FIDELITY SOUTHERN CORP
Form 10-K
March 13, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
Commission File Number 001-34981
Fidelity Southern Corporation
(Exact name of registrant as specified in its charter)

Georgia	58-1416811
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3490 Piedmont Road, Suite 1550 Atlanta, Georgia	30305
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (404) 639-6500
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, without stated par value
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No ý
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ¨ Accelerated filer ý Non-accelerated filer ¨ Smaller reporting company ¨
Emerging growth company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No ý
The aggregate market value of the common equity held by non-affiliates of the registrant (assuming for these purposes, but without conceding, that all executive officers and directors are “affiliates” of the registrant) as of June 30, 2018 (based on the price the Common Stock was last sold on June 30, 2018 on the NASDAQ Global Select Market

System), was $584,594,276.

At February 28, 2019, there were 27,591,652 shares of Common Stock outstanding, without stated par value.

DOCUMENTS INCORPORATED BY REFERENCE

None

FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
Report on Form 10-K
December 31, 2018

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PART I

Item 1. Business

General

Fidelity Southern Corporation (“FSC”, “Fidelity”, or the "Company") is a bank holding company headquartered in Atlanta, Georgia. We conduct operations primarily through Fidelity Bank, a state chartered wholly-owned subsidiary bank (the “Bank”). The Bank was organized as a national banking corporation in 1973 and converted to a Georgia chartered state bank in 2003. LionMark Insurance Company (“LionMark”) is a wholly-owned subsidiary of FSC and is an insurance agency offering consumer credit related insurance products. FSC also owns three subsidiaries established to issue trust preferred securities. The “Company,” “we,” or “our,” as used herein, includes FSC and its subsidiaries, unless the context otherwise requires.

FSC is a legal entity separate and distinct from the Bank. We coordinate the financial resources of the consolidated enterprise and thereby maintain financial, operational and administrative systems that allow centralized evaluation of subsidiary operations and coordination of selected policies and activities. FSC’s operating revenues and net income are derived primarily from cash dividends received from the Bank.

At December 31, 2018, we had total assets of $4.7 billion, total net loans of $3.9 billion, total deposits of $4.0 billion, and shareholders’ equity of $446.2 million. For more information about our business, see Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Proposed Merger with Ameris Bancorp

As previously disclosed, on December 17, 2018, Fidelity entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Ameris Bancorp ("Ameris"). The Merger Agreement provides that, upon the terms and subject to the conditions set forth therein, FSC will merge with and into Ameris (the “Merger”), in an all-stock transaction, with Ameris surviving the Merger. Immediately following the Merger, the Bank will merge (the “Bank Merger”) with and into Ameris’s wholly owned bank subsidiary, Ameris Bank. Ameris Bank will be the surviving entity in the Bank Merger. The Merger Agreement was unanimously approved by the board of directors of each of Fidelity and Ameris. The transaction is expected to close in the second quarter 2019. The closing of the transactions contemplated by the Merger Agreement is subject to the approval of FSC's shareholders, regulators, and certain other customary closing conditions.

Subject to the terms and conditions of the Merger Agreement, at the effective time of the Merger, Fidelity’s shareholders will have the right to receive 0.80 shares (the “Exchange Ratio”) of common stock, par value $1.00 per share, of Ameris for each share of common stock, no par value per share, of Fidelity that they hold, together with cash in lieu of fractional shares.

The Merger Agreement provides certain termination rights for both Fidelity and Ameris and further provides that a termination fee of $29.0 million will be payable by Fidelity upon termination of the Merger Agreement under certain circumstances.

Forward-Looking Statements

This report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that reflect our current expectations relating to present or future trends or factors generally affecting the banking industry and specifically affecting our operations, markets and services. These forward-looking statements are subject to significant risks and uncertainties. Investors are cautioned against placing undue reliance on such statements. Without limiting the foregoing, the words “believes,” “expects,” “anticipates,” “estimates,” “projects,” “intends,” “plans,” “targets,” “initiatives,” “potentially,” “outlook,” or similar expressions or future conditional verbs such as “may,” “will,” “should,” “would,” and “cou intended to identify forward-looking statements. Such statements are based upon the current beliefs and expectations of management and on information currently available to management based upon assumptions that management believes are reasonable and may relate to, among other things, the difficult economic conditions and the economy’s impact on operating results, credit quality, liquidity, capital, the adequacy of the allowance for loan losses, changes in interest rates, and litigation results. These forward-looking statements are subject to risks and uncertainties. Actual results could differ materially from those projected for many reasons, including without limitation, changing events and trends that have influenced our assumptions.

These trends and events include: (1) risks related to our proposed Merger with and into Ameris, (2) events adversely affecting our loan portfolio, such as potential difficulties maintaining quality loan growth, the risk of credit losses and an insufficient allowance for loan losses, maintaining and servicing relationships with customers and other counterparties, the ability to rely upon information from customers and other counterparties, and managing changes in our lending operations; (3) events adversely affecting our investment portfolio, resulting in potential impairments or losses that may adversely affect earnings and capital; (4) potential adverse economic conditions at the national, regional, and local levels where we conduct business, and the resulting impact on the quality of our loan portfolio, earnings, and business operations; (5) expectations of and actual timing and amount of interest rate movements, and the slope and shape of the yield curve; (6) extensive regulation, new or enhanced enforcement of laws and regulations, increased compliance costs, potential failure to comply with laws and regulations, and the possibility of claims or litigation from customers or other parties; (7) maintaining adequate liquidity, the failure or which would adversely impact our growth and ability to meet our current or future funding obligations; (8) our ability to maintain sufficient capital and to raise

additional capital when needed; (9) events affecting our business operations, such as the effectiveness of our risk management framework and internal controls and procedures, our reliance on financial models and the accuracy of such financial models, our reliance on third party vendors, the risk of security breaches and potential fraud, including cyber-fraud, ability to maintain sufficient investment in technological improvements, and potential adverse weather events in the geographic markets in which we operate; (10) events affecting our ability to compete effectively and achieve our strategies, such as greater competitive pressures among financial institutions in our market areas, the risk of failure to achieve the revenue increases expected to result from our acquisitions, branch additions and in our transaction deposit, trust and lending businesses, and our ability to attract and retain skilled people; (11) events that adversely affect our reputation, and the resulting potential adverse impact on our operations in the event of negative public opinion; and (12) risks arising from owning our common stock, such as the volatility and trading volume of our common stock, our ability to pay dividends, the impact of dilution on our common stock, the lack of Federal Deposit Insurance Corporation ("FDIC") insurance with respect to our common stock, regulatory limitations on stock ownership, and provisions in our bylaws that may make it more difficult for another party to obtain control of us.

This list is intended to identify some of the principal factors that could cause actual results to differ materially from those described in the forward-looking statements included herein and are not intended to represent a complete list of all risks and uncertainties in our business. We assume no obligation to update or revise, whether as a result of new information, future events, or otherwise, any forward-looking statements that are made in our 2018 Annual Report or in any other statement, release, report, or filing from time to time. Investors are encouraged to read the risks discussed under "Item 1A.—Risk Factors."

Our Strategy

Our business strategy has been to build a regional bank which emphasizes relationship banking encompassing loan and deposit gathering along with home mortgages and wealth management services. Our plan has been to continue to grow organically while positioning ourselves for future acquisitions. We believe recent and continuing disruption in the banking industry has created an opportunity for us to realize greater economies of scale compared to smaller community banks while still providing more personalized, local service than larger-sized banks. Our board and management team possesses significant leadership experience which we believe has been an important advantage in executing our business model.

Our operating strategy has been to continue to diversify our revenue streams while becoming more efficient and effective in everything we do. We have organized our operations under a line of business model while centralizing credit, finance, technology and operations functions. We have invested in our infrastructure by making capital expenditures necessary to upgrade our internal systems and software to support long-term growth as well as training and developing our employees to adapt to the corresponding changes.

Market Area, Products, and Services

We provide an array of financial products and services for business and retail customers primarily in the metropolitan Atlanta and Jacksonville, Orlando, Tallahassee, and Sarasota-Bradenton, Florida markets, and online at www.LionBank.com. Our customers are primarily individuals and small to medium-sized businesses.

We offer products and services through a network of 69 retail branch offices and 37 mortgage loan production offices. During 2017, we expanded our Small Business Administration ("SBA") business. We originate SBA loans throughout the United States. Mortgage loans are provided throughout the South and parts of the Mid-Atlantic region. During 2018, the market pressures in indirect auto required us to exit all remaining states outside of our existing branch footprint in Georgia and Florida. We have continued to emphasize investing in systems and infrastructure to create efficiencies to provide support for our continued growth.

We have been primarily engaged in attracting deposits from individuals and businesses and using these deposits and borrowed funds to originate commercial, residential mortgage, construction and installment loans. We actively sell residential mortgage loans, SBA loans, and indirect automobile loans, retaining servicing on a significant amount of the sales. Internet banking, including online bill pay and mobile deposit, and internet cash management services are available to individuals and businesses. We also offer cash management services, remote deposit services, and international trade services for businesses. Our Wealth Management business focuses on providing trust administration, investment management, financial and estate planning, specialized lending and banking for affluent and high net worth individuals. Through our marketing partners, we offer merchant services for businesses and credit

cards for both individuals and businesses.

We have grown our assets, deposits, and business organically and through acquisition by building on our lending products, expanding our deposit products and delivery capabilities, opening new branches, and hiring experienced bankers with existing customer relationships in our market areas.

We have successfully completed both FDIC-assisted and non FDIC-assisted transactions in the past. On June 27, 2018, the Bank entered into an agreement with the Federal Deposit Insurance Corporation (the "FDIC") to terminate the loss share agreements entered into with the FDIC in 2011 and 2012. Fidelity made a cash payment of approximately $632,000 to the FDIC as consideration for the early termination of the agreements. As a result, at December 31, 2018 there were no loans covered by Loss Share Agreements.

Deposits

We provide a full range of deposit accounts and services to both individuals and businesses for which we charge reasonable service fees. We offer competitive interest rates while emphasizing personalized customer service. We also utilize deposits from brokers as a funding source, although to a lesser degree.

As of December 31, 2018 and 2017, our total deposits consisted of the following:

($ in thousands)	December 31, 2018 Amount	% of Total	December 31, 2017 Amount	% of Total
Noninterest-bearing demand deposits	$1,214,534	30.5 %	$1,125,598	29.1 %
Interest-bearing deposits:				
Demand	474,440	11.9	478,428	12.4
Money market and savings	1,365,276	34.3	1,339,028	34.6
Time deposits	835,285	21.0	860,613	22.3
Brokered time deposits	92,043	2.3	63,533	1.6
Total deposits	$3,981,578	100.0%	$3,867,200	100.0%

Total deposits of $4.0 billion at December 31, 2018 increased by $114.4 million, or 3.0%, compared to December 31, 2017. Core deposits, which are comprised of noninterest-bearing demand accounts and interest-bearing demand accounts, including money market accounts and savings deposits accounted for $111.2 million of the increase, as the result of our continuing transaction account acquisition initiative, in both commercial and consumer accounts. Time deposits at December 31, 2018 decreased slightly by $3.2 million, or 0.3%.

Lending

Our primary lending activities include originating commercial loans to small and medium sized businesses, SBA loans, consumer installment loans (primarily indirect automobile loans), construction loans, and residential real estate loans. Commercial lending consists of the extension of credit for business purposes primarily in Georgia and Florida. We originate SBA loans nationwide.

Indirect loans are originated in Georgia and Florida. We offer direct installment loans and personal lines of credit to consumers on both a secured and unsecured basis.

Residential construction loans to home builders and developers are originated primarily in the Atlanta and Savannah, Georgia; Birmingham, Alabama; and Jacksonville, Pensacola and Orlando, Florida metropolitan areas.

The following table summarizes the carrying value of our total net loans outstanding by category as of December 31, 2018:

(in thousands)	Loans	Loans Held-for-Sale	Total Loans
Commercial	$904,160	$ —	$904,160
SBA	156,612	13,960	170,572
Construction	279,409	—	279,409
Indirect automobile	1,569,274	—	1,569,274
Installment loans and personal lines of credit	28,170	—	28,170
Residential mortgage	594,095	225,342	819,437
Home equity lines of credit	153,758	—	153,758
Total loans	$3,685,478	$ 239,302	$3,924,780

Certain of the following discussions are in part based on the Bank defined loan portfolios and may not conform to the above classifications.

Commercial and Industrial Lending

We originate commercial and industrial loans that are generally secured by business property such as inventory, equipment and accounts receivable. All commercial loans are evaluated for the adequacy of repayment sources at the time of approval and are regularly reviewed for any deterioration in the ability of the borrower to repay the loan. In most instances, collateral is required to provide an additional source of repayment in the event of default by the borrower. The amount and type of the collateral varies from loan to loan depending on the purpose of the loan, the financial strength of the borrower, and the amount and terms of the loan. In addition, we almost always require

personal guarantees on these loans.

Commercial Real Estate Lending

We engage in commercial real estate lending through direct originations. Our primary focus is on originating owner-occupied loans to finance real estate out of which an individual or company will operate their business. Non-owner occupied real estate loans for investment purposes are made on a selective basis and only where the borrowers or guarantors add substantial support

to the credit. Loans where the sole source of repayment is derived from the project, or where the absence of the project's success would significantly impact the ability of the borrower to service the debt, are avoided. We make commercial real estate loans to individuals and to small and medium sized businesses to provide loan diversification, to generate assets that are sensitive to fluctuations in interest rates, and to generate deposit and other relationships. Commercial real estate loans are generally prime-based floating-rate loans or shorter-term (one to five year) fixed-rate loans. At December 31, 2018, approximately 52% of our commercial real estate loans were owner occupied real estate loans. The remaining non-owner occupied loans were generally made to established commercial customers for purposes other than retail development.

SBA Lending

We are a direct SBA 7(a), 504 and U.S. Department of Agriculture ("USDA") lender, providing loans to small businesses nationally. We have a portfolio of SBA loans and SBA loans held-for-sale. These loans are primarily originated to finance commercial real estate purchases, business expansions and new development in SBA and USDA eligible industries with a portion guaranteed by the SBA or the USDA with other credit enhancements. All sales of the guaranteed portion of SBA and USDA loans are executed on a servicing retained basis. We are a national member of the SBA Preferred Lenders Program ("PLP").

Indirect Automobile Lending

We have purchased, on a nonrecourse basis, consumer installment contracts secured by new and used vehicles purchased by consumers from franchised motor vehicle dealers and selected independent dealers located throughout our lending footprint since 1990. We also earn commissions on the sale of consumer credit related insurance policies on these contracts. A portion of our indirect automobile loan production is sold with servicing retained.

In 2018, we exited all markets in indirect lending except for Florida and Georgia. During 2018, we produced approximately $623.4 million of indirect automobile loans, while selling $133.9 million to third parties with servicing retained, recording gain on sales of $1.4 million. At December 31, 2018, we were servicing $705.6 million in indirect automobile loans we had sold, primarily to other financial institutions; we recorded servicing revenue (including ancillary servicing revenue) of $7.4 million during 2018.

