed bank assets	6,327	12,306
Unrealized losses on securities available-for-sale	834	172
Other	538	706
Total deferred tax assets	37,807	44,078
Deferred tax liabilities		
Intangible asset basis difference	$ (7,163)	$ (5,472)
Deferred gain on FDIC-assisted transactions	—	(588)
Premises and equipment	(2,406)	(2,313)
Other	(989)	(679)
Total deferred tax liabilities	(10,558)	(9,052)
Net Deferred Tax Asset	$ 27,249	$ 35,026

Based on management's belief that it is more likely than not that all net deferred tax asset benefits will be realized, there was no valuation allowance at either December 31, 2016 or 2015. At December 31, 2016 and 2015, the Company had Federal and State tax net operating loss carryforwards, related to the Bank of Atlanta and S Bank acquisitions, of approximately $17.2 million and $13.8 million, respectively. The loss carryforwards can be deducted annually from future taxable income through 2036, subject to an annual limitation of approximately $1.0 million. Currently, tax years 2013 to present are open for examination by Federal and State taxing authorities.

NOTE 23: 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.

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

	Years Ended December 31		
	2016	**2015**	**2014**
Numerator:			
Net income per consolidated statements of income	$ 47,591	$ 28,423	$ 30,918
Net income allocated to participating securities	(1,303)	(783)	(434)
Net income allocated to common stock	$ 46,288	$ 27,640	$ 30,484
Basic earnings per share computation:			
Net income allocated to common stock	$ 46,288	$ 27,640	$ 30,484
Weighted average common shares outstanding, including shares considered participating securities	36,942,866	35,796,497	32,175,363
Less: Average participating securities	(1,011,338)	(985,642)	(451,392)
Weighted average shares	35,931,528	34,810,855	31,723,971
Basic earnings per share	$ 1.29	$ .79	$ .96
Diluted earnings per share computation:			
Net income allocated to common stock	$ 46,288	$ 27,640	$ 30,484
Weighted average common shares outstanding for basic earnings per share	35,931,528	34,810,855	31,723,971
Weighted average dilutive grants	102,115	1,231,864	1,103,972
Weighted average shares and dilutive potential common shares	36,033,643	36,042,719	32,827,943
Diluted earnings per share	$ 1.28	$ .77	$ .93

NOTE 24: 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. The components of AOCI are reported net of related tax effects.

The components of AOCI and changes in those components 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
Balance, December 31, 2013	$ 4,323	$ —	$ 847	$ 5,170
Other comprehensive income (loss) before income taxes:				
Net change in unrealized gains (losses)	462	—	(2,036)	(1,574)
Amounts reclassified for net (gains) losses realized and included in earnings	(246)	—	259	13
Income tax expense (benefit)	329	—	(640)	(311)
Balance, December 31, 2014	$ 4,210	$ —	$ (290)	$ 3,920
Other comprehensive loss before income taxes:				
Net change in unrealized losses	(6,955)	—	(2,294)	(9,249)
Amounts reclassified for net (gains) losses realized and included in earnings	(354)	—	546	192
Income tax benefit	(2,827)	—	(676)	(3,503)
Balance, December 31, 2015	$ (272)	$ —	$ (1,362)	$ (1,634)
Other comprehensive loss before income taxes:				
Net change in unrealized losses	(1,196)	—	(714)	(1,910)
Amounts reclassified for net (gains) losses realized and included in earnings	(489)	—	1,171	682
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 (benefit) expense	(585)	—	177	(408)
Balance, December 31, 2016	$ (1,200)	$ (175)	$ (1,082)	$ (2,457)

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	December 31 2016	2015	2014
Investment securities available-for-sale			
Gain on sale of investment securities	$ 489	$ 354	$ 246
Income tax expense	(189)	(137)	(95)
Net income	$ 300	$ 217	$ 151
Cash flow hedges (effective portion)			
Interest expense on deposits	$ (1,171)	$ (546)	$ (259)
Income tax benefit	453	211	100
Net income	$ (718)	$ (335)	$ (159)

NOTE 25: CONDENSED FINANCIAL INFORMATION OF STATE BANK FINANCIAL CORPORATION (PARENT COMPANY ONLY FINANCIAL STATEMENTS)

Condensed Statements of Financial Condition

(Dollars in thousands)

