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CAPITAL BANK FINANCIAL CORP.

FORM 10-Q
(Quarterly Report)

Filed 10/31/16 for the Period Ending 09/30/16

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

OR

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

For the Transition period from ______to ______
Commission File Number 001-35655

(Exact name of registrant as specified in its charter)

Delaware	**27-1454759**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

4725 Piedmont Row Drive Suite 110 Charlotte, North Carolina 28210
(Address of principal executive offices) (Zip Code)
(704) 554-5901
(Registrant's telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐

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

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

Class	Outstanding as of October 24, 2016
Class A Voting Common Stock, $0.01 Par Value	**26,385,200**
Class B Non-Voting Common Stock, $0.01 Par Value	**16,853,429**

CAPITAL BANK FINANCIAL CORP.

FORM 10-Q
For the quarter ended September 30, 2016

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Capital Bank Financial Corp.
Consolidated Balance Sheets

(Unaudited)

(Dollars and shares in thousands)	September 30, 2016	December 31, 2015
Assets		
Cash and due from banks	$ 88,171	$ 87,985
Interest-bearing deposits in other banks	116,136	56,711
Total cash and cash equivalents	204,307	144,696
Trading securities	3,701	3,013
Investment securities available-for-sale at fair value (amortized cost $639,687 and $640,455, respectively)	652,945	637,329
Investment securities held-to-maturity at amortized cost (fair value $474,834 and $475,134, respectively)	466,063	472,505
Loans held for sale	95,253	10,569
Loans, net of deferred loan costs and fees	5,840,680	5,622,147
Less: Allowance for loan and lease losses	43,984	45,034
Loans, net	5,796,696	5,577,113
Other real estate owned	46,007	52,776
FDIC indemnification asset	—	6,725
Receivable from FDIC	—	678
Premises and equipment, net	157,863	159,149
Goodwill	134,522	134,522
Intangible assets, net	12,288	15,100
Deferred income tax asset, net	80,418	105,316
Other assets	142,395	129,988
Total Assets	**$ 7,792,458**	**$ 7,449,479**
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing demand	$ 1,207,800	$ 1,121,160
Interest bearing demand	1,463,520	1,382,732
Money market	1,291,948	1,190,121
Savings	401,205	418,879
Time deposits	1,668,784	1,747,318
Total deposits	6,033,257	5,860,210
Federal Home Loan Bank advances	575,751	460,898
Short-term borrowings	15,428	12,410
Long-term borrowings	87,445	85,777
Accrued expenses and other liabilities	50,736	43,919
Total liabilities	6,762,617	6,463,214
Commitments and contingencies	—	—
Shareholders' equity		
Preferred stock $0.01 par value: 50,000 shares authorized, 0 shares issued	—	—
Common stock-Class A $0.01 par value: 200,000 shares authorized, 37,253 issued and 26,381 outstanding and 37,012 issued and 26,589 outstanding, respectively.	373	370
Common stock-Class B $0.01 par value: 200,000 shares authorized, 18,627 issued and 16,854 outstanding and 18,327 issued and 16,554 outstanding, respectively.	186	183
Additional paid in capital	1,078,746	1,076,415
Retained earnings	241,554	208,742
Accumulated other comprehensive income (loss)	7,621	(5,196)
Treasury stock, at cost, 12,645 and 12,196 shares, respectively	(298,639)	(294,249)
Total shareholders' equity	1,029,841	986,265
Total Liabilities and Shareholders' Equity	**$ 7,792,458**	**$ 7,449,479**

The accompanying notes are an integral part of these financial statements.

Capital Bank Financial Corp.
Consolidated Statements of Income
(Unaudited)

(Dollars and shares in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Interest and dividend income				
Loans, including fees	$ 63,662	$ 62,126	$ 188,944	$ 183,785
Investment securities:				
Taxable interest income	6,732	5,668	19,433	15,670
Tax-exempt interest income	118	133	359	399
Dividends	11	13	36	40
Interest-bearing deposits in other banks	69	19	227	88
Other earning assets	337	759	981	2,093
Total interest and dividend income	70,929	68,718	209,980	202,075
Interest expense				
Deposits	6,082	5,396	18,147	14,644
Long-term borrowings	1,586	1,413	4,644	4,783
Federal Home Loan Bank advances	620	266	1,637	575
Other borrowings	14	6	43	22
Total interest expense	8,302	7,081	24,471	20,024
Net Interest Income	62,627	61,637	185,509	182,051
Provision for loan and lease losses	586	799	3,133	1,257
Net interest income after provision for loan and lease losses	62,041	60,838	182,376	180,794
Non-Interest Income				
Service charges on deposit accounts	4,777	5,472	14,074	15,366
Debit card income	3,389	3,113	9,710	9,253
Fees on mortgage loans originated and sold	1,334	990	3,445	3,415
Investment advisory and trust fees	290	860	1,242	2,991
FDIC indemnification asset expense	—	(1,418)	—	(6,356)
Termination of loss share agreements	—	—	(9,178)	—
Investment securities gains	71	(43)	228	278
Other-than-temporary impairment loss on investments:				
Gross impairment loss	—	—	—	(288)
Less: Impairment recognized in other comprehensive income	—	—	—	—
Net impairment loss recognized in earnings	—	—	—	(288)
Other income	2,509	2,444	7,337	7,042
Total non-interest income	12,370	11,418	26,858	31,701
Non-Interest Expense				
Salaries and employee benefits	20,935	22,620	63,236	68,382
Stock-based compensation expense	790	309	1,574	701
Net occupancy and equipment expense	7,340	7,621	22,398	23,504
Computer services	3,153	3,471	10,002	10,211
Software expense	1,948	2,198	5,984	6,422
Telecommunication expense	1,790	1,515	4,880	4,262
OREO valuation expense	742	2,075	2,328	5,175
Net gains on sales of OREO	(159)	(351)	(1,251)	(1,315)
Foreclosed asset related expense	397	872	1,081	2,146
Loan workout expense	206	194	521	1,612
Conversion and merger related expense	394	—	3,317	—
Professional fees	1,642	1,958	4,607	5,415
Losses on extinguishment of debt	—	—	—	1,438
Legal settlement expense	1,500	—	1,500	—
Contingent value right expense	—	—	—	120

Regulatory assessments	841	1,423	3,375	4,949
Restructuring charges, net	(113)	23	34	2,542
Other expense	6,124	4,418	15,418	14,931
Total non-interest expense	47,530	48,346	139,004	150,495
Income before income taxes	26,881	23,910	70,230	62,000
Income tax expense	8,393	8,589	24,500	22,300
Net income	**$ 18,488**	**$ 15,321**	**$ 45,730**	**$ 39,700**
Earnings per share:				
Basic	**$ 0.43**	**$ 0.34**	**$ 1.06**	**$ 0.87**
Diluted	**$ 0.42**	**$ 0.33**	**$ 1.04**	**$ 0.84**
Weighted average shares outstanding:				
Basic	**43,028**	**45,359**	**43,033**	**45,852**
Diluted	**43,909**	**46,534**	**43,861**	**47,129**

The accompanying notes are an integral part of these financial statements **.**

Capital Bank Financial Corp.
Consolidated Statements of Comprehensive Income
(Unaudited)

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net Income	$ 18,488	$ 15,321	$ 45,730	$ 39,700
Other comprehensive income (loss) before tax:				
Unrealized holding gains (losses) on investment securities available-for-sale	(141)	6,904	16,474	5,897
Reclassification adjustment for gains realized in net income on securities available-for-sale	—	(13)	(92)	(326)
Reclassification adjustment for losses amortized in net income on securities held-to-maturity	363	402	1,052	1,156
Unrealized holding gains (losses) on cash flow hedges	(1,336)	5,000	6,345	4,968
Reclassification adjustments for net gains included in net income on cash flow hedges	(613)	(778)	(1,891)	(1,345)
Other comprehensive income (loss), before tax:	(1,727)	11,515	21,888	10,350
Tax effect	(95)	(4,392)	(9,071)	(3,948)
Other comprehensive income (loss), net of tax:	(1,822)	7,123	12,817	6,402
Comprehensive income	**$ 16,666**	**$ 22,444**	**$ 58,547**	**$ 46,102**

The accompanying notes are an integral part of these financial statements.

Capital Bank Financial Corp.
Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)

(Dollars and shares in thousands)

	Shares Common Stock Class A Outstanding	Class A Stock	Shares Common Stock Class B Outstanding	Class B Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
Balance, December 31, 2015	26,589	$ 370	16,554	$ 183	$ 1,076,415	$ 208,742	$ (5,196)	$ (294,249)	$ 986,265
Net income	—	—	—	—	—	45,730	—	—	45,730
Dividends paid	—	—	—	—	—	(12,918)	—	—	(12,918)
Other comprehensive loss, net of tax expense of $9,071	—	—	—	—	—	—	12,817	—	12,817
Stock-based compensation	—	—	—	—	1,626	—	—	—	1,626
Restricted stock grants	209	3	—	—	(3)	—	—	—	—
Restricted Stock cancelled	(5)	—	—	—	(19)	—	—	—	(19)
Nonqualified stock option exercise	36	—	—	—	730	—	—	—	730
Conversion of shares	(300)	—	300	3	(3)	—	—	—	—
Purchase of treasury stock	(148)	—	—	—	—	—	—	(4,390)	(4,390)
Balance, September 30, 2016	**26,381**	**$ 373**	**16,854**	**$ 186**	**$ 1,078,746**	**$ 241,554**	**$ 7,621**	**$ (298,639)**	**$ 1,029,841**
Balance, December 31, 2014	30,150	$ 370	17,443	$ 187	$ 1,081,628	$ 158,403	$ (3,824)	$ (173,190)	$ 1,063,574
Net income	—	—	—	—	—	39,700	—	—	39,700
Other comprehensive loss, net of tax expense of $3,948	—	—	—	—	—	—	6,402	—	6,402
Stock-based compensation	—	—	—	—	701	—	—	—	701
Excess tax benefit from share-based payment	—	—	—	—	2,202	—	—	—	2,202
Full value stock awards	10	—	—	—	—	—	—	—	—
Nonqualified stock option exercise	9	—	—	—	157	—	—	—	157
Restricted stock cancelled	(192)	(2)	—	—	(5,459)	—	—	—	(5,461)
Purchase of treasury stock	(2,480)	—	(474)	—	—	—	—	(84,633)	(84,633)
Conversion of shares	415	4	(415)	(4)	—	—	—	—	—
Balance, September 30, 2015	**27,912**	**$ 372**	**16,554**	**$ 183**	**$ 1,079,229**	**$ 198,103**	**$ 2,578**	**$ (257,823)**	**$ 1,022,642**

The accompanying notes are an integral part of these financial statements.

Capital Bank Financial Corp.
Consolidated Statements of Cash Flows
(Unaudited)

(Dollars in thousands)	Nine Months Ended	
	September 30, 2016	September 30, 2015
Cash flows from operating activities		
Net income	$ 45,730	$ 39,700
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Accretion of purchased credit impaired loans	(59,636)	(73,770)
Depreciation and amortization	12,300	13,510
Impairment of premises and equipment	—	1,525
Provision for loan and lease losses	3,133	1,257
Deferred income tax	15,828	20,728
Net amortization of investment securities premium/discount	3,386	4,680
Other-than-temporary impairment of investment	—	288
Net realized gains on investment securities	(228)	(278)
Stock-based compensation expense	1,626	701
Net gains on sales of OREO	(1,251)	(1,315)
OREO valuation expense	2,328	5,175
Other	13	22
Net deferred loan origination fees	1,017	(5,459)
Losses on extinguishment of debt	—	1,438
Mortgage loans originated for sale	(111,289)	(135,387)
Proceeds from sales of mortgage loans originated for sale	117,141	135,803
Fees on mortgage loans originated and sold	(3,445)	(3,415)
FDIC indemnification asset expense	—	6,356
Termination of loss share agreements	9,178	—
Gains on sales/disposals of premises and equipment	(28)	(803)
Net proceeds from FDIC loss share agreements	(186)	2,600
Change in other assets	(6,511)	(7,474)
Change in accrued expenses and other liabilities	8,369	8,474
Net cash provided by operating activities	37,475	14,356
Cash flows from investing activities		
Purchases of investment securities available-for-sale	(156,551)	(250,348)
Purchases of investment securities held-to-maturity	(48,600)	(89,174)
Proceeds from sale of investment securities available-for-sale	90,646	108,557
Repayments of principal and maturities of investment securities available-for-sale	63,232	51,644
Repayments of principal and maturities of investment securities held-to-maturity	55,689	59,051
Net purchases of FHLB and FRB stock	(5,440)	(9,006)
Redemption of contingent value right	—	(17,162)
Net increase in loans	(257,132)	(336,593)
Settlement of loss share agreements	(3,029)	—
Purchases of premises and equipment	(7,353)	(4,362)
Proceeds from sales of premises and equipment	3,127	2,202
Proceeds from sales of OREO	13,227	27,982
Net cash used in investing activities	(252,184)	(457,209)
Cash flows from financing activities		
Net increase (decrease) in demand, money market and savings accounts	251,581	(43,991)
Net (decrease) increase in time deposits	(78,534)	354,470
Net increase (decrease) in federal funds purchased and securities sold under agreement to repurchase	3,018	(6,700)
Prepayment of long-term repurchase agreements	—	(53,661)
Repayment of short-term FHLB advances	(1,480,000)	—
Proceeds from short-term FHLB advances	1,420,000	225,000
Proceeds from long-term FHLB advances	175,000	—

Decrease in long-term FHLB advances	(148)	(144)
Prepayment of subordinated debt	—	(3,393)
Excess tax benefit from share-based payment	82	2,202
Proceeds from exercise of stock options	648	157
Restricted stock cancelled	(19)	—
Dividends paid	(12,918)	—
Purchases of treasury stock	(4,390)	(84,633)
Net cash provided by financing activities	274,320	389,307
Net increase (decrease) in cash and cash equivalents	59,611	(53,546)
Cash and cash equivalents at beginning of period	144,696	188,135
Cash and cash equivalents at end of period	**$ 204,307**	**$ 134,589**
Supplemental disclosures of cash:		
Interest paid	$ 23,969	$ 18,421
Cash collections of contractual interest on purchased credit impaired loans	33,203	45,348
Net income taxes paid	13,084	1,411
Supplemental disclosures of non-cash transactions:		
OREO acquired through loan transfers	$ 5,944	$ 8,905
Transfers of other assets to OREO	1,590	—
Loans transfered to held for sale	87,091	—

The accompanying notes are an integral part of these financial statements.

Capital Bank Financial Corp.
Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

Nature of Operations and Principles of Consolidation

Capital Bank Financial Corp. (“CBF” or the “Company”; formerly known as North American Financial Holdings, Inc.) is a bank holding company incorporated in late 2009 in Delaware and headquartered in North Carolina whose business is conducted primarily through Capital Bank Corporation (“Capital Bank Corporation” or the “Bank”). The Company was incorporated with the goal of creating a regional banking franchise in the southeastern region of the United States through organic growth and acquisitions of other banks, including failed, underperforming and undercapitalized banks. CBF has raised $955.6 million to make acquisitions through a series of private placements and an initial public offering of its common stock. Since inception, CBF has acquired seven depository institutions, including the assets and certain deposits from failed banks. CBF has a total of 151 full service banking offices located in Florida, North and South Carolina, Tennessee and Virginia. Through its branches CBF offers a wide range of commercial and consumer loans and deposits, as well as ancillary financial services.

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and Regulation S-X. Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for complete financial statement presentation. In the opinion of management, all adjustments consisting of normal recurring accruals and disclosures considered necessary for a fair interim presentation have been included. All significant inter-company accounts and transactions have been eliminated in consolidation. For further information, refer to the Company’s Consolidated Financial Statements and notes thereto included in the Company’s annual report on Form 10-K for the fiscal year ended December 31, 2015.

Use of Estimates and Assumptions

To prepare financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as presented in the financial statements. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standard Board (the “FASB”) issued Accounting Standards Update ("ASU") 2016-15, "Statement of Cash Flows—Credit Losses (Topic 230)". The amendments in this Update provide guidance on the following eight specific cash flow issues: (1) Debt Prepayment or Debt Extinguishment Costs: Cash payments for debt prepayment or debt extinguishment costs should be classified as cash outflows for financing activities; (2) Settlement of Zero-Coupon Debt Instruments or Other Debt Instruments with Coupon Interest Rates That Are Insignificant in Relation to the Effective Interest Rate of the Borrowing: At the settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, the issuer should classify the portion of the cash payment attributable to the accreted interest related to the debt discount as cash outflows for operating activities, and the portion of the cash payment attributable to the principal as cash outflows for financing activities; (3) Contingent Consideration Payments Made after a Business Combination: Cash payments not made soon after the acquisition date of a business combination by an acquirer to settle a contingent consideration liability should be separated and classified as cash outflows for financing activities and operating activities. Cash payments up to the amount of the contingent consideration liability recognized at the acquisition date (including measurement-period adjustments) should be classified as financing activities; any excess should be classified as operating activities. Cash payments made soon after the acquisition date of a business combination by an acquirer to settle a contingent consideration liability should be classified as cash outflows for investing activities; (4) Proceeds from the Settlement of Insurance Claims: Cash proceeds received from the settlement of insurance claims should be classified on the basis of the related insurance coverage (that is, the nature of the loss). For insurance proceeds that are received in a lump-sum settlement, an entity should determine the classification on the basis of the nature of each loss included in the settlement; (5) Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned Life Insurance Policies: Cash proceeds received from the settlement of corporate-owned life insurance policies should be classified as cash inflows from investing activities. The cash payments for premiums on corporate-owned policies may be classified as cash outflows for investing activities, operating activities, or a combination of investing and operating activities; (6) Distributions Received from Equity Method Investees: When a reporting entity applies the equity method, it should make an accounting policy election to classify distributions received from equity method investees using either of the following approaches: a. Cumulative earnings approach: Distributions received are considered returns on investment and classified as cash inflows from operating activities, unless the investor’s cumulative distributions received less distributions received in prior periods that were determined to be returns of investment exceed cumulative equity in earnings recognized by the investor. When such an excess occurs, the current-period distribution up to this excess should be considered a return of investment and classified as cash inflows from investing activities. b. Nature of the distribution approach: Distributions received should be classified on the basis of the nature of the activity or activities of the investee that generated the distribution as either a return on investment (classified as cash inflows from operating activities) or a return of investment (classified as cash inflows from investing activities) when such information is available to the investor. If an entity elects to apply the nature of the distribution approach and the information to apply that approach to distributions received from an individual equity method investee is not available to the investor, the entity should report a change in accounting principle on a retrospective basis by applying the cumulative earnings approach in (1) for that investee. In such situations, an entity should disclose that a change in accounting principle has occurred with respect to the affected investee(s) due to the lack of available information and should provide the disclosures required in paragraphs 250-10-50-1(b) and 250-10-50-2, as applicable. This amendment does not address equity method investments measured using the fair value option; (7) Beneficial Interests in Securitization Transactions: A transferor’s beneficial interest obtained in a securitization of financial assets should be disclosed as a non cash activity, and cash receipts from payments on a transferor’s beneficial interests in securitized trade receivables should be classified as cash inflows from investing activities; (8) Separately Identifiable Cash Flows and Application of the Predominance Principle: The classification of cash receipts and payments that have aspects of more than one class of cash flows should be determined first by applying specific guidance in generally accepted accounting principles (GAAP). In the absence of specific guidance, an entity should determine each separately identifiable source or use within the cash receipts and cash payments on the basis of the nature of the underlying cash flows. An entity should then classify each separately identifiable source or use within the cash receipts and payments on the basis of their nature in financing, investing, or operating activities. In situations in which cash receipts and payments have aspects of more than one class of cash flows and cannot be separated by source or use, the appropriate classification should depend on the activity that is likely to be the predominant source or use of cash flows for the item. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments in this Update should be applied using a retrospective

transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company is currently evaluating this ASU to determine the impact on its consolidated financial position, results of operations and cash flows.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses (Topic 326)". Assets Measured at Amortized Cost—this update requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The income statement reflects the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The allowance for credit losses for purchased financial assets with a more-than insignificant amount of credit deterioration since origination (PCD assets) that are measured at amortized cost basis is determined in a similar manner to other financial assets measured at amortized cost basis; however, the initial allowance for credit losses is added to the purchase price rather than being reported as a credit loss expense. Only subsequent changes in the allowance for credit losses are recorded as a credit loss expense for these assets. Interest income for PCD assets should be recognized based on the effective interest rate, excluding the discount embedded in the purchase price that is attributable to the acquirer assessment of credit losses at acquisition. Available-for-Sale Debt Securities—Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. Available-for-sale accounting recognizes that value may be realized either through collection of contractual cash flows or through sale of the security. Therefore, the amendments limit the amount of the allowance for credit losses to the amount by which fair value is below amortized cost because the classification as available for sale is premised on an investment strategy that recognizes that the investment could be sold at fair value, if cash collection would result in the realization of an amount less than fair value. The allowance for credit losses for purchased available-for-sale securities with a more-than-insignificant amount of credit deterioration since origination is determined in a similar manner to other available-for-sale debt securities; however, the initial allowance for credit losses is added to the purchase price rather than reported as a credit loss expense. Only subsequent changes in the allowance for credit losses are recorded in credit loss expense. Interest income should be recognized based on the effective interest rate, excluding the discount embedded in the purchase price that is attributable to the acquirer's assessment of credit losses at acquisition. For public business entities that are U.S. Securities and Exchange Commission (SEC) filers, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For all other public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company is currently evaluating this ASU to determine the impact on its consolidated financial position, results of operations and cash flows.

In May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606)". The core principle of the guidance in Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in 2 exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) Identify the contract(s) with a customer; (2) Identify the performance obligations in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to the performance obligations in the contract; (5) Recognize revenue when (or as) the entity satisfies a performance obligation. The amendments in this Update do not change the core principle of the guidance in Topic 606. The amendments in this Update affect the guidance in Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09). Accounting Standards Update No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year. The Company is currently evaluating this ASU to determine the impact on its consolidated financial position, results of operations and cash flows.

In March 2016, the FASB issued ASU 2016-9, "Compensation—Stock compensation (Topic 718)". Improvements to employee share-based payment accounting" which objective is the simplification through the identification, evaluation, and improvement of areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. The areas for simplification involve several aspects of the accounting for 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. Some of the areas for simplification apply only to nonpublic entities. The adoption of ASU 2016-9 will be effective for the fiscal year beginning after December 15, 2016. The Company is currently evaluating this ASU to determine the impact on its consolidated financial position, results of operations and cash flows.

In March 2016, the FASB issued ASU 2016-7, "Investments—Equity Method and Joint Ventures (Topic 323)". The amendments in this Update eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-bystep basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments in this Update require that an entity that has an available-forsale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated 2 other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. The Company is currently evaluating this ASU to determine the impact on its consolidated financial position, results of operations and cash flows.

In March 2016, the FASB issued ASU 2016-6, "Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments". The amendments in this Update clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendments in this Update is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company is currently evaluating this ASU to determine the impact on its consolidated financial position, results of operations and cash flows.

In January 2016, the FASB issued ASU 2016-2, "Leases (Topic 842)" which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. To meet that objective, the FASB is amending the FASB Accounting Standards Codification and creating Topic 842, Leases. This Update, along with IFRS 16, Leases, are the results of the FASB's and the International Accounting Standards Board's (IASB's) efforts to meet that objective and improve financial reporting. The Boards decided to not fundamentally change lessor accounting with the amendments in this Update. However, some changes have been made to lessor accounting to conform and align

that guidance with the lessee guidance and other areas within generally accepted accounting principles (GAAP), such as Topic 606, Revenue from Contracts with Customers. The main difference between previous GAAP and Topic 842 is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The adoption of ASU 2016-2 will be effective for the fiscal year beginning after December 15, 2018. The Company is currently evaluating this ASU to determine the impact on its consolidated financial position, results of operations and cash flows.

In January 2016, the FASB issued ASU 2016-1, "Financial instruments Overall (Subtopic 825-10)" which requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this Update also require 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. In addition, the amendments in this Update eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement to disclose the method(s) 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 for public business entities. For public business entities, the amendments in ASU 2016-1 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of ASU 2016-1 is not expected to have a material impact on the Company's consolidated financial position, results of operations and cash flows.

2. Earnings Per Common Share

Basic earnings per share is computed as net income attributable to common shareholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share include the dilutive effect of additional potential common shares issuable under stock options and unvested restricted shares computed using the treasury stock method. Earnings per share have been computed based on the following:

(Shares in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**
Weighted average number of shares outstanding:				
Basic	43,028	45,359	43,033	45,852
Dilutive effect of options outstanding	847	855	825	786
Dilutive effect of unvested restricted shares	34	320	3	491
Diluted	**43,909**	**46,534**	**43,861**	**47,129**

The dilutive effect of stock options and unvested restricted shares are the only common stock equivalents for purposes of calculating diluted earnings per common share.

Weighted average anti-dilutive stock options and unvested restricted shares excluded from the computation of diluted earnings per share are as follows:

(Shares in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**
Anti-dilutive stock options	37	9	34	9
Anti-dilutive unvested restricted shares	1	—	166	—

Capital Bank Financial Corp.
Notes to Consolidated Financial Statements (Unaudited)

3. Business Combinations and Acquisitions

Pending Acqusitions at September 30, 2016

On November 22, 2015, we entered into an Agreement and Plan of Merger with CommunityOne Bancorp, or CommunityOne, pursuant to which CommunityOne will merge with and into CBF on the terms and subject to the conditions set forth in the CommunityOne Merger Agreement (the "Merger"). CommunityOne is a bank holding company headquartered in Charlotte, North Carolina. Founded in 1907 as First National Bank of Asheboro, CommunityOne operates 45 banking centers. At June 30, 2016 CommunityOne reported total assets of $2.4 billion and net loans of $1.5 billion . Pursuant to the merger agreement, shareholders of CommunityOne have the right to receive, $14.25 per share in cash or 0.43 of a share of Capital Bank Class A common stock, with the total consideration to consist of 85% stock and 15% cash. The transaction closed on October 26, 2016. Based on Capital Bank's closing share price of $32.20 , this represents a total transaction value of approximately $338 million . Due to the timing of the acquisition, the Company is continuing to determine the preliminary fair values of the assets and liabilities assumed and the purchase price allocation. The Company expects to finalize the analysis of the acquired assets and liabilities over the next few months and within one year of the acquisition.

4. Investment Securities

Trading securities totaled $ 3.7 million and $3.0 million at September 30, 2016 and December 31, 2015 , respectively.

The amortized cost and estimated fair value of investment securities available-for-sale and held-to-maturity at September 30, 2016 and December 31, 2015 , are presented below:

(Dollars in thousands)	**September 30, 2016**			
	Amortized Cost	**Unrealized Gains**	**Unrealized Losses**	**Estimated Fair Value**
Available-for-Sale				
Corporate bonds	$ 43,324	$ 1,497	$ 265	44,556
State and political subdivisions—tax exempt	7,646	25	2	7,669
Mortgage-backed securities—residential issued by government sponsored entities	585,478	12,181	226	597,433
Industrial revenue bonds	3,239	48	—	3,287
Total	**$ 639,687**	**$ 13,751**	**$ 493**	**$ 652,945**
Held-to-Maturity				
U.S. Government agencies	$ 11,650	$ 529	$ —	$ 12,179
Corporate bonds	74,012	413	2,371	72,054
State and political subdivisions—tax exempt	9,530	709	—	10,239
State and political subdivisions—taxable	522	23	—	545
Mortgage-backed securities—residential issued by government sponsored entities	370,349	9,511	43	379,817
Total	**$ 466,063**	**$ 11,185**	**$ 2,414**	**$ 474,834**

Capital Bank Financial Corp.
Notes to Consolidated Financial Statements (Unaudited)

(Dollars in thousands)	December 31, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Available-for-Sale				
Corporate bonds	$ 22,870	$ 112	$ 227	$ 22,755
Mortgage-backed securities—residential issued by government sponsored entities	614,176	1,376	4,415	611,137
Industrial revenue bonds	3,409	28	—	3,437
Total	**$ 640,455**	**$ 1,516**	**$ 4,642**	**$ 637,329**
Held-to-Maturity				
U.S. Government agencies	$ 12,805	$ 230	$ —	$ 13,035
Corporate bonds	70,059	—	401	69,658
State and political subdivisions—tax exempt	10,849	488	—	11,337
State and political subdivisions—taxable	528	17	—	545
Mortgage-backed securities—residential issued by government sponsored entities	378,264	3,107	812	380,559
Total	**$ 472,505**	**$ 3,842**	**$ 1,213**	**$ 475,134**

There were no sales of securities during the three months ended September 30, 2016. Proceeds from sales of securities were $90.6 million for the nine months ended September 30, 2016 . Gross gains of $0.2 million were realized on sales of these investments during the nine months ended September 30, 2016 , respectively. Gross losses of $0.1 million were realized on sales of these investments during the nine months ended September 30, 2016.