Consumer Lending

Through our retail branch network, we originate consumer loans including automobile loans, residential mortgage and home equity loans, and secured and unsecured personal loans.

Real Estate Construction Lending

We originate real estate construction loans that consist primarily of one-to-four family residential construction loans made to builders. Loan disbursements are closely monitored by management to ensure that funds are being used strictly for the purposes agreed upon in the loan covenants. We employ both internal staff and external inspectors to ensure that requests for loan disbursements are substantiated by regular inspections and reviews. Construction and development loans are similar to all residential loans in that borrowers are underwritten according to their adequacy of repayment sources at the time of approval. Unlike conventional residential lending, however, signs of deterioration in a construction loan or development loan customer's ability to repay the loan are measured throughout the life of the loan and not only at origination or when the loan becomes past due. In most instances, loan amounts are limited to 80% of the appraised value upon completion of the construction project. We originate real estate construction loans primarily throughout the metropolitan areas of Atlanta, Georgia; Savannah, Georgia; Birmingham, Alabama; Jacksonville, Florida; and Orlando, Florida.

Mortgage Banking

Our residential mortgage lending focuses on one-to-four family properties. We offer Federal Housing Authority ("FHA"), Veterans Administration ("VA"), United States Department of Agriculture ("USDA") and conventional and non-conforming residential mortgage loans. We originate our residential mortgage banking loans primarily in the Southeast and Mid-Atlantic regions through 37 retail mortgage loan production offices. For the year ended December 31, 2018, 89.7% of our residential mortgage loan production of $2.9 billion was for home purchases and 10.3% was for refinances. We are an approved originator and servicer for the Federal Home Loan Mortgage Corporation ("FHLMC") and the Federal National Mortgage Association ("FNMA"), and an approved originator and servicer for loans insured by the Department of Housing and Urban Development ("HUD"), VA and USDA securitized in Government National Mortgage Association ("GNMA") mortgage-backed securities.

We primarily sell originated residential mortgage loans to investors, retaining servicing on a significant amount of the loans sold for which we recognize a mortgage servicing asset ("MSR"). The balance of mortgage loans held-for-sale fluctuates due to economic conditions, interest rates, the level of real estate activity, the amount of mortgage loans we retain, and seasonal factors. During 2018, we sold approximately $2.8 billion in originated residential mortgage loans to third party investors consisting of $1.9 billion in conventional loans, $628.9 million in FHA/VA/USDA loans and $239.5 million in jumbo loans. On August 30, 2018, the Bank sold MSRs relating to certain single family mortgage loans serviced for Fannie Mae and Freddie Mac, with an aggregate unpaid principal balance of approximately $1.1 billion, effective as of August 31, 2018 (“Sale Date”). Approximately $13.9 million in deposit balances representing custodial funds and advances related to the MSRs were transferred to the buyer by the Bank after the Sale Date. The sale represented approximately 12% of the Bank’s total single family mortgage servicing portfolio as of August 31, 2018. This was the first sale of MSRs executed by the Bank as part of the Company’s capital management strategy.

At December 31, 2018, we were servicing $9.3 billion in residential mortgage loans we had sold to FNMA, FHLMC, and included in GNMA mortgage-backed securities. We service loans on behalf of the investors or owners of the underlying mortgages. Servicing consists of collecting loan payments, remitting principal and interest payments to investors, managing escrow funds for the payment of mortgage-related expenses such as taxes and insurance, performing loss mitigation activities on behalf of investors and otherwise administering our mortgage loan servicing portfolio. We principally generate servicing revenue through contractual fees earned which are a stated percentage of the unpaid principal balance of current performing loans. We only have exposure to credit risk on sold loans to the extent we are required to make servicing advances until we are contractually authorized to be reimbursed from the loan investors.

As a seller, we make certain standard representations and warranties at the time of sale with respect to the loans being transferred. To date, our repurchases of mortgage loans previously sold that have been determined to be in violation of these representations and warranties have been minimal. Under our GNMA servicing contract, we have the option but not the obligation of repurchasing previously sold loans once they reach 90 days delinquency. These repurchases reduce future servicing advances. In 2018, we repurchased $29.0 million of GNMA loans, and cumulatively, we have repurchased $53.8 million in GNMA loans.

Wealth Management

We began offering trust and investment management services in 2014. We expanded our Wealth Management business and team in 2017 with the addition of client advisors, and assets under management have continued to grow. We provide trust administration, investment management, financial and estate planning, specialized lending and banking for affluent and high net worth individuals.

Significant Operating Policies

Lending Policy

The Board of Directors of the Bank has delegated lending authority to our management, which in turn delegates lending authority to our loan officers, each of whom is limited as to the amount of secured and unsecured loans he or she can make to a single borrower or related group of borrowers. As our lending relationships are important to our success, the Board of Directors of our Bank has established a loan approval committee and written guidelines for lending activities. In particular, the Officers' Credit Committee reviews all lending relationships with aggregate exposure exceeding $250,000. In addition, the Officers' Credit Committee approves credit for commercial, SBA and residential construction loan relationships up to the lending limit of the Bank. Other lending areas of the bank, including Consumer, Mortgage, Specialty Lending, and Dealer Finance would also interact with this Committee.

Our policy on calculating total exposure to an entity or individual, or related group of entities or individuals is more encompassing than the method required under law and calls for the combining of all debt to all related entities, regardless of the presence of independent sources of repayment or other conditions that might otherwise allow a portion of debt to be excluded under legal lending limit statutes.

Our written guidelines for lending activities require, among other things, that:

- secured loans be made to persons and companies who maintain depository relationships with us and who are well-established and have adequate net worth, collateral, and cash flow to support the loan;
- unsecured loans be made to persons who maintain depository relationships with us and have significant financial strength; and
- loans secured by real property located primarily in our market areas

Residential construction loans are made through the use of officer guidance lines, which are approved, when appropriate, by the Officers' Credit Committee. These guidance lines are approved for established builders and developers with track records and adequate financial strength to support the credit being requested. Loans may be granted for speculative starts or for pre-sold residential property to specific purchasers.

Loan Review and Nonperforming Assets

The Credit Review Department reviews our loan portfolio to identify potential deficiencies and recommends appropriate corrective actions. The results of the review are presented to the Loan and Discount Committee of the Board of Directors on a monthly basis.

We maintain an allowance for loan losses, which is established and maintained through provisions charged to operations. Such provisions are based on management’s evaluation of the loan portfolio on at least a quarterly basis including loan portfolio concentrations, current economic conditions, past loan loss experience, adequacy of underlying collateral, performance of acquired purchased credit impaired ("PCI") loans since acquisition and any other such factors which, in management’s judgment, deserve consideration in estimating losses. Loans are charged off in whole or in part when, in the opinion of management, such loans are deemed to be uncollectable. Subsequent recoveries are added to the allowance. PCI loans are reviewed quarterly to determine changes in expected cash flows, additional impairment or changes to the accretable yield.
Management estimates the fair value of collateral dependent real estate loans and Other Real Estate (“ORE”) based on the latest appraised value using independent appraisers, trends of similar property values within our market areas and our own

observations and experience with similar properties. For PCI loans, management periodically re-estimates cash flows expected to be collected using key assumptions and estimates such as appraised value, default rates, loss severity given default, and prepayment speed assumptions, similar to those used for the initial fair value estimate. At least quarterly, valuations of impaired and PCI loan collateral are reviewed to take into account the aging of the appraisals and the recent economic trends for the specific types of collateral.

A dedicated special assets team is assigned to evaluate potential nonperforming loans, to properly value nonperforming assets and to facilitate the timely disposition of these assets while minimizing losses.

Asset Liability Management

The Asset Liability Management Committee ("ALCO") manages the mix of and terms related to our assets and liabilities. ALCO monitors balance sheet growth, liquidity, and capital in order to reduce interest rate risk and maximize income. ALCO directs our overall acquisition and allocation of funds, loan sales, and reviews and sets rates on deposits, loans, and fees. The Board of Directors is responsible for the establishment, approval, implementation, and annual review of interest rate risk management strategies, comprehensive policies, procedures, and limits. Senior management is responsible for ensuring that board-approved strategies, policies, and procedures are appropriately executed through a robust interest rate risk measurement process and systems to assess exposures.

Investment Portfolio Policy

Our investment portfolio policy is designed to maximize income consistent with liquidity, risk tolerance, collateral needs, asset quality, regulatory constraints, and asset liability objectives. The policy is reviewed at least annually by the Board of Directors. The Board of Directors is provided information on a regular basis concerning significant purchases and sales of investment securities, including resulting gains or losses. They are also provided information related to average maturity, taxable equivalent yield, and appreciation or depreciation by investment categories.

Supervision and Regulation

The following is a brief summary of our supervision and regulation as a financial institution and is not intended to be a complete discussion of all NASDAQ Global Select Stock Market ("NASDAQ") requirements, state or federal rules, statutes and regulations affecting their operations, or that apply generally to business corporations or NASDAQ listed companies. Changes in the rules, statutes and regulations applicable to each entity can affect the operating environment in substantial and unpredictable ways.

As a financial institution, we operate under a regulatory framework. The framework outlines a regulatory environment applicable to financial holding companies, bank holding companies, and their subsidiaries. The regulatory framework under which we operate is intended primarily for the protection of depositors and the FDIC's Deposit Insurance Fund and not for the protection of our security holders and creditors. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the full text of such statutory and regulatory provisions.

General

The current regulatory environment for financial institutions and bank holding companies includes substantial enforcement activity by the federal and state banking agencies, the U.S. Department of Justice, the Securities and Exchange ("SEC"), and other state and federal law enforcement agencies, and has experienced an increase in activity in prior years. This environment entails significant compliance requirements and associated costs.

We are a registered bank holding company subject to regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve") under the Bank Holding Company Act of 1956, as amended (the "Act"). We are required to file annual and quarterly financial information with the Federal Reserve and are subject to periodic examination by the Federal Reserve.

The Act requires every bank holding company to obtain the Federal Reserve's prior approval before: (1) it may acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank that it does not already control; (2) it or any of its non-bank subsidiaries may acquire all or substantially all of the assets of a bank; and (3) it may merge or consolidate with any other bank holding company. In addition, a bank holding company is generally prohibited from engaging in, or acquiring, direct or indirect control of the voting shares of any company engaged in non-banking activities. This prohibition does not apply to activities listed in the Act or found by the Federal Reserve, by order or regulation, to be closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the activities that the Federal Reserve has determined by regulation or order to be closely related to

banking are:

- making or servicing loans and certain types of leases;
- performing certain data processing services;
- acting as fiduciary or investment or financial advisor;
- providing brokerage services;
- underwriting bank eligible securities;
- underwriting debt and equity securities on a limited basis through separately capitalized subsidiaries; and

- making investments in corporations or projects designed primarily to promote community welfare.

Although the activities of bank holding companies have traditionally been limited to the business of banking and activities closely related or incidental to banking (as discussed above), the Gramm-Leach-Bliley Act (the “GLB Act”) relaxed the previous limitations and permitted bank holding companies to engage in a broader range of financial activities. Specifically, bank holding companies may elect to become financial holding companies, which may affiliate with securities firms, and insurance companies and engage in other activities that are financial in nature. Among the activities that are deemed “financial in nature” include:

- lending, exchanging, transferring, investing for others or safeguarding money or securities;
- insuring, guaranteeing, or indemnifying against loss, harm, damage, illness, disability, or death, or providing and issuing annuities, and acting as principal, agent, or broker with respect thereto;
- providing financial, investment, or economic advisory services, including advising an investment company;
- issuing or selling instruments representing interest in pools of assets permissible for a bank to hold directly; and
- underwriting, dealing in or making a market in securities.

A bank holding company may become a financial holding company under this statute only if each of its subsidiary banks is well capitalized, is well managed and has at least a satisfactory rating under the Community Reinvestment Act. A bank holding company that falls out of compliance with such requirement may be required to cease engaging in certain activities. Any bank holding company that does not elect to become a financial holding company remains subject to the bank holding company restrictions of the Act. We have no current plans to register as a financial holding company.

As a state bank organized under Georgia law, the Bank is subject to the supervision of, and is regularly examined by, the Georgia Department of Banking and Finance (“GDBF”). We must also register with and file periodic information with the GDBF with respect to the financial condition, operations, management and intercompany relationships for Fidelity, the Bank, and related matters. The GDBF may also require other information as necessary to keep itself informed as to whether the provisions of Georgia law have been complied with, and the GDBF may examine Fidelity. The Florida Office of Financial Regulation (“FOFR”) does not examine or directly regulate out-of-state bank holding companies that have a branch located in the State of Florida. However, the Bank's Florida branches are subject to examination by the FOFR. The Bank is regularly examined by the FDIC. Both the FDIC and GDBF must grant prior approval of any merger, consolidation or other corporation reorganization involving the Bank.

Under the Federal Reserve Act, FSC is an “affiliate” of the Bank. As such, there are certain restrictions on: (1) loans by the Bank to FSC; (2) investments in the stock or securities of FSC by the Bank; (3) the Bank’s taking the stock or securities of an “affiliate” as collateral for loans by the Bank to a borrower; and (4) the Bank's purchase of assets from FSC. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of services.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) was signed into law on July 21, 2010. The Dodd-Frank Act affects financial institutions in numerous ways, and is expected to continue to have a broad impact on the financial services industry for the foreseeable future.

In November 2017, a bipartisan group of U.S. Senators, led by Senate Banking Committee Chairman, introduced the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Economic Growth Act"). The Economic Growth Act, signed into law on May 24, 2018, provides relief from certain regulatory requirements under the Dodd-Frank Act of 2010. Generally, the Economic Growth Act addressed the following areas: the threshold at which banks are classified as systemically important financial institutions (SIFIs), and therefore subject to stricter oversight; targeted relief from Dodd-Frank Act requirements for smaller banks; capital formation; mortgage lending; student borrower debt and provisions addressing veterans, consumers, and homeowners. While we expect the Economic Growth Act to have an overall positive impact on our business going forward, we continue to evaluate its impact on our business and that impact remains uncertain.

The following description briefly summarizes aspects of the Dodd-Frank Act that impact the Company and the Bank.

The Consumer Financial Protection Bureau and Consumer Regulation

The Dodd-Frank Act established a new federal agency called the Consumer Financial Protection Bureau (the "CFPB"). The CFPB has examination and primary enforcement authority with respect to depository institutions with

$10 billion or more in assets. Depository institutions with less than $10 billion in assets, such as the Bank, are subject to rules promulgated by the CFPB but are examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB has authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. A number of new regulations and new interpretations of existing regulations have been issued by the CFPB since its establishment. These new regulations contain various compliance requirements and standards which have increased our compliance costs and create new rights for consumers in the event of certain violations.