	December 31 2016	2015
Assets		
Cash and due from banks	$ 79,129	$ 50,663
Securities available-for-sale	1,546	11,907
Securities held-to-maturity	10,259	—
Investment in subsidiary	550,346	470,615
Other assets	8,082	5,602
Total assets	$ 649,362	$ 538,787
Liabilities		
Other liabilities	$ 35,729	$ 2,297
Total liabilities	35,729	2,297
Shareholders' equity	613,633	536,490
Total liabilities and shareholders' equity	$ 649,362	$ 538,787

Condensed Statements of Income

(Dollars in thousands)

	Years Ended December 31		
	2016	2015	2014
Interest income:			
Interest income	$ 940	$ 57	$ —
Net interest income	940	57	—
Noninterest income:			
Dividends from subsidiary	58,000	17,900	59,000
Other income	243	3,125	—
Total noninterest income	58,243	21,025	59,000
Noninterest expense:			
Salaries and employee benefits	2,246	7,537	—
Other noninterest expense	1,485	4,685	2,404
Total noninterest expense	3,731	12,222	2,404
Income before income tax and equity in undistributed net income of subsidiary	55,452	8,860	56,596
Income tax benefit	(1,306)	(3,413)	(794)
Income before equity in undistributed net income of subsidiary	56,758	12,273	57,390
Equity in earnings of subsidiary (less than) greater than dividends received	(9,167)	16,150	(26,472)
Net income	$ 47,591	$ 28,423	$ 30,918

Condensed Statements of Cash Flows

(Dollars in thousands)

	Years Ended December 31		
	2016	2015	2014
Cash flows from operating activities:			
Net income	$ 47,591	$ 28,423	$ 30,918
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Undistributed earnings of subsidiary less than (greater than) dividends received	9,167	(16,150)	26,472
Share-based compensation expense	3,889	3,595	2,035
Other, net	(2,771)	(2,059)	(238)
Net cash provided by operating activities	57,876	13,809	59,187
Cash flows from investing activities:			
Cash consideration paid, net of cash received for bank acquisitions	(3,685)	(25,884)	(25,154)
Purchase of investment securities available-for-sale	—	(11,758)	—
Net cash used in investing activities	(3,685)	(37,642)	(25,154)
Cash flows from financing activities:			
Issuance of common stock	200	547	195
Repurchase of common stock	(5,128)	—	—
Restricted stock activity	(116)	(27)	(156)
Dividends paid	(20,681)	(11,631)	(4,830)
Net cash used in financing activities	(25,725)	(11,111)	(4,791)
Net increase (decrease) in cash and cash equivalents	28,466	(34,944)	29,242
Cash and cash equivalents, beginning	50,663	85,607	56,365
Cash and cash equivalents, ending	$ 79,129	$ 50,663	$ 85,607

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

Based on our management's evaluation (with the participation of our principal executive officer and principal financial officer), as of the end of the period covered by this report, our principal executive officer and principal 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”)) are 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 Securities and Exchange Commission rules and forms and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Management's Report on Internal Control Over Financial Reporting is set forth on page 81 of this Annual Report on Form 10-K and is incorporated herein by reference.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during our fourth quarter of fiscal year 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information required by Item 10 is hereby incorporated by reference from our proxy statement to be filed with the SEC not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 11. Executive Compensation.

Information required by Item 11 is hereby incorporated by reference from our proxy statement to be filed with the SEC not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information required by Item 12 is hereby incorporated by reference from our proxy statement to be filed with the SEC not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information required by Item 13 is hereby incorporated by reference from our proxy statement to be filed with the SEC not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 14. Principal Accounting Fees and Services.

Information required by Item 14 is hereby incorporated by reference from our proxy statement to be filed with the SEC not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

A list of financial statements filed herewith is contained in Part II, Item 8, "Financial Statements and Supplementary Data," above of this Annual Report on Form 10-K and is incorporated by reference herein. The financial statement schedules have been omitted because they are not required, not applicable or the information has been included in our consolidated financial statements.