Proceeds from sales of securities were $56.4 million and $108.6 million for the three and nine months ended September 30, 2015 , respectively. Gross gains of $0.2 million and $0.5 million were realized on sales of these investments during the three and nine months ended September 30, 2015 , respectively. Gross losses of $0.1 million and $0.2 million were realized on sales of these investments during the three and nine months ended September 30, 2015 .

The estimated fair value of investment securities at September 30, 2016 , by contractual maturity, is shown in the table that follows. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations without call or prepayment penalties. Debt securities not due at a single maturity date are shown separately.

Capital Bank Financial Corp.
Notes to Consolidated Financial Statements (Unaudited)

(Dollars in thousands)	September 30, 2016		
	Amortized Cost	Estimated Fair Value	Yield
Available-for-sale			
Due in one year or less	$ —	$ —	—%
Due after one year through five years	—	—	—%
Due after five years through ten years	1,000	1,008	1.60%
Due after ten years	53,209	54,504	2.93%
Mortgage-backed securities—residential issued by government sponsored entities	585,478	597,433	2.19%
Total	**$ 639,687**	**$ 652,945**	**2.25%**

	Amortized Cost	Estimated Fair Value	Yield
Held-to-maturity			
Due in one year or less	$ —	$ —	—%
Due after one year through five years	34,895	32,776	4.80%
Due after five years through ten years	48,647	49,518	4.85%
Due after ten years	12,172	12,723	2.86%
Mortgage-backed securities—residential issued by government sponsored entities	370,349	379,817	2.33%
Total	**$ 466,063**	**$ 474,834**	**2.79%**

Securities with unrealized losses not recognized in income, and the period of time they have been in an unrealized loss position, are as follows:

(Dollars in thousands)	Less than 12 Months		12 Months or Longer		Total	
September 30, 2016	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Available-for-Sale						
Corporate bonds	$ 8,300	$ 265	$ —	$ —	$ 8,300	$ 265
State and political subdivisions—tax exempt	1,195	2	—	—	$ 1,195	$ 2
Mortgage-backed securities—residential issued by government sponsored entities	40,504	226	—	—	40,504	226
Total	**$ 49,999**	**$ 493**	**$ —**	**$ —**	**$ 49,999**	**$ 493**
Held-to-Maturity						
U.S. government agencies	$ 6,286	$ 22	$ —	$ —	$ 6,286	$ 22
Corporate bonds	22,950	2,050	4,725	321	27,675	2,371
Mortgage-backed securities—residential issued by government sponsored entities	22,397	39	9,303	152	31,700	191
Total	**$ 51,633**	**$ 2,111**	**$ 14,028**	**$ 473**	**$ 65,661**	**$ 2,584**

(Dollars in thousands)	Less than 12 Months		12 Months or Longer		Total	
December 31, 2015	**Estimated Fair Value**	**Unrealized Losses**	**Estimated Fair Value**	**Unrealized Losses**	**Estimated Fair Value**	**Unrealized Losses**
Available-for-Sale						
Corporate bonds	$ 8,237	$ 227	$ —	$ —	$ 8,237	$ 227
Mortgage-backed securities—residential issued by government sponsored entities	378,852	3,723	31,273	692	410,125	4,415
Total	**$ 387,089**	**$ 3,950**	**$ 31,273**	**$ 692**	**$ 418,362**	**$ 4,642**
Held-to-Maturity						
U.S Government agencies	$ —	$ —	$ 13,035	$ 351	$ 13,035	$ 351
Corporate bonds	44,658	401	—	—	44,658	401
Mortgage-backed securities—residential issued by government sponsored entities	143,368	1,691	143,147	3,298	286,515	4,989
Total	**$ 188,026**	**$ 2,092**	**$ 156,182**	**$ 3,649**	**$ 344,208**	**$ 5,741**

As of September 30, 2016 , the Company’s security portfolio consisted of 143 securities, 11 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company’s corporate bonds and mortgage-backed securities.

The corporate bonds in an unrealized loss position at September 30, 2016 and December 31, 2015 continue to perform and are expected to perform through maturity. Unrealized losses associated with these securities are primarily due to changes in interest rates and market volatility, and the corporate issuers have not experienced significant adverse events that would call into question their ability to repay those debt obligations according to contractual terms. Further, because the Company does not have the intent to sell these corporate bonds and it is more likely than not that it will not be required to sell the securities before their anticipated recovery of their amortized cost bases, the Company does not consider these securities to be other-than-temporarily impaired as of September 30, 2016 or December 31, 2015 .

All of the mortgage-backed securities at September 30, 2016 and December 31, 2015 were issued by U.S. government-sponsored entities and agencies, which the government has affirmed its commitment to support. Unrealized losses associated with these securities are attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these mortgage-backed securities and it is more likely than not that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at September 30, 2016 or December 31, 2015 .

Investment securities having carrying values of approximately $404.0 million and $311.5 million at September 30, 2016 and December 31, 2015 , respectively, were pledged to secure public funds on deposit, securities sold under agreements to repurchase, and for other purposes as required by law.

5. Loans

Major classifications of loans, including loans held for sale, are as follows:

(Dollars in thousands)	September 30, 2016	December 31, 2015
Non-owner occupied commercial real estate	$ 920,521	$ 866,392
Other commercial construction and land	222,794	196,795
Multifamily commercial real estate	76,296	80,708
1-4 family residential construction and land	111,954	93,242
Total commercial real estate	**1,331,565**	**1,237,137**
Owner occupied commercial real estate	1,072,586	1,104,972
Commercial and industrial	1,458,523	1,309,704
Lease financing	525	1,256
Total commercial	**2,531,634**	**2,415,932**
1-4 family residential	1,168,468	1,017,791
Home equity loans	364,117	375,276
Other consumer loans	349,013	436,478
Total consumer	**1,881,598**	**1,829,545**
Other	191,136	150,102
Total loans	**$ 5,935,933**	**$ 5,632,716**

Total loans include $8.2 million and $10.6 million of 1 -4 family residential loans held for sale, $87.1 million and $0.0 million of Commercial and Industrial loans held for sale and $16.1 million and $17.1 million of net deferred loan origination costs and fees as of September 30, 2016 and December 31, 2015 , respectively.

As of September 30, 2016 , other loans include $38.9 million , $134.4 million and $1.2 million of farm land, state and political subdivision obligations and deposit customer overdrafts, respectively. As of December 31, 2015 , other loans include $42.8 million , $96.2 million and $1.3 million of farm land, state and political subdivision obligations and deposit customer overdrafts, respectively.

Covered loans represent loans acquired from the FDIC subject to loss sharing agreements. Covered loans are further broken out into (i) loans acquired with evidence of credit impairment (“Purchased Credit Impaired", "Acquired Impaired", or "PCI Loans”) and (ii) non-PCI loans. Loans originated or purchased by the Company (“New Loans”) and loans acquired through the purchase of Capital Bank Corp. ("CBKN"), Green Bankshares ("GRNB"), Southern Community Financial ("SCMF" or "Southern Community") and TIB Financial ("TIBB"), are not subject to the loss sharing agreements and are classified as “non-covered.” Additionally, certain consumer loans acquired through the acquisition of First National Bank of the South, Metro Bank and Turnberry Bank (collectively, the “Failed Banks”) from the FDIC, are specifically excluded from the loss sharing agreements.

On March 18, 2016, the Bank entered into an agreement to terminate all existing loss sharing agreements with the FDIC effective January 1, 2016. All rights and obligations of the Bank and the FDIC under these loss sharing agreements have been resolved and terminated under this agreement. Covered loans and OREO that were subject to the loss sharing agreements were reclassified and are presented as non-covered.

The Company designates loans as PCI by evaluating both qualitative and quantitative factors. At the time of acquisition, the Company accounted for the PCI loans by segregating each portfolio into loan pools with similar risk characteristics. Over the lives of the acquired PCI loans, the Company continues to estimate cash flows expected to be collected on each loan pool. The Company evaluates, at each balance sheet date, whether its estimates of the present value of the cash flows from the loan pools, determined using the effective interest rates, has decreased, such that the present value of such cash flows is less than the recorded investment of the pool, and if so, recognizes a provision for loan loss in its Consolidated Statements of Income, unless related to non-credit events.

Additionally, if the Company has favorable changes in estimates of cash flows expected to be collected for a loan pool such that the then-present value exceeds the recorded investment of that pool, the Company will first reverse any previously established allowance for loan and lease losses for the pool. If such estimate exceeds the amount of any previously established allowance, the Company will accrete future interest income over the remaining life of the pool at a rate which, when used to discount the expected cash flows, results in the then-present value of such cash flows equaling the recorded investment of the pool at the time of the revised estimate.

The table below presents a roll forward of accretable yield and income expected to be earned related to PCI loans and the amount of non-accretable difference at the end of the period. Nonaccretable difference represents estimated contractually required payments in excess of estimated cash flows expected to be collected. The accretable yield represents the excess of estimated cash flows expected to be collected over the carrying amount of the PCI loans. Other represents reductions of accretable yield due to non-credit events such as interest rate reductions on variable rate PCI loans and prepayment activity on PCI loans.

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Accretable Yield				
Balance at beginning of period	$ 170,935	$ 232,450	$ 208,844	$ 292,633
Accretion of income	(18,870)	(23,878)	(59,636)	(73,770)
Reclassification from nonaccretable difference	8,045	28,172	29,668	73,800
Other	(4,815)	(6,952)	(23,581)	(62,871)
Balance at end of period	**$ 155,295**	**$ 229,792**	**$ 155,295**	**$ 229,792**
Nonaccretable difference, balance at the end of the period	**$ 91,929**	**$ 165,699**	**$ 91,929**	**$ 165,699**

The accretable yield is accreted into interest income over the estimated life of the PCI loans using the level yield method. The accretable yield will change due to changes in:

- The estimate of the remaining life of PCI loans which may change the amount of future interest income, and possibly principal, expected to be collected;
- The estimate of the amount of contractually required principal and interest payments over the estimated life that will not be collected (the nonaccretable difference); and
- Indices for PCI loans with variable rates of interest.

For PCI loans, the impact of loan modifications is included in the evaluation of expected cash flows for subsequent decreases or increases of cash flows. For variable rate PCI loans, expected future cash flows will be recalculated as the rates adjust over the lives of the loans. At acquisition, the expected future cash flows were based on the variable rates that were in effect at that time.

Non-covered Loans

Capital Bank Financial Corp.
Notes to Consolidated Financial Statements (Unaudited)

The following is a summary of the major categories of non-covered loans outstanding as of September 30, 2016 and December 31, 2015 :

(Dollars in thousands)	Non-PCI Loans			
September 30, 2016	New	Acquired	PCI Loans	Total Non-covered Loans
Non-owner occupied commercial real estate	$ 644,034	$ 36,510	$ 239,977	$ 920,521
Other commercial construction and land	160,062	103	62,629	222,794
Multifamily commercial real estate	51,155	5,238	19,903	76,296
1-4 family residential construction and land	111,671	—	283	111,954
Total commercial real estate	**966,922**	**41,851**	**322,792**	**1,331,565**
Owner occupied commercial real estate	878,104	28,703	165,779	1,072,586
Commercial and industrial loans	1,388,333	3,856	66,334	1,458,523
Lease financing	525	—	—	525
Total commercial	**2,266,962**	**32,559**	**232,113**	**2,531,634**
1-4 family residential	924,593	28,206	215,669	1,168,468
Home equity loans	167,134	131,080	65,903	364,117
Other consumer loans	344,121	2,944	1,948	349,013
Total consumer	**1,435,848**	**162,230**	**283,520**	**1,881,598**
Other	158,505	1,857	30,774	191,136
Total loans	**$ 4,828,237**	**$ 238,497**	**$ 869,199**	**$ 5,935,933**

(Dollars in thousands)	Non-PCI Loans			
December 31, 2015	New	Acquired	PCI Loans	Total Non-covered Loans
Non-owner occupied commercial real estate	$ 517,559	$ 46,081	$ 302,752	$ 866,392
Other commercial construction and land	110,716	202	85,754	196,672
Multifamily commercial real estate	51,413	5,686	23,609	80,708
1-4 family residential construction and land	90,304	—	2,938	93,242
Total commercial real estate	**769,992**	**51,969**	**415,053**	**1,237,014**
Owner occupied commercial real estate	858,068	36,927	209,910	1,104,905
Commercial and industrial loans	1,222,320	6,255	81,129	1,309,704
Lease financing	1,256	—	—	1,256
Total commercial	**2,081,644**	**43,182**	**291,039**	**2,415,865**
1-4 family residential	733,349	32,194	211,361	976,904
Home equity loans	148,855	126,547	67,449	342,851
Other consumer loans	429,346	3,911	3,221	436,478
Total consumer	**1,311,550**	**162,652**	**282,031**	**1,756,233**
Other	114,995	2,269	32,838	150,102
Total loans	**$ 4,278,181**	**$ 260,072**	**$ 1,020,961**	**$ 5,559,214**

Covered Loans

The following is a summary of the major categories of covered loans outstanding as of December 31, 2015 :

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(Dollars in thousands)	Non-PCI Loans			
December 31, 2015	**New**	**Acquired**	**PCI Loans**	**Total Covered Loans**
Non-owner occupied commercial real estate	$ —	$ —	$ —	$ —
Other commercial construction and land	—	—	123	123
Multifamily commercial real estate	—	—	—	—
1-4 family residential construction and land	—	—	—	—
Total commercial real estate	**—**	**—**	**123**	**123**
Owner occupied commercial real estate	—	—	67	67
Commercial and industrial loans	—	—	—	—
Lease financing	—	—	—	—
Total commercial	**—**	**—**	**67**	**67**
1-4 family residential	—	2,265	38,622	40,887
Home equity loans	—	24,890	7,535	32,425
Other consumer loans	—	—	—	—
Total consumer	**—**	**27,155**	**46,157**	**73,312**
Other	—	—	—	—
Total loans	**$ —**	**$ 27,155**	**$ 46,347**	**$ 73,502**

Capital Bank Financial Corp.
Notes to Consolidated Financial Statements (Unaudited)

The following tables present the aging of the recorded investment in past due loans, based on contractual terms, as of September 30, 2016 :

(Dollars in thousands)	30-89 Days Past Due		Greater than 90 Days Past Due and Still Accruing/Accreting		Non-accrual		
Non-purchased credit impaired loans	Non-Covered	Covered	Non-Covered	Covered	Non-Covered	Covered	Total
Non-owner occupied commercial real estate	$ —	$ —	$ —	$ —	$ 1,581	$ —	$ 1,581
Other commercial construction and land	—	—	—	—	195	—	195
Multifamily commercial real estate	—	—	—	—	—	—	—
1-4 family residential construction and land	—	—	—	—	—	—	—
Total commercial real estate	**—**	**—**	**—**	**—**	**1,776**	**—**	**1,776**
Owner occupied commercial real estate	240	—	—	—	3,704	—	3,944
Commercial and industrial loans	207	—	—	—	1,555	—	1,762
Lease financing	—	—	—	—	—	—	—
Total commercial	**447**	**—**	**—**	**—**	**5,259**	**—**	**5,706**
1-4 family residential	451	—	—	—	823	—	1,274
Home equity loans	600	—	—	—	2,000	—	2,600
Other consumer loans	4,276	—	—	—	2,015	—	6,291
Total consumer	**5,327**	**—**	**—**	**—**	**4,838**	**—**	**10,165**
Other	—	—	—	—	—	—	—
Total loans	**$ 5,774**	**$ —**	**$ —**	**$ —**	**$ 11,873**	**$ —**	**$ 17,647**

(Dollars in thousands)	30-89 Days Past Due		Greater than 90 Days Past Due and Still Accruing/Accreting		Non-accrual		
Purchased credit impaired loans *	Non-Covered	Covered	Non-Covered	Covered	Non-Covered	Covered	Total
Non-owner occupied commercial real estate	$ 1,990	$ —	$ 938	$ —	$ —	$ —	$ 2,928
Other commercial construction and land	23	—	527	—	—	—	550
Multifamily commercial real estate	152	—	298	—	—	—	450
1-4 family residential construction and land	—	—	—	—	—	—	—
Total commercial real estate	**2,165**	**—**	**1,763**	**—**	**—**	**—**	**3,928**
Owner occupied commercial real estate	2,417	—	405	—	—	—	2,822
Commercial and industrial loans	791	—	656	—	—	—	1,447
Lease financing	—	—	—	—	—	—	—
Total commercial	**3,208**	**—**	**1,061**	**—**	**—**	**—**	**4,269**
1-4 family residential	2,213	—	4,511	—	—	—	6,724
Home equity loans	1,174	—	1,126	—	—	—	2,300
Other consumer loans	58	—	21	—	—	—	79
Total consumer	**3,445**	**—**	**5,658**	**—**	**—**	**—**	**9,103**
Other	52	—	—	—	—	—	52
Total loans	**$ 8,870**	**$ —**	**$ 8,482**	**$ —**	**$ —**	**$ —**	**$ 17,352**

Capital Bank Financial Corp.
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The following tables present the aging of the recorded investment in past due loans, based on contractual terms, as of December 31, 2015 :

(Dollars in thousands)	30-89 Days Past Due		Greater than 90 Days Past Due and Still Accruing/Accreting		Non-accrual		
Non-purchased credit impaired loans	Non-Covered	Covered	Non-Covered	Covered	Non-Covered	Covered	Total
Non-owner occupied commercial real estate	$ —	$ —	$ —	$ —	$ 1,406	$ —	$ 1,406
Other commercial construction and land	48	—	—	—	186	—	234
Multifamily commercial real estate	—	—	—	—	88	—	88
1-4 family residential construction and land	—	—	—	—	—	—	—
Total commercial real estate	**48**	**—**	**—**	**—**	**1,680**	**—**	**1,728**
Owner occupied commercial real estate	220	—	—	—	1,107	—	1,327
Commercial and industrial loans	185	—	—	—	923	—	1,108
Lease financing	—	—	—	—	—	—	—
Total commercial	**405**	**—**	**—**	**—**	**2,030**	**—**	**2,435**
1-4 family residential	233	—	—	—	1,183	37	1,453
Home equity loans	1,141	290	—	—	1,741	901	4,073
Other consumer loans	3,816	—	—	—	1,373	—	5,189
Total consumer	**5,190**	**290**	**—**	**—**	**4,297**	**938**	**10,715**
Other	—	—	—	—	—	—	—
Total loans	**$ 5,643**	**$ 290**	**$ —**	**$ —**	**$ 8,007**	**$ 938**	**$ 14,878**

(Dollars in thousands)	30-89 Days Past Due		Greater than 90 Days Past Due and Still Accruing/Accreting		Non-accrual		
Purchased credit impaired loans *	Non-Covered	Covered	Non-Covered	Covered	Non-Covered	Covered	Total
Non-owner occupied commercial real estate	$ —	$ —	$ 1,744	$ —	$ —	$ —	$ 1,744
Other commercial construction and land	934	—	3,768	—	—	—	4,702
Multifamily commercial real estate	—	—	—	—	—	—	—
1-4 family residential construction and land	—	—	—	—	—	—	—
Total commercial real estate	**934**	**—**	**5,512**	**—**	**—**	**—**	**6,446**
Owner occupied commercial real estate	1,341	—	3,458	—	—	—	4,799
Commercial and industrial loans	205	—	1,735	—	—	—	1,940
Lease financing	—	—	—	—	—	—	—
Total commercial	**1,546**	**—**	**5,193**	**—**	**—**	**—**	**6,739**
1-4 family residential	2,011	351	1,962	1,245	—	—	5,569
Home equity loans	1,626	220	422	80	—	—	2,348
Other consumer loans	54	—	50	—	—	—	104
Total consumer	**3,691**	**571**	**2,434**	**1,325**	**—**	**—**	**8,021**
Other	—	—	41	—	—	—	41
Total loans	**$ 6,171**	**$ 571**	**$ 13,180**	**$ 1,325**	**$ —**	**$ —**	**$ 21,247**

** Pooled PCI loans are not classified as nonaccrual as they are considered to be accruing because their interest income relates to the accretable yield recognized under accounting for purchased credit-impaired loans and not to contractual interest payments.*

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed at origination and upon identification of a material change for all loans, on an annual basis for commercial loans exceeding $0.5 million , and at least quarterly for commercial loans not rated pass. The Company uses the following definitions for risk ratings:

- **Pass** —These loans range from superior quality with minimal credit risk to loans requiring heightened management attention but that are still an acceptable risk and continue to perform as contracted.
- **Special Mention** —Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.
- **Substandard** —Loans classified as substandard are inadequately protected by the current net worth and paying 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** —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 summarizes loans, excluding PCI loans, by internal rating at September 30, 2016 :

(Dollars in thousands)			Substandard			
	Pass	Special Mention	Accruing	Non-accrual	Doubtful	Total
Non-owner occupied commercial real estate	$ 676,551	$ 1,281	$ 1,131	$ 1,581	$ —	$ 680,544
Other commercial construction and land	159,970	—	—	195	—	160,165
Multifamily commercial real estate	56,393	—	—	—	—	56,393
1-4 family residential construction and land	111,671	—	—	—	—	111,671
Total commercial real estate	**1,004,585**	**1,281**	**1,131**	**1,776**	**—**	**1,008,773**
Owner occupied commercial real estate	891,539	9,310	2,254	3,704	—	906,807
Commercial and industrial loans	1,359,838	1,911	28,885	1,555	—	1,392,189
Lease financing	525	—	—	—	—	525
Total commercial	**2,251,902**	**11,221**	**31,139**	**5,259**	**—**	**2,299,521**
1-4 family residential	949,111	702	2,163	823	—	952,799
Home equity loans	294,540	115	1,559	2,000	—	298,214
Other consumer loans	345,006	—	44	2,015	—	347,065
Total consumer	**1,588,657**	**817**	**3,766**	**4,838**	**—**	**1,598,078**
Other	160,362	—	—	—	—	160,362
Total loans	**$ 5,005,506**	**$ 13,319**	**$ 36,036**	**$ 11,873**	**$ —**	**$ 5,066,734**

The following table summarizes loans, excluding PCI loans, by internal rating at December 31, 2015 :

(Dollars in thousands)	Pass	Special Mention	Substandard		Doubtful	Total
			Accruing	Non-accrual		
Non-owner occupied commercial real estate	$ 561,080	$ 1,154	$ —	$ 1,406	$ —	$ 563,640
Other commercial construction and land	110,710	—	22	186	—	110,918
Multifamily commercial real estate	57,011	—	—	88	—	57,099
1-4 family residential construction and land	89,152	—	1,152	—	—	90,304
Total commercial real estate	**817,953**	**1,154**	**1,174**	**1,680**	**—**	**821,961**
Owner occupied commercial real estate	880,806	6,843	6,239	1,107	—	894,995
Commercial and industrial loans	1,210,303	13,610	3,739	923	—	1,228,575
Lease financing	1,256	—	—	—	—	1,256
Total commercial	**2,092,365**	**20,453**	**9,978**	**2,030**	**—**	**2,124,826**
1-4 family residential	764,302	126	2,160	1,220	—	767,808
Home equity loans	295,726	55	1,869	2,642	—	300,292
Other consumer loans	431,884	—	—	1,373	—	433,257
Total consumer	**1,491,912**	**181**	**4,029**	**5,235**	**—**	**1,501,357**
Other	117,264	—	—	—	—	117,264
Total loans	**$ 4,519,494**	**$ 21,788**	**$ 15,181**	**$ 8,945**	**$ —**	**$ 4,565,408**

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6. Allowance for Loan and Lease Losses

Activity in the allowance for loan and lease losses for the three and nine months ended September 30, 2016 and 2015 is as follows:

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Balance, beginning of period	$ 44,883	$ 48,063	$ 45,034	$ 50,211
Provision (reversal) for loan losses for PCI loans	(48)	490	(835)	(1,960)
PCI loans charged-off	—	(1,085)	—	(1,247)
Provision for loan losses for non-PCI loans	634	309	3,968	3,217
Non-PCI loans charged-off	(1,954)	(2,207)	(6,094)	(6,116)
Recoveries of non-PCI loans previously charged-off	469	708	1,911	2,173
Balance, end of period	**$ 43,984**	**$ 46,278**	**$ 43,984**	**$ 46,278**

The following tables present the roll forward of the allowance for loan and lease losses for the three and nine months ended September 30, 2016 and 2015 by the class of loans against which the allowance is allocated:

(Dollars in thousands)	June 30, 2016	Provision/ (Reversals)	Net (Charge-offs)/ Recoveries	September 30, 2016
Non-owner occupied commercial real estate	$ 2,039	$ (27)	$ 2	$ 2,014
Other commercial construction and land	12,757	345	37	13,139
Multifamily commercial real estate	153	3	—	156
1-4 family residential construction and land	958	(142)	2	818
Total commercial real estate	**15,907**	**179**	**41**	**16,127**
Owner occupied commercial real estate	1,559	(179)	—	1,380
Commercial and industrial loans	10,800	(573)	16	10,243
Lease financing	—	—	—	—
Total commercial	**12,359**	**(752)**	**16**	**11,623**
1-4 family residential	9,964	(579)	(21)	9,364
Home equity loans	1,361	(121)	16	1,256
Other consumer loans	4,988	1,432	(1,129)	5,291
Total consumer	**16,313**	**732**	**(1,134)**	**15,911**
Other	304	427	(408)	323
Total loans	**$ 44,883**	**$ 586**	**$ (1,485)**	**$ 43,984**

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(Dollars in thousands)	December 31, 2015	Provision/ (Reversals)	Net(Charge-offs)/ Recoveries	September 30, 2016
Non-owner occupied commercial real estate	$ 1,598	$ 405	$ 11	$ 2,014
Other commercial construction and land	12,919	174	46	13,139
Multifamily commercial real estate	186	(30)	—	156
1-4 family residential construction and land	1,275	(462)	5	818
Total commercial real estate	**15,978**	**87**	**62**	**16,127**
Owner occupied commercial real estate	1,505	(45)	(80)	1,380
Commercial and industrial loans	9,627	1,045	(429)	10,243
Lease financing	—	—	—	—
Total commercial	**11,132**	**1,000**	**(509)**	**11,623**
1-4 family residential	11,057	(1,852)	159	9,364
Home equity loans	1,853	(714)	117	1,256
Other consumer loans	4,751	3,584	(3,044)	5,291
Total consumer	**17,661**	**1,018**	**(2,768)**	**15,911**
Other	263	1,028	(968)	323
Total loans	**$ 45,034**	**$ 3,133**	**$ (4,183)**	**$ 43,984**

The following tables present the roll forward of the allowance for loan and lease losses for the three and nine months ended September 30, 2015 by the class of loans against which the allowance is allocated:

(Dollars in thousands)	June 30, 2015	Provision/ (Reversals)	Net (Charge-offs)/ Recoveries	September 30, 2015
Non-owner occupied commercial real estate	$ 3,965	$ 189	$ 3	$ 4,157
Other commercial construction and land	10,422	1,350	(1,083)	10,689
Multifamily commercial real estate	201	(14)	—	187
1-4 family residential construction and land	1,356	(142)	2	1,216
Total commercial real estate	**15,944**	**1,383**	**(1,078)**	**16,249**
Owner occupied commercial real estate	2,759	(719)	2	2,042
Commercial and industrial loans	9,455	196	(164)	9,487
Lease financing	—	—	—	—
Total commercial	**12,214**	**(523)**	**(162)**	**11,529**
1-4 family residential	12,969	(1,126)	(30)	11,813
Home equity loans	2,653	(557)	13	2,109
Other consumer loans	4,077	1,050	(795)	4,332
Total consumer	**19,699**	**(633)**	**(812)**	**18,254**
Other	206	572	(532)	246
Total loans	**$ 48,063**	**$ 799**	**$ (2,584)**	**$ 46,278**

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(Dollars in thousands)	December 31, 2014	Provision/ (Reversals)	Net(Charge-offs)/ Recoveries	September 30, 2015
Non-owner occupied commercial real estate	$ 2,022	$ 2,066	$ 69	$ 4,157
Other commercial construction and land	12,181	(575)	(917)	10,689
Multifamily commercial real estate	252	(65)	—	187
1-4 family residential construction and land	1,102	109	5	1,216
Total commercial real estate	**15,557**	**1,535**	**(843)**	**16,249**
Owner occupied commercial real estate	2,504	(257)	(205)	2,042
Commercial and industrial loans	9,502	(151)	136	9,487
Lease financing	—	—	—	—
Total commercial	**12,006**	**(408)**	**(69)**	**11,529**
1-4 family residential	15,451	(3,340)	(298)	11,813
Home equity loans	2,815	(454)	(252)	2,109
Other consumer loans	4,122	2,721	(2,511)	4,332
Total consumer	**22,388**	**(1,073)**	**(3,061)**	**18,254**
Other	260	1,203	(1,217)	246
Total loans	**$ 50,211**	**$ 1,257**	**$ (5,190)**	**$ 46,278**

The following tables present the roll forward of the allowance for loan and lease losses for PCI and non-PCI loans for the three and nine months ended September 30, 2016 and 2015 , by the class of loans against which the allowance is allocated:

Capital Bank Financial Corp.
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(Dollars in thousands)	Three Months Ended					
	September 30, 2016			September 30, 2015		
	Non-PCI	PCI	Total	Non-PCI	PCI	Total
Allowance for loan and lease losses at the beginning of the period	**$ 21,182**	**$ 23,701**	**$ 44,883**	**$ 21,819**	**$ 26,244**	**$ 48,063**
Charge-offs:						
Non-owner occupied commercial real estate	—	—	—	—	—	—
Other commercial construction and land	—	—	—	(1)	(1,085)	(1,086)
Multifamily commercial real estate	—	—	—	—	—	—
1-4 family residential construction and land	—	—	—	—	—	—
Total commercial real estate	**—**	**—**	**—**	**(1)**	**(1,085)**	**(1,086)**
Owner occupied commercial real estate	—	—	—	(125)	—	(125)
Commercial and industrial loans	(6)	—	(6)	(178)	—	(178)
Lease financing	—	—	—	—	—	—
Total commercial	**(6)**	**—**	**(6)**	**(303)**	**—**	**(303)**
1-4 family residential	(47)	—	(47)	(34)	—	(34)
Home equity loans	(50)	—	(50)	(146)	—	(146)
Other consumer loans	(1,293)	—	(1,293)	(1,018)	—	(1,018)
Total consumer	**(1,390)**	**—**	**(1,390)**	**(1,198)**	**—**	**(1,198)**
Other	(558)	—	(558)	(705)	—	(705)
Total charge-offs	**(1,954)**	**—**	**(1,954)**	**(2,207)**	**(1,085)**	**(3,292)**
Recoveries:						
Non-owner occupied commercial real estate	2	—	2	3	—	3
Other commercial construction and land	37	—	37	3	—	3
Multifamily commercial real estate	—	—	—	—	—	—
1-4 family residential construction and land	2	—	2	2	—	2
Total commercial real estate	**41**	**—**	**41**	**8**	**—**	**8**
Owner occupied commercial real estate	—	—	—	127	—	127
Commercial and industrial loans	22	—	22	14	—	14
Lease financing	—	—	—	—	—	—
Total commercial	**22**	**—**	**22**	**141**	**—**	**141**
1-4 family residential	26	—	26	4	—	4
Home equity loans	66	—	66	159	—	159
Other consumer loans	164	—	164	223	—	223
Total consumer	**256**	**—**	**256**	**386**	**—**	**386**
Other	150	—	150	173	—	173
Total recoveries	**469**	**—**	**469**	**708**	**—**	**708**
Net charge-offs	**(1,485)**	**—**	**(1,485)**	**(1,499)**	**(1,085)**	**(2,584)**
Provision (reversal) for loan and lease losses:						
Non-owner occupied commercial real estate	(96)	69	(27)	(317)	506	189
Other commercial construction and land	(102)	447	345	154	1,196	1,350
Multifamily commercial real estate	(9)	12	3	(26)	12	(14)
1-4 family residential construction and land	(31)	(111)	(142)	(62)	(80)	(142)
Total commercial real estate	**(238)**	**417**	**179**	**(251)**	**1,634**	**1,383**
Owner occupied commercial real estate	(183)	4	(179)	(746)	27	(719)
Commercial and industrial loans	(695)	122	(573)	224	(28)	196
Lease financing	—	—	—	—	—	—
Total commercial	**(878)**	**126**	**(752)**	**(522)**	**(1)**	**(523)**
1-4 family residential	(148)	(431)	(579)	(385)	(741)	(1,126)

Home equity loans	15	(136)	(121)	(69)	(488)	(557)
Other consumer loans	1,461	(29)	1,432	1,067	(17)	1,050
Total consumer	**1,328**	**(596)**	**732**	**613**	**(1,246)**	**(633)**
Other	422	5	427	469	103	572
Total provision (reversal) for loan and lease losses	**634**	**(48)**	**586**	**309**	**490**	**799**
Allowance for loan and lease losses at the end of the period	**$ 20,331**	**$ 23,653**	**$ 43,984**	**$ 20,629**	**$ 25,649**	**$ 46,278**

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(Dollars in thousands)	Nine Months Ended					
	September 30, 2016			September 30, 2015		
	Non-PCI	PCI	Total	Non-PCI	PCI	Total
Allowance for loan and lease losses at the beginning of the period	**$ 20,546**	**$ 24,488**	**$ 45,034**	**$ 21,355**	**$ 28,856**	**$ 50,211**
Charge-offs:						
Non-owner occupied commercial real estate	(2)	—	(2)	—	—	—
Other commercial construction and land	—	—	—	(9)	(1,085)	(1,094)
Multifamily commercial real estate	—	—	—	—	—	—
1-4 family residential construction and land	—	—	—	—	—	—
Total commercial real estate	**(2)**	**—**	**(2)**	**(9)**	**(1,085)**	**(1,094)**
Owner occupied commercial real estate	(80)	—	(80)	(332)	—	(332)
Commercial and industrial loans	(510)	—	(510)	(273)	—	(273)
Lease financing	—	—	—	—	—	—
Total commercial	**(590)**	**—**	**(590)**	**(605)**	**—**	**(605)**
1-4 family residential	(47)	—	(47)	(329)	—	(329)
Home equity loans	(224)	—	(224)	(553)	—	(553)
Other consumer loans	(3,633)	—	(3,633)	(2,854)	(162)	(3,016)
Total consumer	**(3,904)**	**—**	**(3,904)**	**(3,736)**	**(162)**	**(3,898)**
Other	(1,598)	—	(1,598)	(1,766)	—	(1,766)
Total charge-offs	**(6,094)**	**—**	**(6,094)**	**(6,116)**	**(1,247)**	**(7,363)**
Recoveries:						
Non-owner occupied commercial real estate	13	—	13	69	—	69
Other commercial construction and land	46	—	46	177	—	177
Multifamily commercial real estate	—	—	—	—	—	—
1-4 family residential construction and land	5	—	5	5	—	5
Total commercial real estate	**64**	**—**	**64**	**251**	**—**	**251**
Owner occupied commercial real estate	—	—	—	127	—	127
Commercial and industrial loans	81	—	81	409	—	409
Lease financing	—	—	—	—	—	—
Total commercial	**81**	**—**	**81**	**536**	**—**	**536**
1-4 family residential	206	—	206	31	—	31
Home equity loans	341	—	341	301	—	301
Other consumer loans	589	—	589	505	—	505
Total consumer	**1,136**	**—**	**1,136**	**837**	**—**	**837**
Other	630	—	630	549	—	549
Total recoveries	**1,911**	**—**	**1,911**	**2,173**	**—**	**2,173**
Net charge-offs	**(4,183)**	**—**	**(4,183)**	**(3,943)**	**(1,247)**	**(5,190)**
Provision (reversal) for loan and lease losses:						
Non-owner occupied commercial real estate	(323)	728	405	(332)	2,398	2,066
Other commercial construction and land	(19)	193	174	16	(591)	(575)
Multifamily commercial real estate	(31)	1	(30)	(50)	(15)	(65)
1-4 family residential construction and land	55	(517)	(462)	53	56	109
Total commercial real estate	**(318)**	**405**	**87**	**(313)**	**1,848**	**1,535**
Owner occupied commercial real estate	(145)	100	(45)	(152)	(105)	(257)
Commercial and industrial loans	291	754	1,045	(122)	(29)	(151)
Lease financing	—	—	—	—	—	—
Total commercial	**146**	**854**	**1,000**	**(274)**	**(134)**	**(408)**
1-4 family residential	(433)	(1,419)	(1,852)	(253)	(3,087)	(3,340)

Home equity loans	(69)	(645)	(714)	215	(669)	(454)
Other consumer loans	3,628	(44)	3,584	2,756	(35)	2,721
Total consumer	**3,126**	**(2,108)**	**1,018**	**2,718**	**(3,791)**	**(1,073)**
Other	1,014	14	1,028	1,086	117	1,203
Total provision (reversal) for loan and lease losses	**3,968**	**(835)**	**3,133**	**3,217**	**(1,960)**	**1,257**
Allowance for loan and lease losses at the end of the period	**$ 20,331**	**$ 23,653**	**$ 43,984**	**$ 20,629**	**$ 25,649**	**$ 46,278**

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The following table presents the balance in the allowance for loan and lease losses and the recorded investment in loans by class of loan and by impairment evaluation method as of September 30, 2016 :

(Dollars in thousands)	Allowance for Loan and Lease Losses			Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Purchased Credit-Impaired	Individually Evaluated for Impairment	Collectively Evaluated for Impairment (1)	Purchased Credit-Impaired
Non-owner occupied commercial real estate	$ —	$ 970	$ 1,044	$ 1,889	$ 678,655	$ 239,977
Other commercial construction and land	21	1,740	11,378	111	160,054	62,629
Multifamily commercial real estate	—	29	127	—	56,393	19,903
1-4 family residential construction and land	—	813	5	—	111,671	283
Total commercial real estate	**21**	**3,552**	**12,554**	**2,000**	**1,006,773**	**322,792**
Owner occupied commercial real estate	—	1,113	267	5,903	900,904	165,779
Commercial and industrial loans	626	6,893	2,724	10,053	1,382,136	66,334
Lease financing	—	—	—	—	525	—
Total commercial	**626**	**8,006**	**2,991**	**15,956**	**2,283,565**	**232,113**
1-4 family residential	123	1,874	7,367	1,886	855,660	215,669
Home equity loans	116	525	615	1,193	297,021	65,903
Other consumer loans	12	5,197	82	426	346,639	1,948
Total consumer	**251**	**7,596**	**8,064**	**3,505**	**1,499,320**	**283,520**
Other	—	279	44	—	160,362	30,774
Total loans	**$ 898**	**$ 19,433**	**$ 23,653**	**$ 21,461**	**$ 4,950,020**	**$ 869,199**

(1) Loans collectively evaluated for impairment include $235.5 million of acquired loans which are presented net of unamortized purchase discounts of $5.9 million .

The following table presents the balance in the allowance for loan and lease losses and the recorded investment in loans by class of loan and by impairment evaluation method as of December 31, 2015 :

(Dollars in thousands)	Allowance for Loan and Lease Losses			Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Purchased Credit-Impaired	Individually Evaluated for Impairment	Collectively Evaluated for Impairment (1)	Purchased Credit-Impaired
Non-owner occupied commercial real estate	$ —	$ 1,282	$ 316	$ 463	$ 563,177	$ 302,752
Other commercial construction and land	—	1,735	11,184	—	110,918	85,877
Multifamily commercial real estate	—	59	127	—	57,099	23,609
1-4 family residential construction and land	—	753	522	—	90,304	2,938
Total commercial real estate	**—**	**3,829**	**12,149**	**463**	**821,498**	**415,176**
Owner occupied commercial real estate	—	1,338	167	3,858	891,137	209,977
Commercial and industrial loans	—	7,657	1,970	2,907	1,225,668	81,129
Lease financing	—	—	—	—	1,256	—
Total commercial	**—**	**8,995**	**2,137**	**6,765**	**2,118,061**	**291,106**
1-4 family residential	46	2,225	8,786	1,468	755,771	249,983
Home equity loans	12	581	1,260	1,573	298,719	74,984
Other consumer loans	17	4,608	126	423	432,834	3,221
Total consumer	**75**	**7,414**	**10,172**	**3,464**	**1,487,324**	**328,188**
Other	—	233	30	—	117,264	32,838
Total loans	**$ 75**	**$ 20,471**	**$ 24,488**	**$ 10,692**	**$ 4,544,147**	**$ 1,067,308**

(1) Loans collectively evaluated for impairment include $284.8 million of acquired loans which are presented net of unamortized purchase discounts of $8.1 million .

Troubled Debt Restructuring

If a borrower is experiencing financial difficulty, the Bank may consider, in certain circumstances, modifying the terms of their loan to maximize collection of amounts due. A troubled debt restructuring ("TDR") typically involves either a reduction of the stated interest rate of the loan, an extension of the loan's maturity date(s) with a stated rate lower than the current market rate for a new loan with similar risk, or in limited circumstances, a reduction of the principal balance of the loan or the loan's accrued interest. Upon modification of a loan, the Bank measures the related impairment as the excess of the recorded investment in the loan over the discounted expected future cash flows. The present value of expected future cash flows is discounted at the loan's effective interest rate. If the impairment analysis results in a loss, an allowance for loan and lease losses is established for the loan. During the three and nine months ended September 30, 2016 and 2015 , loans modified in TDRs were nominal. Because of the insignificance of the amount and the nature of the modifications, the modifications did not have a material impact on the Company's Consolidated Financial Statements or on the determination of the allowance for loan and lease losses at September 30, 2016 and 2015 . The Company had loans modified in TDRs with recorded investments of $0.2 million and $2.3 million for the three and nine months ended September 30, 2016 , respectively. The Company had loans modified in TDRs with recorded investments of $0.7 million and $1.4 million for the three and nine months ended September 30, 2015 , respectively.

7. FDIC Indemnification Asset

The Company has recorded an indemnification asset related to loss sharing agreements entered into with the FDIC wherein the FDIC will reimburse the Company for certain amounts related to certain acquired loans and other real estate owned should the Company experience a loss. Under the loss sharing arrangements, the FDIC has agreed to absorb 80% of all future credit losses and workout expenses on these assets which occur prior to the expiration of the loss sharing agreements. These agreements resulted from the purchase of the Failed Banks.

The loss sharing agreements consisted of three (one for each Failed Bank) single-family shared-loss agreements and three (one for each Failed Bank) commercial and other loans shared-loss agreements. The single family shared-loss agreements provided for FDIC loss sharing and our reimbursement for recoveries to the FDIC for ten years from July 16, 2010 for single-family residential loans. The commercial shared-loss agreements provided for FDIC loss sharing for five years from July 16, 2010 and our reimbursement for recoveries to the FDIC for eight years from July 16, 2010 for all other covered assets. On March 18, 2016, the Bank entered into an agreement to terminate all existing loss share agreements with the FDIC effective January 1, 2016. All rights and obligations of the Bank and the FDIC under these FDIC loss share agreements have been resolved and terminated under this agreement.

The FDIC received $3.0 million as consideration for the early termination of the agreements. The early termination was recorded in the Bank's financial statements by removing the FDIC Indemnification Asset receivable, the FDIC Clawback liability and recording a one-time, pre-tax expense on termination of $9.2 million .

The following is a summary of the activity in the FDIC indemnification asset:

(Dollars in thousands)

Balance, December 31, 2015	$	6,725
Termination of FDIC loss sharing agreements		(6,725)
Balance, September 30, 2016	**$**	**—**
Balance, December 31, 2014	$	16,762
Indemnification asset income		1,682
Amortization of indemnification asset		(8,038)
Cash received on reimbursable losses		(617)
Balance, September 30, 2015	**$**	**9,789**

8. Other Real Estate Owned

The activity within Other Real Estate Owned (“OREO”) for the three and nine months ended September 30, 2016 and 2015 is presented in the table below.

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Balance, beginning of period	$ 44,236	$ 63,737	$ 52,776	$ 77,626
Real estate acquired from borrowers and transfers from other assets	3,762	1,848	7,534	8,905
Valuation allowance	(742)	(2,075)	(2,328)	(5,175)
Properties sold	(1,249)	(8,819)	(11,975)	(26,665)
Balance, end of period	**$ 46,007**	**$ 54,691**	**$ 46,007**	**$ 54,691**

The loss share agreements with the FDIC were terminated effective January 1, 2016. As of September 30, 2015, the ending balance for OREO covered by loss sharing agreements with the FDIC was $0.3 million and non-covered OREO ending balance was $54.4 million . For the three and nine months ended September 30, 2016 , proceeds on sales of OREO were $1.4 million and $13.2 million , respectively and net gains were $0.2 million and $1.3 million , respectively. For the three and nine months ended September 30, 2015 , proceeds on sales of OREO were $9.2 million and $28.0 million , respectively and net gains were $0.4 million and $1.3 million , respectively.

9. Federal Home Loan Bank Advances and Short-Term Borrowings

Short-term borrowings include securities sold under agreements to repurchase, cash received from counterparties as collateral for mark-to-market exposure on interest rate swaps and advances from the Federal Home Loan Bank (“FHLB”).

The Bank has securities sold under agreements to repurchase with customers. These overnight agreements are collateralized by investment securities of the United States Government or its agencies which are chosen by the Bank. The amounts outstanding at September 30, 2016 and December 31, 2015 were $10.9 million and $11.6 million , respectively, and were collateralized by $15.4 million and $22.9 million , respectively, of agency mortgage-backed securities.

The Bank has $4.5 million of short term borrowings related to cash received from counterparties as collateral for mark-to-market exposure on interest rate swaps at September 30, 2016 .

The Bank invests in FHLB stock for the purpose of establishing credit lines with the FHLB. The credit availability to the Bank is based on a percentage of the Bank’s total assets as reported on the most recent quarterly financial information submitted to the regulators subject to the pledging of sufficient collateral. The Bank’s collateral with the FHLB consists of a blanket floating lien pledge of the Bank’s residential 1-4 family mortgage, multifamily, home equity line of credit and commercial real estate secured loans. The amounts of eligible collateral at September 30, 2016 and December 31, 2015 provided for incremental borrowing availability of up to $342.6 million and $416.9 million , respectively.

At September 30, 2016 and December 31, 2015 , the Bank had $15.4 million and $25.4 million in letters of credit issued by the FHLB respectively, of which $15.2 million and $25.2 million are used as collateral for public funds deposits in lieu of pledging securities to the State of Florida, respectively.

The FHLB advances as of September 30, 2016 and December 31, 2015 consisted of the following:

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(Dollars in thousands)

Contractual Outstanding Amount			
September 30, 2016	Maturity Date	Interest Rate as of September 30, 2016	
$ 40,000	November 25, 2016	0.38%	(1 Month FRC + 2 bps)*
20,000	May 19, 2017	0.56%	
310	November 6, 2017	0.50%	
50,000	November 20, 2017	0.42%	(1 Month FRC + 2 bps)*
50,000	November 23, 2018	0.38%	(1 Month FRC + 2 bps)*
50,000	December 31, 2019	0.38%	(1 Month FRC + 2 bps)*
60,000	May 28, 2020	0.39%	(1 Month FRC + 2 bps)*
150,000	August 11, 2020	0.44%	(1 Month FRC + 2 bps)*
80,000	September 20, 2021	0.48%	(1 Month FRC + 2 bps)*
75,000	September 29, 2021	0.44%	(1 Month FRC + 2 bps)*
441	February 10, 2026	—%	
$ 575,751			

(Dollars in thousands)

Contractual Outstanding Amount			
December 31, 2015	Maturity Date	Interest Rate as of December 31, 2015	
$ 60,000	May 19, 2016	0.49%	
40,000	November 25, 2016	0.40%	(1 Month FRC + 2 bps)*
426	November 6, 2017	0.50%	
50,000	November 20, 2017	0.42%	(1 Month FRC + 2 bps)*
50,000	November 23, 2018	0.40%	(1 Month FRC + 2 bps)*
50,000	December 31, 2019	0.37%	(1 Month FRC + 2 bps)*
60,000	May 28, 2020	0.40%	(1 Month FRC + 2 bps)*
150,000	August 11, 2020	0.44%	(1 Month FRC + 2 bps)*
472	February 10, 2026	—%	
$ 460,898			

(*) *FRC = FHLB Fixed Rate Credit interest rate.*

10. Long-Term Borrowings

Subordinated Debentures

Through its acquisitions of CBKN, GRNB, SCMF and TIBB, the Company assumed the eleven separate pooled offerings of trust preferred securities listed below. The Company is not considered the primary beneficiary of the trusts (variable interest entities), therefore the trusts are not consolidated in the Company's Consolidated Financial Statements, but rather the subordinated debentures are presented as liabilities. The trusts consist of wholly-owned statutory trust subsidiaries for the purpose of issuing the trust preferred securities. The trusts used the proceeds from the issuance of trust preferred securities to acquire junior subordinated deferrable interest debentures of the Company. The trust preferred securities essentially mirror the debt securities, carrying a cumulative preferred dividend equal to the interest rate on the debt securities. The debt securities and the trust preferred securities each have 30 -year lives. The trust preferred securities and the debt securities are callable by the Company or the trust, at their respective option after a period of time, and at varying premiums and sooner in specific events, subject to prior approval by the Federal Reserve Board ("FRB"), if then required. Deferral of interest payments on the trust preferred securities is allowed for up to 60 months without being considered an event of default.

The subordinated debentures as of September 30, 2016 and December 31, 2015 consisted of the following:

(Dollars in thousands)

		Carrying Amount			
Date of Offering	**Face Amount**	**September 30, 2016**	**December 31, 2015**	**Interest Rate as of September 30, 2016**	**Maturity Date**
July 31, 2001	$ 5,000	$ 4,003	$ 3,959	4.34% (3 Month LIBOR + 358 bps)	July 31, 2031
July 31, 2001	4,000	2,815	2,764	4.34% (3 Month LIBOR + 358 bps)	July 31, 2031
June 26, 2003	10,000	6,202	6,120	3.96% (3 Month LIBOR + 310 bps)	June 26, 2033
September 25, 2003	10,000	6,784	6,668	3.53% (3 Month LIBOR + 285 bps)	October 8, 2033
December 30, 2003	10,000	5,990	5,906	3.61% (3 Month LIBOR + 285 bps)	December 30, 2033
June 28, 2005	3,000	1,684	1,645	2.53% (3 Month LIBOR + 168 bps)	June 28, 2035
December 22, 2005	10,000	4,829	4,731	2.27% (3 Month LIBOR + 140 bps)	March 15, 2036
December 28, 2005	13,000	7,050	6,884	2.39% (3 Month LIBOR + 154 bps)	March 15, 2036
June 23, 2006	20,000	12,015	11,786	2.23% (3 Month LIBOR + 155 bps)	July 7, 2036
May 16, 2007	56,000	30,457	29,782	2.50% (3 Month LIBOR + 165 bps)	June 15, 2037
June 15, 2007	10,000	5,616	5,532	2.27% (3 Month LIBOR + 143 bps)	September 6, 2037
Total	**$ 151,000**	**$ 87,445**	**$ 85,777**		

11. Shareholders' Equity and Minimum Regulatory Capital Requirements

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements results in certain discretionary and required actions by regulators that could have an effect on the Company's operations. The regulations require the Company and the Bank to meet specific capital adequacy guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

To be considered well capitalized or adequately capitalized as defined under the regulatory framework for prompt corrective action, the Bank must maintain minimum Tier 1 leverage, Tier 1 common, Tier 1 risk-based and Total Risk-based ratios. At September 30, 2016 and December 31, 2015 the Bank maintained capital ratios exceeding the requirement to be considered well capitalized. These minimum ratios along with the actual ratios for the Company and the Bank are presented in the following tables:

(Dollars in thousands)	Well Capitalized Requirement		Adequately Capitalized Requirement		Actual	
September 30, 2016	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 Leverage Capital						
(to Average Assets)						
CBF Consolidated	N/A	N/A	$ 292,750	≥ 4.0%	$ 943,390	12.9%
Bank	$ 370,885	≥ 5.0%	296,708	≥ 4.0%	781,015	10.5%
Tier 1 Common Equity Capital						
(to Risk-weighted Assets)						
CBF Consolidated	N/A	N/A	$ 293,918	≥ 4.5%	$ 866,501	13.3%
Bank	$ 423,577	≥ 6.5%	293,246	≥ 4.5%	781,015	12.0%
Tier 1 Risk-based Capital						
(to Risk-weighted Assets)						
CBF Consolidated	N/A	N/A	$ 391,891	≥ 6.0%	$ 943,390	14.4%
Bank	$ 521,326	≥ 8.0%	390,995	≥ 6.0%	781,015	12.0%
Total Risk-based Capital						
(to Risk-weighted Assets)						
CBF Consolidated	N/A	N/A	$ 522,521	≥ 8.0%	$ 987,819	15.1%
Bank	$ 651,658	≥ 10.0%	521,326	≥ 8.0%	827,479	12.7%

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(Dollars in thousands)	Well Capitalized Requirement		Adequately Capitalized Requirement		Actual	
December 31, 2015	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 Capital						
(to Average Assets)						
CBF Consolidated	N/A	N/A	$ 286,742	≥ 4.0%	$ 908,600	12.7%
Bank	$ 357,761	≥ 5.0%	286,209	≥ 4.0%	793,722	11.1%
Tier 1 Common Equity Capital						
(to Risk-weighted Assets)						
CBF Consolidated	N/A	N/A	$ 277,532	≥ 4.5%	$ 840,681	13.6%
Bank	$ 400,338	≥ 6.5%	277,157	≥ 4.5%	793,722	12.9%
Tier 1 Capital						
(to Risk-weighted Assets)						
CBF Consolidated	N/A	N/A	$ 370,042	≥ 6.0%	$ 908,600	14.7%
Bank	$ 492,724	≥ 8.0%	369,543	≥ 6.0%	793,722	12.9%
Total Capital						
(to Risk-weighted Assets)						
CBF Consolidated	N/A	N/A	$ 493,390	≥ 8.0%	$ 954,065	15.5%
Bank	$ 615,905	≥ 10.0%	492,724	≥ 8.0%	842,581	13.7%

In August 2010, the Bank entered into an Operating Agreement with the Office of the Comptroller of the Currency (the "OCC Operating Agreement"). The OCC Operating Agreement required the Bank to maintain total capital equal to at least 12% of risk-weighted assets, Tier 1 Capital equal to at least 11% of risk-weighted assets and a minimum leverage ratio of 10% (Tier 1 Capital ratio). On August 31, 2015, the OCC terminated this agreement and as a result the Bank is no longer subject to special de novo capital requirements and other restrictions.

As of September 30, 2016 and December 31, 2015 , the Company and the Bank met all capital requirements to which they were subject. Tier 1 Capital for the Company includes trust preferred securities to the extent allowable.