Residential Mortgage Loans

The Dodd-Frank Act authorized the CFPB to establish certain minimum standards for the origination of residential mortgages, including a determination of the borrower's ability to repay. Among other things, the rules adopted by the CFPB require

banks to: (i) develop and implement procedures to ensure compliance with a “reasonable ability to repay” test and identify whether a loan meets a new definition for a “qualified mortgage,” in which case a rebuttable presumption exists that the creditor extending the loan has satisfied the reasonable ability to repay test; (ii) implement new or revised disclosures, policies and procedures for originating and servicing mortgages including, but not limited to, pre-loan counseling, early intervention with delinquent borrowers and specific loss mitigation procedures for loans secured by a borrower's principal residence; (iii) comply with additional restrictions on mortgage loan originator hiring and compensation; (iv) comply with new disclosure requirements and standards for appraisals and certain financial products; and (v) maintain escrow accounts for higher-priced mortgage loans for a longer period of time. It is our policy not to make predatory loans and to determine borrowers’ ability to repay, but the law and related rules create the potential for increased liability with respect to our lending and loan investment activities. They increase our cost of doing business and ultimately, may prevent us from making certain loans and cause us to reduce the average percentage rate or the points and fees on loans that we do make.

Corporate Governance

The Dodd-Frank Act addresses many corporate governance and executive compensation matters that affects most U.S. publicly traded companies, including the Company. The Dodd-Frank Act grants shareholders of U.S. publicly traded companies an advisory vote on executive compensation; enhances independence requirements for compensation committee members; requires companies listed on national securities exchanges to adopt clawback policies for incentive-based compensation plans applicable to executive officers; and provides the SEC with authority to adopt proxy access rules that would allow shareholders of publicly traded companies to nominate candidates for election as directors and require such companies to include such nominees in its proxy materials. Separately, the Dodd-Frank Act requires several federal agencies, including the banking agencies and the SEC, to jointly issue a rule restricting incentive compensation arrangements at financial institutions, including bank holding companies and banks. The agencies proposed a rule in 2011, which was replaced with a new proposed rule in May 2016, but the rule has not yet been finalized.

Increased Capital Standards and Enhanced Supervision

The Dodd-Frank Act required the federal banking agencies to establish minimum leverage and risk-based capital requirements for banks and bank holding companies. These new standards are to be no less strict than existing regulatory capital and leverage standards applicable to insured depository institutions and may, in fact, become higher once the agencies promulgate the new standards. See discussion of the capital requirements under “Capital Adequacy” below.

FDIC Insurance Assessments

Deposits in our bank are insured up to applicable limits by the Deposit Insurance Fund (“DIF”) of the FDIC. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the GBDF. Our management is not aware of any practice, condition or violation that might lead to termination of the Bank's deposit insurance.

The FDIC maintains the DIF by assessing depository institutions an insurance premium as determined by multiplying an insured bank's assessment base by its assessment rate. The amount each institution is assessed is based upon statutory factors that include the balance of insured deposits as well as the degree of risk the institution poses to the DIF. The Dodd-Frank Act permanently raised the FDIC insurance coverage limit per depositor from $100,000 to $250,000.

The deposit insurance assessment system is mandated by the Dodd-Frank Act. On May 20, 2016, the FDIC amended its rule to refine the deposit insurance assessment system for small insured depository institutions that have been federally insured for at least five years that became effective on July 1, 2016. The rule, which applies to banks with less than $10 billion in assets, became effective as of June 30, 2016. On August 31, 2016, as a result, the calculation adopted in the final rule for Small Bank FDIC Assessments began in the third quarter of 2016. The assessment rate schedule was also revised to a range of 3 to 30 basis points annually, and fully adjusted rates will range from 1.5 to 40 basis points annually but this range is subject to change as the DIF's reserve ratio continues to grow.

Payment of Dividends

FSC is a legal entity separate and distinct from the Bank. Most of the revenue we receive results from dividends paid to us by the Bank. There are statutory and regulatory requirements applicable to the payment of dividends by the Bank, as well as by us to our shareholders.

Under the regulations of the GDBF, dividends may not be declared out of the retained earnings of a state bank without first obtaining the written permission of the GDBF, unless such bank meets all the following requirements:

(a) total classified assets as of the most recent examination of the bank do not exceed 80% of equity capital (as defined by regulation);

(b) the aggregate amount of dividends declared or anticipated to be declared in the calendar year does not exceed 50% of the net profits after taxes but before dividends for the previous calendar year; and

(c) the ratio of equity capital to adjusted assets is not less than 6%.

The payment of dividends by Fidelity and the Bank may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. In addition, if, in the opinion of the applicable regulatory authority, a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending upon the financial condition of the bank, could include the payment of dividends), such authority may require, after notice and hearing, that such bank cease and desist from such practice. The FDIC has issued a policy statement providing that insured banks should generally only pay dividends out of current operating earnings. In addition to the formal statutes and regulations, regulatory authorities consider the adequacy of the Bank's total capital in relation to its assets, deposits and other such items. Capital adequacy considerations could further limit the availability of dividends to the Bank.

In 2018 and 2017, FSC paid $13.0 million and $12.7 million in cash dividends on its common shares, respectively. In 2018 and 2017, the Bank paid cash dividends of $9.3 million and $9.0 million to FSC, respectively. In 2018, FSC received no dividends from its wholly-owned insurance subsidiary, LionMark. In 2017, FSC received dividends of $1.5 million from its wholly-owned insurance subsidiary, LionMark. The Boards of Directors for the Bank, LionMark and FSC review whether to declare and pay dividends on a quarterly basis, in light of current regulatory limitations, earnings, capital requirements, and forecasts of future earnings.

Capital Adequacy

Basel III

On July 2, 2013, the Federal banking regulators, including the Board of Governors of the Federal Reserve System ("FRB") and the FDIC each approved rules implementing new capital guidelines for U.S. banking organizations in accordance with the Basel Committee on Banking Supervision ("BCBS") framework for capital ("Basel III"). Under these rules, minimum requirements increase for both the quantity and quality of capital we maintain.

The rules include a new "Common Equity Tier 1" or "CET1" capital to risk-weighted assets ratio of 4.50% and a CET1 capital conservation buffer of 2.50% of risk-weighted assets. An institution that does not meet the conservation buffer will be subject to restrictions on certain activities including payment of dividends, stock repurchases and discretionary bonuses to executive officers. The capital conservation buffer began phasing in on January 1, 2016 at 0.625% of risk-weighted assets and continues to increase at the same rate each subsequent year until reaching its final level of 2.5% of risk-weighted assets on January 1, 2019. As of January 1, 2019, the capital conservation buffer has been fully phased in.

The rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.00% to 6.00%, and require a minimum leverage ratio of 4.00%. The rules implement strict eligibility criteria for regulatory capital instruments, including limitations on MSRs and DTAs, requiring us to deduct a much larger portion of the value of our mortgage servicing rights from our Tier 1 capital. Basel III limits the amount of MSRs and DTAs to 10 percent of CET1, individually, and 15 percent of CET1, in the aggregate.

Prompt Corrective Action

The final rules implementing the Basel III capital guidelines revised the capital levels at which the Bank becomes subject to corrective action. The federal banking agencies have broad powers with which to require companies to take prompt corrective action to resolve problems of insured depository institutions that do not meet minimum capital requirements. The law establishes five capital categories for this purpose: (i) well-capitalized; (ii) adequately capitalized; (iii) undercapitalized; (iv) significantly undercapitalized; and (v) critically undercapitalized. To be considered well-capitalized, an institution generally must have risk-based Total capital and Tier 1 capital ratios of at least 10.00% and 6.00%, respectively, and must not be subject to any order or written directive to meet and maintain a specific capital level for any capital measure. To be considered "adequately capitalized," we are subject to minimum CET1, Tier 1 capital, and Total capital ratios of 4.50%, 6.00%, and 8.00%, respectively. CET1 is comprised of Tier 1 capital less amounts attributable to qualifying non-cumulative perpetual preferred stock and minority interests in consolidated subsidiaries. Tier 1 capital is comprised of total shareholders' equity calculated in accordance with generally accepted accounting principles, excluding accumulated other comprehensive income, less intangible assets and disallowed portions of our loan servicing rights. Total capital is comprised of Tier 1 capital plus certain adjustments, the largest of which is our qualifying subordinated debt, as well as the allowable portion of the allowance for loan losses.

Failure to meet applicable capital standards could subject the bank holding company or the Bank to a variety of enforcement remedies available to the federal regulatory authorities. These include limitations on the ability to pay dividends, the issuance by the regulatory authorities of a capital directive to increase capital, and the termination of deposit insurance by the FDIC.

To continue to conduct our business as currently conducted, we must maintain capital levels well above the minimum regulatory requirements. At December 31, 2018, and 2017, the capital ratios for the Bank and FSC exceeded the minimum capital requirements to be well-capitalized discussed above.

The following table presents the Bank's capital ratios:

Fidelity Bank

	December 31, 2018	December 31, 2017
Tier 1 Capital leverage ratio	8.72%	8.34%
Risk-Based capital:		
Common Equity Tier 1	9.72%	8.78%
Tier 1	10.11%	9.17%
Total Risk-Based capital	12.98%	12.03%

The following table presents FSC's capital ratios:

Fidelity Southern Corporation

	December 31, 2018	December 31, 2017
Tier 1 Capital leverage ratio	9.18%	8.85%
Risk-Based capital:		
Common Equity Tier 1	9.54%	8.86%
Tier 1	10.64%	10.00%
Total Risk-Based capital	13.24%	12.65%

The Economic Growth, Regulatory Relief, and Consumer Protection Act

In May of 2018, Congress passed and the President signed into law, the Economic Growth Act. Among many important changes to the regulation of the banking industry, the Economic Growth Act ordered the federal banking regulators, including the Federal Reserve and FDIC to, through notice and comment rulemaking, develop an “off-ramp” exempting certain banking organizations with less than $10.0 billion in consolidated assets and a low-risk profile from generally applicable leverage capital and risk-based capital requirements if such banking organization maintained a leverage ratio to be set by the federal banking regulators (the “Community Bank Leverage Ratio”). The Economic Growth Act requires the federal banking regulators to set the Community Bank Leverage Ratio between 8% and 10%. On November 21, 2018, the federal banking regulators proposed a rule to implement Section 201 of the Economic Growth Act. The proposed rule would set the Community Bank Leverage Ratio at 9%. To date, the proposed rule implementing Section 201 of the Economic Growth Act has not been finalized.

Commercial Real Estate

In December 2006, the federal banking agencies, including the FDIC, issued final guidance on concentrations in commercial real estate lending (the “Guidance”), noting that increases in banks’ commercial real estate concentrations could create safety and soundness concerns in the event of a significant economic downturn. The Guidance mandated certain minimal risk management practices and categorized banks with defined levels of such concentrations as banks that may warrant elevated examiner scrutiny. The regulatory guideline defined a bank as having a concentration in commercial real estate if its portfolio of land, construction (both commercial and residential) and Acquisition and Development loans (“A&D loans”) exceeds 100% of the Bank’s total risk based capital. On December 18, 2015, an Interagency CRE Statement was issued on Prudent Risk Management for Commercial Real Estate Lending reminding financial institutions to re-examine existing regulations and guidance related to CRE lending on the management of concentration risk in CRE lending. Our ratio of total Land, Construction and A&D loans to total risk-based capital was 57% at December 31, 2017 and 60% at December 31, 2018. The regulatory guideline for all commercial real estate loans, except owner-occupied property, as a percentage of capital is a maximum of 300%. Our ratio of all commercial real estate loans, except owner-occupied property, as a percentage of capital, was 127% at December 31, 2017 and 137% at December 31, 2018.

The Guidance does not formally prohibit a bank from exceeding either of these two thresholds. Rather, it defines the circumstances under which a bank will be declared to have a commercial real estate concentration. Further, the Guidance requires any banks with commercial real estate concentrations to have heightened and sophisticated risk management systems in place to adequately manage the increased levels of risk. Management believes that our credit processes, procedures and systems continue to meet the risk management standards required by the Guidance and we continue to maintain our commercial real estate loan portfolio at a level below the concentration thresholds.

Regulatory authorities continue to emphasize the risks associated with CRE lending and focus on our implementation of the Guidance which could effectively limit future increases in the commercial real estate concentrations in our loan

portfolios or require additional credit administration and management costs.

Loans

Inter-agency guidelines adopted by federal bank regulators mandate that financial institutions establish real estate lending policies with maximum allowable real estate loan-to-value limits, subject to an allowable amount of non-conforming loans as a percentage of capital. The Bank adopted the federal guidelines in 2001.

Transactions with Affiliates

Under federal law, all transactions between and among a state nonmember bank and its affiliates, which include holding companies, are subject to Sections 23A and 23B of the Federal Reserve Act and Regulation W promulgated thereunder. Generally, these requirements limit these transactions to a percentage of the bank's capital and require all of them to be on terms at least as favorable to the bank as transactions with non-affiliates. In addition, a bank may not lend to any affiliate engaged in non-banking activities not permissible for a bank holding company or acquire shares of any affiliate that is not a subsidiary. The FDIC is authorized to impose additional restrictions on transactions with affiliates if necessary to protect the safety and soundness of a bank. The regulations also set forth various reporting requirements relating to transactions with affiliates.

Financial Privacy and Cybersecurity

In accordance with the GLB Act, federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to non-affiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a non-affiliated third party. The privacy provisions of the GLB Act affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. In addition, consumers may also prevent disclosure of certain information among affiliated companies that is assembled or used to determine eligibility for a product or service, such as that shown on consumer credit reports and asset and income information from applications. Consumers also have the option to direct banks and other financial institutions not to share information about transactions and experiences with affiliated companies for the purpose of marketing products or services.

Federal regulators have issued various statements regarding cybersecurity over the past few years. These statements recommend that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. The statements provide that a financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack.

Anti-Money Laundering Initiatives and the USA Patriot Act

A major focus of governmental policy on financial institutions has been aimed at combating terrorist financing. This has generally been accomplished by amending existing anti-money laundering laws and regulations. We are subject to the USA Patriot Act of 2001 (the "USA Patriot Act") which imposes significant compliance and due diligence obligations, creating new crimes and penalties. The Treasury has issued a number of implementing regulations that apply to various requirements of the USA Patriot Act. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

Office of Foreign Assets Control Regulation

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others which are administered by the U.S. Treasury Department Office of Foreign Assets Control ("OFAC"). Failure to comply with these sanctions could have serious legal and reputational consequences, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

Future Legislation

Various legislation affecting financial institutions and the financial industry is from time to time introduced in Congress. Such legislation may change banking statutes and our operating environment in substantial and unpredictable ways, and could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance depending upon whether any of this potential legislation will be enacted, and if enacted, the effect that it or any implementing regulations, would have on the financial condition or our results of operations.

Competition

The banking business is highly competitive. We compete for traditional bank business with numerous other financial institutions in our primary market areas for residential construction and development loans, commercial loans, SBA loans,

residential mortgages, and indirect automobile loans. We also compete for loans with insurance companies, regulated small loan companies, credit unions, and certain governmental agencies. We compete with independent brokerage and investment companies, as well as state and national banks and their affiliates and other financial companies for trust services. Many of the companies with whom we compete have greater financial resources.