Exhibit No.		Document
2.1		Purchase and Assumption Agreement dated as of July 24, 2009 among the Federal Deposit Insurance Corporation, Receiver of Security Bank of Bibb County, Macon Georgia; Security Bank of Gwinnett County, Suwanee, Georgia; Security Bank of Houston County, Perry, Georgia; Security Bank of Jones County, Gray, Georgia; Security Bank of North Fulton, Alpharetta, Georgia; Security Bank of North Metro, Woodstock, Georgia, State Bank and Trust Company and the Federal Deposit Insurance Corporation acting in its corporate capacity (incorporated by reference to Exhibit 2.1 of Amendment No. 5 to our registration statement on Form 10 filed on March 4, 2011)
2.2		Purchase and Assumption Agreement dated as of December 4, 2009 among the Federal Deposit Insurance Corporation, Receiver of The Buckhead Community Bank, Atlanta, Georgia, State Bank and Trust Company and the Federal Deposit Insurance Corporation acting in its corporate capacity (incorporated by reference to Exhibit 2.2 of Amendment No. 5 to our registration statement on Form 10 filed on March 4, 2011)
2.3		Purchase and Assumption Agreement dated as of December 4, 2009 among the Federal Deposit Insurance Corporation, Receiver of First Security National Bank, Norcross, Georgia, State Bank and Trust Company and the Federal Deposit Insurance Corporation acting in its corporate capacity (incorporated by reference to Exhibit 2.3 of Amendment No. 5 to our registration statement on Form 10 filed on March 4, 2011)
2.4		Plan of Reorganization and Share Exchange dated January 27, 2010 (incorporated by reference to Exhibit 2.4 of our registration statement on Form 10 filed on October 29, 2010)
2.5		Purchase and Assumption Agreement dated as of July 30, 2010 among the Federal Deposit Insurance Corporation, Receiver of NorthWest Bank and Trust, Acworth, Georgia, State Bank and Trust Company and the Federal Deposit Insurance Corporation acting in its corporate capacity (incorporated by reference to Exhibit 2.5 of Amendment No. 5 to our registration statement on Form 10 filed on March 4, 2011)
2.6		Purchase and Assumption Agreement dated as of December 17, 2010 among the Federal Deposit Insurance Corporation, Receiver of United Americas Bank, N.A., Atlanta, Georgia, State Bank and Trust Company and the Federal Deposit Insurance Corporation acting in its corporate capacity (incorporated by reference to Exhibit 2.6 of Amendment No. 5 to our registration statement on Form 10 filed on March 4, 2011)
2.7		Agreement and Plan of Merger between State Bank Financial Corporation and Georgia-Carolina Bancshares, Inc. dated June 23, 2014 (incorporated by reference to Exhibit 2.7 of the Company's Registration Statement on Form S-4 (File Number 333-198707) filed on September 12, 2014 and attached as Annex A to proxy statement/ prospectus contained in the Registration Statement).
3.1		Amended and Restated Articles of Incorporation of State Bank Financial Corporation (incorporated by reference to Exhibit 3.1 of our registration statement on Form 10 filed on October 29, 2010)
3.2		Bylaws of State Bank Financial Corporation (incorporated by reference to Exhibit 3.2 of our registration statement on Form 10 filed on October 29, 2010)
4.1		See Exhibits 3.1 and 3.2 for provisions in State Bank Financial Corporation's Articles of Incorporation and Bylaws defining the rights of holders of common stock (incorporated by reference to Exhibits 3.1 and 3.2 of our registration statement on Form 10 filed on October 29, 2010)
4.2		Form of certificate of common stock (incorporated by reference to Exhibit 4.2 of our registration statement on Form 10 filed on October 29, 2010)
10.1	*	State Bank Financial Corporation's 2011 Omnibus Equity Compensation Plan as adopted by the board of directors on January 26, 2011 (incorporated by reference to Exhibit 10.1 of our quarterly report on Form 10-Q for the period ended June 30, 2011)
10.2	*	Restricted Stock Agreement dated September 1, 2011 by and among Joseph W. Evans and State Bank Financial Corporation (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on September 8, 2011)
10.3	*	Form of Restricted Stock Agreement dated September 1, 2011 (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed on September 8, 2011)
10.4	*	Form of Restricted Stock Agreement (incorporated by reference to Exhibit 10.1 to State Bank Financial Corporation's Current Report on Form 8-K filed on September 21, 2012)
10.5	*	Summary of Director Compensation
10.6	*	Form of Director Restricted Stock Agreement (incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q filed on August 8, 2014)