The OCC Operating Agreement required prior approval from the OCC before paying a dividend to the Company. Dividends that may be paid by a national bank are limited to that bank's retained net profits for the preceding two years plus retained net profits up to the date of any dividend declaration in the current calendar year. Subsequent to receiving approval from the OCC, the Company received dividends from the Bank totaling $64.2 million , $199.4 million , $56.0 million and $105.0 million on June 1, 2016, January 30, 2015, July 15, 2014 and September 24, 2013, respectively. The Company may use these dividends for general corporate purposes including acquisitions, or as a return of capital to shareholders through future share repurchases or dividends.

In July 2013, the U.S. banking regulators adopted a final rule which implements the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision, and certain changes required by the Dodd-Frank Act. The final rule established an integrated regulatory capital framework and introduces the "Standardized Approach" for risk-weighted assets, which replaces the Basel I risk-based guidance for determining risk-weighted assets as of January 1, 2015, the date the Company became subject to the new rules. Based on the Company's current capital composition and levels, the Company believes it is in compliance with the requirements as set forth in the final rules.

The rules include new risk-based capital and leverage ratios, which will be phased in from 2015 to 2019, and refine the definition of what constitutes "capital" for purposes of calculating those ratios. The new minimum capital level requirements applicable to the Company and the Bank under the final rules are as follows: (i) a new common equity Tier 1 capital ratio of 4.5% ; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from previous rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The final rules also establish a "capital conservation buffer" above the new regulatory minimum capital requirements. The capital conservation buffer will be phased-in over four years beginning on January 1, 2016, as follows: the maximum buffer will be 0.625% of risk-weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter. This will result in the following minimum ratios beginning in 2019: (i) a common equity Tier 1 capital ratio of 7.0% , (ii) a Tier 1 capital ratio of 8.5% , and (iii) a total capital ratio of 10.5% . Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying

discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions. As of September 30, 2016 , our capital buffer would be 4.7% ; exceeding the 2.5% 2019 requirement.

The final rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions if their capital levels begin to show signs of weakness. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions are required to meet the following increased capital level requirements in order to qualify as "well capitalized:" (i) a new common equity Tier 1 capital ratio of 6.5% ; (ii) a Tier 1 capital ratio of 8% (increased from 6%); (iii) a total capital ratio of 10% (unchanged from previous rules); and (iv) a Tier 1 leverage ratio of 5% (unchanged from previous rules).

Dividend Program

On October 19, 2016, the Company's board of directors approved a quarterly common dividend of $0.12 per share payable on November 22, 2016, to shareholders of record as of November 9, 2016.

S **hare Repurchases**

The Company's Board of Directors has authorized stock repurchases of up to $400.0 million . Stock repurchases may be made from time to time, on the open market or in privately negotiated transactions. The approved stock repurchase program does not obligate the Company to repurchase any particular amount of shares, and the program may be extended, modified, suspended, or discontinued at any time.

As of September 30, 2016 , the Company has repurchased a total of $298.6 million , or 12,644,660 common shares at an average price of $24.19 per share with $101.4 million remaining under the current board authorized stock repurchase program.

The Company accounts for treasury stock using the cost method as a reduction of shareholders' equity in the accompanying Consolidated Balance Sheets and Statements of Changes in Shareholders' Equity.

12. Stock-Based Compensation

As of September 30, 2016 , the Company had two compensation plans, the 2010 Equity Incentive Plan ("the "2010 Plan") and the 2013 Omnibus Compensation Plan (the “2013 Plan”) under which shares of its common stock are issuable in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, stock awards, stock bonus awards and other incentive awards. The 2010 Plan was replaced by the 2013 Plan and no further awards may be made pursuant to the 2010 Plan.

The 2013 Plan was effective May 22, 2013 and expires on May 22, 2023 , the tenth anniversary of the effective date. The maximum number of shares of common stock of the Company that may be optioned or awarded under this plan is 2,639,000 shares. Awards under this plan may be made to any person selected by the Compensation Committee.

The following table summarizes the components and classification of stock-based compensation expense for the three and nine months ended September 30, 2016 and 2015 :

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Stock options	$ 14	$ —	$ 35	$ 288
Restricted stock	776	309	1,539	413
Total stock-based compensation expense	**$ 790**	**$ 309**	**$ 1,574**	**$ 701**

The tax benefit related to stock-based compensation expense arising from restricted stock awards and non-qualified stock options was $0.3 million and $0.1 million for the three months ended September 30, 2016 and 2015 , respectively and $0.6 million and $0.3 million for the nine months ended September 30, 2016 and 2015 .

Stock Options

Under the 2010 Plan and 2013 Plan, the exercise price for common stock must equal at least 100% of the fair market value of the stock on the day an option is granted. The exercise price under an incentive stock option granted to a person owning stock representing more than 10% of the common stock must equal at least 110% of the fair market value at the date of grant, and such option is not exercisable after five years from the date the incentive stock option was granted. The Board of Directors may, at its discretion, provide that an option not be exercised in whole or in part for any period or periods of time as specified in the option agreements. Stock options have an expiration of ten years from the date it is granted. Under these plans, 36,000 options were exercised and 30,207 stock options were granted during the nine months ended September 30, 2016 .

ASC 718 requires the recognition of stock-based compensation expense for the number of awards that are ultimately expected to vest. During the nine months ended September 30, 2016 and 2015 , stock based compensation expense was recorded based upon assumptions that the Company would experience no forfeitures. This assumption of forfeitures will be reassessed in subsequent periods based on historical forfeiture rates and may change based on new facts and circumstances. Any changes in assumptions will be accounted for prospectively in the period of change.

A summary of the stock option activity for the nine months ended September 30, 2016 and 2015 is as follows:

	Nine Months Ended			
	September 30, 2016		September 30, 2015	
(Shares in thousands)	Shares	Weighted Average Exercise Price Per Share	Shares	Weighted Average Exercise Price Per Share
Balance, January 1,	3,075	$ 20.12	3,111	$ 20.26
Granted	30	30.54	—	—
Exercised	(36)	18.00	(9)	18.00
Canceled, expired or forfeited	(3)	30.54	(1)	352.15
Balance, September 30,	**3,066**	**$ 20.24**	**3,101**	**$ 20.11**

At September 30, 2016 , the weighted average remaining contractual life for outstanding stock options was approximately 4.24 years and the aggregate intrinsic values was $39.3 million for stock options outstanding and exercisable.

The intrinsic value for stock options is calculated as the difference between the exercise price of the underlying awards and the market price of the Company's common stock as of the reporting date.

Options outstanding at September 30, 2016 were as follows:

(Shares in thousands)	Outstanding Options			Exercisable Options	
Range of Exercise Prices	**Shares**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price Per Share**	**Shares**	**Weighted Average Exercise Price Per Share**
$18.00	361	8.11 years	$ 18.00	166	$ 18.00
$20.00	2,864	3.71 years	20.00	2,864	20.00
$28.44 - $2,026.00	37	7.59 years	43.79	9	86.49
$18.00 - $2,026.00	**3,262**	**4.24 years**	**$ 18.97**	**3,039**	**$ 20.08**

Restricted Stock

Restricted stock provides the grantee with voting, dividend and anti-dilution rights equivalent to common shareholders, but is restricted from transfer until vested, at which time all restrictions are removed. The restricted stock vests ratably over a three -year period subject to continued employment with the company. The value of the restricted stock is being amortized on a straight-line basis over the implied service periods. There were 194,636 restricted stock awards granted under the 2013 Plan during the nine months ended September 30, 2016 .

The following table summarizes unvested restricted stock activity for the nine months ended September 30, 2016 and 2015 :

	Nine Months Ended			
	September 30, 2016		September 30, 2015	
(Shares in thousands)	**Shares**	**Weighted Average Grant-Date Fair Value Per Share**	**Shares**	**Weighted Average Grant-Date Fair Value Per Share**
Balance, January 1,	—	$ —	810	$ 13.89
Granted	199	30.54	—	—
Vested or released	—	—	(213)	14.31
Canceled, expired or forfeited	(4)	30.54	(192)	14.34
Balance, September 30, 2016	**195**	**$ 30.54**	**405**	**$ 13.45**

13. Income Taxes

A reconciliation of income tax computed at applicable Federal statutory income tax rates to total income tax expense reported for the three and nine months ended September 30, 2016 and 2015 is as follows:

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Income before income taxes	$ 26,881	$ 23,910	$ 70,230	$ 62,000
Income taxes computed at Federal statutory tax rate	9,408	8,369	24,581	21,700
Effect of:				
State taxes (net of federal benefit)	822	483	2,143	1,718
State statutory rate change	356	—	356	—
Tax-exempt interest income, net	(327)	(179)	(808)	(728)
Contingent value right expense (CVR)	—	—	—	(118)
Other, net	(1,866)	(84)	(1,772)	(272)
Total income tax expense	**$ 8,393**	**$ 8,589**	**$ 24,500**	**$ 22,300**

The Company uses an estimated annual effective tax rate method of computing its interim tax provision. The effective tax rate is based on forecasted annual pre-tax income, permanent differences and statutory tax rates. For the three and nine months ended September 30, 2016 , the effective income tax rate was 31% and 35% . For the three and nine months ended September 30, 2015 , the effective income tax rate was 36% . The change in effective income tax rate was mainly due to a favorable adjustment for discrete items offset by an increase in state taxes as a result of changes in certain statutory rates in North Carolina that were enacted into law during the third quarter of 2016 and lower tax-exempt interest income.

The Company and its subsidiaries are subject to U.S. federal income tax, as well as income tax of the states of Florida, South and North Carolina, and Tennessee. The net deferred tax assets as of September 30, 2016 and December 31, 2015 were $80.4 million and $105.3 million , respectively. A valuation allowance related to deferred tax assets is required when it is considered more likely than not that all or part of the benefit related to such assets will not be realized. In assessing the need for a valuation allowance, the Company considered both positive and negative evidence in concluding that no valuation allowance was necessary at September 30, 2016 and December 31, 2015 .

At September 30, 2016 and December 31, 2015 , the company had $121.7 million and $107.7 million of gross federal net operating loss carryforwards, respectively, which begin to expire after 2029 and are subject to annual cumulative limitation of $7.9 million .

At September 30, 2016 and December 31, 2015 , the Company had no unrecognized tax benefits and no material amounts recorded for uncertain tax positions.

14. Fair Value

FASB guidance on fair value measurements defines fair value, establishes a framework for measuring fair value, and requires fair value disclosures for certain assets and liabilities measured at fair value on a recurring and non-recurring basis.

This guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

This guidance establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity can access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Cash & cash equivalents

Cash and cash equivalents include cash on hand and highly-liquid items with an original maturity of three months or less. Accordingly, the carrying amount of such instruments is considered to be a reasonable estimate of fair value.

Derivative financial instruments

Interest rate swaps are valued by a third party, using models that primarily use market observable inputs, such as yield curves, and are validated by comparison with valuations provided by the respective counterparties. The credit risk associated with derivative financial instruments that are subject to master netting agreements is measured on a net basis by counterparty portfolio. Forward loan sales agreements are based upon the amounts required to settle the contracts. Fair values for commitments to originate loans held for sale are based on fees currently charged to enter into similar agreements. Fair values for fixed-rate commitments consider the difference between current levels of interest rates and the committed rates.

Valuation of Investment Securities

The fair values of available-for-sale, held-to-maturity and trading securities are determined by: 1) obtaining quoted prices on nationally recognized securities exchanges when available (Level 1 inputs); 2) matrix pricing, which is a mathematical technique widely used in the financial markets to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs); and 3) for certain other debt securities that are not actively traded, custom discounted cash flow modeling (Level 3 inputs).

As of September 30, 2016 , the Bank held industrial revenue bonds, which are floating rate issues. Since there is no active secondary market for the trading of the bonds, the Company has developed a model to estimate fair value. This model determines an appropriate discount rate for the bonds based on current market rates for liquid corporate bonds with an equivalent credit rating plus an estimated illiquidity factor, and calculates the present value of expected future cash flows using this discount rate.

Mortgage Loans Held for Sale

Mortgage loans held for sale are carried at the lower of cost or estimated fair value. The fair values of mortgage loans held for sale are based on commitments on hand from investors within the secondary market for loans with similar characteristics. As such, the fair value adjustment for mortgage loans held for sale is classified as nonrecurring Level 2.

Valuation of Impaired Loans and Other Real Estate Owned

The fair value of collateral dependent impaired loans with specific allocations of the allowance for loan and lease losses and other real estate owned is generally based on recent real estate appraisals and other available observable market information. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach.

The Company generally uses independent external appraisers in this process who routinely make adjustments to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. The Company's policy is to update appraisals, at a minimum, annually for classified assets, which include collateral dependent loans and OREO. The Company considers appraisals dated within the past 12 months to be current and do not typically make adjustments to such appraisals. In the Company's process for reviewing third-party prepared appraisals, any differences of opinion on values, assumptions or adjustments to comparable sales data are typically reconciled directly with the independent appraiser prior to acceptance of the final appraisal.

Sensitivity to Changes in Significant Unobservable Inputs

As discussed above, as of September 30, 2016 , the Company owns industrial revenue bonds, which require recurring fair value estimates categorized within Level 3 of the fair value hierarchy. The significant unobservable inputs used in the fair value measurement of these securities are incorporated in the discounted cash flow modeling valuation. Rates utilized in the modeling of these securities are estimated based upon a variety of factors including the market yields of other non-investment grade corporate debt. Significant changes in any inputs in isolation would result in significantly different fair value estimates.

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2016 are summarized below:

(Dollars in thousands)		Fair Value Measurement Using:		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Trading securities	$ 3,701	$ —	$ 3,701	$ —
Available-for-sale securities:				
Mortgage-backed securities—residential	$ 597,433	$ —	$ 597,433	$ —
Industrial revenue bonds	3,287	—	—	3,287
Corporate bonds	44,556	—	44,556	—
State and political subdivisions—tax exempt	7,669	—	7,669	—
Available-for-sale securities	$ 652,945	$ —	$ 649,658	$ 3,287
Gross asset value of derivatives	$ 6,040	$ —	$ 6,040	$ —
Liabilities				
Gross liability value of derivatives	$ 790	$ —	$ 790	$ —

There were no transfers of assets and liabilities between levels of the fair value hierarchy during the nine months ended September 30, 2016 .

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Assets and liabilities measured at fair value on a recurring basis as of December 31, 2015 are summarized below:

(Dollars in thousands)		Fair Value Measurement Using:		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Trading securities	$ 3,013	$ —	$ 3,013	$ —
Available-for-sale securities:				
Mortgage-backed securities-residential	$ 611,137	$ —	$ 611,137	$ —
Industrial revenue bonds	3,437	—	—	3,437
Corporate bonds	22,755	—	22,755	—
Available-for-sale securities	$ 637,329	$ —	$ 633,892	$ 3,437
Gross asset value of derivatives	$ 933	$ —	$ 933	$ —
Liabilities				
Gross liability value of derivatives	$ 110	$ —	$ 110	$ —

There were no transfers of assets and liabilities between levels of the fair value hierarchy during the year ended December 31, 2015 .

The table below presents the activity and income statement classifications of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended and held at September 30, 2016 :

(Dollars in thousands)	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)
	Industrial Revenue Bonds
Beginning balance, July 1, 2016	$ 3,263
Principal reduction	—
Included in other comprehensive income	24
Ending balance, September 30, 2016	**$ 3,287**

(Dollars in thousands)	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)
	Industrial Revenue Bonds
Beginning balance, January 1, 2016	$ 3,437
Principal reduction	(170)
Included in other comprehensive income	20
Ending balance, September 30, 2016	**$ 3,287**

Quantitative Information about Recurring Level 3 Fair Value Measurements

(Dollars in thousands)	Fair Value at September 30, 2016	Valuation Technique	Significant Unobservable Input	Range
Industrial revenue bonds	$ 3,287	Discounted cash flow	Discount rate	2.58% - 2.67%
			Illiquidity factor	0.5%

(Dollars in thousands)	Fair Value at December 31, 2015	Valuation Technique	Significant Unobservable Input	Range
Industrial revenue bonds	$ 3,437	Discounted cash flow	Discount rate	3.75% - 3.78%
			Illiquidity factor	0.5%

Assets and Liabilities Measured on a Nonrecurring Basis

Assets and liabilities measured at fair value on a nonrecurring basis as of September 30, 2016 are summarized below:

(Dollars in thousands)	Fair Value Measurement Using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets			
Other real estate owned	$ —	$ —	$ 42,090
Other repossessed assets	—	156	—
Impaired loans	—	—	1,354

Other real estate owned measured at fair value as of September 30, 2016 had a gross amount of $50.6 million , less valuation allowances totaling $8.5 million and is made up of $38.3 million commercial properties and $3.8 million residential properties. Impairment charges resulting from the non-recurring changes in the fair value of OREO included in the consolidated statement of income for the three and nine months ended September 30, 2016 were $0.7 million and $2.3 million respectively. Other repossessed assets are primarily comprised of repossessed vehicles and equipment and are measured at fair value as of the date of repossession.

Assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2015 are summarized below:

(Dollars in thousands)	Fair Value Measurement Using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets			
Other real estate owned	$ —	$ —	$ 34,645
Other repossessed assets	—	375	—
Impaired loans	—	—	254

Other real estate owned measured at fair value as of December 31, 2015 had a gross amount of $42.6 million , less valuation allowances totaling $7.9 million . Impairment charges resulting from the non-recurring changes in the fair value of OREO included in the consolidated statement of income for the three months ended December 31, 2015 was $0.3 million . Other repossessed assets are primarily comprised of repossessed vehicles and equipment and are measured at fair value as of the date of repossession.

Quantitative Information about Nonrecurring Level 3 Fair Value Measurements

(Dollars in thousands)	Fair Value at September 30, 2016	Valuation Technique	Significant Unobservable Input	Weighted Average
Other real estate owned	$ 42,090	Fair value of property	Appraised value and other market conditions	7.88%
Impaired loans	1,354	Fair value of collateral	Appraised value and other market conditions	7.39%

(Dollars in thousands)	Fair Value at December 31, 2015	Valuation Technique	Significant Unobservable Input	Weighted Average
Other real estate owned	$ 34,645	Fair value of property	Appraised value and other market conditions	7.86%
Impaired loans	254	Fair value of collateral	Appraised value and other market conditions	7.29%

Carrying amount and estimated fair values of financial instruments were as follows:

(Dollars in thousands)			Fair Value Measurement		
September 30, 2016	**Carrying Value**	**Estimated Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets					
Cash and cash equivalents	$ 204,307	$ 204,307	$ 204,307	$ —	$ —
Trading securities	3,701	3,701	—	3,701	—
Investment securities available-for-sale	652,945	652,945	—	649,658	3,287
Investment securities held-to-maturity	466,063	474,834	—	474,834	—
Loans, net	5,891,949	5,967,191	—	95,253	5,871,938
Other earning assets (1)	31,176	31,176	—	—	31,176
Gross asset value of derivatives	6,040	6,040	—	6,040	—
Total financial assets	**$ 7,256,181**	**$ 7,340,194**	**$ 204,307**	**$ 1,229,486**	**$ 5,906,401**
Financial Liabilities					
Non-contractual deposits	$ 4,364,473	$ 4,364,473	$ —	$ 4,364,473	$ —
Contractual deposits	1,668,784	1,666,270	—	1,666,270	—
Federal Home Loan Bank advances	575,751	573,475	—	573,475	—
Short-term borrowings	15,428	15,427	—	15,427	—
Subordinated debentures	87,445	85,539	—	—	85,539
Gross liability value of derivatives	790	790	—	790	—
Total financial liabilities	**$ 6,712,671**	**$ 6,705,974**	**$ —**	**$ 6,620,435**	**$ 85,539**

(1) Includes Federal Home Loan Bank stock.

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(Dollars in thousands)

December 31, 2015	Carrying Value	Estimated Fair Value	Fair Value Measurement Level 1	Level 2	Level 3
Financial Assets					
Cash and cash equivalents	$ 144,696	$ 144,696	$ 144,696	$ —	$ —
Trading securities	3,013	3,013	—	3,013	—
Investment securities available-for-sale	637,329	637,329	—	633,892	3,437
Investment securities held-to-maturity	472,505	475,134	—	475,134	—
Loans, net	5,587,682	5,636,518	—	10,569	5,625,949
FDIC indemnification asset	6,725	6,725	—	—	6,725
Receivable from FDIC	678	678	—	678	—
Other earning assets (1)	25,736	25,736	—	—	25,736
Gross asset value of derivatives	933	933	—	933	—
Total financial assets	**$ 6,879,297**	**$ 6,930,762**	**$ 144,696**	**$ 1,124,219**	**$ 5,661,847**
Financial Liabilities					
Non-contractual deposits	$ 4,112,892	$ 4,112,892	$ —	$ 4,112,892	$ —
Contractual deposits	1,747,318	1,735,587	—	1,735,587	—
Federal Home Loan Bank advances	460,898	461,128	—	461,128	—
Short-term borrowings	12,410	12,410	—	12,410	—
Subordinated debentures	85,777	92,517	—	—	92,517
Gross liability value of derivatives	110	110	—	110	—
Total financial liabilities	**$ 6,419,405**	**$ 6,414,644**	**$ —**	**$ 6,322,127**	**$ 92,517**

(1) Includes Federal Home Loan Bank stock.

The methods and assumptions used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, receivable from FDIC, derivatives, noncontractual demand deposits and certain short-term borrowings. As it is not practicable to determine the fair value of Federal Home Loan Bank stock due to restrictions placed on transferability, the estimated fair value is equal to their carrying amount. Security fair values are based on market prices or dealer quotes and, if no such information is available, on the rate and term of the security and information about the issuer including estimates of discounted cash flows when necessary. For fixed rate loans or contractual deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life, adjusted for the allowance for loan and lease losses. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values. Fair value of loans does not necessarily represent exit price. Fair value of long-term debt is based on current rates for similar financing. The fair value of off-balance sheet items that include commitments to extend credit to fund commercial, consumer, real estate construction and real estate-mortgage loans and to fund standby letters of credit is considered nominal.

15. Derivative and Hedging Activities

The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates.

The Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. The Company may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

During 2015, the company entered into LIBOR-based interest rate swaps with the objective of limiting the variability of interest payment cash flows resulting from changes in the benchmark interest rate LIBOR. These interest rate swaps are designated as cash flow hedges involving the receipt of fixed-rate amounts from a counterparty in exchange for the Company making variable-rate payments over the life of the agreements without exchange of the underlying notional amount. The effective portion of changes in the fair value of the derivatives is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Any ineffective portion of a financial instrument's change in fair value is immediately recognized in earnings.

During the next twelve months, the Company estimates that an additional $2.0 million will be reclassified as an increase to interest income from amounts reported in accumulated comprehensive income. During the nine months ended September 30, 2016 , no derivative position designated as cash flow hedges were discontinued and none of the gains and losses reported in other comprehensive income were reclassified into earnings as a result of discontinuance of cash flow hedges.

During the second quarter of 2016, the company implemented an interest rate swap program to allow customers to convert variable rate loans to fixed rates. The interest rate swaps are simultaneously offset by interest rate swaps that the Company executes with its derivative counterparties. The changes in the fair value of the swaps offset each other, except for any differences in the credit risk of the counterparties. None of these interest rate swaps are designated or qualify as hedging relationships. As the interest rate swaps associated with this program do not meet hedge accounting requirements, changes in fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. The Company recorded $0.2 million and $0.5 million of customer swap fees in non-interest income for the three and nine months ended September 30, 2016 , respectively.

The Company also enters into forward loan sales contracts, which are derived from loans held for sale, or in the Company's pipeline, to enable those borrowers to manage their exposure to interest rate fluctuations. The forward loan sales derivative contracts are not designated as hedging instruments and all changes in fair value are recognized in non-interest income or non-interest expense during the period of change. For the three and nine months ended September 30, 2016 , the Company recorded $30 thousand and $27 thousand respectively in non-interest income and $0.1 thousand and $0.1 thousand in non-interest expense as a result of changes in fair value of derivatives. For the three and nine months ended September 30, 2015 , the company recorded $1 thousand and $35 thousand respectively in non-interest income and $22 thousand and $21 thousand in non-interest expense as a result of changes in fair value of derivatives.

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The Company’s derivative instrument contracts at fair value as well as their classification on the Company's balance sheet is presented below:

(Dollars in thousands)	Number of instruments	Balance Sheet Location	September 30, 2016 Fair Value	September 30, 2016 Notional Amount	December 31, 2015 Fair Value	December 31, 2015 Notional Amount
Asset derivatives						
Derivatives designated as hedging instruments						
Interest rate swap	4	Other assets	$ 5,239	$ 235,000	$ 893	$ 165,000
Derivatives not designated as hedging instruments						
Forward loan sales contracts	45	Other assets	67	10,122	40	6,967
Interest rate swap	3	Other assets	734	25,041	—	—
Total asset derivatives			**$ 6,040**	**$ 270,163**	**$ 933**	**$ 171,967**
Liability derivatives						
Derivatives designated as hedging instruments						
Interest rate swap	—	Other liabilities	$ —	$ —	$ 108	$ 70,000
Derivatives not designated as hedging instruments						
Forward loan sales contracts	1	Other liabilities	1	192	2	1,213
Interest rate swap	3	Other liabilities	789	25,041	—	—
Total liability derivatives			**$ 790**	**$ 25,233**	**$ 110**	**$ 71,213**

The table below presents the effect of the Company's derivative financial instruments on the Consolidated Statements of Income for the three and nine months ended September 30, 2016 and September 30, 2015 :

(Dollars in thousands)

Three Months Ended September 30, 2016					
Derivatives in Cash Flow Hedging Relationship	**Amount of Gain or (Loss) Recognized in Accumulated OCI on Derivative (Effective Portion)**	**Location of Gain Reclassified from Accumulated OCI into Income (Effective Portion)**	**Amount of Gain Reclassified from Accumulated OCI on Derivative (Effective Portion)**	**Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)**	**Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)**
Interest rate swap	$ (1,336)	Interest income	$ 613	N/A	$ (723)

(Dollars in thousands)

Nine Months Ended September 30, 2016					
Derivatives in Cash Flow Hedging Relationship	**Amount of Gain or (Loss) Recognized in Accumulated OCI on Derivative (Effective Portion)**	**Location of Gain Reclassified from Accumulated OCI into Income (Effective Portion)**	**Amount of Gain Reclassified from Accumulated OCI on Derivative (Effective Portion)**	**Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)**	**Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)**
Interest rate swap	$ 6,345	Interest income	$ 1,891	N/A	$ 4,454

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(Dollars in thousands)	Three Months Ended September 30, 2015				
Derivatives in Cash Flow Hedging Relationship	Amount of Gain or (Loss) Recognized in Accumulated OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain Reclassified from Accumulated OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)
Interest rate swap	$ 5,000	Interest income	$ 778	N/A	$ —

(Dollars in thousands)	Nine Months Ended September 30, 2015				
Derivatives in Cash Flow Hedging Relationship	Amount of Gain or (Loss) Recognized in Accumulated OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain Reclassified from Accumulated OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)
Interest rate swap	$ 4,968	Interest income	$ 1,345	N/A	$ —

The table below presents a gross presentation, the effects of offsetting, and a net presentation of the Company's derivatives as of September 30, 2016 :

(Dollars in thousands)				Gross Amounts Not Offset in the Balance Sheets		
	Gross Amount of Recognized Assets	Gross Amount Offset in the Balance Sheets	Net Amount of Assets Presented in the Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
Offsetting of derivative assets:						
Interest rate swap	$ 5,973	$ —	$ 5,973	$ 789	$ 4,500	$ 684
Total	**$ 5,973**	**$ —**	**$ 5,973**	**$ 789**	**$ 4,500**	**$ 684**
Offsetting of derivative liabilities:						
Interest rate swap	789	—	789	789	—	$ —
Total	**$ 789**	**$ —**	**$ 789**	**$ 789**	**$ —**	**$ —**

The Company has agreements with certain of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness or fails to maintain its status as a well-capitalized institution, then the Company could also be declared in default on its derivative obligations and could be required to terminate its derivative positions with the counterparty and settle the termination value of derivatives in a liability position.