The indirect automobile financing and residential mortgage banking industries are also highly competitive. In the indirect automobile financing industry, we compete with specialty consumer finance companies, including automobile manufacturers' captive finance companies, in addition to other financial institutions. The residential mortgage banking business competes with independent mortgage banking companies, state and national banks and their subsidiaries, as well as thrift institutions and insurance companies.

Employees and Executive Officers

As of December 31, 2018, we had 1,407 full-time equivalent employees. We are not a party to any collective bargaining agreement and we believe that our employee relations are good. We offer our employees a variety of competitive benefit programs including a retirement plan and group health, life and other insurance programs. We also support training and educational programs designed to ensure that employees have the types and levels of skills needed to perform at their best in their current positions and to help them prepare for positions of increased responsibility.

Executive Officers of the Registrant

Our executive officers, their ages, their positions with FSC and the Bank at February 28, 2019, and the period during which they have served as executive officers, are as follows:

Name	Age	Since	Position
James B. Miller, Jr.	78	1979	Chairman of the Board and Chief Executive Officer of Fidelity since 1979; President of Fidelity from 1979 to April 2006; A director of Fidelity Bank, a wholly owned subsidiary of Fidelity, since 1976; President of Fidelity Bank from 1977 to 1997 and from December 2003 through September 2004; Chief Executive Officer of Fidelity Bank from 1977 to 1997, and from December 2003 until to April 2017. Chairman of Fidelity Bank since 1998. Chairman of LionMark Insurance Company, a wholly owned subsidiary, since November 2004.
H. Palmer Proctor, Jr.	51	1996	President of Fidelity since April 2006; Chief Executive Officer of Fidelity Bank since April 2017; President of Fidelity Bank since October 2004; Director and Secretary/Treasurer of LionMark Insurance Company, a wholly owned subsidiary, since November 2004; A director of Fidelity Bank since 2004.
Charles D. Christy	61	2017	Principal Financial and Accounting Officer of Fidelity and Chief Financial Officer of Fidelity and Fidelity Bank since June 2017; Chief Financial Officer of LionMark Insurance Company since June 2017.
David Buchanan	61	1995	Vice President of Fidelity since 1999; Executive Vice President of Fidelity Bank since October 2004; and Senior Vice President of Fidelity Bank from 1995 through September 2004. President of LionMark Insurance Company, a wholly-owned subsidiary, since November 2004.

Available Information

We file annual, quarterly, and current reports, proxy statements, and other documents with the SEC under the Securities Exchange Act. The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet web site that contains reports, proxy and information statements, and other information regarding issuers, including Fidelity, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at http://www.sec.gov.

We also make available free of charge on our web sites http://www.FidelitySouthern.com or http://www.Lionbank.com, our Annual Report to Shareholders, our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our current reports on Form 8-K and if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act as soon as reasonably practicable after we

electronically file such material with, or furnish it to, the SEC. Information contained on our website is not part of this Annual Report on Form 10-K.

Item 1A. Risk Factors

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may adversely impact our business operations. If any of the following risks occur, our business, financial condition, operating results, and cash flows could be materially adversely affected.

Risks Related to Our Proposed Merger with and into Ameris Bancorp

We will be subject to business uncertainties and contractual restrictions while the merger with Ameris is pending.

Uncertainty about the effect of the proposed merger with Ameris on employees and customers may have an adverse effect on the Company. These uncertainties may impair our ability to attract, retain, and motivate key personnel until the Merger is completed, and could cause customers and others that deal with us to seek to change existing business relationships. Retention of certain of our employees may be challenging while the Merger is pending, as certain employees may experience uncertainty about their future roles with the combined company. If key employees depart because of issues relating to the uncertainty and difficulty of integration, or a desire not to remain with the business, our business could be harmed. In addition, subject to certain exceptions, we have each agreed to operate our business in the ordinary course and use commercially reasonable efforts to preserve our business organization, employees and advantageous business relationships prior to closing. These restrictions may prevent us from pursuing attractive business opportunities that may arise prior to the completion of the Merger.

The Merger Agreement limits our ability to pursue acquisition proposals and requires us to pay a termination fee of $29.0 million under certain termination rights as stipulated relating to acquisition proposals.

The Merger Agreement prohibits us from (i) taking any action to solicit, initiate, seek, knowingly facilitate or encourage any inquiries or expressions of interest or the making of any proposal or offer that constitutes, or would reasonably be expected to lead to, any acquisition proposal, (ii) participate in any discussions or negotiations regarding any acquisition proposal or furnish, or otherwise afford access, to any person (other than Ameris and its subsidiaries) any nonpublic information or data with respect to the Company or any of its subsidiaries or otherwise relating to an acquisition proposal, (iii) approve, endorse or recommend any acquisition proposal (other than the Merger) or (iv) enter into any agreement in principle, arrangement, understanding, contract or agreement (other than a confidentiality agreement which expressly permits the Company to comply with its obligations relating to an acquisition proposal. The Merger Agreement also provides that we will be required to pay a termination fee in the amount of $29.0 million in the event that the Merger Agreement is terminated under certain termination rights. These provisions might discourage a potential competing acquirer that might have an interest in acquiring all or a significant part of the Company from considering or proposing such an acquisition.

If the Merger is not completed, we will have incurred substantial expenses without realizing the expected benefits of the Merger.

We have incurred and will incur substantial expenses in connection with the negotiation and completion of the transactions contemplated by the Merger Agreement. If the Merger is not completed, we would have to recognize these expenses without realizing the expected benefits of the Merger.

Regulatory approvals may not be received, may take longer than expected, or may impose conditions that are not presently anticipated or that could have an adverse effect on the combined company following the Merger.

Before the Merger is completed, both parties must obtain all necessary approvals or waivers from the Federal Reserve Board, the Office of the Comptroller of the Currency and the Georgia Department of Banking and Finance. Other approvals, waivers or consents from regulators may also be required. In determining whether to grant these approvals the regulators consider a variety of factors, including the regulatory standing of each party. An adverse development in either party’s regulatory standing or these factors, or a prolonged Federal government shutdown could result in an inability to obtain approval or delay their receipt. These regulators may impose conditions on the completion of the Merger or the Bank Merger or require changes to the terms of the Merger or the Bank Merger. Such conditions or changes could have the effect of delaying or preventing completion of the Merger or the Bank Merger or imposing additional costs on or limiting the revenues of the combined company following the Merger and the Bank Merger, any of which might have an adverse effect on the combined company following the Merger.

The Federal Reserve Board has stated that if material weaknesses are identified by examiners before a banking organization applies to engage in expansionary activity, the Federal Reserve Board will not in the future allow the application to remain pending while the banking organization addresses its weaknesses. The Federal Reserve Board explained that, in the future, if issues arise during the processing of an application, it will require the applicant banking organization to withdraw its application pending resolution of any supervisory concerns. Accordingly, if there is an adverse development in either party’s regulatory standing, the Company may be required to withdraw some or all of the applications for approval of the proposed mergers and, if possible, resubmit it after the applicable supervisory

concerns have been resolved.

Termination of the Merger Agreement could negatively impact the Company.

If the Merger Agreement with Ameris is terminated, there may be various consequences. For instance, our business may be impacted adversely by the failure to pursue other beneficial opportunities due to the focus of management on the Merger, without realizing any of the anticipated benefits of completing the Merger. Additionally, if the Merger Agreement is terminated, the market price of our common stock could decline to the extent that the current market prices reflect a market assumption that the Merger will be completed. If the Merger Agreement is terminated under certain circumstances, we may be required to pay to Ameris a termination fee of $29.0 million.

Because the market price of Ameris Common Stock will fluctuate, our shareholders cannot be certain of the market value of the merger consideration they will receive in the Merger.

Upon completion of the Merger, each outstanding share of our common stock will have the right to receive 0.80 shares (the "Exchange Ratio") of common stock, par value $1.00 per share, of Ameris ("Ameris Common Stock") for each share of common stock, no par value per share, of Fidelity ("Fidelity Common Stock") that they hold, together with cash in lieu of fractional shares. Any change in the market price of Ameris Common Stock prior to the completion of the Merger will affect the market value of the merger consideration that our shareholders will receive upon completion of the Merger, and there will be no adjustment to the merger consideration for changes in the market price of either shares of Ameris Common Stock or shares of our common stock.

The market price of Ameris Common Stock after the Merger may be affected by factors different from those affecting the shares of our common stock currently.

Upon completion of the Merger, holders of our common stock will become holders of Ameris Common Stock. Accordingly, the results of operations of the combined company and the market price of Ameris Common Stock after the completion of the Merger may be affected by factors different from those currently affecting the independent results of operations of each of Ameris and the Company.

Loan Portfolio Risks

A sizable portion of our loan portfolio is secured by real estate loans located in our lending markets, and adverse changes in real estate market values in those areas may adversely affect our business.

Currently, our real estate lending business is concentrated in the Atlanta metropolitan area and eastern, central, and northern Florida. As of December 31, 2018, commercial real estate, real estate mortgages, and construction loans, accounted for approximately 54.6% of our total loan portfolio. Unlike larger national or regional banks that are more geographically diversified, our success depends primarily on the general economic conditions of the specific local markets in which we operate. Conditions in these markets strongly affect our results of operations and financial condition. Real estate values and the demand for commercial and residential mortgages and construction loans are affected by, among other things, general and local economic conditions, changes in governmental regulation, monetary and fiscal policies, interest rates and weather. Declines in our markets could adversely affect the demand for new real estate loans, and the value and liquidity of the collateral securing our existing loans. Adverse conditions in our markets could also reduce our growth rate, impair our ability to collect loans, and generally unfavorably impact our financial condition and results of operations.

Delays in our ability to foreclose on delinquent mortgage loans may negatively impact our business.

Because we originate loans secured by real estate, we may have to foreclose on the collateral property to protect our investment and may thereafter own and operate such property, in which case we are exposed to the risks inherent in the ownership of real estate. The amount that we, as a mortgagee, may realize after a default is dependent upon factors outside of our control, including, but not limited to:

- general or local economic conditions;
- environmental cleanup liability;
- fluctuations in fair market values;
- interest rates;
- real estate tax rates;
- operating expenses of the mortgaged properties;
- supply of and demand for rental units or properties;
- ability to obtain and maintain adequate occupancy of the properties;
- zoning laws;
- governmental rules, regulations and fiscal policies; and
- natural disasters.

Certain expenses associated with the ownership of real estate, principally real estate taxes, insurance, and maintenance costs, may adversely affect the net proceeds received from the real estate, if any. The ability to mitigate the losses on defaulted loans depends upon the ability to promptly foreclose upon the collateral after an appropriate cure period. In some states, the large number of mortgage foreclosures that have occurred has resulted in significant delays in foreclosing. Any delay in the foreclosure process adversely affects us by increasing the expenses related to carrying

such real estate and exposes us to losses as a result of potential additional declines in the value of such collateral. As a result, the increased cost of owning and operating such real estate may exceed the rental income earned from the real estate (if any), we may have to advance additional funds to protect our investment or we may be required to dispose of the real estate at a loss.

The allowance for loan losses may be insufficient.
We maintain an allowance for loan losses, which is established and maintained through provisions charged to operations. Such provisions are based on management's evaluation of the loan portfolio, including loan portfolio concentrations, current economic conditions, past loan loss experience, adequacy of underlying collateral, level of delinquencies and such other factors which, in management's judgment, deserve consideration in estimating loan losses. Loan charge-offs are recorded in accordance with accounting and regulatory guidelines which require loans to be charged off when, in the opinion of management, such loans are deemed to be uncollectable. Subsequent recoveries are added to the allowance.
In June 2016, the FASB issued a new current expected credit loss rule which will be effective for us in 2020 and will change our accounting for credit losses by requiring us to record, at the time of origination, credit losses expected throughout the life of loans, held-to-maturity securities and certain other assets and off-balance sheet credit exposures as opposed to the current practice of recording losses when it is probable that a loss event has occurred. We expect to record a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period upon adoption. The Company has not yet determined the magnitude of any such one-time adjustment or the overall impact on our financial statements, as it will depend on economic conditions and trends in the portfolio at the time of adoption.
Accounting guidelines and rules could continue to change in future years and cause provision expense to increase or to be recognized on an accelerated basis for reasons not always related to the underlying performance of our portfolio.
The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires management to make significant estimates of current credit risks and trends, all of which may undergo material changes. A significant challenge for us is to keep the credit and other models and approaches we use updated to take into account changes in the competitive environment, the economy, and the regulatory environment. To the extent these models are not consistent with underlying real-world conditions, our management decisions could be misguided or otherwise affected with significant impacts on the level of the allowance for loan losses.
In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors may require an increase in the allowance for loan losses. In addition, if charge-offs in future periods exceed the estimated charge-offs utilized in determining the sufficiency of the allowance for loan losses, we will need additional provisions to increase the allowance. Any increases in the allowance for loan losses will result in a decrease in net income and, possibly, regulatory capital, and may have a material adverse effect on our financial condition and results of operations.
Financial services companies depend on the accuracy and completeness of information about customers and counterparties.
In deciding whether to extend credit or enter into other transactions, we rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports, and other financial information. We may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse impact on our business and, in turn, our financial condition and results of operations.
We earn a substantial portion of our noninterest revenue through sales of residential mortgages in the secondary market. We are exposed to counterparty credit, market, repurchase and other risks associated with these activities.
Our noninterest revenue attributable to mortgage banking activities is a significant driver of our noninterest income. We are exposed to counterparty credit risk in the normal course of these sales activities as well as market risk when engaging in this activity that is greatly impacted by the amount of liquidity in the secondary markets and changes in interest rates.
Additionally, we retain repurchase risk associated with representations and warranties made at the time of the sales of these loans related to our residential mortgage loan underwriting and closing practices. Generally, repurchase requirements may be made until the loans sold are paid in full. Increases in claims under these repurchase

requirements or make-whole demands could have a material impact on our ability to continue participating in these types of activities as well as materially impact our financial condition, results of operations, and cash flows.

We may be unable to maintain and service relationships with automobile dealers and we are subject to their willingness and ability to provide high quality indirect automobile loans.

Our indirect automobile lending portfolio comprises the majority of our loan portfolio which is a material percentage of our loan portfolio. We depend, in large part, upon our ability to maintain and service relationships with automobile dealers, the strength of new and used automobile sales, the loan rate and other incentives offered by other purchasers of indirect automobile loans or by the automobile manufacturers and their captive finance companies, and the continuing ability of the consumer to qualify for and make payments on high quality automobile loans. There can be no assurance we will be successful in maintaining such dealer relationships or increasing the number of dealers with which we do business, or that the existing dealer base will continue to generate a volume of finance contracts comparable to the volume historically generated by such dealers, which could have a material adverse effect on our financial condition and results of operations.

Investment Portfolio Risk
Future impairment losses could be required on various investment securities, which may materially reduce the Company’s and the Bank’s regulatory capital levels.
We establish fair value estimates of securities available-for-sale in accordance with generally accepted accounting principles. The Company’s estimates can change from reporting period to reporting period, and we cannot provide any assurance that the fair value estimates of our investment securities would be the realizable value in the event of a sale of the securities.
A number of factors could cause us to conclude in one or more future reporting periods that any difference between the fair value and the amortized cost of one or more of the securities that we own constitutes an other-than-temporary impairment. These factors include, but are not limited to:

- an increase in the severity of the unrealized loss on a particular security;
- an increase in the length of time unrealized losses continue without an improvement in value;
- a change in our intent or ability to hold the security for a period of time sufficient to allow for the forecasted recover; or
- changes in market conditions or industry or issuer specific factors that would render us unable to forecast a full recovery in value, including adverse developments concerning the financial condition of the companies in which we have invested.