Exhibit No.		Document
10.7	*	First Amendment to State Bank Financial Corporation 2011 Omnibus Equity Compensation Plan
10.8	*	Offer Letter by and among, First Bank of Georgia, State Bank Financial Corporation and Remer Y. Brinson, III, dated June 23, 2014 (incorporated by reference to Exhibit 10.34 of our registration statement on Form S-4 filed on September 12, 2014)
10.9	*	Separation Agreement by and between First Bank of Georgia and Remer Y. Brinson, III, dated June 23, 2014 (incorporated by reference to Exhibit 10.34 of our registration statement on Form S-4 filed on September 12, 2014)
10.10	*	Offer Letter dated October 14, 2014, by and among State Bank and Trust Company, State Bank Financial Corporation and Sheila Ray (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on October 15, 2014)
10.11	*	Separation Agreement dated October 14, 2014, by and among Sheila Ray and State Bank and Trust Company (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed on October 15, 2014)
10.12	*	Amended and Restated Employment Agreement dated December 31, 2014, by and among Joseph W. Evans, State Bank Financial Corporation, and State Bank and Trust Company (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on January 2, 2015)
10.13	*	Amended and Restated Employment Agreement dated December 31, 2014, by and among J. Thomas Wiley, State Bank Financial Corporation, and State Bank and Trust Company (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on January 2, 2015)
10.14	*	Amended and Restated Employment Agreement dated December 31, 2014, by and among Kim M. Childers, State Bank Financial Corporation, and State Bank and Trust Company (incorporated by reference to Exhibit 10.4 to our Current Report on Form 8-K filed on January 2, 2015)
10.15	*	Amended and Restated Employment Agreement dated December 31, 2014, by and between Stephen W. Doughty and State Bank and Trust Company (incorporated by reference to Exhibit 10.5 to our Current Report on Form 8-K filed on January 2, 2015)
10.16	*	Executive Officer Annual Cash Incentive Plan for State Bank Financial Corporation (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed February 17, 2015)
10.17	*	Form of Restricted Stock Agreement (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed February 17, 2015)
21.1		Subsidiaries of State Bank Financial Corporation
23.1		Consent of Independent Registered Public Accounting Firm - Dixon Hughes Goodman LLP
24.1		Power of Attorney (contained on the signature page hereof)
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 Annual Report on Form 10-K for the year ended December 31, 2016, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Statements of Financial Condition at December 31, 2016 and December 31, 2015, (ii) Consolidated Statements of Income for the years ended December 31, 2016, 2015 and 2014, (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2016, 2015 and 2014, (iv) Consolidated Statements of Shareholders' Equity for the years ended December 31, 2016, 2015 and 2014, (v) Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014, and (vi) Notes to Consolidated Financial Statements.

*Management compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

Date:	February 24, 2017	By:	/s/ Joseph W. Evans
			Joseph W. Evans
			Chief Executive Officer
			(Principal Executive Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Joseph W. Evans, his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ James R. Balkcom, Jr. James R. Balkcom, Jr.	Director	February 24, 2017
/s/ Archie L. Bransford, Jr. Archie L. Bransford, Jr.	Director	February 24, 2017
/s/ Kim M. Childers Kim M. Childers	Executive Risk Officer, Vice Chairman and Director	February 24, 2017
/s/ Ann Q. Curry Ann Q. Curry	Director	February 24, 2017
/s/ Joseph W. Evans Joseph W. Evans	Chairman, Chief Executive Officer and Director *(Principal Executive Officer)*	February 24, 2017
/s/ Virginia A. Hepner Virginia A. Hepner	Director	February 24, 2017
/s/ John D. Houser John D. Houser	Director	February 24, 2017
/s/ Anne H. Kaiser Anne H. Kaiser	Director	February 24, 2017
/s/ William D. McKnight William D. McKnight	Director	February 24, 2017
/s/ Major General Robert H. McMahon Major General Robert H. McMahon	Director	February 24, 2017
/s/ Sheila E. Ray Sheila E. Ray	Chief Financial Officer *(Principal Financial and Accounting Officer)*	February 24, 2017
/s/ J. Thomas Wiley, Jr. J. Thomas Wiley, Jr.	President, Vice Chairman and Director	February 24, 2017