As of September 30, 2016 , the Company has no net liability positions with dealer counterparties. The Company is exposed to credit-related losses in the event of nonperformance by the counterparties to these agreements. The Company controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures and agreements that specify collateral levels to be maintained by the Company and the counterparties. The company has minimum collateral posting thresholds with certain derivative counterparties, and has no posted collateral against its obligations under these agreements as of September 30, 2016 .

ITEM 2: MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain of the matters discussed under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Form 10-Q may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and, as such, may involve known and unknown risk, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from future results described in such forward-looking statements. These statements are often, but not always, made through the use of words or phrases such as “anticipate,” “believes,” “can,” “could,” “may,” “predicts,” “potential,” “should,” “will,” “estimate,” “plans,” “projects,” “continuing,” “ongoing,” “expects,” “intends” and similar words or phrases. Actual results may differ materially from the results anticipated in these forward-looking statements due to a variety of factors, including, without limitation: market and economic conditions, the management of our growth, the risks associated with Capital Bank Corporation's loan portfolio and real estate holdings, local economic conditions affecting retail and commercial real estate, the Company’s geographic concentration in the southeastern region of the United States, the acquisition method of accounting, competition within the industry, dependence on key personnel, government legislation and regulation, the risks associated with identification, completion and integration of any future acquisitions, and risks related to Capital Bank Corporation's technology and information systems. Additional factors that may cause actual results to differ materially from these forward looking statements, include but are not limited to, the risk factors described in Part I, Item 1A of our annual report on Form 10-K for the fiscal year ended December 31, 2015. All forward-looking statements attributable to the Company are expressly qualified in their entirety by these cautionary statements. The Company disclaims any intent or obligation to update these forward-looking statements, whether as a result of new information, future events or otherwise.

Our financial information is prepared in accordance with U.S. GAAP, for more information on our accounting policies and estimates, refer to Note 1. Summary of Significant Accounting Policies to our Consolidated Financial Statements included in our annual report on Form 10-K for the fiscal year ended December 31, 2015. Application of these principles requires management to make complex and subjective estimates and judgments that affect the amounts reported in the following discussion and in our Consolidated Financial Statements and accompanying notes. For more information on our accounting policies and estimates, refer to the Company’s Consolidated Financial Statements and notes thereto included in our annual report on Form 10-K for the fiscal year ended December 31, 2015.

The following discussion addresses the factors that have affected the financial condition and results of operations of the Company as reflected in the unaudited consolidated statement of condition as of September 30, 2016 , and statements of income for the three and nine months then ended.

The following discussion pertains to our historical results, which includes the operations of First National Bank of the South, Metro Bank, Turnberry Bank (collectively, the “Failed Banks”), TIB Financial, Capital Bank Corp., Green Bankshares and Southern Community Financial subsequent to our acquisition of each such entity. Throughout this discussion, we collectively refer to the above acquisitions as the “acquisitions” and loans acquired as “acquired loans”. Loans that are originated or purchased by Capital Bank Corporation as “new loans”.

Overview

We are a bank holding company incorporated in late 2009 with the goal of creating a regional banking franchise in the southeastern region of the United States through organic growth and acquisitions of other banks, including failed, underperforming and undercapitalized banks. We have raised $955.6 million to make acquisitions through a series of private placements and an initial public offering of our common stock. Since inception, we have acquired seven depository institutions, including the assets and certain deposits from the Failed Banks. We closed our eighth acquisition on October 26, 2016, CommunityOne Bancorp (“CommunityOne”).We operate 151 branches in Florida, North and South Carolina, Tennessee, and Virginia. Through our branches, we offer a wide range of commercial and consumer loans and deposits, as well as ancillary financial services.

We were founded by a group of experienced bankers with a multi-decade record of leading, operating, acquiring and integrating financial institutions.

Our executive management team is led by our Chief Executive Officer, R. Eugene Taylor. Mr. Taylor is the former Vice Chairman of Bank of America Corp., where his career spanned 38 years and included responsibilities as Vice Chairman and President of the Consumer and Commercial Bank. Mr. Taylor also served on Bank of America’s Risk & Capital and Management Operating Committees. He has extensive experience executing and overseeing bank acquisitions, including NationsBank Corp’s acquisition and integration of Bank of America, Maryland National Bank and Barnett Banks, Inc.

Our Chief Financial Officer, Christopher G. Marshall, has over 33 years of financial and managerial experience, including serving as Senior Advisor to the Chief Executive Officer and Chief Restructuring Officer at GMAC, Chief Financial Officer of Fifth Third Bancorp and as the Chief Operations Executive for Bank of America's Global Consumer and Small Business Bank. Mr. Marshall also served as Chief Financial Officer of Bank of America's Consumer Products Group. Prior to joining Bank of America, Mr. Marshall served as Chief Financial Officer and Chief Operating Officer of Honeywell International Inc. Global Business Services.

Our Chief Credit Officer, R. Bruce Singletary, has over 35 years of experience, including 21 years of experience managing credit risk. He has served as Head of Credit for NationsBank Corp. for the Mid-Atlantic region. Mr. Singletary then relocated to Florida to establish a centralized underwriting function to serve middle market commercial clients in the southeastern region of the United States. Mr. Singletary also served as Senior Risk Manager for commercial banking for Bank of America's Florida Bank and as Senior Credit Policy Executive of C&S Sovran (renamed NationsBank Corp).

Our Chief of Strategic Planning and Investor Relations, Kenneth A. Posner, spent 13 years as an equity research analyst including serving as a Managing Director at Morgan Stanley focusing on a wide range of financial services firms. Mr. Posner also served in the United States Army, rising to the rank of Captain and has received professional designations as a Certified Public Accountant, as a Chartered Financial Analyst and for Financial Risk Management.

Primary Factors Used to Evaluate Our Business

As a financial institution, we manage and evaluate various aspects of both our results of operations and our financial condition. We evaluate the levels and trends of the line items included in our Consolidated Balance Sheets and Statements of Income, as well as various financial ratios that are commonly used in our industry. We analyze these ratios and financial trends against our budgeted performance and the financial condition and performance of comparable financial institutions in our region and nationally. Our financial information is prepared in accordance with U.S. GAAP. Application of these principles requires management to make complex and subjective estimates and judgments that affect the amounts reported in the following discussion and in our Consolidated Financial Statements and accompanying notes. For more information on our accounting policies and estimates, refer to Note 1. Summary of Significant Accounting Policies to our Consolidated Financial Statements included in our annual report on Form 10-K for the fiscal year ended December 31, 2015.

Quarterly Summary

For the three months ended September 30, 2016 , we had net income of $18.5 million , or $0.42 per diluted share, and core net income of $18.5 million , or $0.42 per diluted share. Year over year net income per diluted share and core net income per diluted share rose 27% and 27% , respectively. Results include the following non-core items: $1.5 million of legal settlement expense, $0.3 million of tax deductible merger related expenses, offset by a $1.1 million tax adjustment and $0.1 million of gains on sales investment securities.

Results of Operations

Net Interest Income

Net interest income is the largest component of our income and is affected by the interest rate environment and the volume and composition of interest-earning assets and interest-bearing liabilities. Our interest-earning assets include loans, interest-bearing deposits in other banks and investment securities. Other earning assets include Federal Home Loan Bank stock. Our interest-bearing liabilities include deposits, subordinated debentures, repurchase agreements and other short-term borrowings.

In the net interest margin and rate/volume analyses below, interest income and rates include the effects of a tax equivalent adjustments using applicable statutory tax rates in adjusting tax-exempt interest on tax-exempt investment securities and loans to a fully taxable basis. In the rate/volume analyses, average loan volumes include non-performing assets which results in the impact of the non-accrual of interest being reflected in the change in average rate. For each major category of interest-earning assets and interest-bearing liabilities, information is provided with respect to changes due to average volumes and changes due to rates, with the changes in both volumes and rates allocated to these two categories based on the proportionate absolute changes in each category.

Three months ended September 30, 2016 compared to three months ended June 30, 2016 :

Net interest income for the three months ended September 30, 2016 increased by $1.1 million , or 1.8% , to $62.6 million from $61.5 million . The net interest margin decline d four basis points to 3.58% from 3.62% and the net interest spread declined five basis points to 3.43% from 3.48% . Loan yields declined eight basis points to 4.40% from 4.48% due to the lower average yield on new loans, which represent $5.0 billion with an average yield of 3.67%, compared to the yields of the Company's

acquired loans, which represent $0.9 billion with an average yield of 8.55%. During the quarter, we had new loan fundings of $471.5 million with an average yield of 3.84% , compared to $473.3 million and 3.63% in the prior quarter. The cost of core deposits increased one basis point to 0.19% from 0.18%. The cost of total deposits remained flat at 0.41% .

(Dollars in thousands)	Three Months Ended September 30, 2016			Three Months Ended June 30, 2016		
	Average Balances	Interest	Yield/Rate	Average Balances	Interest	Yield/Rate
Interest earning assets						
Loans (1)	$ 5,786,171	$ 64,055	4.40%	$ 5,653,647	$ 62,999	4.48%
Investment securities (1)	1,133,031	6,924	2.43%	1,131,791	6,612	2.35%
Interest bearing deposits in other banks	60,373	69	0.45%	64,802	74	0.46%
Other earning assets	29,788	337	4.50%	26,696	330	4.97%
Total interest earning assets	7,009,363	$ 71,385	4.05%	6,876,936	$ 70,015	4.09%
Non-interest earning assets	583,413			607,429		
Total assets	$ 7,592,776			$ 7,484,365		
Interest bearing liabilities						
Time deposits	$ 1,613,502	$ 3,992	0.98%	$ 1,620,023	$ 4,018	1.00%
Money market	1,225,743	1,132	0.37%	1,184,532	1,028	0.35%
Interest bearing demand	1,444,305	752	0.21%	1,451,666	749	0.21%
Savings	404,187	205	0.20%	411,496	208	0.20%
Total interest bearing deposits	4,687,737	6,081	0.52%	4,667,717	6,003	0.52%
Short-term borrowings and FHLB advances	558,313	635	0.45%	485,850	515	0.43%
Long-term borrowings	87,095	1,586	7.24%	87,496	1,547	7.11%
Total interest bearing liabilities	5,333,145	$ 8,302	0.62%	5,241,063	$ 8,065	0.62%
Non-interest bearing demand	1,188,771			1,187,056		
Other liabilities	48,997			42,319		
Shareholders’ equity	1,021,863			1,013,927		
Total liabilities and shareholders’ equity	$ 7,592,776			$ 7,484,365		
Net interest income and spread		$ 63,083	3.43%		$ 61,950	3.48%
Net interest margin			**3.58%**			**3.62%**

Rate/Volume Analysis

(Dollars in thousands)	Three Months Ended September 30, 2016 Compared to Three Months Ended June 30, 2016 Due to changes in:		
	Average Volume	Average Yield / Rate	Net Increase (Decrease)
Interest income			
Loans (1)	$ 1,469	$ (413)	$ 1,056
Investment securities (1)	7	305	312
Interest bearing deposits in other banks	(5)	—	(5)
Other earning assets	36	(29)	7
Total interest income	**1,507**	**(137)**	**1,370**
Interest expense			
Time deposits	(16)	(10)	(26)
Money market	37	67	104
Interest bearing demand	(4)	7	3
Savings	(4)	1	(3)
Short-term borrowings and FHLB advances	81	39	120
Long-term borrowings	(7)	46	39
Total interest expense	**87**	**150**	**237**
Change in net interest income	**$ 1,420**	**$ (287)**	**$ 1,133**

(1) Interest income and rates include the effects of a tax equivalent adjustment using applicable statutory tax rates in adjusting tax-exempt interest on tax-exempt investment securities and loans to a fully taxable basis.

Three months ended September 30, 2016 compared to three months ended September 30, 2015 :

Net interest income for the three months ended September 30, 2016 increased by $1.0 million , or 1.6% , to $62.6 million from $61.6 million . The net interest margin declined 24 basis points to 3.58% from 3.82% and the net interest spread declined 25 basis points to 3.43% from 3.68% . Loan yields declined 31 basis points to 4.40% from 4.71% due to the lower average yield on new loans compared to the yields of the Company's acquired loans. During the quarter, we had new loan fundings of $471.5 million with an average yield of 3.84% , compared to $490.2 million with an average yield of 3.74%, during the three months ended September 30, 2015 . New loans represent 81% of our total loan portfolio, up from 79% at September 30, 2015 . Investment securities yields increased 29 basis points to 2.43% due to the reinvestment of funds into higher yielding securities to assist with interest rate risk and liquidity management. The cost of core deposits increased four basis points to 0.19% . The cost of total deposits increased two basis points to 0.41% mainly due to re-pricing of deposits as a result of the federal funds rate increase in December 2015 and increased money market balances. Total funding cost increased four basis points to 0.51% .

(Dollars in thousands)	Three Months Ended September 30, 2016			Three Months Ended September 30, 2015		
	Average Balances	Interest	Yield/Rate	Average Balances	Interest	Yield/Rate
Interest earning assets						
Loans	$ 5,786,171	$ 64,055	4.40%	$ 5,261,793	$ 62,461	4.71%
Investment securities	1,133,031	6,924	2.43%	1,088,818	5,885	2.14%
Interest bearing deposits in other banks	60,373	69	0.45%	36,596	19	0.21%
Other earning assets	29,788	337	4.50%	54,960	760	5.49%
Total interest earning assets	7,009,363	71,385	4.05%	6,442,167	69,125	4.26%
Non-interest earning assets	583,413			645,715		
Total assets	$ 7,592,776			$ 7,087,882		
Interest bearing liabilities						
Time deposits	$ 1,613,502	$ 3,992	0.98%	$ 1,642,745	$ 3,957	0.96%
Money market	1,225,743	1,132	0.37%	977,273	658	0.27%
Interest bearing demand	1,444,305	752	0.21%	1,291,439	540	0.17%
Savings	404,187	205	0.20%	452,058	241	0.21%
Total interest bearing deposits	4,687,737	6,081	0.52%	4,363,515	5,396	0.49%
Short-term borrowings and FHLB advances	558,313	635	0.45%	428,249	272	0.25%
Long-term borrowings	87,095	1,586	7.24%	84,922	1,413	6.60%
Total interest bearing liabilities	5,333,145	8,302	0.62%	4,876,686	7,081	0.58%
Non-interest bearing demand	1,188,771			1,116,757		
Other liabilities	48,997			46,117		
Shareholders’ equity	1,021,863			1,048,322		
Total liabilities and shareholders’ equity	$ 7,592,776			$ 7,087,882		
Net interest income and spread		$ 63,083	3.43%		$ 62,044	3.68%
Net interest margin			**3.58%**			**3.82%**

Rate/Volume Analysis

(Dollars in thousands)	Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015 Due to changes in:		
	Average Volume	Average Yield / Rate	Net Increase (Decrease)
Interest income			
Loans (1)	$ 5,974	$ (4,380)	$ 1,594
Investment securities (1)	246	793	1,039
Interest bearing deposits in other banks	18	32	50
Other earning assets	(303)	(120)	(423)
Total interest income	**5,935**	**(3,675)**	**2,260**
Interest expense			
Time deposits	(71)	106	35
Money market	193	281	474
Interest bearing demand	69	143	212
Savings	(25)	(11)	(36)
Short-term borrowings and FHLB advances	101	262	363
Long-term borrowings	37	136	173
Total interest expense	**304**	**917**	**1,221**
Change in net interest income	**$ 5,631**	**$ (4,592)**	**$ 1,039**

(1) Interest income and rates include the effects of a tax equivalent adjustment using applicable statutory tax rates in adjusting tax-exempt interest on tax-exempt investment securities and loans to a fully taxable basis.

Nine months ended September 30, 2016 compared to nine months ended September 30, 2015 :

Net interest income for the nine months ended September 30, 2016 increased by $3.5 million , or 1.90% , to $185.5 million from $182.1 million . The increase was due to the higher loan balances and yields on investment securities. The net interest margin declined 29 basis points to 3.61% from 3.90% and the net interest spread declined 30 basis points to 3.47% from 3.77% . Loan yields declined 35 basis points to 4.47% from 4.82% due to the lower average yield on new loans in addition to the decline of our higher yielding acquired loan portfolio as we continue to resolve legacy problem assets. During the nine months ended September 30, 2016 , we funded new loans of $1,241.2 million with an average yield of 3.73%, compared to $1,296 million new loans with an average yield of 3.62% during the nine months ended September 30, 2015 . New loans represent 81% of our total loan portfolio, up from 79% at September 30, 2015 . The weighted average yield of acquired impaired loans outstanding at September 30, 2016 is 8.55%. Investment securities yields increased due to the reinvestment of funds into higher yielding securities to assist with interest rate risk and liquidity management. The cost of core deposits increased four basis points to 0.19%. The cost of total deposits increased five basis point to 0.41% mainly due to an increase in wholesale time deposits, which provided a lower cost source of funding than higher rate legacy time deposits. Total funding cost increased four basis points to 0.51%.

	Nine Months Ended September 30, 2016			Nine Months Ended September 30, 2015		
	Average Balances	Interest	Yield/Rate	Average Balances	Interest	Yield/Rate
Interest earning assets						
Loans (1)	$ 5,684,143	$ 190,063	4.47%	$ 5,129,607	$ 184,889	4.82%
Investment securities (1)	1,129,129	20,020	2.37%	1,047,451	16,324	2.08%
Interest bearing deposits in other banks	66,100	227	0.46%	50,187	88	0.23%
Other earning assets (2)	27,216	981	4.81%	51,167	2,093	5.47%
Total interest earning assets	6,906,588	211,291	4.09%	6,278,412	203,394	4.33%
Non-interest earning assets	602,904			665,016		
Total assets	$ 7,509,492			$ 6,943,428		
Interest bearing liabilities						
Time deposits	$ 1,640,959	$ 12,130	0.99%	$ 1,506,488	$ 10,357	0.92%
Money market	1,219,227	3,227	0.35%	945,170	1,811	0.26%
Interest bearing demand	1,422,389	2,149	0.20%	1,356,300	1,710	0.17%
Savings	411,729	640	0.21%	477,698	765	0.21%
Total interest bearing deposits	4,694,304	18,146	0.52%	4,285,656	14,643	0.46%
Short-term borrowings and FHLB advances	501,892	1,680	0.45%	336,791	597	0.24%
Long-term borrowings	86,860	4,644	7.14%	116,922	4,784	5.47%
Total interest bearing liabilities	5,283,056	24,470	0.62%	4,739,369	20,024	0.56%
Non-interest bearing demand	1,171,599			1,102,393		
Other liabilities	44,594			44,891		
Shareholders’ equity	1,010,244			1,056,775		
Total liabilities and shareholders’ equity	$ 7,509,493			$ 6,943,428		
Net interest income and spread		$ 186,821	3.47%		$ 183,370	3.77%
Net interest margin			**3.61%**			**3.90%**

Rate/Volume Analysis

(Dollars in thousands)	Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015 Due to changes in:		
	Average Volume	Average Yield / Rate	Net Increase (Decrease)
Interest income			
Loans (1)	$ 19,121	$ (13,947)	$ 5,174
Investment securities (1)	1,336	2,360	3,696
Interest bearing deposits in other banks	35	104	139
Other earning assets	(887)	(225)	(1,112)
Total interest income	**19,605**	**(11,708)**	**7,897**
Interest expense			
Time deposits	962	811	1,773
Money market	612	804	1,416
Interest bearing demand	87	352	439
Savings	(103)	(22)	(125)
Short-term borrowings and FHLB advances	385	698	1,083
Long-term borrowings	(1,402)	1,262	(140)
Total interest expense	**541**	**3,905**	**4,446**
Change in net interest income	**$ 19,064**	**$ (15,613)**	**$ 3,451**

(1) Interest income and rates include the effects of a tax equivalent adjustment using applicable statutory tax rates in adjusting tax-exempt interest on tax-exempt investment securities and loans to a fully taxable basis.

Provision for Loan and Lease Losses

The following table presents the provision for loan and lease losses for PCI and non-PCI Loans for the three and nine months ended September 30, 2016 and 2015 :

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Provision (reversal) for loan and lease losses on PCI Loans	$ (48)	$ 490	$ (835)	$ (1,960)
Provision for loan and lease losses on non-PCI Loans	634	309	3,968	3,217
Provision for Loan and Lease Losses	**$ 586**	**$ 799**	**$ 3,133**	**$ 1,257**

Three months ended September 30, 2016 compared to three months ended September 30, 2015 :

The provision for loan and lease losses for the three months ended September 30, 2016 was $0.6 million compared to $0.8 million for the three months ended September 30, 2015 . The provision on the new loan portfolio was $0.6 million for the three months ended September 30, 2016 , as compared to $0.3 million for the three months ended September 30, 2015 .

Nine months ended September 30, 2016 compared to nine months ended September 30, 2015 :

The provision for loan and lease losses for the nine months ended September 30, 2016 was $3.1 million compared to a provision of $1.3 million for the nine months ended September 30, 2015 . The change is primarily due to a $2.0 million reversal of impairment associated with PCI Loans in the prior year. The reversal of impairment associated with PCI Loans was due to improvements in our expectations of future cash flows resulting from higher than anticipated payoffs and resolutions. The provision on the new loan portfolio increased to $4.0 million for the nine months ended September 30, 2016 , from $3.2 million for the nine months ended September 30, 2015 .

The table below illustrates the impact of our third quarter of 2016 estimates of expected cash flows on PCI Loans on impairment and prospective yield:

(Dollars in thousands)		Weighted Average Prospective Yields				
	Cumulative Impairment	Based on Original Estimates of Expected Cash Flows	Based on Most Recent Estimates of Expected Cash Flows	Loan Balance	Weighted Average Note Rate	Weighted Average Life (Years)
PCI loans	23,653	5.67%	8.55%	869,199	4.63%	2.47

Non-interest Income

Three months ended September 30, 2016 compared to three months ended September 30, 2015 :

Non-interest income increased $1.0 million , or 8% , to $12.4 million for the three months ended September 30, 2016 from $11.4 million for the three months ended September 30, 2015 . The increase was mainly due to the absence of $1.4 million of FDIC indemnification asset expense recorded in the prior year. Partially offsetting the increase was a $0.6 million decline in investment advisory income and a $0.7 million decline in service charges.

Nine months ended September 30, 2016 compared to nine months ended September 30, 2015 :

Non-interest income declined $4.8 million , or 15% , to $26.9 million for the nine months ended September 30, 2016 from $31.7 million for the nine months ended September 30, 2015 . The decline was mainly driven by the termination of the FDIC loss share agreements, which resulted in additional FDIC indemnification asset expense of $9.2 million year over year, a decline in service charges of $1.3 million and investment advisory income of $1.8 million. Partially offsetting the decline was the absence of $6.4 million of FDIC indemnification asset amortization expense.

The following table sets forth the components of non-interest income for the periods indicated:

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Service charges on deposit accounts	$ 4,777	$ 5,472	$ 14,074	$ 15,366
Debit card income	3,389	3,113	9,710	9,253
Fees on mortgage loans originated and sold	1,334	990	3,445	3,415
Investment advisory and trust fees	290	860	1,242	2,991
FDIC indemnification asset expense	—	(1,418)	—	(6,356)
Termination of loss share agreements	—	—	(9,178)	—
Investment securities gains	71	(43)	228	278
Net impairment loss recognized in earnings	—	—	—	(288)
OREO revenues	72	136	264	499
Earnings on bank owned life insurance policies	342	356	1,125	1,125
Wire transfer fees	204	208	620	615
Participated loan fees	626	555	1,898	1,508
Fee income interest rate swaps	243	—	525	—
Other income	1,022	1,189	2,905	3,295
Total non-interest income	**$ 12,370**	**$ 11,418**	**$ 26,858**	**$ 31,701**

Non-interest Expense

Three months ended September 30, 2016 compared to three months ended September 30, 2015 :

Non-interest expense declined $0.8 million , or 2% , to $47.5 million for the three months ended September 30, 2016 from $48.3 million for the three months ended September 30, 2015 . The improvement was mainly due to a reduction of $1.7 million in employee compensation as a result of cost savings initiatives, and a reduction of $1.8 million in the OREO valuation, foreclosed asset and loan workout expense components of our legacy credit expenses. Partially offsetting the decline, were $1.5

million of legal settlement, $0.5 million of stock based compensation, and $0.4 million of conversion and merger related expenses incurred as part of CommunityOne acquisition costs.

Our efficiency ratios for the three months ended September 30, 2016 and 2015 were 63.38% and 66.18%, respectively. Our core efficiency ratios for the three months ended September 30, 2016 and 2015 were 61.06% and 66.02%, respectively.

Nine months ended September 30, 2016 compared to nine months ended September 30, 2015 :

Non-interest expense declined $11.5 million , or 8% , to $139.0 million for the nine months ended September 30, 2016 from $150.5 million for the nine months ended September 30, 2015 . The improvement was mainly due to a reduction of $5.1 million in employee compensation as a result of cost savings initiatives, a reduction of $5.0 million in the OREO valuation, foreclosed asset and loan workout expense components of our legacy credit expenses, the absence of a $2.5 million restructuring charges, and the absence of $1.4 million net losses on extinguishment of debt. Partially offsetting the decline, were $3.3 million of conversion and merger related expenses incurred as part of CommunityOne acquisition costs, and $1.5 million of legal settlement.

Our efficiency ratios for the nine months ended September 30, 2016 and 2015 were 65.45% and 70.41% , respectively. Our core efficiency ratios for the nine months ended September 30, 2016 and 2015 were 60.58% and 68.35% , respectively.

The following table sets forth the components of non-interest expense for the periods indicated:

(Dollars in thousands)	**Three Months Ended**		**Nine Months Ended**	
	September 30, 2016	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**
Salaries and employee benefits	$ 20,935	$ 22,620	$ 63,236	$ 68,382
Stock-based compensation expense	790	309	1,574	701
Net occupancy and equipment expense	7,340	7,621	22,398	23,504
Computer services	3,153	3,471	10,002	10,211
Software expense	1,948	2,198	5,984	6,422
Telecommunication expense	1,790	1,515	4,880	4,262
OREO valuation expense	742	2,075	2,328	5,175
Net gains on sales of OREO	(159)	(351)	(1,251)	(1,315)
Foreclosed asset related expense	397	872	1,081	2,146
Loan workout expense	206	194	521	1,612
Conversion and merger related expense	394	—	3,317	—
Professional fees	1,642	1,958	4,607	5,415
Losses on extinguishment of debt	—	—	—	1,438
Restructuring charges, net	(113)	23	34	2,542
Legal settlement expense	1,500	—	1,500	—
Contingent value right expense	—	—	—	120
Regulatory assessments	841	1,423	3,375	4,949
Amortization of intangibles	923	940	2,774	2,792
Other expense	5,201	3,478	12,644	12,139
Total non-interest expense	**$ 47,530**	**$ 48,346**	**$ 139,004**	**$ 150,495**

Legacy credit expenses for the three and nine months ended September 30, 2016 and 2015 are presented below:

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Provision (reversal) on legacy loans	$ 48	$ 490	$ (721)	$ (1,960)
FDIC indemnification asset expense	—	1,418	—	6,356
OREO valuation expense	742	2,075	2,328	5,175
Termination of loss share agreements	—	—	9,178	—
Net gains on sales of OREO	(159)	(351)	(1,251)	(1,315)
Foreclosed asset related expense	397	872	1,081	2,146
Loan workout expense	206	194	521	1,612
Salaries and employee benefits	511	797	1,552	2,426
Total legacy credit expenses	**$ 1,745**	**$ 5,495**	**$ 12,688**	**$ 14,440**

The core efficiency ratio, which equals core non-interest expense divided by core net revenues (net interest income plus core non-interest income), for the three and nine months ended September 30, 2016 and 2015 is as follows:

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net interest income	$ 62,627	$ 61,637	$ 185,509	$ 182,051
Reported non-interest income	$ 12,370	$ 11,418	$ 26,858	$ 31,701
Less: Termination of loss share agreements	—	—	(9,178)	—
Securities gains (losses)	71	(43)	228	(10)
Core non-interest income	**$ 12,299**	**$ 11,461**	**$ 35,808**	**$ 31,711**
Reported non-interest expense	$ 47,530	$ 48,346	$ 139,004	$ 150,495
Less: Stock-based compensation	—	—	—	95
Contingent value right expense	—	—	—	120
Conversion costs and merger tax deductible	331	—	2,319	—
Legal merger non-deductible	61	—	996	—
Restructuring expense	(113)	23	34	2,542
Severance expense	—	63	75	188
Loss on extinguishment	—	—	—	1,438
Legal settlement	1,500	—	1,500	—
Core non-interest expense	**$ 45,751**	**$ 48,260**	**$ 134,080**	**$ 146,112**
Efficiency ratio	**63.38%**	**66.18%**	**65.45%**	**70.41%**
Core efficiency ratio	**61.06%**	**66.02%**	**60.58%**	**68.35%**

The core efficiency ratio is a non-GAAP measure which we believe provides analysts and investors with information useful in understanding our business and evaluating our operating efficiency. We monitor the core efficiency ratio to evaluate and control operating costs. The core efficiency ratio is also a measure utilized by our Board of Directors in measuring management's performance in controlling operating costs in comparison to peers. This non-GAAP measure has inherent limitations and is not required to be uniformly applied. It should not be considered in isolation or as a substitute for analysis of

results reported under GAAP. This non-GAAP measure may not be comparable to similarly titled measures reported by other companies and should not be viewed as a substitute for non-interest expense.