In addition, depending on various factors, including the fair values of other securities that we hold, we may be required to take additional other-than-temporary impairment charges on other investment securities. Any other-than-temporary impairment charges would negatively affect our regulatory capital levels, and may result in a change to our capitalization category, which could limit certain corporate practices and could compel us to take specific actions.
Economic Risks
The earnings of financial services companies are significantly affected by general business and economic conditions.
Our operations and profitability are impacted by general business and economic conditions in the U.S. and abroad. These conditions include recession, short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, fluctuations in both debt and equity capital markets, broad trends in industry and finance, and the strength of the U.S. economy and the local economies in which we operate, all of which are beyond our control. A deterioration in economic conditions could result in an increase in loan delinquencies and nonperforming assets, decreases in loan collateral values and a decrease in demand for our products and services, including our ability to originate or sell loans, among other things, any of which could have a material adverse impact on our financial condition and results of operations.
Changes in national and local economic conditions could lead to higher losses in connection with acquired assets.
In connection with our past acquisitions, we acquired portfolios of loans and ORE in both FDIC-assisted and non-FDIC-assisted transactions. Although we have marked down the loan portfolios and ORE we acquired, the non-impaired loans we acquired may become impaired or may further deteriorate in value, resulting in additional charge-offs to our loan portfolio and ORE losses. The fluctuations in national, regional and local economic conditions, including those related to local residential, commercial real estate and construction markets, may increase the level of charge-offs that we make to our loan portfolio and ORE losses and consequently reduce our capital. The fluctuations are not predictable, cannot be controlled and may have a material adverse impact on business financial condition and results of operations even if other favorable events occur.
Interest Rate Risks
The Federal Reserve has implemented significant economic strategies that have impacted interest rates, inflation, asset values, and the shape of the yield curve, and currently is transitioning from many years of easing to what may be a new period of tightening.
In recent years, the Federal Reserve has begun to gradually unwind the remaining domestic monetary policy initiatives as the economy continues to recover. In December 2015 and 2016, the Federal Reserve raised the target federal funds rate each time by 25 basis points ("bps"); in 2017, they raised rates by 25 bps three times; and in 2018, they raised rates four times for a total 225 bps since December 2015. Additionally, the Federal Reserve began to taper the reinvestment of its balance sheet Treasury and Agency MBS assets previously purchased during its quantitative easing

initiatives.

These developments, along with the U.S. government's credit and deficit concerns, a potential re-emerging European sovereign debt crisis or an economic slowdown in China, could cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms. Other significant governmental monetary strategies could be implemented in the future which might impact interest rates. Federal Reserve strategies can, and often are intended to, affect the domestic money supply, inflation, interest rates, and the shape of the yield curve. Effects on the yield curve often are most pronounced at the short end of the curve, which is of particular importance to us and other banks. Among other things, easing strategies are intended to lower interest rates, steepen the yield curve, expand the money supply, and stimulate economic activity, while tightening strategies are intended to increase interest rates, flatten the yield curve, tighten the money supply, and restrain

economic activity. Other things being equal, the current transition from easing to possible tightening should tend to diminish or reverse downward pressure on rates, and to diminish or eventually end the stimulus effect that low rates tend to have on the economy. Many external factors may interfere with the effects of these plans or cause them to be changed unexpectedly. Such factors include significant economic trends or events as well as significant international monetary policies and events. Such strategies can also affect the U.S. and world-wide financial systems in ways that may be difficult to predict.

Fluctuations in interest rates could reduce our profitability and affect the value of our assets.

Approximately one-half of our income is net interest income, which is the difference between interest earned on loans and investments and the interest paid on deposits and borrowings. Like other financial institutions, our earnings and cash flows are subject to interest rate risk in our lending and deposit gathering activities since assets and liabilities reprice at different times and by different amounts as interest rates change. We principally manage interest rate risk by managing our volume and the mix of our earning assets and funding liabilities. Financial simulation models are the primary tools we use to measure our interest rate risk exposure. We closely monitor the sensitivity of our net interest income to change in interest rates and we attempt to limit the variability of net interest income as interest rates change. In a changing interest rate environment, we may not be able to manage this risk effectively. If we are unable to manage interest rate risk effectively, our business, financial condition, and results of operations could be materially harmed.

We use both on- and off-balance sheet financial instruments to mitigate our exposure to interest rate risk. We utilize derivative contracts to hedge the pipeline of interest rate locks on residential mortgage loans to offset changes in fair value resulting from changes in interest rate environments. In spite of our due diligence in regard to these hedging strategies, significant risks are involved that, if realized, may prove such strategies to be ineffective, which could adversely affect our financial condition or results of operations. Risks associated with these strategies include the risk that counterparties in any such derivative and other hedging transactions may not perform, the risk that our hedging strategies rely on management's assumptions and projections regarding the underlying assets and general market factors, and that these assumptions and projections may prove to be incorrect, the risk that these hedging strategies do not adequately mitigate the impact of changes in interest rates, prepayment speeds or other forecasted inputs to the hedging model, and the risk that the models used to forecast the effectiveness of hedging instruments may project expectations that differ from actual results. In addition, increased regulation of the derivative markets may increase the cost to implement and maintain an effective hedging strategy.

We expect that we will periodically experience imbalances in the interest rate sensitivities of our assets and liabilities and the relationships of various interest rates to each other. Over any defined period of time, our interest-earning assets may be more sensitive to changes in market interest rates than our interest-bearing liabilities, or vice versa. In addition, the individual market interest rates underlying our loan and deposit products (e.g., prime versus competitive market deposit rates) may not change to the same degree over a given time period. We are unable to predict changes in market interest rates which are affected by many factors beyond our control. If market interest rates should move contrary to our position, our earnings may be negatively affected. Changes in the level of interest rates also may negatively affect our ability to originate construction, commercial and residential real estate loans, the value of our assets, and our ability to realize gains from the sale of our assets, all of which ultimately affect our earnings.

Also, the volume of nonperforming assets will negatively impact average yields if and as volume increases. In addition to risk, loan volume and quality, as well as deposit volume and mix, can be affected by market interest rates. As a result of the sustained low interest rate environment, an increasing percentage of our deposits are comprised of money market accounts, short-term certificates of deposit and other deposits yielding no, or very low rates of, interest. Changes in levels of market interest rates, including the current rate environment, could materially adversely affect our net interest spread, asset quality, origination volume and overall profitability. Income could also be adversely affected if the interest rates paid on deposits and short-term borrowings increase quicker than the interest rates received on loans and other investments during periods of rising interest rates.

Regulatory and Legal Risks

We are subject to extensive governmental regulation.

We are subject to extensive supervision and regulation by Federal and state governmental agencies, including the FRB, the GDBF and the FDIC. This supervision and regulation is designed primarily to protect depositors, federal

deposit insurance funds, and the banking system as a whole, but not shareholders. Legislation, regulations, and government policy could adversely affect us and the financial institution industry as a whole, including the cost of doing business.

Legislative and regulatory actions taken now or in the future may have a significant adverse effect on our ability to compete.

Congress and state legislatures and federal and state regulatory authorities continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including interpretation and implementation of statutes, regulations or policies could affect us in substantial and unpredictable ways, including limiting the types of financial services and products we may offer or increasing the ability of non-banks to offer competing financial services and products. Any regulatory changes or scrutiny could increase or decrease the cost of doing business, limit or expand our permissible activities, or affect the competitive balance among banks, credit unions, savings and loan associations and other institutions. The Economic Growth Act, signed into law on May 24, 2018, provides relief from certain regulatory requirements

under the Dodd-Frank Act requirements for smaller banks. While we expect the Economic Growth Act to have an overall positive impact on our business going forward, we continue to evaluate its impact on our business and that impact remains uncertain. We cannot predict whether new legislation will be enacted and, if enacted, the effect that it, or any regulations, would have on our business, financial condition, and results of operations.

Changes in legislation or regulation will likely increase our compliance costs and may adversely affect our business operations, financial condition, and results of operations.

Numerous changes have occurred in recent years in the regulation of the financial services industry. Our compliance costs have increased as a result of the various new regulations and we anticipate our compliance costs will continue to increase as a result of new regulations. Changes arising from any other new legislation or regulation may impact the profitability of our business activities, require that we raise additional capital or change certain of our business practices, require us to divest certain business lines, materially affect our business model or affect retention of key personnel, and could expose us to additional costs, including increased compliance costs. These changes may also require us to invest significant management attention and resources to make any necessary changes, and could therefore also adversely affect our business, financial condition, and results of operations.

Failures to comply with laws and regulations may adversely affect our business operations, financial condition, and results of operations.

Federal and state regulators have the ability to impose or request that we consent to substantial sanctions, restrictions and requirements on our banking and nonbanking subsidiaries if they determine, upon examination or otherwise, violations of laws, rules or regulations with which we or our subsidiaries must comply, or weaknesses or failures with respect to general standards of safety and soundness. Such enforcement may be formal or informal and can include directors' resolutions, memoranda of understanding, cease and desist or consent orders, civil money penalties and termination of deposit insurance and bank closures. Enforcement actions may be taken regardless of the capital level of the institution. Enforcement actions may require certain corrective steps (including staff additions or changes), impose limits on activities (such as lending, deposit taking, acquisitions or branching), prescribe lending parameters (such as loan types, volumes and terms) and require additional capital to be raised, any of which could adversely affect our financial condition and results of operations. Enforcement actions, including the imposition of monetary penalties, may have a material impact on our financial condition or results of operations, and damage to our reputation, and loss of our holding company status. In addition, compliance with any such action could distract management's attention from our operations, cause us to incur significant expenses, restrict us from engaging in potentially profitable activities, and limit our ability to raise capital.

We are subject to claims and litigation.

We manage our litigation risk through our internal controls, personnel training, insurance and other means. However, the commencement, outcome and magnitude of litigation cannot be predicted or controlled with any certainty. From time to time, customers and others make claims and take legal action against us. Whether such customer claims and legal action are founded or unfounded, or if such claims and legal actions are not resolved in a manner favorable to us, they may result in significant financial liability and/or adversely affect the market perception of us and our products and services, as well as impact customer demand for those products and services. Any resulting financial liability or reputation damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Liquidity Risks

Liquidity is essential to our businesses and we rely on external sources to finance a significant portion of our operations.

Liquidity is essential to our businesses. Our liquidity could be adversely affected by an inability to raise funding in the debt or equity capital markets or an inability to access the secured lending markets. Factors that we cannot control, such as disruption of the financial markets or negative views about the financial services industry generally, could impair our ability to raise funding. In addition, our ability to raise funding could be impaired if lenders develop a negative perception of our financial prospects. Such negative perceptions could be developed if we suffer a decline in the level of our business activity or regulatory authorities take significant action against us, among other reasons. If we are unable to raise funding using the methods described above, we would likely need to finance or liquidate unencumbered assets to meet maturing liabilities. We may be unable to sell some of our assets, or we may have to sell

assets at a discount from market value, either of which could adversely affect our results of operations, financial condition, and unencumbered assets.
Our funding costs may increase due to loss of customer deposits.
We rely on customer deposits as a low cost and stable source of funding to extend loans to our customers. There is a high degree of competition in the market with other banks and financial services companies for deposits. If the rates that our competitors pay on deposits rise, our funding costs may increase, either because we raise our rates to avoid losing deposits or because we lose deposits and have to rely on more expensive sources of funding. Higher funding costs would reduce our net interest margin and net interest income.

Capital Risks

Our continued pace of growth may require us to raise additional capital in the future, but that capital may not be available when it is needed.

We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate our capital resources will satisfy our capital requirements for the foreseeable future. We may at some point, however, need to raise additional capital or adjust the Company's dividend to support our growth. If we raise capital through the issuance of additional shares of our common stock or other securities, it would dilute the ownership interest of our current shareholders and may dilute the per share book value of our common stock. New investors may also have rights, preferences and privileges senior to our current shareholders, which may adversely impact our current shareholders.

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot assure that we will have the ability to raise additional capital, if needed, on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth or acquisitions could be materially impaired, which could have a material adverse effect on our financial condition and results of operations.

We are subject to more stringent capital requirements under the final Basel III rules.

Like most banking organizations, we were required to apply the new Basel III capital rules beginning on January 1, 2015. In early July 2013, the Federal Reserve approved revisions to its capital adequacy guidelines and prompt corrective action rules that implemented the Basel III regulatory capital reforms in the U.S. As a result, Basel III has generally led to higher capital requirements and more restrictive leverage and liquidity ratios as the rules are phased-in, including limitations on the amount of MSRs that may be held without triggering higher capital requirements. Compliance with these rules impacts our capital plans, affects returns on capital, and imposes additional costs on us.

In May of 2018, Congress passed the Economic Growth Act, which, among other important changes to the regulation of the banking industry, ordered the Federal banking regulators to create an “off-ramp” exempting certain banking organizations with less than $10.0 billion in consolidated assets and a low-risk profile from generally applicable leverage capital and risk-based capital requirements if such banking organization maintained a leverage ratio to be set by the federal banking regulators, the Community Bank Leverage Ratio. The federal banking regulators have proposed a Community Bank Leverage Ratio of 9%, but to date, the federal banking regulators have not set a final Community Bank Leverage Ratio.

Operational Risks

Our operational framework for managing risks may not be effective in mitigating risk and loss to us.

We have established a risk management framework that seeks to mitigate risk and loss to us with laid-out processes and procedures intended to identify, measure, monitor, report, and analyze the types of risk to which we are subject, including liquidity risk, credit risk, market risk, interest rate risk, operational risk, reputational risk, and legal, model and compliance risk, among others. However, as with any risk management framework, there are inherent limitations to our risk management strategies that may exist, or develop in the future, risks that we have not appropriately anticipated or identified. The recent financial and credit crisis that resulted to new regulatory reform highlighted both the importance and some limitations of managing unanticipated risks. If our risk management framework proves to be ineffective, we could suffer unexpected losses and could be materially adversely affected.

Our controls and procedures may fail or be circumvented.

Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to our controls and procedures could have a material adverse effect on our business, results of operations, and financial condition.

We use financial models extensively to manage our day-to-day operations that may produce inaccurate information which differs significantly from actual results.

Management relies on the output from a number of quantitative models to measure risk and to estimate certain financial values. We use these models as part of several key business processes such as pricing various products and services, classifying loans, setting interest rates on loans and deposits, calculating interest rate and other market risks, measuring capital adequacy, and estimating the value of certain financial instruments. Business decisions relying on inaccurate or erroneous financial models may prove inefficient or ineffective. We also provide information to our investors and regulators which may be negatively impacted by inaccurately designed or implemented models.

We rely on third party vendors for a number of key components of our business.