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
21.1	Subsidiaries of the Company
23.1	Consent of Independent Registered Public Accounting Firm - Dixon Hughes Goodman LLP
24.1	Power of Attorney (contained on the signature page hereof)
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 Annual Report on Form 10-K for the year ended December 31, 2016, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Statements of Financial Condition at December 31, 2016 and December 31, 2015, (ii) Consolidated Statements of Income for the years ended December 31, 2016, 2015 and 2014, (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2016, 2015 and 2014, (iv) Consolidated Statements of Shareholders' Equity for the years ended December 31, 2016, 2015 and 2014, (v) Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014, and (vi) Notes to Consolidated Financial Statements.

State Bank Financial Corporation 2016 Board of Directors

James R. Balkcom, Jr.
Chairman
TMG Gases, Inc.
Operating Partner
Council Ventures, Inc.

Archie L. Bransford, Jr.
President
Bransford & Associates, LLC

Kim M. Childers
Vice Chairman
Executive Risk Officer
State Bank Financial Corporation
State Bank and Trust Company

Ann Q. Curry
Chair
Chief Client Strategist
Coxe Curry & Associates

Joseph W. Evans
Chairman
State Bank Financial Corporation
State Bank and Trust Company
Chief Executive Officer
State Bank Financial Corporation

Virginia A. Hepner
President
Chief Executive Officer
The Woodruff Arts Center

John D. Houser
Former President
Former Chief Executive Officer
(Retired)
Southern Trust Corporation

Anne H. Kaiser
Vice President
Community and Economic Development
Georgia Power Company

William D. McKnight
President
Chief Executive Officer
McKnight Construction Company

Major General (Retired)
Robert H. McMahon
President
Fickling Management Services

J. Thomas Wiley, Jr.
Vice Chairman
State Bank Financial Corporation
State Bank and Trust Company
President
State Bank Financial Corporation
Chief Executive Officer
State Bank and Trust Company

Executive Officers

David F. Black
Chief Credit Officer
Executive Vice President
State Bank and Trust Company

Remer Y. Brinson III
Executive Vice President
State Bank Financial Corporation
President
State Bank and Trust Company

David C. Brown
Corporate Development Officer
Executive Vice President
State Bank Financial Corporation
State Bank and Trust Company

Kim M. Childers
Vice Chairman
Executive Risk Officer
State Bank Financial Corporation
State Bank and Trust Company

David W. Cline
Chief Information Officer
Executive Vice President
State Bank Financial Corporation
Chief Operating Officer
Executive Vice President
State Bank and Trust Company

Steven G. Deaton
Enterprise Risk Officer
Executive Vice President
State Bank Financial Corporation
State Bank and Trust Company

Joseph W. Evans
Chairman
State Bank Financial Corporation
State Bank and Trust Company
Chief Executive Officer
State Bank Financial Corporation

Michael R. Fitzgerald
Chief Talent Officer
Executive Vice President
State Bank and Trust Company

Sheila E. Ray
Chief Financial Officer
Executive Vice President
Secretary
State Bank Financial Corporation
State Bank and Trust Company

Bradford L. Watkins
Managing Director of the Commercial Finance Group
Executive Vice President
State Bank and Trust Company

J. Thomas Wiley, Jr.
Vice Chairman
State Bank Financial Corporation
State Bank and Trust Company
President
State Bank Financial Corporation
Chief Executive Officer
State Bank and Trust Company

Independent Auditors

Dixon Hughes Goodman LLP
Atlanta, Georgia

Legal Counsel

Nelson Mullins Riley & Scarborough LLP
Atlanta, Georgia

Stock Transfer Agent

American Stock Transfer
& Trust Company, LLC
Brooklyn, New York

Notice of Annual Meeting

The Annual Meeting of Shareholders of State Bank Financial Corporation will be held on Thursday, May 25, 2017 at 1:00 p.m. at 3399 Peachtree Road NE, Suite 1900, Atlanta, Georgia 30326.

Investor Relations

For further information about the company please visit **www.stateBT.com.**

or contact:

Jeremy Lucas
Investor Relations
404.239.8626
jeremy.lucas@statebt.com

STATE BANK
Financial Corporation

State Bank Financial Corporation is the Parent Company
of State Bank and Trust Company

State Bank Financial Corporation
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