Income Taxes

The provision for income taxes was $8.4 million and $24.5 million for the three and nine months ended September 30, 2016 , respectively. The effective income tax rate was 31% and 35% for these periods, respectively. The change in effective income tax rate was mainly due to a favorable adjustment for discrete items offset by an increase in state taxes as a result of changes in certain statutory rates in North Carolina that were enacted into law during the third quarter of 2016 and lower tax-exempt interest income.

At September 30, 2016 and December 31, 2015 , the Company had no material amounts recorded for uncertain tax positions and no material unrecognized tax benefits. We do not expect to identify any material unrecognized tax benefits during the next 12 months.

Refer to Note 13. Income Taxes to our Consolidated Financial Statements for further information on our provision for income taxes.

Financial Condition

Our assets totaled $7.8 billion at September 30, 2016 and $7.4 billion at December 31, 2015 . Total loans increased $0.3 million to $5.9 billion at September 30, 2016 compared to $5.6 billion at December 31, 2015 . The increase in loans was due to new loans of $1,241.2 million , partially offset by $67.0 million in resolutions of problem loans and $871.0 million in net principal repayments. Investment securities increased by $9.9 million mainly due to $205.2 million of investment purchases and $16.4 million change in market valuation on available for sale investment securities, partially offset by $92.1 million of security sales and calls and $119.8 million of principal reductions and amortization. Total deposits increased by $173.0 million or 3% to $6.0 billion at September 30, 2016 compared to $5.9 billion at December 31, 2015 . Core deposits increased by $276.6 million . Non-interest bearing checking accounts increased $86.6 million , interest bearing demand deposits increased by $80.8 million , money market balances increased $126.8 million and savings deposits decreased by $17.7 million . Core deposits represent 70.3% and 67.6% of total deposits at September 30, 2016 and December 31, 2015 , respectively. Partially offsetting the increase in core deposits was a decrease in higher rate brokered deposits and time deposits of $103.5 million . Borrowed funds, consisting of FHLB advances, short-term borrowings, notes payable and subordinated debentures, totaled $678.6 million and $559.1 million at September 30, 2016 and December 31, 2015 , respectively. FHLB advances increased by $114.9 million to $575.8 million at September 30, 2016 compared to $460.9 million at December 31, 2015.

Shareholders' equity was $1.0 billion at September 30, 2016 and December 31, 2015 . The Company's Board of Directors has authorized a stock repurchase plan of up to $400.0 million . Stock repurchases may be made from time to time, on the open market or in privately negotiated transactions. The approved stock repurchase program does not obligate the Company to repurchase any particular amount of shares, and the programs may be extended, modified, suspended, or discontinued at any time.

As of September 30, 2016 , the Company has repurchased a total of $298.6 million , or 12,644,660 common shares at an average price of $24.19 per share, and had $101.4 million remaining under the current board authorized stock repurchase program.

Core return-on-assets ("core ROA") is a non-GAAP measure which we believe provides management and investors with useful information to understand the effects of certain non-interest items and provides an alternative view of the Company's performance over time and in comparison to the Company's competitors. This non-GAAP measure has inherent limitations and is not required to be uniformly applied. It should not be considered in isolation or as a substitute for analysis of results reported under GAAP. This non-GAAP measure may not be comparable to similarly titled measures reported by other companies and should not be viewed as a substitute for results determined in accordance to GAAP. A reconciliation to the most directly comparable GAAP financial measure is shown in the table below:

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net Income	**$ 18,488**	**$ 15,321**	**$ 45,730**	**$ 39,700**
Adjustments				
Non-interest income				
Termination of loss share agreements	—	—	9,178	—
Security (gains) losses	(71)	43	(228)	10
Non-interest expense				
Legal settlement	1,500	—	1,500	95
Tax adjustment	(1,067)	—	(1,067)	—
Contingent value right expense	—	—	—	120
Severance expense	—	63	75	188
Loss on extinguishment of debt	—	—	—	1,438
Conversion costs and merger tax deductible	331	—	2,319	—
Legal merger non deductible	61	—	996	—
Restructuring charges	(113)	23	34	2,542
Contract termination	—	—	—	—
Tax effect of adjustments	(629)	(50)	(4,922)	(1,684)
Core Net Income	**$ 18,500**	**$ 15,400**	**$ 53,615**	**$ 42,409**
Average Assets	**$ 7,592,776**	**$ 7,087,882**	**$ 7,509,492**	**$ 6,943,428**
ROA	**0.97%**	**0.86%**	**0.81%**	**0.76%**
Core ROA	**0.97%**	**0.87%**	**0.95%**	**0.81%**

Loans

Our loan portfolio is our largest earning asset. Our strategy is to increase the loan portfolio by originating commercial and consumer loans that we believe to be of high quality, that comply with our conservative credit policies and that produce revenues consistent with our financial objectives.

The following table sets forth the carrying amounts of our loan portfolio:

(Dollars in thousands)	September 30, 2016		December 31, 2015		Year to Date Change	
	Amount	Percent	Amount	Percent	Amount	Percent
Non-owner occupied commercial real estate	$ 920,521	15.5%	$ 866,392	15.4%	$ 54,129	6.2 %
Other commercial construction and land	222,794	3.7%	196,795	3.5%	25,999	13.2 %
Multifamily commercial real estate	76,296	1.3%	80,708	1.4%	(4,412)	(5.5)%
1-4 family residential construction and land	111,954	1.9%	93,242	1.7%	18,712	20.1 %
Total commercial real estate	**1,331,565**	**22.4%**	**1,237,137**	**22.0%**	**94,428**	**7.6 %**
Owner occupied commercial real estate	1,072,586	18.1%	1,104,972	19.6%	(32,386)	(2.9)%
Commercial and industrial	1,458,523	24.6%	1,309,704	23.3%	148,819	11.4 %
Lease financing	525	—%	1,256	—%	(731)	(58.2)%
Total commercial	**2,531,634**	**42.7%**	**2,415,932**	**42.9%**	**115,702**	**4.8 %**
1-4 family residential	1,168,468	19.7%	1,017,791	18.1%	150,677	14.8 %
Home equity loans	364,117	6.1%	375,276	6.7%	(11,159)	(3.0)%
Other consumer loans	349,013	5.9%	436,478	7.7%	(87,465)	(20.0)%
Total consumer	**1,881,598**	**31.7%**	**1,829,545**	**32.5%**	**52,053**	**2.8 %**
Other	191,136	3.2%	150,102	2.6%	41,034	27.3 %
Total loans	**$ 5,935,933**	**100.0%**	**$ 5,632,716**	**100.0%**	**$ 303,217**	**5.4 %**

The following tables set forth the carrying amounts of our non-PCI and PCI loan portfolio by category:

(Dollars in thousands)	September 30, 2016			
	Non-PCI Loans			
	New	Acquired	PCI Loans	Total
Non-owner occupied commercial real estate	$ 644,034	$ 36,510	$ 239,977	$ 920,521
Other commercial construction and land	160,062	103	62,629	222,794
Multifamily commercial real estate	51,155	5,238	19,903	76,296
1-4 family residential construction and land	111,671	—	283	111,954
Total commercial real estate	**966,922**	**41,851**	**322,792**	**1,331,565**
Owner occupied commercial real estate	878,104	28,703	165,779	1,072,586
Commercial and industrial	1,388,333	3,856	66,334	1,458,523
Lease financing	525	—	—	525
Total commercial	**2,266,962**	**32,559**	**232,113**	**2,531,634**
1-4 family residential	924,593	28,206	215,669	1,168,468
Home equity loans	167,134	131,080	65,903	364,117
Other consumer loans	344,121	2,944	1,948	349,013
Total consumer	**1,435,848**	**162,230**	**283,520**	**1,881,598**
Other	158,505	1,857	30,774	191,136
Total loans	**$ 4,828,237**	**$ 238,497**	**$ 869,199**	**$ 5,935,933**

(Dollars in thousands)	December 31, 2015			
	Non PCI Loans			
	New	Acquired	PCI Loans	Total
Non-owner occupied commercial real estate	$ 517,559	$ 46,081	$ 302,752	$ 866,392
Other commercial construction and land	110,716	202	85,877	196,795
Multifamily commercial real estate	51,413	5,686	23,609	80,708
1-4 family residential construction and land	90,304	—	2,938	93,242
Total commercial real estate	**769,992**	**51,969**	**415,176**	**1,237,137**
Owner occupied commercial real estate	858,068	36,927	209,977	1,104,972
Commercial and industrial	1,222,320	6,255	81,129	1,309,704
Lease financing	1,256	—	—	1,256
Total commercial	**2,081,644**	**43,182**	**291,106**	**2,415,932**
1-4 family residential	733,349	34,459	249,983	1,017,791
Home equity loans	148,855	151,437	74,984	375,276
Other consumer loans	429,346	3,911	3,221	436,478
Total consumer	**1,311,550**	**189,807**	**328,188**	**1,829,545**
Other	114,995	2,269	32,838	150,102
Total loans	**$ 4,278,181**	**$ 287,227**	**$ 1,067,308**	**$ 5,632,716**

During the nine months ended September 30, 2016 , our loan portfolio increased by $303.2 million , as $1.2 billion of new loans were partially offset by $67.0 million in resolutions of problem loans and $871.0 million in net principal repayments. New and acquired non-impaired loans represent 85.4% of our total loan portfolio as compared to 81.1% at December 31, 2015.

The composition of new loan production is indicative of our business strategy of emphasizing commercial and industrial and consumer loans. New loan production during the nine months ended September 30, 2016 was absent of indirect auto lending, as illustrated in other consumer loans below. Additionally, commercial loans and consumer and other loans represented approximately 40.2% and 32.0%, respectively, of new loan production for the nine months ended September 30, 2016 .

The following table sets forth our new loans (excluding renewals of existing loans) segmented by loan type:

(Dollars in thousands)	Nine Months Ended			
	September 30, 2016		September 30, 2015	
	Amount	Percent	Amount	Percent
Non-owner occupied commercial real estate	$ 148,055	11.8%	$ 144,583	11.2%
Other commercial construction and land	127,228	10.3%	72,737	5.6%
Multifamily commercial real estate	8,585	0.7%	13,738	1.1%
1-4 family residential construction and land	61,674	5.0%	52,050	4.0%
Total commercial real estate	**345,542**	**27.8%**	**283,108**	**21.9%**
Owner occupied commercial real estate	85,349	6.9%	146,368	11.3%
Commercial and industrial	413,446	33.3%	361,503	27.9%
Total commercial	**498,795**	**40.2%**	**507,871**	**39.2%**
1-4 family residential	278,699	22.5%	190,601	14.7%
Home equity loans	38,735	3.1%	52,806	4.1%
Other consumer loans	38,465	3.1%	221,987	17.1%
Total consumer	**355,899**	**28.7%**	**465,394**	**35.9%**
Other	40,956	3.3%	39,473	3.0%
Total loans	**$ 1,241,192**	**100.0%**	**$ 1,295,846**	**100.0%**

We underwrite commercial real estate loans based on the value of the collateral, the ratio of debt service to property income and the creditworthiness of tenants. Due to the inherent risk of commercial real estate lending, we underwrite loans selectively.

Florida, North Carolina, South Carolina, and Tennessee accounted for 34.5% , 27.6% , 9.6% and 28.3% of our new loans, respectively, for the nine months ended September 30, 2016 . Florida, North Carolina, South Carolina, and Tennessee accounted for 31.5%, 31.6%, 12.6% and 24.3% of our new loans, respectively, for the nine months ended September 30, 2015 .

Asset Quality

Consistent with our strategy of operating with a sound risk profile, we focus on originating loans we believe to be of high quality, and disposing of non-performing assets rapidly and at reasonable valuations. To achieve these objectives, we underwrite new loans and manage existing loans in accordance with our underwriting standards under the direction of our Chief Credit Officer. Additionally, we have assigned senior credit officers to oversee the Florida, Tennessee and Carolinas markets, and we have established a special assets division to dispose of legacy problem loans and OREO.

We refer to our loans covered under loss sharing agreements with the FDIC as “covered loans.” These are the legacy loans of Metro Bank, Turnberry Bank, and First National Bank of the South where the FDIC reimbursed us for 80% of net charge-offs and OREO losses over a five-year period for commercial loans (expired in the third quarter of 2015 but required sharing of recoveries until 2018) and a ten-year period for residential loans (expiring in the third quarter of 2020). We refer to all other loans as “non-covered loans.” These are new loans we originate or purchase, loans acquired through the acquisitions of Capital Bank, TIB Bank, Green Bank and Southern Community Bank and Trust and certain loans of the Failed Banks that we acquired, which are no longer covered by any loss sharing agreement effective January 1, 2016.

Covered Loans

On March 18, 2016, the Bank entered into an agreement to terminate all existing loss share agreements with the FDIC effective January 1, 2016. All rights and obligations of the Bank and the FDIC under these FDIC loss share agreements have been resolved and terminated under this agreement. Covered loans and OREO that were subject to the loss share agreements were reclassified and are presented as non-covered as of September 30, 2016 . As of December 31, 2015 , covered loans were $73.5 million, representing 1.3% of our loan portfolio of which 1.0% were past due 30-89 days, 3.8% were nonperforming PCI (of which 1.8% were >90 days past due and still accreting) and 1.3% were nonaccrual. The status of these loans reflects the severity of the real estate downturn and the excessive concentrations in commercial real estate and poor quality underwriting that characterized the banks we acquired from the FDIC under their prior business models. We have recorded these loans at estimated fair value reflecting expected lifetime losses estimated as of their acquisition date.

We managed credit risk associated with loans covered under loss sharing agreements in the same manner as credit risk associated with non-covered loans. This included following consistent policies and procedures relating to the process of working with borrowers in efforts to resolve problem loans resulting in the lowest losses possible and collection including foreclosure, repossession and the ultimate liquidation of any applicable underlying collateral. The loss sharing agreements also contained certain restrictions and conditions which, among other things, provide that certain credit risk management strategies such as loan sales, under certain conditions, could be prohibited under the agreements and may lead to the termination of coverage of any applicable losses on the related loans.

Collection of loss claims under the loss sharing agreements required extensive and specific recordkeeping and incremental quarterly reporting to the FDIC on the status of covered loans. The loss claims filed and the related reporting on covered loans to the FDIC were subject to review and approval by the FDIC and various subcontractors utilized by the FDIC. The requirements for such reporting and interpretations thereof were occasionally revised by the FDIC and its subcontractors. Such changes along with our ability to comply with the requirements and revisions required interpretation and can lead to delays in the collection of claims on losses incurred. Additionally, the loss sharing agreements provided for regular examination of compliance with loss sharing agreements including reviews of relevant policies and procedures and detailed audits of claims filed.

Non-Covered Loans

As of September 30, 2016 , non-covered loans were $5.9 billion , representing 100.0% of our loan portfolio, of which 0.2% were past due 30-89 days, 0.8% were nonperforming PCI (of which 0.1% were >90 days past due and still accreting) and 0.2% were nonaccrual. As of December 31, 2015 , non-covered loans were $5.6 billion, representing 98.7% of our loan portfolio, of which 0.2% were past due 30-89 days, 1.0% were nonperforming PCI (of which 0.2% were >90 days past due and still accreting) and 0.1% were nonaccrual.

At September 30, 2016 , 14.6% of the non-covered loans were acquired impaired loans. These acquired loans had disproportionate commercial real estate concentrations. In connection with the acquisitions, we applied acquisition accounting adjustments to the acquired non-covered loans to reflect estimates at the time of acquisition of the expected lifetime losses of such loans.

Covered and Non-Covered Loan Credit Quality Summary

The table below summarizes key loan credit quality indicators for covered and non-covered loan portfolios as of the dates indicated:

(Dollars in thousands)	September 30, 2016				December 31, 2015			
	Balance	**% 30-89 Days Past Due**	**% Nonperforming PCI Loans**	**% Non-accrual**	**Balance**	**% 30-89 Days Past Due**	**% Nonperforming PCI Loans**	**% Non-accrual**
Covered Portfolio								
Non-owner occupied commercial real estate	$ —	—%	—%	—%	$ —	—%	—%	—%
Other commercial construction and land	—	—%	—%	—%	123	—%	—%	—%
Multifamily commercial real estate	—	—%	—%	—%	—	—%	—%	—%
1-4 family residential construction and land	—	—%	—%	—%	—	—%	—%	—%
Total commercial real estate	**—**	**—%**	**—%**	**—%**	**123**	**—%**	**—%**	**—%**
Owner occupied commercial real estate	—	—%	—%	—%	67	—%	—%	—%
Commercial and industrial loans	—	—%	—%	—%	—	—%	—%	—%
Lease financing	—	—%	—%	—%	—	—%	—%	—%
Total commercial	**—**	**—%**	**—%**	**—%**	**67**	**—%**	**—%**	**—%**
1-4 family residential	—	—%	—%	—%	40,887	0.6%	6.6%	0.1%
Home equity loans	—	—%	—%	—%	32,425	1.6%	0.4%	2.8%
Other consumer loans	—	—%	—%	—%	—	—%	—%	—%
Total consumer	**—**	**—%**	**—%**	**—%**	**73,312**	**1.0%**	**3.8%**	**1.3%**
Other	—	—%	—%	—%	—	—%	—%	—%
Total covered loans	**$ —**	**—%**	**—%**	**—%**	**$ 73,502**	**1.0%**	**3.8%**	**1.3%**
Non-covered Portfolio								
Non-owner occupied commercial real estate	$ 920,521	0.2%	0.2%	0.2%	$ 866,392	—%	0.3%	0.2%
Other commercial construction and land	222,794	—%	4.7%	0.1%	196,672	0.5%	8.7%	0.1%
Multifamily commercial real estate	76,296	—%	1.0%	—%	80,708	—%	0.4%	0.1%
1-4 family residential construction and land	111,954	—%	—%	—%	93,242	—%	—%	—%
Total commercial real estate	**1,331,565**	**0.2%**	**1.0%**	**0.1%**	**1,237,014**	**0.1%**	**1.6%**	**0.1%**
Owner occupied commercial real estate	1,072,586	0.1%	0.5%	0.3%	1,104,905	0.1%	0.7%	0.1%
Commercial and industrial loans	1,458,523	—%	1.1%	0.1%	1,309,704	—%	1.2%	0.1%
Lease financing	525	—%	—%	—%	1,256	—%	—%	—%
Total commercial	**2,531,634**	**—%**	**0.9%**	**0.2%**	**2,415,865**	**0.1%**	**1.0%**	**0.1%**
1-4 family residential	1,168,468	0.2%	1.0%	0.1%	976,904	0.2%	1.0%	0.1%
Home equity loans	364,117	0.4%	0.6%	0.5%	342,851	0.7%	0.5%	0.5%
Other consumer loans	349,013	1.2%	—%	0.6%	436,478	0.9%	—%	0.3%
Total consumer	**1,881,598**	**0.4%**	**0.7%**	**0.3%**	**1,756,233**	**0.5%**	**0.7%**	**0.2%**
Other	191,136	—%	—%	—%	150,102	—%	—%	—%
Total non-covered loans	**$ 5,935,933**	**0.2%**	**0.8%**	**0.2%**	**$ 5,559,214**	**0.2%**	**1.0%**	**0.1%**
Total loans	**$ 5,935,933**	**0.2%**	**0.8%**	**0.2%**	**$ 5,632,716**	**0.2%**	**1.1%**	**0.2%**

Of the loans that were non-performing PCI as December 31, 2015 , $2.8 million (or approximately 4.8%) were covered by loss sharing agreements with the FDIC. Of these loans $1.3 million (or approximately 2.2%) were >90 days past due and still accreting as of December 31, 2015 . There were no non-PCI loans included in this category at the end of each period presented.

Total non-performing loans as of September 30, 2016 declined by $7.8 million , or 11% , to $60.4 million as compared to $68.1 million at December 31, 2015 . The change in non-performing loans during the nine months ended September 30, 2016 was attributable to $14.4 million in resolutions and $5.1 million in transfers to other real estate owned through foreclosures or receipt of deeds in lieu of foreclosures. Partially offsetting these decreases were $11.6 million of loans that became non-performing.

During the nine months ended September 30, 2016 , of the loans we foreclosed, or received deeds in lieu of foreclosure, approximately 26.0% consisted of residential loans and 74.0% consisted of commercial real estate loans. The customer-owed principal balances and carrying amounts as of September 30, 2016 and December 31, 2015 are set forth in the tables below:

(Dollars in thousands)	**September 30, 2016**				
	Gross Customer Balance Owed	**Carrying Amount (1)**	**Carrying Amount as a Percentage of Customer Balance**	**Carrying Amount of Noncurrent Loans (2)**	**Carrying Amount of Noncurrent Loans as a Percentage of Carrying Amount**
Non-covered Portfolio					
Non-owner occupied commercial real estate	$ 1,035,559	$ 920,521	88.9%	$ 3,486	0.4%
Other commercial construction and land	528,367	222,794	42.2%	10,566	4.7%
Multifamily commercial real estate	89,389	76,296	85.4%	751	1.0%
1-4 family residential construction and land	145,628	111,954	76.9%	—	—%
Total commercial real estate	**1,798,943**	**1,331,565**	**74.0%**	**14,803**	**1.1%**
Owner occupied commercial real estate	1,150,655	1,072,586	93.2%	9,507	0.9%
Commercial and industrial loans	1,567,194	1,458,523	93.1%	17,436	1.2%
Lease financing	525	525	100.0%	—	—%
Total commercial	**2,718,374**	**2,531,634**	**93.1%**	**26,943**	**1.1%**
1-4 family residential	1,252,027	1,168,468	93.3%	12,164	1.0%
Home equity loans	419,924	364,117	86.7%	4,285	1.2%
Other consumer loans	358,733	349,013	97.3%	2,123	0.6%
Total consumer	**2,030,684**	**1,881,598**	**92.7%**	**18,572**	**1.0%**
Other	209,247	191,136	91.3%	32	—%
Total non-covered loans	**$ 6,757,248**	**$ 5,935,933**	**87.8%**	**$ 60,350**	**1.0%**
Total loans	**$ 6,757,248**	**$ 5,935,933**	**87.8%**	**$ 60,350**	**1.0%**

(1) The carrying amount for total non-covered loans represents a discount from the total gross customer balance of $821.3 million or 12.2% .
(2) Includes loans greater than 90 days past due, and nonperforming loans less than 90 days past due.

(Dollars in thousands)	December 31, 2015				
	Gross Customer Balance Owed	**Carrying Amount (1)**	**Carrying Amount as a Percentage of Customer Balance**	**Carrying Amount of Noncurrent Loans (2)**	**Carrying Amount of Noncurrent Loans as a Percentage of Carrying Amount**
Covered Portfolio					
Non-owner occupied commercial real estate	$ —	$ —	—%	$ —	—%
Other commercial construction and land	1,131	123	10.9%	—	—%
Multifamily commercial real estate	—	—	—%	—	—%
1-4 family residential construction and land	165	—	—%	—	—%
Total commercial real estate	**1,296**	**123**	**9.5%**	**—**	**—%**
Owner occupied commercial real estate	48	67	139.6%	—	—%
Commercial and industrial loans	—	—	—%	—	—%
Lease financing	—	—	—%	—	—%
Total commercial	**48**	**67**	**139.6%**	**—**	**—%**
1-4 family residential	57,381	40,887	71.3%	2,736	6.7%
Home equity loans	47,818	32,425	67.8%	1,021	3.1%
Other consumer loans	184	—	—%	—	—%
Total consumer	**105,383**	**73,312**	**69.6%**	**3,757**	**5.1%**
Other	—	—	—%	—	—%
Total covered loans	**$ 106,727**	**$ 73,502**	**68.9%**	**$ 3,757**	**5.1%**
Non-covered Portfolio					
Non-owner occupied commercial real estate	$ 985,618	$ 866,392	87.9%	$ 4,403	0.5%
Other commercial construction and land	509,293	196,672	38.6%	17,203	8.7%
Multifamily commercial real estate	94,148	80,708	85.7%	412	0.5%
1-4 family residential construction and land	126,831	93,242	73.5%	—	—%
Total commercial real estate	**1,715,890**	**1,237,014**	**72.1%**	**22,018**	**1.8%**
Owner occupied commercial real estate	1,182,942	1,104,905	93.4%	9,192	0.8%
Commercial and industrial loans	1,420,177	1,309,704	92.0%	16,960	1.3%
Lease financing	1,256	1,256	100.0%	—	—%
Total commercial	**2,604,375**	**2,415,865**	**92.8%**	**26,152**	**1.1%**
1-4 family residential	1,047,300	976,904	93.3%	11,062	1.1%
Home equity loans	388,229	342,851	88.3%	3,534	1.0%
Other consumer loans	442,228	436,478	98.7%	1,542	0.4%
Total consumer	**1,877,757**	**1,756,233**	**93.5%**	**16,138**	**0.9%**
Other	173,669	150,102	86.4%	74	—%
Total non-covered loans	**$ 6,371,691**	**$ 5,559,214**	**87.2%**	**$ 64,382**	**1.2%**
Total loans	**$ 6,478,418**	**$ 5,632,716**	**86.9%**	**$ 68,139**	**1.2%**

(1) The carrying amount for total covered and non-covered loans represents a discount from the total gross customer balance of $33.2 million, or 31.1%, and $812.5 million, or 12.8%, respectively.

(2) Includes loans greater than 90 days past due, and nonperforming loans less than 90 days past due.

Allowance and Provision for Loan and Lease Losses

At September 30, 2016 , the allowance for loan and lease losses was $44.0 million , of which $23.7 million was associated with PCI loans and $20.3 million related to new loans or acquired non-PCI loans. At September 30, 2016 , the allowance for loan and lease losses represents 0.75% of our total $5.9 billion loan portfolio. At December 31, 2015 , the allowance for loan and lease losses was $45.0 million, of which $24.5 million was associated with PCI loans and $20.5 million related to new loans or acquired non-PCI loans. At December 31, 2015, the allowance for loan and lease losses represented 0.80% of our total $5.6 billion loan portfolio.

For non-PCI loans, the allowance for loan and lease losses reflects an allowance for probable incurred credit losses in the loan portfolio. Our formalized process for assessing the adequacy of the allowance for loan and lease losses and the resultant need, if any, for periodic provisions to the allowance charged to income, includes both individual loan analysis and loan pool analysis. Individual loan analysis are periodically performed on loan relationships of a significant size, or when otherwise deemed necessary, and are performed primarily on commercial real estate and other commercial loans. The result is that commercial real estate loans and commercial loans are divided into the following risk categories: Pass, Special Mention, Substandard and Loss. The allowance consists of specific and general components. When appropriate, a specific reserve will be established for individual loans based upon the risk classifications and the estimated potential for loss. The specific component relates to loans that are individually classified as impaired.