We regularly contract with a number of third party vendors to support our infrastructure. Many of these vendors are large national companies who are dominant in their area of expertise and would be difficult to quickly replace. Failure of certain vendors to provide services who we have substantial ongoing business relationships with could adversely affect our ability to deliver

products and services to our customers necessary to maintain our day-to-day operations, disrupting our business and causing us to incur significant expense. External vendors also present information security risks.
Third party vendor relationships are subject to increasingly demanding regulatory requirements and attention by regulators. We expect that the regulators will hold us responsible for deficiencies in our oversight and control of our third party vendors and their performance. Under regulatory guidance, we are required to apply stringent due diligence, conduct ongoing monitoring and maintain effective control over third party vendors.
We maintain a vendor management program to monitor vendor risk, including the financial stability of our critical vendors. While we believe that our vendor management program effectively mitigates vendor risk, the regulators may not conclude that we have exercised adequate oversight and control over third party vendors or that such third parties have performed appropriately. We could be subject to enforcement actions, including civil monetary penalties or other administrative or judicial penalties or fines as well as requirements for customer remediation.
We are at risk of increased losses from fraud.
Criminals committing fraud are increasingly applying sophisticated techniques and in some cases are parts of larger criminal enterprises, which allow them to be more effective. Fraudulent activity in recent years has taken many forms, ranging from check fraud, mechanical devices attached to ATM machines, social engineering and phishing attacks to obtain personal information or impersonation of our clients through the use of falsified or stolen credentials. Furthermore, in addition to fraud committed against us, we may suffer losses as a result of fraudulent activity committed against third parties. Increased deployment of new technologies to keep ahead of these criminals, such as chip card technology, defray and reduce aspects of fraud. However, criminals are turning to other sources to steal personally identifiable information, such as unaffiliated healthcare providers and government entities and utilize that information to impersonate the consumer and commit fraud.
The information systems we use to operate our business may experience an interruption or breach in security.
We rely heavily on communications and information systems to conduct our business as such systems are used to manage virtually all aspects of our business. Our operations rely on the secure processing, storage and transmission of confidential and other information within our computer systems and networks. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan, and other systems as a result of a number of factors, including events that are wholly or partially beyond our control such as sudden increases in customer transaction volume, physical infrastructure outages, natural disasters, and terrorist acts. Further, our operational and security systems and infrastructure may be vulnerable to breaches, unauthorized access, misuse, computer viruses or other malicious codes and cyber-attacks. While we maintain policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of our information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed.
Additionally, to the extent we rely on third party vendors to perform or assist operational functions necessary to maintain day-to-day operations, the challenge of managing the associated risks becomes more difficult. While we believe that our vendor risk management program effectively mitigates risk, the failure of an external vendor to perform in accordance with applicable contractual arrangements or service level agreements or any compromise in the security of an external vendor's information systems could be disruptive to our operations.
The occurrence of any failures, interruptions or security breaches of our information systems or one of our external vendor's information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, require us to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures in our computer systems and networks, or expose us to civil litigation and possible financial liability that are either not insured or fully covered through any insurance we maintain, any of which could have a material adverse effect on our financial condition and results of operations.
Additionally, future legislation and regulation related to privacy, data breach notification, cybersecurity and information security could have a significant impact on our current and planned data privacy and security practices.
Our customer electronic information systems may experience a security breach, computer virus or disruption of service.
We provide our customers with online and mobile banking services that involve the secure transmission of confidential information over the Internet. We also deploy part or all of a number of our other core business

applications and services under cloud computing arrangements using the Internet. While we use qualified third party vendors to test and audit our network and maintain an enterprise-wide information security program, our network could become vulnerable to unauthorized access, computer viruses, phishing schemes and other security problems. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses.

To the extent that our activities or the activities of our customers involve the storage and transmission of confidential information, security breaches and viruses could expose us to claims, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in our systems and could adversely affect our reputation and our ability to generate deposits. Any failures, interruptions or security breaches could result in damage to our reputation, a loss of customer business, increased regulatory scrutiny, or possible exposure to financial liability,

any of which could have a material adverse effect on our financial condition and results of operations.
The operational functions of business counterparties may experience similar disruptions that could adversely impact us and over which we may have limited or no control.
A number of major U.S. corporations, particularly retailers, have experienced data systems intrusions, mainly perpetrated at point of sale devices and reportedly resulting in the thefts of sensitive financial data of tens of millions of individuals. These intrusions affected cards issued and deposit accounts maintained by many banks, including the Bank. Although our systems were not breached in these intrusions, these events can cause us to take costly steps such as reissuing debit cards to avoid significant theft loss to the Bank and our customers. Other possible points of intrusion or disruption not within our control include Internet service providers, electronic mail portal providers, social media portals, distant-server ("cloud") service providers, electronic data security providers, telecommunications companies, and smart phone manufacturers.
Our business is technology dependent, and an inability to invest in technological improvements may adversely affect our financial condition and results of operations.
The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services, which may require substantial capital expenditures to modify or adapt existing products and services and deliver new products and services and expose us to additional risks, including cyber-security risks. In addition to better customer service, the effective use of technology increases efficiency and results in reduced costs. Our future success will depend in part upon our ability to use technology to provide products and services that provide convenience to customers and to create additional efficiencies in operations. Many competitors have substantially greater resources to invest in technological improvements. We cannot make assurances that technological improvements will increase operational efficiency or that we will be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. The ability to keep pace with technological change is important, and the failure to do so on our part could have a material adverse impact on our business and therefore on our financial condition and results of operations.
Hurricanes, tropical storms and other adverse weather events could negatively affect our local economies or disrupt operations, which would have an adverse effect on our business or results of operations.
Currently, our lending and other businesses have a market presence in areas that may be susceptible to hurricanes, tropical storms and other adverse weather events. Such adverse weather events may disrupt our operations, result in damage to our properties and negatively affect the local economies in which we operate. Such adverse weather events could also result in a decline in loan originations, a decline in value or destruction of properties securing our loans and/or an increase in payment delinquencies, bankruptcies, foreclosures and loan losses that could result in a higher level of non-performing assets, charge-offs and provisions for loan losses. Our business results may be adversely affected by these and other negative effects of future hurricanes or tropical storms, or other adverse weather events, including flooding and wind damage.
Storms during 2018 in or near the Gulf Coast regions of Florida and Texas, which are often in the path of seasonal hurricanes, only minimally impacted our operations but we cannot predict whether or to what extent damage that may be caused by future natural disasters or manmade events will affect our operations or the economies in our current or future market areas. While we have established business continuity policies and procedures, the occurrence of a natural disaster, especially if any applicable insurance coverage is not adequate to enable our borrowers to recover from the effects of the event, could have a material adverse effect on our financial condition or results of operations. Many of our customers have incurred significantly higher property and casualty insurance premiums on their properties located in our markets, which may adversely affect real estate sales and values in those markets.
Competitive and Strategic Risks
We operate in a highly competitive industry and market areas.
We face substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and have greater financial resources. Such competitors primarily include national, regional, and community banks within the markets in which we operate. Additionally, various out-of-state banks continue to enter the market area in which we currently operate. We also face competition from many other types of financial institutions, including, without limitation, savings and loans, credit unions, finance companies, brokerage firms, insurance companies, fintech or e-commerce companies, and other financial intermediaries that operate in our primary market

areas and elsewhere. At this time, major international banks do not materially compete with us in our markets, although they may do so in the future.

Many of our competitors have fewer regulatory constraints and may have lower cost structures. Some of these competitors may have a long history of operations in our markets, greater ties to local businesses and more expansive banking relationships, as well as better established depositor bases. Additionally, due to their size, many competitors with greater resources or more advanced technology may be able to achieve economies of scale and, as a result, may be capable of maintaining numerous and more convenient banking locations and offering a broader range of products and services, as well as better pricing for those products and services.

While we believe we are competitive in our markets, our ability to continue to compete successfully depends on a number of factors, including, among other things:

- our ability to build and maintain long-term customer relationships while ensuring high ethical standards and safe and sound banking practices;
- the scope, relevance and pricing of products and services that we offer;
- customer satisfaction with our products and services;
- industry and general economic trends; and
- our ability to keep pace with technological advances and to invest in new technology.

Although we compete by concentrating our marketing efforts in our primary markets with local advertisements, personal contacts and greater flexibility and responsiveness in working with our local customers, we can give no assurance that this strategy will be successful.

Furthermore, fintech developments, such as blockchain and other distributed ledger technologies, have the potential to disrupt the financial services industry and change the way banks do business. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Increased competition could require us to increase the rates that we pay on deposits or lower the rates that we offer on loans, which could reduce our profitability. A weakening in our competitive position could adversely affect our growth and profitability, which, in turn, could have a material adverse effect on our financial condition and results of operations.

The building of market share through our branching strategy could cause our expenses to increase faster than revenues.

We intend to continue to build market share through our branching strategy. There are considerable costs involved in opening new branches. New branches also generally require a period of time to generate sufficient revenues to offset their costs, especially in areas in which we do not have an established presence. Accordingly, any new branch can be expected to negatively impact our earnings for some period of time until the branch reaches certain economies of scale. Our expenses could be further increased if we encounter delays in the opening of new branches. Finally, we have no assurance that new branches will be successful, even after they have been established.

New lines of business or new products and services may subject us to additional risks.

As part of our strategic plan of steady, consistent growth, we continuously evaluate our service offerings and may enter into new lines of business or begin offering new products or services to our customers within existing lines of business in the future. There are risks and uncertainties associated with expansion into a new line of business, as well as any other new material product or service we may decide to offer in the future. In developing and marketing new lines of business and/or new products and services, we may invest significant time and resources to assess the risks of the initiative and build internal controls, policies and procedures to mitigate those risks, including hiring experienced management to oversee the implementation of the initiative. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the successful implementation of new lines of business. Furthermore, any new lines of business and/or new products or services could require the establishment of new key and other controls and have a significant impact on our existing system of internal controls. If we do not successfully manage these risks in the development and implementation of these new lines of business and/or new products and services that we may decide to engage in, such failure could have a material adverse effect on our business, financial condition and results of operations.

We are subject to risks related to our acquisitions.

Our past and future acquisitions of other banks, businesses, or branches involve various risks, including the following:

- potential exposure to unknown or contingent liabilities of the target company;
- exposure to potential asset quality issues of the target company;
- difficulty and expense of integrating the operations and personnel of the target company;
- potential disruption to our business;
- potential diversion of management's time and attention;
- the possible loss of key employees and customers of the target company;
- difficulty in estimating the value of the target company; and

- potential changes in banking or tax laws or regulations that may affect the target company.

The ultimate success of our past acquisitions, and any transactions in which we may participate in the future, will depend on a number of factors, including our ability to:

- fully integrate the branches acquired into our operations;
- limit the outflow of deposits held by our new customers in the acquired branches and to retain and manage interest-earning assets and relationships acquired;
- generate new interest-earning assets in the geographic areas previously served by the acquired branches;

- effectively compete in new markets in which we did not previously have a presence;
- control the incremental noninterest expense from the acquired branches in a manner that enables us to maintain a favorable overall efficiency ratio;
- retain and attract the appropriate personnel to staff the acquired branches;
- earn acceptable levels of interest and noninterest income, including fee income, from the acquired branches; and
- reasonably estimate cash flows for acquired loans to mitigate exposure greater than estimated losses at the acquisition date.

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

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

We may not be able to attract and retain skilled people.

Our success depends, in large part, on our ability to attract and retain competent, experienced people. Our strategic goals in particular require that we be able to attract qualified and experienced commercial bankers, mortgage lenders and SBA lenders in our existing markets as well as those markets in which we may want to expand who share our relationship banking philosophy and have those customer relationships that will allow us to successfully expand. We also need to attract and retain qualified and experienced technology, risk and back-office personnel to operate our business. Competition for the best people in most activities that we engage in can be intense and we may not be able to identify, hire and retain talented employees.

We have also focused our strategic attention on retaining our existing employees and our corporate culture including enhancements to our training programs and offering employee advancement opportunities. Our failure to maintain our culture and offer competitive compensation packages to successfully compete for qualified and experienced employees may have an adverse effect on our ability to meet our financial goals and thus adversely affect our future results of operations. The unexpected loss of services of one or more of our key personnel could have a material adverse impact on our business because of their skills, customer relationships, knowledge of our market, years of industry experience, and the difficulty of promptly finding qualified replacement personnel.

Reputational Risk

Negative public opinion could damage our reputation and adversely impact our business and revenues.

The risk to our business, earnings and capital from negative public opinion regarding our reputation, our competitors, and the financial institutions industry in general, is inherent in our business. Our reputation is affected principally by our business practices and how those practices are perceived and understood by others. Negative public opinion of our

practices, the practices of our competitors or our industry as a whole may adversely affect our ability to keep and attract customers and employees and may expose us to litigation and regulatory action that could change or constrain our business or operations. Damage to our reputation could hinder our ability to access the capital markets or otherwise impact our liquidity or the market value of our stock, hinder our ability to attract new customers and retain existing ones, and undermine our ability to attract and retain talented employees, among other things.

Negative public opinion may result from our actual or alleged conduct in any number of activities, including lending practices, the failure of a product or service to meet our customers' expectations or applicable regulatory requirements, corporate governance and acquisitions, or from actions taken by government regulators and community organizations in response to those activities. Actual or alleged conduct by one or more of our business lines may result in negative public opinion about our business lines. In addition, negative public opinion of third parties with whom we have important relationships may adversely impact our

reputation.

Although we take steps to minimize reputation risk in dealing with our customers and communities, including senior management oversight of processes for reputation risk monitoring, assessment and management, this risk will always be present given the nature of our business.

Stock Ownership Risks

Our common stock trading volume is less than that of other larger financial services companies.

Although our common stock is listed for trading on the NASDAQ Global Select Market and included in the S&P SmallCap 600, the trading volume in our common stock has historically been less than that of larger financial services companies. A public trading market having the desired characteristics of depth, liquidity, and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the lower trading volume of our common stock, significant sales of our common stock, or the expectation of these sales, could cause our stock price to fall.

There are substantial regulatory limitations on changes of control of bank holding companies.

With certain limited exceptions, federal regulations prohibit a person or company or a group of persons deemed to be “acting in concert” from, directly or indirectly, acquiring more than 10% (5% if the acquirer is a bank holding company) of any class of our voting stock or obtaining the ability to control in any manner or election of a majority of our directors or otherwise direct the management or policies of our company without prior notice or application to and the approval of the Federal Reserve. Accordingly, prospective investors need to be aware of and comply with these requirements, if applicable, in connection with any purchase of our common stock.

Provisions in our Bylaws may make it more difficult for another party to obtain control.

Our bylaws elect for the provisions of Article 11A of the Georgia Business Corporation Code (the “Business Combination Statute”) to apply to the Company. Our bylaws could make it more difficult for a third party to acquire control of us or could have the effect of discouraging a third party from attempting to acquire control of us. These provisions could make it more difficult for a third party to acquire us even if an acquisition might be at a price attractive to some of our shareholders.