Home equity loans, indirect auto loans, residential loans and consumer loans generally are not analyzed individually or separately identified for impairment disclosures. These loans are grouped into pools and assigned risk categories based on their current payment status and management’s assessment of risk inherent in the various types of loans. The allocations are based on the same factors mentioned above. However, should such loans exceeding certain size thresholds exhibit signs of impairment, they may be individually evaluated for impairment.

For PCI loans, the allowance for loan and lease losses is a measure of impairment based upon our most recent estimates of expected cash flows. Our estimation of expected cash flows, which is used to determine the need for provisions to or reversals of the allowance every reporting period, is determined by assigning probability of default (“PD”) and loss given default (“LGD”) assumptions, amongst other assumptions such as prepayment speeds and recovery or liquidation timing. For commercial real estate and other commercial loans, we generally assign PD assumptions through the mapping of the following loan level risk ratings: Pass, Watch, Sub-Performing and Non-Performing. For home equity loans, residential loans, and consumer loans, PD is determined by mapping payment performance and delinquency status to market based default assumptions. Estimated loan to value ratios, determined using appraisals and/or real estate indices, are used to derive loss given default assumptions for real estate collateralized loans.

Senior management and our Board of Directors review this calculation and the underlying assumptions on a routine basis, not less frequently than quarterly.

The provision for loan and lease losses is a charge to income in the current period to establish or replenish the allowance and maintain it at a level that management has determined to be adequate to absorb estimated incurred losses in the loan portfolio for new loans. A provision for loan and lease losses is also required for any unfavorable changes in expected cash flows related to pools of purchased impaired loans. The provision for loan and lease losses and expectations of cash flows may be impacted by many factors, including changes in the value of real estate collateralizing loans, net charge-offs and credit losses incurred, changes in loans outstanding, changes in impaired loans, historical loss rates and the mix of loan types.

As the majority of our acquired loans are considered PCI loans, our provision for loan and lease losses in future periods for acquired loans will be most significantly influenced in the short term by the differences between the actual credit losses resulting from the resolution of problem loans and the estimated credit losses used in determining the estimated fair values of purchased impaired loans as of their acquisition dates. For new loans, the provision for loan and lease losses will be affected by the loss potential of impaired loans and trends in the delinquency of loans, non-performing loans and net charge offs, which cannot be reasonably predicted. Refer to *Provision for loan and lease losses* section for further discussion.

Management continuously monitors and actively manages the credit quality of the entire loan portfolio and will continue to recognize the provision required to maintain the allowance for loan and lease losses at an appropriate level.

The following table presents the roll-forward of the allowance for loan and lease losses for PCI and non-PCI loans for the three and nine months ended September 30, 2016 and 2015 by the class of loans against which the allowance is allocated:

(Dollars in thousands)	Three Months Ended					
	September 30, 2016			September 30, 2015		
	Non-PCI	PCI	Total	Non-PCI	PCI	Total
Allowance for loan and lease losses at the beginning of the period	**$ 21,182**	**$ 23,701**	**$ 44,883**	**$ 21,819**	**$ 26,244**	**$ 48,063**
Charge-offs:						
Non-owner occupied commercial real estate	—	—	—	—	—	—
Other commercial construction and land	—	—	—	(1)	(1,085)	(1,086)
Multifamily commercial real estate	—	—	—	—	—	—
1-4 family residential construction and land	—	—	—	—	—	—
Total commercial real estate	**—**	**—**	**—**	**(1)**	**(1,085)**	**(1,086)**
Owner occupied commercial real estate	—	—	—	(125)	—	(125)
Commercial and industrial loans	(6)	—	(6)	(178)	—	(178)
Lease financing	—	—	—	—	—	—
Total commercial	**(6)**	**—**	**(6)**	**(303)**	**—**	**(303)**
1-4 family residential	(47)	—	(47)	(34)	—	(34)
Home equity loans	(50)	—	(50)	(146)	—	(146)
Other consumer loans	(1,293)	—	(1,293)	(1,018)	—	(1,018)
Total consumer	**(1,390)**	**—**	**(1,390)**	**(1,198)**	**—**	**(1,198)**
Other	(558)	—	(558)	(705)	—	(705)
Total charge-offs	**(1,954)**	**—**	**(1,954)**	**(2,207)**	**(1,085)**	**(3,292)**
Recoveries:						
Non-owner occupied commercial real estate	2	—	2	3	—	3
Other commercial construction and land	37	—	37	3	—	3
Multifamily commercial real estate	—	—	—	—	—	—
1-4 family residential construction and land	2	—	2	2	—	2
Total commercial real estate	**41**	**—**	**41**	**8**	**—**	**8**
Owner occupied commercial real estate	—	—	—	127	—	127
Commercial and industrial loans	22	—	22	14	—	14
Lease financing	—	—	—	—	—	—
Total commercial	**22**	**—**	**22**	**141**	**—**	**141**
1-4 family residential	26	—	26	4	—	4
Home equity loans	66	—	66	159	—	159
Other consumer loans	164	—	164	223	—	223
Total consumer	**256**	**—**	**256**	**386**	**—**	**386**
Other	150	—	150	173	—	173
Total recoveries	**469**	**—**	**469**	**708**	**—**	**708**
Net charge-offs	**(1,485)**	**—**	**(1,485)**	**(1,499)**	**(1,085)**	**(2,584)**
Provision (reversal) for loan and lease losses:						
Non-owner occupied commercial real estate	(96)	69	(27)	(317)	506	189
Other commercial construction and land	(102)	447	345	154	1,196	1,350
Multifamily commercial real estate	(9)	12	3	(26)	12	(14)
1-4 family residential construction and land	(31)	(111)	(142)	(62)	(80)	(142)
Total commercial real estate	**(238)**	**417**	**179**	**(251)**	**1,634**	**1,383**
Owner occupied commercial real estate	(183)	4	(179)	(746)	27	(719)
Commercial and industrial loans	(695)	122	(573)	224	(28)	196
Lease financing	—	—	—	—	—	—
Total commercial	**(878)**	**126**	**(752)**	**(522)**	**(1)**	**(523)**
1-4 family residential	(148)	(431)	(579)	(385)	(741)	(1,126)
Home equity loans	15	(136)	(121)	(69)	(488)	(557)
Other consumer loans	1,461	(29)	1,432	1,067	(17)	1,050
Total consumer	**1,328**	**(596)**	**732**	**613**	**(1,246)**	**(633)**
Other	422	5	427	469	103	572

Total provision (reversal) for loan and lease losses	**634**	**(48)**	**586**	**309**	**490**	**799**

Allowance for loan and lease losses at the end of the period	**$ 20,331**	**$ 23,653**	**$ 43,984**	**$ 20,629**	**$ 25,649**	**$ 46,278**

(Dollars in thousands)	Nine Months Ended					
	September 30, 2016			September 30, 2015		
	Non-PCI	PCI	Total	Non-PCI	PCI	Total
Allowance for loan and lease losses at the beginning of the period	**$ 20,546**	**$ 24,488**	**$ 45,034**	**$ 21,355**	**$ 28,856**	**$ 50,211**
Charge-offs:						
Non-owner occupied commercial real estate	(2)	—	(2)	—	—	—
Other commercial construction and land	—	—	—	(9)	(1,085)	(1,094)
Multifamily commercial real estate	—	—	—	—	—	—
1-4 family residential construction and land	—	—	—	—	—	—
Total commercial real estate	**(2)**	**—**	**(2)**	**(9)**	**(1,085)**	**(1,094)**
Owner occupied commercial real estate	(80)	—	(80)	(332)	—	(332)
Commercial and industrial loans	(510)	—	(510)	(273)	—	(273)
Lease financing	—	—	—	—	—	—
Total commercial	**(590)**	**—**	**(590)**	**(605)**	**—**	**(605)**
1-4 family residential	(47)	—	(47)	(329)	—	(329)
Home equity loans	(224)	—	(224)	(553)	—	(553)
Other consumer loans	(3,633)	—	(3,633)	(2,854)	(162)	(3,016)
Total consumer	**(3,904)**	**—**	**(3,904)**	**(3,736)**	**(162)**	**(3,898)**
Other	(1,598)	—	(1,598)	(1,766)	—	(1,766)
Total charge-offs	**(6,094)**	**—**	**(6,094)**	**(6,116)**	**(1,247)**	**(7,363)**
Recoveries:						
Non-owner occupied commercial real estate	13	—	13	69	—	69
Other commercial construction and land	46	—	46	177	—	177
Multifamily commercial real estate	—	—	—	—	—	—
1-4 family residential construction and land	5	—	5	5	—	5
Total commercial real estate	**64**	**—**	**64**	**251**	**—**	**251**
Owner occupied commercial real estate	—	—	—	127	—	127
Commercial and industrial loans	81	—	81	409	—	409
Lease financing	—	—	—	—	—	—
Total commercial	**81**	**—**	**81**	**536**	**—**	**536**
1-4 family residential	206	—	206	31	—	31
Home equity loans	341	—	341	301	—	301
Other consumer loans	589	—	589	505	—	505
Total consumer	**1,136**	**—**	**1,136**	**837**	**—**	**837**
Other	630	—	630	549	—	549
Total recoveries	**1,911**	**—**	**1,911**	**2,173**	**—**	**2,173**
Net charge-offs	**(4,183)**	**—**	**(4,183)**	**(3,943)**	**(1,247)**	**(5,190)**
Provision (reversal) for loan and lease losses:						
Non-owner occupied commercial real estate	(323)	728	405	(332)	2,398	2,066
Other commercial construction and land	(19)	193	174	16	(591)	(575)
Multifamily commercial real estate	(31)	1	(30)	(50)	(15)	(65)
1-4 family residential construction and land	55	(517)	(462)	53	56	109
Total commercial real estate	**(318)**	**405**	**87**	**(313)**	**1,848**	**1,535**
Owner occupied commercial real estate	(145)	100	(45)	(152)	(105)	(257)
Commercial and industrial loans	291	754	1,045	(122)	(29)	(151)
Lease financing	—	—	—	—	—	—
Total commercial	**146**	**854**	**1,000**	**(274)**	**(134)**	**(408)**
1-4 family residential	(433)	(1,419)	(1,852)	(253)	(3,087)	(3,340)
Home equity loans	(69)	(645)	(714)	215	(669)	(454)
Other consumer loans	3,628	(44)	3,584	2,756	(35)	2,721

Total consumer	**3,126**	**(2,108)**	**1,018**	**2,718**	**(3,791)**	**(1,073)**
Other	1,014	14	1,028	1,086	117	1,203
Total provision (reversal) for loan and lease losses	**3,968**	**(835)**	**3,133**	**3,217**	**(1,960)**	**1,257**
Allowance for loan and lease losses at the end of the period	**$ 20,331**	**$ 23,653**	**$ 43,984**	**$ 20,629**	**$ 25,649**	**$ 46,278**

No portion of the allowance allocated to non-PCI loans is in any way restricted to any individual loan or group of new loans or non-PCI loans, and the entirety of such allowance is available to absorb probable incurred credit losses from any and all such loans. The following table represents management's best estimate of the allocation of the allowance for loan and lease losses for non-PCI loans to the various segments of the loan portfolio based on information available as of September 30, 2016 and December 31, 2015 :

(Dollars in thousands)	**September 30, 2016**			**December 31, 2015**		
	Non-PCI Loan Balance	**Allowance for Loan and Lease Losses**	**Percent of Non-PCI Loans**	**Non-PCI Loan Balance**	**Allowance for Loan and Lease Losses**	**Percent of Non-PCI Loans**
Non-owner occupied commercial real estate	$ 680,544	$ 970	0.14%	$ 563,640	$ 1,282	0.23%
Other commercial construction and land	160,165	1,761	1.10%	110,918	1,735	1.56%
Multifamily commercial real estate	56,393	29	0.05%	57,099	59	0.10%
1-4 family residential construction and land	111,671	813	0.73%	90,304	753	0.83%
Total commercial real estate	**1,008,773**	**3,573**	**0.35%**	**821,961**	**3,829**	**0.47%**
Owner occupied commercial real estate	906,807	1,113	0.12%	894,995	1,338	0.15%
Commercial and industrial	1,392,189	7,519	0.54%	1,228,575	7,657	0.62%
Lease financing	525	—	—%	1,256	—	—%
Total commercial	**2,299,521**	**8,632**	**0.38%**	**2,124,826**	**8,995**	**0.42%**
1-4 family residential	857,546	1,997	0.23%	757,239	2,271	0.30%
Home equity loans	298,214	641	0.21%	300,292	593	0.20%
Other consumer loans	347,065	5,209	1.50%	433,257	4,625	1.07%
Total consumer	**1,502,825**	**7,847**	**0.52%**	**1,490,788**	**7,489**	**0.50%**
Other	160,362	279	0.17%	117,264	233	0.20%
Total loans	**$ 4,971,481**	**$ 20,331**	**0.41%**	**$ 4,554,839**	**$ 20,546**	**0.45%**

Criticized and Classified Loans

Loans with the following attributes are categorized as criticized and classified loans: (1) a potential weakness that deserves management's close attention; (2) inadequate protection by the current net worth and paying capacity of the obligor or of the collateral pledged; or (3) weaknesses which make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following table summarizes criticized and classified loans at September 30, 2016 and December 31, 2015 :

(Dollars in thousands)	September 30, 2016 (1)			December 31, 2015 (1)		
	Covered	**Non-Covered**	**Total**	**Covered**	**Non-Covered**	**Total**
Non-owner occupied commercial real estate	$ —	$ 37,121	$ 37,121	$ —	$ 57,066	$ 57,066
Other commercial construction and land	—	31,913	31,913	—	45,299	45,299
Multifamily commercial real estate	—	1,786	1,786	—	1,438	1,438
1-4 family residential construction and land	—	—	—	—	1,152	1,152
Total commercial real estate	**—**	**70,820**	**70,820**	**—**	**104,955**	**104,955**
Owner occupied commercial real estate	—	37,975	37,975	—	38,788	38,788
Commercial and industrial	—	50,877	50,877	—	39,646	39,646
Lease financing	—	—	—	—	—	—
Total commercial	**—**	**88,852**	**88,852**	**—**	**78,434**	**78,434**
1-4 family residential	—	25,404	25,404	4,362	26,288	30,650
Home equity loans	—	6,515	6,515	1,093	6,175	7,268
Other consumer loans	—	2,183	2,183	—	1,554	1,554
Total consumer	**—**	**34,102**	**34,102**	**5,455**	**34,017**	**39,472**
Other	—	1,088	1,088	—	1,716	1,716
Total loans	**$ —**	**$ 194,862**	**$ 194,862**	**$ 5,455**	**$ 219,122**	**$ 224,577**

(1) PCI and non-PCI loans are included in the balances presented.

Total criticized and classified loans declined $29.7 million , or 17.6% annualized, during the nine months ended September 30, 2016 as a result of $5.7 million in transfers to other real estate owned and $64.0 million of pay downs, charge offs and upgrades. Loan downgrades of $39.9 million partially offset the decline.

Impaired Loans

Non-performing loans and impaired loans are defined differently. Some loans may be included in both categories, whereas other loans may only be included in one category. A loan is considered impaired when it is probable that not all principal and interest amounts will be collected according to the loan contract. Generally, residential mortgages, commercial and commercial real estate loans exceeding certain size thresholds established by management are individually evaluated for impairment. Non-accrual loans and restructured loans where loan term concessions benefiting the borrowers have been made are generally designated as impaired.

Within the context of the accounting for impaired loans described in the preceding paragraph, other than the PCI loans described above, as of September 30, 2016 , there were 126 loans individually evaluated for impairment and 78 deemed impaired with a related allowance for loan and lease losses of $898 thousand . At December 31, 2015 , there were 66 loans individually evaluated for impairment and 32 deemed impaired with a related allowance for loan and lease losses of $75 thousand.

Due to the pool method of accounting for purchased credit impaired loans, non-performing PCI loans may be reported as 90 days past due and still accruing/accreting. Going forward, additional acquired loans not classified as purchased credit impaired and new loans originated by us may become impaired and will be classified as such. Impaired loans also include loans which were not classified as non-accrual, but otherwise meet the criteria for classification as an impaired loan (i.e., loans for which the collection of all principal and interest amounts as specified in the original loan contract are not expected, or where management has substantial doubt that the collection will be as specified, but is still expected to occur in its entirety). In our evaluation of the adequacy of the allowance for loan and lease losses, we consider (1) purchased credit impaired loans and loans classified as impaired, (2) our historical portfolio loss experience and trends as well as that of peers and (3) certain other quantitative and qualitative factors.

Non-Performing Assets

Non-performing assets include accruing/accreting loans delinquent 90 days or more, accreting PCI loans less than 90 days past due with expected cash flows less than contractual terms, non-accrual loans, repossessed personal property and other real estate. Non-PCI loans are placed on non-accrual status when management has concerns relating to the ability to collect the principal and interest and generally when such assets are 90 days past due. Non-performing assets were as follows:

(Dollars in thousands)	September 30, 2016			December 31, 2015		
	Covered	Non-Covered	Total	Covered	Non-Covered	Total
Total non-accrual loans	$ —	$ 11,873	$ 11,873	$ 938	$ 8,007	$ 8,945
Accruing/accreting loans delinquent 90 days or more	—	8,482	8,482	1,325	13,180	14,505
Accreting PCI loans <90 days with expected cash flows less than contractual	—	39,995	39,995	1,494	43,196	44,690
Total non-performing loans	**—**	**60,350**	**60,350**	**3,757**	**64,383**	**68,140**
Repossessed personal property	—	156	156	—	375	375
Other real estate owned	—	46,007	46,007	554	52,222	52,776
Total non-performing assets	**$ —**	**$ 106,513**	**$ 106,513**	**$ 4,311**	**$ 116,980**	**$ 121,291**
Allowance for loan and lease losses	$ —	$ 43,984	$ 43,984	$ 4,472	$ 40,562	$ 45,034
Non-performing assets as a percent of total assets	—%	1.37%	1.37%	0.06%	1.57%	1.63%
Non-performing loans as a percent of total loans	—%	1.02%	1.02%	0.07%	1.14%	1.21%
Allowance for loan and lease losses as a percent of non-performing loans	—%	72.88%	72.88%	119.03%	63.00%	66.09%
Non-PCI allowance for loan and lease losses as a percent of non-PCI loans			0.41%			0.45%

At September 30, 2016 non-covered loans and December 31, 2015 , covered and non-covered loans classified as delinquent 90 days or more and accruing/accreting are entirely comprised of components of PCI loan pools. There were no non-PCI loans included in this category at the end of each period presented. In addition to the discussion in the previous section, please refer to Note 5. Loans in our Consolidated Financial Statements for a description of the accounting for pooled PCI loans.

Total non-performing assets at September 30, 2016 declined by $14.8 million to $106.5 million compared to $121.3 million at December 31, 2015 , which represents an annualized decline of 16.2% . The change in non-performing assets was attributable to the net decline in non-performing loans and other real estate owned of $7.8 million and $6.8 million , respectively. The net decline in non-performing loans was due to $13.7 million in resolutions and $5.7 million in transfers to other real estate owned through foreclosures or receipt of deeds in lieu of foreclosures, offset by $11.6 million of loans that became non-performing. The decline in other real estate owned was mainly due to sales of $12.0 million , partially offset by acquisitions as noted above.

Investment Securities

Investment securities represent a significant portion of our assets. We invest in a variety of securities including obligations of U.S. government agencies, U.S. government-sponsored entities, including mortgage-backed securities, obligations of states or political subdivisions, privately issued mortgage-backed securities, bank eligible corporate obligations, mutual funds and limited types of equity securities.

Our investment activities are governed internally by a written, Board-approved policy. The investment policy is carried out by our Treasury department. Investment strategies are reviewed by the Risk Committee of the Board based on the interest rate environment, balance sheet mix, actual and anticipated loan demand, funding opportunities and our overall interest rate sensitivity. In general, the investment portfolio is managed in a manner appropriate to the attainment of the following goals: (1) to provide a margin of liquid assets sufficient to meet unanticipated deposit and loan fluctuations and overall funds management objectives; (2) to provide eligible securities to secure public funds and other borrowings; and (3) to manage interest rate risk and earn the maximum return on funds invested that is commensurate with meeting our first two goals.

Trading securities related to our non-qualified deferred compensation program and CRA investment fund totaled $ 3.7 million and $3.0 million at September 30, 2016 and December 31, 2015 , respectively.

Our investment securities consisted primarily of U.S. agency mortgage-backed securities, which expose us to a low degree of credit and liquidity risk. The following tables set forth our investment securities as of September 30, 2016 and December 31, 2015 :

(Dollars in thousands)	September 30, 2016				
Security Type	**Amortized Cost**	**Estimated Fair Value**	**Percent of Total Portfolio**	**Yield**	**Modified Duration in Years**
Available-for-Sale					
Corporate bonds	$ 43,324	$ 44,556	6.8%	3.16%	12.4
State and political subdivisions—tax exempt	7,646	7,669	1.2%	1.79%	6.49
Mortgage-backed securities—residential issued by government sponsored entities	585,478	597,433	91.5%	2.19%	4.21
Industrial revenue bonds	3,239	3,287	0.5%	2.11%	0.24
Total	**$ 639,687**	**$ 652,945**	**100.0%**	**2.25%**	**4.90**
Held-to-Maturity					
U.S. Government agencies	$ 11,650	$ 12,179	2.6%	2.81%	5.09
Corporate bonds	74,012	72,054	15.2%	5.00%	3.47
State and political subdivisions—tax exempt	9,530	10,239	2.1%	3.54%	4.24
State and political subdivisions—taxable	522	545	0.1%	3.95%	2.39
Mortgage-backed securities—residential issued by government sponsored entities	370,349	379,817	80.0%	2.33%	3.68
Total	**$ 466,063**	**$ 474,834**	**100.0%**	**2.79%**	**3.70**

(Dollars in thousands)	December 31, 2015				
Security Type	**Amortized Cost**	**Estimated Fair Value**	**Percent of Total Portfolio**	**Yield**	**Modified Duration in Years**
Available-for-sale					
Corporate bonds	$ 22,870	$ 22,755	3.6%	2.56%	10.78
Mortgage-backed securities—residential issued by government sponsored entities	614,176	611,137	95.9%	2.10%	4.62
Industrial revenue bonds	3,409	3,437	0.5%	2.26%	0.24
Total	**$ 640,455**	**$ 637,329**	**100.0%**	**2.11%**	**4.81**
Held-to-maturity					
U.S. Government agencies	$ 12,805	$ 13,035	2.7%	2.83%	5.21
Corporate bonds	70,059	69,658	14.7%	5.00%	5.23
State and political subdivisions—tax exempt	10,849	11,337	2.4%	3.31%	4.07
State and political subdivisions—taxable	528	545	0.1%	3.92%	3.07
Mortgage-backed securities—residential issued by government sponsored entities	378,264	380,559	80.1%	2.39%	4.13
Total	**$ 472,505**	**$ 475,134**	**100.0%**	**2.81%**	**4.32**

Contractual maturities of investment securities at September 30, 2016 and December 31, 2015 are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations without call or prepayment penalties. Other securities include mortgage-backed securities which are not due at a single maturity date. The following table segments our investment portfolio by maturity date:

(Dollars in thousands)	Within One Year		After One Year Within Five Years		After Five Years Within Ten Years		After Ten Years		Other Securities		Total	
September 30, 2016	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**
Available-for-Sale												
Corporate bonds	$ —	—%	$ —	—%	$ —	—%	$ 44,556	3.16%	$ —	—%	$ 44,556	3.16%
State and political subdivisions—tax exempt					1,008	1.60%	6,661	1.82%	—	—%	7,669	1.79%
Mortgage-backed securities—residential issued by government sponsored entities	—	—%	—	—%	—	—%	—	—%	597,433	2.19%	597,433	2.19%
Industrial revenue bonds	—	—%	—	—%	—	—%	3,287	2.11%	—	—%	3,287	2.11%
Total	**$ —**	**—%**	**$ —**	**—%**	**$ 1,008**	**1.60%**	**$ 54,504**	**2.93%**	**$597,433**	**2.19%**	**$ 652,945**	**2.25%**
Held-to-Maturity												
U.S. Government agencies	$ —	—%	$ —	—%	$ —	—%	$ 11,650	2.81%	$ —	—%	$ 11,650	2.81%
Corporate bonds	—	—%	30,046	5.06%	43,966	4.95%	—	—%	—	—%	74,012	5.00%
State and political subdivisions—tax exempt	—	—%	4,849	3.18%	4,681	3.91%	—	—%	—	—%	9,530	3.54%
State and political subdivisions—taxable	—	—%	—	—%	—	—%	522	3.95%	—	—%	522	3.95%
Mortgage-backed securities—residential issued by government sponsored entities	—	—%	—	—%	—	—%	—	—%	370,349	2.33%	370,349	2.33%
Total	**$ —**	**—%**	**$ 34,895**	**4.80%**	**$ 48,647**	**4.85%**	**$ 12,172**	**2.86%**	**$370,349**	**2.33%**	**$ 466,063**	**2.79%**

(Dollars in thousands)	Within One Year		After One Year Within Five Years		After Five Years Within Ten Years		After Ten Years		Other Securities		Total	
December 31, 2015	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**
Available-for-sale												
Corporate bonds	$ —	—%	$ —	—%	$ —	—%	$ 22,755	2.56%	$ —	—%	$ 22,755	2.56%
Mortgage-backed securities—residential issued by government sponsored entities	—	—%	—	—%	—	—%	—	—%	611,137	2.10%	611,137	2.10%
Industrial revenue bonds	—	—%	—	—%	—	—%	3,437	2.26%	—	—%	3,437	2.26%
Total	**$ —**	**—%**	**$ —**	**—%**	**$ —**	**—%**	**$ 26,192**	**2.52%**	**$ 611,137**	**2.10%**	**$ 637,329**	**2.11%**
Held-to-maturity												
U.S. Government agencies	$ —	—%	$ —	—%	$ —	—%	$ 12,805	2.83%	$ —	—%	$ 12,805	2.83%
Corporate bonds	—	—%	15,059	4.75%	55,000	5.07%	—	—%	—	—%	70,059	5.00%
State and political subdivisions—tax exempt	—	—%	4,098	3.15%	6,751	3.41%	—	—%	—	—%	10,849	3.31%
State and political subdivisions—taxable	—	—%	—	—%	—	—%	528	3.92%	—	—%	528	3.92%
Mortgage-backed securities—residential issued by government sponsored entities	—	—%	—	—%	—	—%	—	—%	378,264	2.39%	378,264	2.39%
Total	**$ —**	**—%**	**$ 19,157**	**4.40%**	**$ 61,751**	**4.88%**	**$ 13,333**	**2.87%**	**$ 378,264**	**2.39%**	**$ 472,505**	**2.81%**

We regularly review each investment security for impairment based on criteria that include the extent to which cost exceeds the estimated fair value, the financial health of and specific prospects for the issuer(s) and our ability and intention with regard to holding the security to maturity. Future declines in the fair value of securities may result in impairment charges which may be material to our financial condition and results of operations. More specifically, our impairment analysis is based on the following: (1) whether it is "more likely than not" we would have to sell a security prior to recovery of the amortized cost; (2) whether we intend to sell the security; and (3) whether or not we expect to recover our recorded investment on an amortized cost basis based on credit characteristics of the investment. If, based upon our analysis, any of those conditions exist for a given security, we would

generally be required to record an impairment charge in the amount of the difference between the carrying amounts and estimated fair value of such security. Based on our analysis there were no investment securities considered to be other-than-temporarily impaired at September 30, 2016 or December 31, 2015 .

Deposits

Our strategy is to fund asset growth primarily with low-cost customer deposits in order to maintain a stable liquidity profile and net interest margin.

As of September 30, 2016 , our core deposits, which we define as demand deposits, savings and money market accounts, excluding brokered, increased by $276.6 million as compared to December 31, 2015 . The increase was mainly the result of the Company's continued focus on growing low-cost core deposits. The average contractual rate on core deposits increased to 0.19% at September 30, 2016 , from 0.16% at December 31, 2015 .