Issuing additional shares of our common stock to acquire other banks, bank holding companies, financial holding companies and/or insurance agencies may result in dilution for existing shareholders and may adversely affect the market price of our stock.

In connection with our growth strategy, we may issue, in the future, shares of our common stock to acquire additional banks, bank holding companies, financial holding companies, insurance agencies and/or other businesses related to the financial services industry that may complement our organizational structure. Resales of substantial amounts of common stock in the public market and the potential of such sales could adversely affect the prevailing market price of our common stock and impair our ability to raise additional capital through the sale of equity securities. We may be required to pay an acquisition premium above the fair market value of acquired assets for the acquisition of banks, bank holding companies, financial holding companies and insurance agencies. Paying this acquisition premium, in addition to the dilutive effect of issuing additional shares, may also adversely affect the prevailing market price of our common stock.

Our ability to declare and pay dividends is limited.

There can be no assurance of whether or when we may pay dividends in the future. Future dividends, if any, will be declared and paid at the discretion of our board of directors and will depend on a number of factors. Our recent dividends have partially been paid out of excess cash at the holding company. Other principal source of funds used by us to pay cash dividends has been dividends received from the Bank. The Bank’s asset quality, earnings performance, liquidity and capital requirements will be taken into account in addition to our liquidity and capital requirements. Federal and state banking laws and regulations and state corporate laws restrict the amount of dividends Fidelity or the Bank may declare and pay. For example, under the regulations of the GDBF, dividends may not be declared out of the retained earnings of a state bank without first obtaining the written permission of the GDBF, unless such bank is below certain classified assets and dividend payout ratios, and has capital that exceeds certain equity ratios.

The payment of dividends by Fidelity and the Bank may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. In addition, if, in the opinion of the applicable

regulatory authority, a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending upon the financial condition of the bank, could include the payment of dividends), such authority may require, after notice and hearing, that such bank cease and desist from such practice. The FDIC has issued a policy statement providing that insured banks should generally only pay dividends out of current operating earnings. In addition to the formal statutes and regulations, regulatory authorities consider the adequacy of the Bank's total capital in relation to its assets, deposits and other such items. Capital adequacy considerations could further limit the availability of dividends to the Bank.

The price of our common stock may fluctuate significantly, which may make it difficult for our shareholders to resell shares of our common stock at desired times or attractive prices.

Our stock price may fluctuate significantly as a result of a variety of factors including factors affecting the financial services industry as a whole, many of which are beyond our control, including, among other things:

- news reports relating to trends, concerns and other issues in the financial services industry;
- actual or anticipated variations in quarterly results of operations;
- recommendations by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to us;
- perceptions in the marketplace regarding us, our competitors and/or the industry as a whole;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
- changes in government laws and regulation; and
- geopolitical conditions such as acts or threats of terrorism or military conflicts.

The market for our common stock historically has experienced and may continue to experience significant price and volume fluctuations similar to those experienced by the broader stock market in recent years. Generally, the fluctuations experienced by the broader stock market have affected the market prices of securities issued by many companies for reasons unrelated to their operating performance and may adversely affect the price of our common stock.

Industry factors, and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease, regardless of operating results. In addition, our announcements of our quarterly or annual financial results, changes in general conditions in the economy or the financial markets and other developments affecting us, our affiliates or our competitors could cause the market price of our common stock to fluctuate substantially. We expect that the market price of our common stock will continue to fluctuate and there can be no assurances about the levels of market prices for our common stock or that it will trade at prices at or above the price offered hereby.

Acquisitions may disrupt our business and dilute shareholder value.

From time to time, we evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions. There is no assurance that any additional acquisitions will occur in the future.

If we were to pay for future acquisitions with shares of our common stock, some dilution of our tangible book value and net income per common share may occur since acquisitions may involve the payment of a premium over book and market values. Furthermore, failure to realize the expected benefits of an acquisition, such as anticipated revenue increases, cost savings, or increased geographic or product presence, could have a material adverse effect on our financial condition and results of operations.

Securities that we issue, including our common stock, are not FDIC insured.

Securities that we issue, including our common stock, are not savings or deposit accounts or other obligations of any bank and are not insured by the FDIC or any other governmental agency or instrumentality or any private insurer and are subject to investment risk, including the possible loss of your investment.

We may issue debt or equity securities or securities convertible into equity securities, any of which may be senior to our common stock as to distributions and in liquidation, which could negatively affect the value of our common stock.

In the future, we may attempt to increase our capital resources by entering into debt or debt-like financing that is unsecured or secured by all or up to all of our assets, or by issuing additional debt or equity securities, which could include issuances of secured or unsecured commercial paper, medium-term notes, senior notes, subordinated notes, preferred stock or securities convertible into or exchangeable for equity securities. In the event of our liquidation, our lenders and holders of our debt and preferred securities would receive a distribution of our available assets before distributions to the holders of our common stock. Because any decision to incur debt or issue securities in our future offerings will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings and debt financings. Further, market conditions could require us to accept less favorable terms for the issuance of our securities in the future.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

We deliver our products and services through a network of retail branches and loan production offices located in the Southern United States. At December 31, 2018, we owned 59 and leased 10 retail bank branches and we leased 33 mortgage loan production offices and had 4 loan production offices within owned branch locations.

We deliver administrative support functions through our executive offices located at 3490 Piedmont Road, Atlanta, Georgia and our corporate operations center which is located at 3 Corporate Square, Atlanta, Georgia, both of which are leased.

We generally consider the properties owned and leased throughout our footprint to be suitable and adequate to operate our business. We are continuing to modernize, expand, acquire and, when necessary, replace facilities to support our strategic plan of steady, planned long-term growth.

Item 3. Legal Proceedings

We are a party to claims and lawsuits arising in the course of our normal business activities. Although the ultimate outcome of all claims and lawsuits outstanding as of December 31, 2018 cannot be ascertained at this time, it is the opinion of management that these matters, when resolved, will not have a material adverse effect on our results of operations, cash flows, or financial condition.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Our common stock trades on the NASDAQ Global Select Market under the symbol "LION." As of February 28, 2019, there were approximately 1,350 shareholders of record as reported by our transfer agent, Computershare. In addition, shares of our common stock were held by approximately 3,300 beneficial owners, including brokers, dealers, and their nominees.

A cash dividend of $0.12 per share was declared by our Board of Directors on January 18, 2019, and paid on February 14, 2019, to holders of record as of February 4, 2019.

The Board of Directors reviews whether to declare and pay dividends on a quarterly basis, in light of current regulatory limitations, earnings, capital requirements, and forecasts of future earnings.

See Note 3 to the Consolidated Financial Statements in Item 8 for further discussion of the restrictions on our ability to pay dividends.

Issuer Purchases of Equity Securities

The following table presents information relating to our repurchase of shares of common stock in the fourth quarter of 2018:

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs
October 2018	—	—	—	$ 10,000,000
November 2018	—	—	—	10,000,000
December 2018	101,931	$ 25.38	—	10,000,000
Total	101,391	$ 25.38	—	$ 10,000,000

*These shares were repurchased under arrangements, authorized by the 2006 Equity Incentive Plan, whereby officers or directors may sell previously owned shares to the Company in order to pay for income taxes owed on vesting shares of restricted stock. These shares were not purchased under the plan to repurchase 10,000,000 shares announced in April 2014.

The repurchase plan announced April 3, 2014, authorizing the repurchase of up to $10.0 million of our outstanding common stock, has no expiration date for the authorized share repurchases under such plan.

Sale of Unregistered Securities

We have not sold any unregistered securities during the period, covered by this report.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table presents information as of December 31, 2018, with respect to shares of our common stock that may be issued under our equity compensation plans. Our equity compensation plans consist of the stock options, restricted stock grants, and other awards as defined in the 2006 Equity Incentive Plan, as amended and the 401(k) tax qualified savings plan.

Plan Category	(a) Number of Securities to be Issued upon Exercise of Outstanding	(b) Weighted Average Exercise Price of Outstanding Options	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans

	Options		(excluding securities reflected in column (a))
Equity Compensation Plans Approved by Shareholders[1]	915,327	$ 20.91	1,224,332
Equity Compensation Plans Not Approved by Shareholders[2]	—	—	—
Total	915,327	$ 20.91	1,224,332

[1] 2006 Equity Incentive Plan, as amended
[2] Excludes shares issued under the 401(k) Plan

Shareholder Return Performance Graph

The following graph compares the percentage change in the cumulative total five-year shareholder return on our common stock (traded on the NASDAQ Global Select Market under the symbol “LION”) with the cumulative total five-year return on the NASDAQ Composite Index, and the SNL Bank NASDAQ Index:

Fidelity Southern Corporation

The graph assumes that the value invested in our common stock and in each of the two indices was $100.00 on December 31, 2013, and all dividends were reinvested during the periods presented.

	Period Ended December 31,					
Index	2013	2014	2015	2016	2017	2018
Fidelity Southern Corporation	$100.00	$99.44	$140.69	$153.63	$144.58	$176.11
NASDAQ Composite Index	100.00	114.75	122.74	133.62	173.22	168.30
SNL Bank NASDAQ Index	100.00	103.57	111.80	155.02	163.20	137.56

Item 6. Selected Financial Data

The following table contains selected consolidated financial data. This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in Item 7 of this Annual Report on Form 10-K and the Consolidated Financial Statements and Notes included in Item 8 of this Annual Report on Form 10-K.

	As of or for the year ended December 31,				
($ in thousands, except per share data)	2018	2017	2016	2015	2014
INCOME STATEMENT DATA:					
Interest income	$181,445	$157,978	$149,283	$116,642	$101,667
Interest expense	31,900	22,730	20,448	15,804	11,226
Net interest income	149,545	135,248	128,835	100,838	90,441
Provision for loan losses	5,521	4,275	8,231	4,351	531
Noninterest income	138,851	134,952	141,325	127,888	95,320
Securities gains (losses), net	—	—	578	(329)	—
Noninterest expense	225,292	210,870	201,020	162,946	138,754
Net income before income taxes	57,583	55,055	60,909	61,429	46,476
Income tax expense	13,760	15,259	22,143	22,294	16,440
Net income	43,823	39,796	38,766	39,135	30,036
PERFORMANCE:					
Earnings per common share - basic	$1.61	$1.50	$1.52	$1.77	$1.41
Earnings per common share - diluted	1.61	1.49	1.50	1.64	1.28
Total revenues	288,396	270,200	270,160	228,726	185,761
Book value per common share	16.36	14.86	13.78	13.03	12.40
Tangible book value per common share[1]	15.95	14.41	13.26	12.66	12.22
Cash dividends paid per common share	0.48	0.48	0.48	0.39	0.30
Dividend payout ratio	29.81%	32.00%	31.58%	22.03%	21.28%
Return on average assets	0.92%	0.89%	0.92%	1.16%	1.11%
Return on average shareholders' equity	10.43%	10.51%	11.61%	13.85%	12.07%
Equity to assets ratio	9.43%	8.78%	8.26%	7.83%	8.59%
Net interest margin	3.38%	3.26%	3.32%	3.24%	3.62%
END OF PERIOD BALANCE SHEET SUMMARY:					
Total assets	$4,733,796	$4,576,858	$4,389,685	$3,849,063	$3,085,135
Earning assets	4,381,616	4,242,218	4,059,414	3,558,669	2,847,971
Loans, excluding loans held-for-sale	3,685,478	3,580,966	3,302,264	2,896,948	2,253,306
Total loans	3,924,780	3,938,721	3,767,592	3,294,782	2,622,241
Total deposits	3,981,578	3,867,200	3,630,594	3,179,511	2,458,022
Shareholders' equity	446,241	401,632	362,647	301,459	264,951
Assets serviced for others	10,283,727	10,242,742	9,207,070	8,033,478	6,562,506
ASSET QUALITY RATIOS:					
Net charge-offs to average loans	0.11%	0.12%	0.13%	0.12%	0.33%
Allowance to period-end loans	0.85%	0.83%	0.90%	0.91%	1.13%
Adjusted allowance to adjusted period end-loans (non-GAAP)[1]	1.12%	1.16%	1.38%	1.40%	1.89%
Nonperforming assets to loans, ORE and repossessions	1.93%	1.76%	1.77%	1.74%	2.74%
Adjusted nonperforming assets to loans, ORE and repossessions (Non-GAAP)[1]	0.92%	1.06%	1.33%	1.50%	2.54%
	0.44x	0.47x	0.51x	0.52x	0.41x

Allowance to nonperforming loans, ORE and repossessions										
SELECTED RATIOS:										
Loans to total deposits	92.56	%	92.60	%	90.96	%	91.11	%	91.67	%
Average total loans to average earning assets	92.02	%	90.20	%	92.64	%	92.84	%	91.00	%
Noninterest income to total revenue	48.15	%	49.95	%	52.31	%	55.91	%	51.31	%
Leverage ratio	9.18	%	8.85	%	8.58	%	8.80	%	10.40	%
Common equity tier 1 capital	9.54	%	8.86	%	8.35	%	8.20	%	N/A	
Tier 1 risk-based capital	10.64	%	10.00	%	9.46	%	9.50	%	11.07	%
Total risk-based capital	13.24	%	12.65	%	12.11	%	12.40	%	12.01	%
LOAN PRODUCTION AND SALES VOLUME:										
Mortgage loan production	$2,896,550		$2,776,010		$2,970,770		$2,672,920		$1,933,761	
Total mortgage loan sales	2,753,779		2,588,842		2,815,480		2,483,186		1,786,741	
Indirect automobile production	623,443		1,167,373		1,375,795		1,455,370		1,535,869	
Indirect automobile sales	133,889		431,227		510,534		651,419		679,900	

(1) Non-GAAP Financial Measure. See "Reconciliation of non-GAAP Financial Measures" in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report for a reconciliation of this non-GAAP measure to the most directly comparable GAAP measure.

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

CONSOLIDATED FINANCIAL REVIEW

The following management discussion and analysis addresses important factors affecting our results of operations and financial condition as of and for the periods indicated. The consolidated financial statements and accompanying notes should be read in conjunction with this review.

Overview

Since our inception in 1973, we have pursued managed profitable growth through providing quality financial services. Our overall focus is on building shareholder value. Our mission is to continue growth, improve earnings and increase shareholder value; to treat customers, employees, community and shareholders according to the "Golden Rule"; and to operate within a culture of strong internal controls.

Our franchise primarily spans the metropolitan Atlanta, Jacksonville, Orlando, Tallahassee and Sarasota-Bradenton, Florida markets. We provide banking services and Wealth Management services and credit-related insurance products through branches in Georgia and Florida, and an insurance office in Atlanta, Georgia. Indirect auto loans are provided in Georgia and Florida and mortgage loans are provided throughout the South, while SBA loans are originated nationwide.

We have continued to focus on organic growth and building meaningful presence and relationships in Georgia and northern, eastern and central Florida. We believe our retail branch network positions us to generate new customers and business opportunities.

Wealth Management began operations in July 2014 when we began offering trust services. We expanded our services and team in 2017 with the addition of client advisors. The Wealth Management division provides trust administration, investment management, financial and estate planning, specialized lending and banking for affluent and high net worth individuals.