Time deposit balances declined by $78.5 million during the nine months ended September 30, 2016 . At September 30, 2016 , our wholesale time deposits declined by $76.1 million , while retail time deposits decreased by $2.4 million as compared to December 31, 2015 . The average contractual rate on time deposits increased to 0.99% from 0.96% at December 31, 2015 . The total cost of deposits increased to 0.42% from 0.41% for the nine months ended September 30, 2016 and December 31, 2015 .

The following table sets forth the balances and average contractual rates payable to customers on our deposits, segmented by account type as of September 30, 2016 and December 31, 2015 :

(Dollars in thousands)	September 30, 2016			December 31, 2015			Sequential Change	
	Amount	Percent of Total	Weighted Average Contractual Rate	Amount	Percent of Total	Weighted Average Contractual Rate	Amount	Percent
Non-interest bearing demand	$ 1,207,800	20.0%	—%	$ 1,121,160	19.1%	—%	$ 86,640	7.7 %
Interest bearing demand	1,463,520	24.3%	0.20%	1,382,732	23.6%	0.19%	80,788	5.8 %
Savings	401,205	6.6%	0.20%	418,879	7.1%	0.22%	(17,674)	(4.2)%
Money market	1,166,918	19.3%	0.36%	1,040,086	17.7%	0.29%	126,832	12.2 %
Total core deposits	**4,239,443**	**70.3%**	**0.19%**	**3,962,857**	**67.6%**	**0.16%**	**276,586**	**7.0 %**
Brokered money market	125,030	2.1%	0.65%	150,035	2.6%	0.55%	(25,005)	(16.7)%
Customer time deposits	1,377,081	22.8%	0.98%	1,379,525	23.5%	1.03%	(2,444)	(0.2)%
Wholesale time deposits	291,703	4.8%	1.03%	367,793	6.3%	0.72%	(76,090)	(20.7)%
Total time deposits	**1,668,784**	**27.7%**	**0.99%**	**1,747,318**	**29.8%**	**0.96%**	**(78,534)**	**(4.5)%**
Total deposits	**$ 6,033,257**	**100.0%**	**0.42%**	**$ 5,860,210**	**100.0%**	**0.41%**	**$ 173,047**	**3.0 %**

The following table sets forth our average deposits and the average rates expensed for the periods indicated:

(Dollars in thousands)	Three Months Ended			
	September 30, 2016		December 31, 2015	
	Average Amount	Average Rate	Average Amount	Average Rate
Non-interest bearing demand	$ 1,188,771	—%	$ 1,105,553	—%
Interest bearing				
Interest bearing demand	1,444,305	0.21%	1,338,766	0.17%
Savings	404,187	0.20%	464,840	0.22%
Money market	1,225,743	0.37%	979,650	0.26%
Time deposits (1)	1,613,502	0.98%	1,574,100	0.92%
Total deposits	**$ 5,876,508**	**0.41%**	**$ 5,462,909**	**0.37%**

(1) The average rates on time deposits include the amortization of premiums on time deposits assumed in connection with the acquisitions and paid to brokers on wholesale deposits. Such premiums were required to be recorded to initially record these deposits at their fair values as of the respective acquisition dates.

The following table sets forth our time deposits segmented by maturity and deposit amount:

(Dollars in thousands)	September 30, 2016		
Months to maturity:	Time Deposits of $100K and Greater	Time Deposits of Less than $100K	Total
Three or less	$ 108,264	$ 50,526	$ 158,790
Over three to six	116,376	54,214	170,590
Over six to twelve	393,301	225,782	619,083
Over twelve	416,520	303,801	720,321
Total time deposits	**$ 1,034,461**	**$ 634,323**	**$ 1,668,784**

Capital Resources and Liquidity

Capital Resources

In order to maintain a conservative risk profile, we operate with a prudent cushion of capital in relation to regulatory requirements and to the risk of our assets and business model. For planning purposes, we expect to operate with a minimum capital target equal to an 8% leverage ratio (defined as Tier 1 capital equal to 8% of average tangible assets), which would be in excess of regulatory standards for "well-capitalized" banks. We believe the 8% target is appropriate for our business model because of our conservative loan underwriting policies, investment portfolio composition, funding strategy, interest rate risk management limits and liquidity risk profile and because of the experience of our senior management team and Board of Directors.

As of September 30, 2016 and December 31, 2015 , we had 11.55% and 11.46% tangible common equity ratios, respectively. We calculate tangible common equity, tangible assets and the tangible common equity ratio, which are non-GAAP measures, because we believe they are useful for both investors and management as these are measures commonly used by financial institutions, regulators and investors to measure the capital adequacy of financial institutions. The tangible common equity ratio is calculated as tangible common shareholders' equity divided by tangible assets. Tangible common equity is calculated as total shareholders' equity less preferred stock and less goodwill and other intangible assets, net. Tangible assets are total assets less goodwill and other intangible assets, net. We believe these measures facilitate comparison of the quality and composition of the Company's capital over time and in comparison to its competitors.

These non-GAAP measures have inherent limitations and are not required to be uniformly applied. They should not be considered in isolation or as a substitute for analysis of results reported under GAAP. These non-GAAP measures may not be

comparable to similarly titled measures reported by other companies and should not be viewed as a substitute for shareholders' equity or total assets. The following table provides reconciliations of tangible common equity and the tangible common equity ratio to GAAP total common shareholders' equity and tangible assets to GAAP total assets:

(Dollars in thousands)

	September 30, 2016	December 31, 2015
Total shareholders' equity	$ 1,029,841	$ 986,265
Less: goodwill and intangible assets	(146,810)	(149,622)
Tangible common equity	$ 883,031	$ 836,643
Total assets	$ 7,792,458	$ 7,449,479
Less: goodwill and intangible assets	(146,810)	(149,622)
Tangible assets	$ 7,645,648	$ 7,299,857
Tangible common equity ratio	**11.55%**	**11.46%**

We calculate tangible book value, and tangible book value per share, which are non-GAAP measures because we believe they are useful for both investors and management as these are measures commonly used by financial institutions, regulators and investors to measure the capital adequacy of financial institutions. Tangible book value is equal to book value, or stockholders' equity, less goodwill and core deposit intangibles, net of related deferred tax liabilities.

The following table sets forth a reconciliation of tangible book value and tangible book value per share to total shareholders' equity, which is the most directly comparable GAAP measure:

(Dollars and shares in thousands, except per share amounts)

	September 30, 2016	December 31, 2015
Total shareholders' equity	$ 1,029,841	$ 986,265
Less: goodwill and intangible assets, net of taxes	(142,141)	(143,849)
Tangible book value	$ 887,700	$ 842,416
Common shares outstanding	43,235	43,143
Book value per share	**$ 23.82**	**$ 22.86**
Tangible book value per share	**$ 20.53**	**$ 19.53**

The Company operates with a significant level of excess capital above regulatory requirements (see the table below for the historical capital ratios as well as minimum and well capitalized ratio requirements).

As of September 30, 2016 , we had a Tier 1 leverage ratio of 12.9% , which provided us with $357.9 million in excess capital relative to our longer-term target of 8%. As of September 30, 2016 , Capital Bank Corporation had a 10.5% Tier 1 leverage ratio, a 12.0% Tier 1 common capital ratio, a 12.0% Tier 1 risk-based ratio and a 12.7% Total risk-based capital ratio.

As of December 31, 2015 , we had a Tier 1 leverage ratio of 12.7%, which provided us with $335.1 million in excess capital relative our longer-term planning target of 8%. As of December 31, 2015, Capital Bank Corporation had a 11.1% Tier 1 leverage ratio, a 12.9% Tier I common capital ratio, a 12.9% Tier 1 risk-based ratio and an 13.7% total risk-based capital ratio.

The minimum ratios along with the actual ratios for us and Capital Bank Corporation as of September 30, 2016 and December 31, 2015 are presented in the following tables:

(Dollars in thousands)			Actual	
September 30, 2016	**Well Capitalized Requirement**	**Adequately Capitalized Requirement**	**September 30, 2016**	**December 31, 2015**
Tier 1 Leverage Capital				
(to Average Assets)				
CBF Consolidated	N/A	≥ 4.0%	12.9%	12.7%
Bank	≥ 5.0%	≥ 4.0%	10.5%	11.1%
Tier 1 Common Equity Capital				
(to Risk-weighted Assets)				
CBF Consolidated	N/A	≥ 4.5%	13.3%	13.6%
Bank	≥ 6.5%	≥ 4.5%	12.0%	12.9%
Tier 1 Risk-based Capital				
(to Risk-weighted Assets)				
CBF Consolidated	N/A	≥ 6.0%	14.4%	14.7%
Bank	≥ 8.0%	≥ 6.0%	12.0%	12.9%
Total Risk-based Capital				
(to Risk-weighted Assets)				
CBF Consolidated	N/A	≥ 8.0%	15.1%	15.5%
Bank	≥ 10.0%	≥ 8.0%	12.7%	13.7%

	Actual	
(Dollars in thousands)	**September 30, 2016**	**December 31, 2015**
CBF Consolidated		
Tier 1 Leverage Capital	$ 943,390	$ 908,600
Excess Tier 1 Leverage Capital:		
vs. 8% target	357,889	335,115
Capital Bank Corporation		
Tier 1 Leverage Capital	781,015	793,722
Excess Tier 1 Leverage Capital:		
vs. 8% target	187,599	221,304

In July 2013, the U.S. banking regulators adopted a final rule which implements the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision, and certain changes required by the Dodd-Frank Act. The final rule establishes an integrated regulatory capital framework and introduces the "Standardized Approach" for risk weighted assets, which replaces the Basel I risk-based guidance for determining risk-weighted assets as of January 1, 2015, the date we became subject to the new rules.

The rules include new risk-based capital and leverage ratios, which will be phased in from 2015 to 2019, and refine the definition of what constitutes "capital" for purposes of calculating those ratios. The new minimum capital level requirements applicable to the Company and the Bank under the final rules are as follows: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from previous rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The final rules also establish a "capital conservation buffer" above the new regulatory minimum capital requirements. The capital conservation buffer will be phased-in over four years beginning on January 1, 2016, as follows: the maximum buffer will be 0.625% of risk-weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter. This will result in the following minimum ratios beginning in 2019: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level

falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions. As of September 30, 2016 , our capital buffer would be 4.7%; well exceeding the 2.5% 2019 requirement.

The final rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions if their capital levels begin to show signs of weakness. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions are now required to meet the following increased capital level requirements in order to qualify as "well capitalized:" (i) a new common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8% (increased from 6%); (iii) a total capital ratio of 10% (unchanged from previous rules); and (iv) a Tier 1 leverage ratio of 5% (unchanged from previous rules).

Dividend Program

On October 19, 2016, the Company's board of directors approved a quarterly common dividend of $0.12 per share payable on November 22, 2016, to shareholders of record as of November 9, 2016.

Liquidity

Liquidity involves our ability to raise funds to support asset growth or reduce assets to meet deposit withdrawals and other funding needs, to maintain reserve requirements and to otherwise operate on an ongoing basis. To mitigate liquidity risk, our strategy is to fund asset growth primarily with low-cost customer deposits. We also operate under a liquidity policy and contingent liquidity plan that require us to monitor indicators of potential liquidity risk, utilize cash flow projection models to forecast liquidity needs, identify alternative back-up sources of liquidity and maintain a cushion of cash and liquid securities at 15% of total assets.

Our liquidity needs are met primarily by our cash position, growth in core deposits and cash flow from our amortizing investment and loan portfolios (including scheduled payments, prepayments, and maturities from portfolios of loans and investment securities). Our ability to borrow funds from non-deposit sources provides additional flexibility in meeting our liquidity needs. Short-term borrowings include federal funds purchased, securities sold under repurchase agreements and brokered deposits. We also utilize longer-term borrowings when management determines that the pricing and maturity options available through these sources create cost effective options for funding asset growth and satisfying capital needs. Our long-term borrowings include structured repurchase agreements and subordinated notes underlying our trust preferred securities.

As of September 30, 2016 and December 31, 2015 , cash and liquid securities totaled 17.0% and 16.9% of assets, respectively, providing ample liquidity to support our existing bank franchise. As of September 30, 2016 and December 31, 2015, the ratio of wholesale to total funding was 18.7% , and 19.4%, respectively, which is below our policy limit of 25%. In addition to maintaining a stable core deposit base, we maintain adequate liquidity primarily through the use of investment securities, short term investments such as federal funds sold and unused borrowing capacity. We hold investments in FHLB stock for the purpose of maintaining credit lines with the FHLB. The credit availability is based on a percentage of the Bank's total assets as reported in its most recent quarterly financial information submitted to the FHLB and subject to the pledging of sufficient collateral.

At September 30, 2016 and December 31, 2015 , there were $575.8 million and $460.9 million, respectively, in FHLB advances outstanding. In addition, we had $15.4 million and $25.4 million in letters of credit outstanding as of September 30, 2016 and December 31, 2015 , respectively. Collateral available under our agreements with the FHLB provided for incremental borrowing availability of up to approximately $342.6 million and $416.9 million, respectively.

We believe that we have adequate funding sources through unused borrowing capacity from the FHLB, unpledged investment securities, cash on hand and on deposit in other financial institutions, loan principal repayment and potential asset maturities and sales to meet our foreseeable liquidity requirements and contractual obligations.

As of September 30, 2016 and December 31, 2015 , our holding company had cash of approximately $138.3 million and $95.3 million, respectively. This cash is available for providing capital support to our subsidiary bank and for other general corporate purposes, including potential future acquisitions. The increase in cash was due to $64.2 million of dividend received from the Bank, offset by $4.4 million of common share buybacks and $12.9 million in dividends paid to shareholders during the nine months ended September 30, 2016 .

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk Management

The Company pursues a conservative strategy with respect to interest rate risk management, with the goal of minimizing the risk that interest rate volatility will negatively impact our financial results. Due to the current low level of interest rates, we regard rising interest rates as the most likely source of risk and accordingly have sought to maintain an asset-sensitive position.

There are several components to our conservative interest rate strategy. First, we avoid holding loans with long duration. At September 30, 2016 , approximately 54% of the loan portfolio was variable rate and of the remaining fixed rate loans, the vast majority had terms of less than five years. Second, the purpose of our securities portfolio is to provide liquidity and to manage interest rate sensitivity, and as such we limit its duration. At September 30, 2016 , securities accounted for 14% of assets, and the effective duration of the portfolio was 3.2 years with limited extension risk to 4.2 years in a plus 300 immediate parallel shift in interest rates. We utilize average life estimates based on prepayment rates obtained from an independent source. Third, we seek to fund the Bank, to the extent possible, with long-duration core deposits, and within core deposits, we emphasize checking account balances as the most stable and least risky source of funds. At September 30, 2016 , core deposits accounted for 70% of total deposits, and checking balances accounted for 63% of core deposits.

We continuously monitor the Bank's interest rate risk profile through our Asset Liability Committee, which consists of our Chief Executive Officer, Chief Financial Officer, Chief Credit Officer, Chief of Strategic Planning, Treasurer, business unit heads and certain other officers. To manage interest rate risk, our Board of Directors has established quantitative and qualitative guidelines with respect to our net interest income exposure and how predefined interest rate shocks affect our financial performance, measured in terms of forecast net interest income and economic value of equity, which is the intrinsic value of assets, less the intrinsic value of liabilities. Under our policy, these predefined rate shocks include minus 300, minus 200, minus 100, plus 100, plus 200 and plus 300 basis point immediate parallel shifts in interest rates.

If a predefined immediate parallel rate shock cannot be modeled due to the low level of interest rates, a proportional rate shock and policy limit applies and all other declining rate shocks will be suspended until such scenarios can be modeled. Because of the current low level of interest rates, the minus 100, minus 200 and minus 300 rate shocks have been suspended. The maximum negative impact on forecast net interest income and economic value of equity in a minus 50 basis point immediate parallel shift in interest rates is measured on a proportional basis. In addition to monitoring our compliance with these policies, management undertakes additional analysis, considering a wide range of possible interest rate fluctuations, including changes in the shape of the yield curve, and assessing the sensitivity of these results to key assumptions, including the behavior of depositors and loan customers.

Based upon the current interest rate environment, as of September 30, 2016 , our sensitivity to interest rate risk was as follows:

(Dollars in thousands)	Next 12 Months Net Interest Income		Economic Value of Equity	
Interest Rate Change in Basis Points	**$ Change**	**% Change**	**$ Change**	**% Change**
300	$ 23,135	9.0 %	$ 51,092	5.1 %
200	16,358	6.4 %	47,837	4.8 %
100	8,524	3.3 %	33,353	3.3 %
—	—	— %	—	— %
(50)	(7,743)	(3.0)%	(33,086)	(3.3)%

We used many assumptions to calculate the impact of changes in interest rates on our portfolio, and actual results may not be similar to projections due to several factors, including the timing and frequency of rate changes, market conditions and the shape of the yield curve. Actual results may also differ due to our actions, if any, in response to the changing rates. In calculating these exposures, we use an interest rate simulation model which is validated by third-party reviewers on an annual basis.

In the event the model indicates an unacceptable level of risk, we may take a number of actions to reduce this risk, including changing the terms, pricing, and conditions of new loans and deposits, the sale of a portion of our available-for-sale investment portfolio or the use of risk management strategies such as interest rate swaps and caps and cash flow hedges. As of September 30, 2016 , we were in compliance with all of the limits and policies established by our Board of Directors in predefined plus rate shocks and remained temporarily out of compliance in the minus 50 basis point proportional rate shocks. We continuously evaluate all balance sheet strategies to optimize the Company's interest rate risk position and plan to take prudent

and deliberate actions which we anticipate will moderate our asset sensitivity and move the Company back into compliance with the limits and policies established by our Board of Directors. As a component of these strategies, the Company has entered into $235.0 million of notional receive-fixed interest rate swaps during the nine months ended September 30, 2016 .

Inflation Risk Management

Inflation has an important impact on the growth of total assets in the banking industry and creates a need to increase equity capital to higher than normal levels in order to maintain an appropriate equity-to-assets ratio. We cope with the effects of inflation by managing our interest rate sensitivity position through our asset/liability management program, and by periodically adjusting our pricing of services and banking products to take into consideration current costs.

ITEM 4: CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Company’s Chief Executive Officer and Chief Financial Officer have evaluated the Company’s disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, they have concluded that the Company’s disclosure controls and procedures are effective in ensuring that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in the Commission’s rules and forms and are also designed to ensure that the information required to be disclosed in the reports filed or submitted under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

(b) Internal Control Over Financial Reporting

Changes in internal control over financial reporting

There have been no changes in the Company’s internal control over financial reporting during the period ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

From time to time we are party to various litigation matters incidental to the conduct of our business. On January 16, 2016, a case captioned Robert Garfield v. Capital Bank Financial Corp., et al., Index No. 2016-001194-CA-01 (Fla. Cir. Ct.) (the “Garfield Action”), was filed on behalf of a putative class of Capital Bank Financial shareholders against Capital Bank Financial, its directors, and CommunityOne in the Circuit Court of the Eleventh Judicial Circuit in Miami-Dade County, Florida in connection with the merger. The complaint alleges, among other things, that the Capital Bank Financial director defendants breached their fiduciary duties by approving the merger, that CommunityOne aided and abetted such breaches, and that Capital Bank Financial, its directors and CommunityOne failed to disclose material information in connection with the merger. The complaint seeks, among other things, an order enjoining the merger, as well as other equitable relief and/or money damages, interest, costs, fees (including attorneys’ fees) and expenses.

On February 29, 2016, a case captioned Curtis R. Pendleton v. Robert L. Reid, et al., Case 5:16-cv-00037 (W.D.N.C.) (the “Pendleton Action”), was filed on behalf of a putative class of CommunityOne shareholders against CommunityOne, its directors, and Capital Bank Financial in the United States District Court for the Western District of North Carolina in connection with the merger. The complaint alleges, among other things, that certain defendants violated Sections 14(a) and 20(a) of the Securities Exchange Act of 1934 by issuing a Registration/Joint Proxy Statement that, plaintiff alleges, is materially incomplete and misleading. On March 14, 2016, a case captioned Floyd Scrogham v. Robert L. Reid, et al., No. 5:16-cv-00045 (the “Scrogham Action”) was filed in the United States District Court for the Western District of North Carolina on behalf of a putative class of CommunityOne shareholders against CommunityOne, its directors, and Capital Bank Financial. The complaint in the Scrogham Action, like the complaint in the Pendleton Action, alleges, among other things, that certain defendants violated Sections 14(a) and 20(a) of the Securities Exchange Act of 1934 by issuing a Registration/Joint Proxy Statement that, plaintiffs allege, is materially incomplete and misleading. The Pendleton and Scrogham Actions seek, among other things, an order enjoining the merger, as well as other equitable relief and/or money damages, interest, costs, fees (including attorneys’ fees) and

expenses. On March 31, 2016, the Pendleton and Scrogham Actions were consolidated for all purposes under the caption In re CommunityOne Bancorp Consolidated Stockholder Litigation, No. 5:16-cv-00037 (the “Consolidated WDNC Action”).

On April 1, 2016, the parties to the Consolidated WDNC Action filed with the Court a memorandum of understanding in which the parties agreed on the terms of a settlement of those lawsuits. In connection with the settlement, CommunityOne made certain supplemental disclosures related to the merger on April 6, 2016. The proposed settlement is conditional upon, among other things, the execution of an appropriate stipulation of settlement following completion of confirmatory discovery, consummation of the merger and final approval of the proposed settlement by the court. There can be no assurance that the parties to the Consolidated WDNC Action will ultimately enter into a stipulation of settlement or that the court will approve the settlement even if the parties were to enter into such stipulation. In such event, the proposed settlement as contemplated by the memorandum of understanding may be terminated. If the proposed settlement is finally approved by the court, it will release all claims in the Consolidated WDNC Action that were or could have been brought challenging any aspect of the merger and any disclosures made in connection therewith and preclude further proceedings.

On April 4, 2016, the parties to the Garfield Action reached an agreement in principle regarding the settlement of the Garfield Action and entered into a stipulation of settlement. In connection with the settlement, Capital Bank Financial made certain supplemental disclosures related to the merger on April 6, 2016. The proposed settlement is conditional upon, among other things, the completion of confirmatory discovery, consummation of the merger and final approval of the proposed settlement by the court. If the proposed settlement is finally approved by the court, it will release all claims in the Garfield Action that were or could have been brought challenging any aspect of the merger and any disclosures made in connection therewith and preclude further proceedings. There can be no assurance that the settlement will be approved.

The defendants agreed to the settlement of these lawsuits to avoid the uncertainty, costs, distraction and disruption inherent in litigation and without admitting that further supplemental disclosure is required under any applicable rule, statute, regulation or law. Settlement hearings will be scheduled to consider the fairness, reasonableness, and adequacy of the proposed settlements following notice to the Capital Bank Financial and CommunityOne stockholders. If each of the proposed settlements is finally approved by the respective courts considering such settlements, the settlements will resolve and release all claims in the Garfield Action and the Consolidated WDNC Action that were or could have been brought challenging any aspect of the proposed merger or the merger agreement and any disclosure made in connection therewith, pursuant to terms that will be disclosed to stockholders prior to final approval of the settlement by the respective courts. In addition, in connection with the proposed settlements, the parties contemplate that plaintiffs’ counsel will seek awards of attorneys’ fees and expenses from each respective court. Capital Bank Financial, CommunityOne or their successors will pay or cause to be paid those attorneys’ fees and expenses awarded by the respective courts. There can be no assurance that the courts will approve the settlements.

On September 16, 2016, the Company entered into a settlement agreement to settle a purported class action litigation regarding the alleged improper assessment and collection of overdraft fees (the “Settlement Agreement”). The litigation was filed in the Chancery Court for Tennessee, 20th Judicial District, on February 1, 2011 against GreenBank (“GreenBank”) regarding activity that occurred between February 1, 2005 and June 30, 2011. The Company completed the acquisition of GreenBank on September 8, 2011. The Company agreed to the Settlement Agreement solely by way of compromise and settlement and to avoid further litigation expense. The Company’s agreement is not in any way an admission of liability, fault or wrongdoing by the Company or by GreenBank.

Pursuant to the terms of the Settlement Agreement, the Company will pay $1.5 million to settle the litigation which will be payable within fourteen days after preliminary court approval of the settlement. In addition, the Company agreed not to use debit re-sequencing, weekend and holiday high-to-low posting or weekend and holiday batch processing for a period of at least 36 months following final court approval of the settlement. The Company does not currently engage in such re-sequencing or batching process described above.

ITEM 1A: RISK FACTORS

There have been no material changes to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission.

ITEM 2: UNREGISTERED SALES OF EQUITY AND USE OF PROCEEDS

The following table provides information regarding repurchases of the Company's common stock by the Company during the three months ended September 30, 2016 :

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Current Board Program
July 1-31	—	$ —	—	$ 101,360,337
August 1-31	—	—	—	101,360,337
September 1-30	—	—	—	101,360,337
Total	**—**	**$ —**	**—**	**$ 101,360,337**

During 2013, 2014 and 2015, the Company's Board of Directors authorized stock repurchases of up to $400.0 million . Stock repurchases may be made from time to time, on the open market or in privately negotiated transactions. The approved stock repurchase program does not obligate the Company to repurchase any particular amount of shares, and the program may be extended, modified, suspended, or discontinued at any time.

During the three months ended September 30, 2016 , the Company did not repurchase shares.

As of September 30, 2016 , the Company has repurchased a total of $298.6 million or 12,644,660 common shares at an average price of $24.19 per share, and had $101.4 million remaining under the current board authorized stock repurchase program.

ITEM 3: DEFAULT UPON SENIOR SECURITIES

None.

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5: OTHER INFORMATION

None.

ITEM 6: EXHIBITS

Exhibit Number	Description
31.1	Chief Executive Officer's certification required under Section 302 of Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer's certification required under Section 302 of Sarbanes-Oxley Act of 2002
32.1	Chief Executive Officer's certification required under Section 906 of Sarbanes-Oxley Act of 2002
32.2	Chief Financial Officer's certification required under Section 906 of Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

CAPITAL BANK FINANCIAL CORP.

Date: October 28, 2016	/s/ R. Eugene Taylor
	R. Eugene Taylor Chairman and Chief Executive Officer
Date: October 28, 2016	/s/ Christopher G. Marshall
	Christopher G. Marshall Chief Financial Officer (Principal Accounting Officer)

Exhibit 31.1

CERTIFICATIONS

I, R. Eugene Taylor, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Capital Bank Financial Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2016

/s/ R. Eugene Taylor

R. Eugene Taylor
Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Christopher G. Marshall, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Capital Bank Financial Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2016

/s/ Christopher G. Marshall

Christopher G. Marshall
Chief Financial Officer
(Principal Accounting Officer)

Exhibit 32.1

Chief Executive Officer's Certification required under Section 906 of Sarbanes-Oxley Act of 2002

In connection with the quarterly report of Capital Bank Financial Corp. (the "Company") on Form 10-Q for the period ended September 30, 2016 , as filed with the Securities and Exchange Commission (the "Report"), I, R. Eugene Taylor, Chief Executive Officer, certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge: (1) this Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: October 28, 2016

/s/ R. Eugene Taylor

R. Eugene Taylor
Chairman and Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Capital Bank Financial Corp. and will be retained by Capital Bank Financial Corp. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

Chief Financial Officer's Certification required under Section 906 of Sarbanes-Oxley Act of 2002

In connection with the quarterly report of Capital Bank Financial Corp. (the "Company") on Form 10-Q for the period ended September 30, 2016 , as filed with the Securities and Exchange Commission (the "Report"), I, Christopher G. Marshall, Chief Financial Officer, certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge (1) this Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: October 28, 2016

/s/ Christopher G. Marshall

Christopher G. Marshall
Chief Financial Officer
(Principal Accounting Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Capital Bank Financial Corp. and will be retained by Capital Bank Financial Corp. and furnished to the Securities and Exchange Commission or its staff upon request.