Our lending activities are significantly influenced by the local economic environments in the markets we serve. We have grown our consumer installment, mortgage, construction and commercial loan portfolios organically and through acquisitions as the economy continues to improve. Our loan portfolio is well diversified among consumer, business, and real estate lending. The credit quality of the loans we have originated continues to be strong.

Financial Performance

We recorded net income of $43.8 million in 2018 compared to $39.8 million in 2017, an increase of $4.0 million, or 10.1%. Both net income per basic and diluted common share were $1.61 for 2018, and $1.50 and $1.49, respectively, for 2017. An increase of $14.3 million, or 10.6%, in net interest income, an increase in noninterest income of $3.9 million or 2.9% and a decrease in income tax expense of $1.5 million or 9.8%, were partially offset by an increase of $14.4 million, or 6.8%, in noninterest expense and an increase of $1.2 million or 29.1% in the provision for loan losses.

Income tax expense was $1.5 million, or 9.8%, lower in 2018 than in 2017, as a result of the rate change following the enactment on December 22, 2017 of the Tax Cuts and Jobs Act of 2017, which reduced the federal corporate income tax rate from 35 percent to 21 percent as of the beginning of the tax year 2018.

We derive approximately 48% of our revenues from noninterest income sources such as service charges on loan and deposit accounts, fees from other products and services and income from mortgage banking, indirect automobile lending, and SBA lending activities. The majority of the noninterest income earned from these sources is generated from gains on sales of loans including recognition of loan servicing revenue as the majority of loans are sold. The retained servicing obligation generates servicing revenue over the life of the loans sold. The revenue generated from gains on sales of loans and related servicing is partially offset by amortization and possible impairment of the related servicing rights. Servicing rights are amortized in proportion to the estimated future servicing income on the underlying loans sold. Impairment on servicing rights is recorded based on changes in the estimated and actual prepayment speeds and default rates and losses on the underlying loans sold.

A portion of our profitability, as with most financial institutions, is dependent upon net interest income, which is the difference between the interest we receive on interest-earning assets, such as loans and securities, and the interest we pay on interest-bearing liabilities, principally deposits and borrowings. Our net interest margin is affected by prevailing interest rates, nonperforming assets and competition among financial institutions for loans and deposits.

We continue to attract new customer relationships, and talented and experienced bankers to support our growth. We are also continuing to focus on asset quality, revenue growth, deposit growth and quality loan growth at a well-maintained capital level.

Critical Accounting Policies

Our accounting and reporting policies are in accordance with U.S. generally accepted accounting principles and conform to general practices within the financial services industry. Our financial position and results of operations are affected by management's application of accounting policies, including estimates, assumptions, and judgments made to arrive at the carrying value of assets and liabilities and amounts reported for revenues, expenses, and related disclosures. Different assumptions in the application of these policies, or conditions significantly different from certain assumptions, could result in material changes in our consolidated financial position or consolidated results of operations. Our accounting policies are fundamental to understanding our consolidated financial position and consolidated results of operations. Our significant accounting policies are discussed in detail in Note 1 in the "Notes to Consolidated Financial Statements." Significant accounting policies have been periodically discussed and reviewed with and approved by the Audit Committee of the Board of Directors and the Board of Directors.

The following is a summary of our critical accounting policies that are highly dependent on management's estimates, assumptions, and judgments.

Allowance for Loan Losses

The allowance for loan losses is established and maintained through provisions charged to operations. Such provisions are based on management's evaluation of the loan portfolio, including loan portfolio concentrations, current economic conditions, past loan loss experience, adequacy of underlying collateral, and such other factors which, in management's judgment, deserve consideration in estimating loan losses. Loans are charged off when, in the opinion of management, such loans are deemed to be uncollectable. Subsequent recoveries are added to the allowance.

A formal review of the allowance for loan losses is prepared quarterly to assess the probable credit risk inherent in the loan portfolio and to determine the adequacy of the allowance for loan losses. For purposes of management's review, the loan portfolio is separated by loan type. The level of allowance required for each loan type is determined based upon historical charge-off experience and current internal and external qualitative factors. Acquired purchased credit-impaired ("PCI") loans are evaluated for impairment each quarter and if a pool is impaired, an allowance for loan loss is recorded.

In addition to homogeneous pools of loans, every commercial, commercial real estate, SBA, and construction loan is assigned a risk rating using established credit policy guidelines. All nonperforming commercial, commercial real estate, SBA, and construction loans and loans deemed to have greater than normal risk characteristics are reviewed monthly by our Credit Review Department to determine the level of additional allowance for loan losses, if any, required to be specifically assigned to these loans.

Acquisition Accounting

We have accounted for our acquisitions as business combinations. As such, the purchase price is allocated to the fair value of the assets acquired and liabilities assumed as of the acquisition date. Generally accepted accounting principles require the use of fair values in determining the carrying values of assets and liabilities acquired in a business combination, as well as for specific disclosures. The calculation of fair value of loans and foreclosed property acquired in a business combination requires greater levels of management estimates and judgment than for the remainder of acquired assets or assumed liabilities.

Determining the fair value of assets and liabilities, particularly illiquid assets and liabilities, is a complicated process involving significant judgment regarding estimates and assumptions used to calculate estimated fair value. Information regarding our loan discount and core deposit intangible asset may be adjusted as we refine our estimates. Purchase price allocations on completed acquisitions may be modified through the measurement date which cannot exceed one year from the acquisition date. If we recognize adjustments to provisional amounts that are identified during the measurement period, the amounts will be reported in the period in which the adjustment amounts are determined. Fair value adjustments based on updated estimates could materially affect the goodwill, if any, recorded on the acquisition.

We segregate loans acquired between loans for which there was a discount related, in part, to credit and loans for which there was not a material discount attributable to credit. Subsequent to the acquisition date, decreases in expected cash flows compared to initial estimates on the loans for which there was a credit discount are recognized as impairment through the provision for loan losses. Probable and significant increases in cash flows (in a loan pool where an allowance for loan losses on acquired loans was previously recorded) reduces the remaining allowance for

loan losses on acquired loans before recalculating the amount of accretable yield percentage to be used going forward for the loan pool.

We account for the discount on loans which do not have a discount materially attributable to credit or revolving type loans by accreting the discount on each individual loan over time using a level yield approach based on the contractual cash flows for term loans or on a straight-line basis for revolving loans. The methodology also considers the remaining fair value discounts recognized upon acquisition associated with purchased non-impaired loans in estimating a general allowance and also includes establishing an ALL for purchased credit-impaired loans that have deteriorated in credit quality since acquisition.

The credit risks inherent and evidenced in our acquisitions have resulted in a portion of the loans purchased in those transactions having a credit discount. On the date of acquisition, when the loans had evidence of credit deterioration since their origination and we believed it was probable that we would not collect all contractually required principal and interest payments, we refer to the difference between contractually required payments and the cash flows expected to be collected as the non-accretable

discount. We estimate expected cash flows at each future reporting date. Subsequent decreases to the expected cash flows generally result in a provision for loan losses, net of any amounts due from the FDIC under the applicable loss share agreement. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges and adjusted accretable discount, which has a positive effect on interest income. We have recorded acquired loans at fair value, exclusive of any amounts due from the FDIC under applicable loss share agreements. Because we record acquired loans at fair value, we recorded no allowance for loan losses related to the acquired loans on the acquisition date, given that the fair value of the loans acquired incorporates assumptions regarding credit risk. The fair value estimates associated with the acquired loans include estimates related to expected prepayments and the amount and timing of expected principal, interest and other cash flows.

Other Real Estate (“ORE”)

ORE, consisting of properties obtained through acquisition, foreclosure or through a deed in lieu of foreclosure in satisfaction of loans, is initially reported at fair value, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources, adjusted for estimated selling costs. Management also considers other factors, including changed economic conditions since the last appraisal, changes in absorption rates, stale appraisals or imprecision and subjectivity of the appraisal process, length of time the property has been on the market and anticipated sales values, which have resulted in adjustments to the collateral value estimates indicated in certain appraisals.

Significant judgments and complex estimates are required in estimating the fair value of ORE. As a result of the significant judgments required in estimating fair value and the variables involved in different methods of disposition, the net proceeds realized from sales transactions could differ significantly from appraisals, comparable sales, and other estimates used to determine the fair value of ORE. The period of time within which such estimates can be considered current may be significantly shortened during periods of market volatility.

At the time of acquisition, foreclosure or initial possession of collateral, any excess of the loan balance over the fair value of the real estate held as collateral is treated as a charge against the allowance for loan losses. After the transfer to ORE, the fair value, less estimated selling costs, becomes the new cost basis for the ORE. Subsequent declines in the fair value of ORE, below the new cost basis are recognized by a charge to income.

Management reviews the value of ORE on at least a quarterly basis and adjusts the values as appropriate. Generally, a new appraisal is received annually on each ORE property. Any subsequent adjustments to reflect changes in fair value and selling costs are recorded as a component of other noninterest expense or a reduction of any existing valuation allowance on a property by property basis, but not below zero. In response to market conditions and other economic factors, management may utilize liquidation sales as part of its problem asset disposition strategy.

Revenue from ORE operations as well as gains or losses on sales is recorded as a component of noninterest income. Expenses from ORE operations are recorded as a component of noninterest expense.

Valuation of Goodwill, Intangible Assets, and Other Purchase Accounting Adjustments

We account for our acquisitions as business combinations, which require the use of the acquisition method of accounting. Under this method, we are required to record the assets acquired, including identified intangible assets, and liabilities assumed, at their respective fair values, which in many instances involves estimates based on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analysis or other valuation techniques. The determination of the useful lives of intangible assets is subjective, as is the appropriate amortization method for such intangible assets.

The acquisition of AEB in March 2016 resulted in the recording of $5.2 million in goodwill. We review the carrying value of our goodwill annually at the beginning of the fourth quarter of each fiscal year, or more often if events or changes in circumstances indicate that the carrying amount may exceed fair value. Goodwill and other indefinite lived intangible assets are tested for impairment at least annually at the reporting unit level or between annual test dates if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value.

For our annual goodwill impairment evaluation, management bypassed the qualitative assessment for each respective reporting unit and performed Step 1 of the goodwill impairment test. Step 1 of the goodwill impairment test requires us to compare the fair value of our reporting unit with its carrying amount, including goodwill. Accordingly, we determined the fair value of our reporting unit and compared the fair value to the reporting unit’s carrying amount. We

determined that our reporting unit's fair value exceeded its carrying amount; therefore, we concluded our goodwill was not impaired. No events have occurred since the last annual goodwill impairment assessment that would necessitate an interim goodwill impairment assessment. For additional information on goodwill, see Note 2: Business Combinations, to the consolidated financial statements.

Capitalized Servicing Assets and Liabilities

We sell indirect automobile loan pools, residential mortgages and SBA loans with servicing retained. When the contractual servicing fees on loans sold with servicing retained are expected to be more than adequate compensation to a servicer for performing the servicing, a capitalized servicing asset is recognized. When the expected costs to a servicer for performing loan servicing are not expected to adequately compensate a servicer, a capitalized servicing liability is recognized. Servicing assets and servicing

liabilities are amortized over the expected lives of the serviced loans utilizing the interest method. Management makes certain estimates and assumptions related to costs to service varying types of loans and pools of loans, the projected lives of loans and pools of loans sold, and discount factors used in calculating the present values of servicing fees projected to be received.

No less frequently than quarterly, management reviews the status of all loans and pools of loans sold with related capitalized servicing assets to determine if there is any impairment to those assets due to such factors as earlier than estimated repayments or significant prepayments. Any impairment identified in these assets will result in reductions in their carrying values through a valuation allowance and a corresponding increase in operating expenses.

Income Taxes

We file a consolidated federal income tax return, as well as tax returns in several states. Under the liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are recovered or settled. The net deferred tax asset is reviewed at each reporting period to assess the probability of realization of benefits in future periods and whether valuation allowances are appropriate. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. As the Tax Cuts and Jobs Act was enacted on December 22, 2017, we remeasured our net deferred tax liability at December 31, 2017 to reflect the reduction in the federal corporate income tax rate from 35 percent to 21 percent from the beginning of the tax year 2018. A valuation allowance is recorded in situations where it is “more likely than not” that a deferred tax asset is not realizable. Management has reviewed all evidence, both positive and negative, and concluded that a valuation allowance against any deferred tax asset is not needed at December 31, 2018. The calculation of the income tax provision is complex and requires the use of judgments and estimates in its determination.

Fair Value

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). A financial instrument’s level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The primary financial instruments we carry at fair value are investment securities, interest rate lock commitments on residential mortgage loans (“IRLCs”), derivative instruments, and residential mortgage loans held-for-sale. We also carry certain impaired loans, foreclosed assets and capitalized servicing rights on residential mortgage and SBA loans at fair value.

Investment securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, we obtain fair value measurements from an independent third party pricing service. We have processes in place to evaluate such third party pricing services to ensure information obtained and valuation techniques are appropriate. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond’s terms and conditions, among other things. The investments in our portfolio are generally not quoted on an exchange but are actively traded in the secondary institutional markets.

We classify IRLCs on residential mortgage loans held for sale on a gross basis within other liabilities or other assets. The fair value of these commitments, while based on interest rates observable in the market, is highly dependent on the ultimate closing of the loans. These “pull-through” rates are based on both our historical data and the current interest rate environment and reflect our best estimate of the likelihood that a commitment will ultimately result in a closed loan. The loan servicing value is also included in the fair value of the IRLCs. Because these inputs are not transparent in market trades, we consider IRLCs to be Level 3 assets.

Derivative instruments are primarily transacted in the secondary mortgage and institutional dealer markets and priced with observable market assumptions at a mid-market valuation point, with appropriate valuation adjustments for liquidity and credit risk. For purposes of valuation adjustments to our derivative positions, we evaluate liquidity

premiums that may be demanded by market participants, as well as the credit risk of our counterparties and our own credit if applicable. To date, no material losses due to a counterparty's inability to pay any net uncollateralized position have occurred. Derivative instruments are considered to be Level 3.

The credit risk associated with the underlying cash flows of instruments carried at fair value was a consideration in estimating the fair value of certain financial instruments. Credit risk was considered in the valuation through a variety of inputs, as applicable, including, the actual default and loss severity of the collateral, and level of subordination. The assumptions used to estimate credit risk incorporated relevant information that a market participant would likely use in valuing an instrument. Because mortgage loans held-for-sale are sold within a few weeks of origination, they are unlikely to demonstrate any of the credit weaknesses discussed above and as a result, there have been no credit related adjustments to fair value.

The fair value of residential mortgage loans held-for-sale is based on what secondary markets are currently offering for portfolios with similar characteristics. The fair value measurements consider observable data that may include market trade pricing from brokers and investors and the mortgage-backed security markets. As such, we classify these loans as Level 2.

SBA and indirect loans held-for-sale are measured at the lower of cost or fair value. Fair value is based on recent trades for similar loan pools as well as offering prices for similar assets provided by buyers in the secondary market. If the cost of a loan is determined to be less than the fair value of similar loans, the impairment is recorded by the establishment of a reserve to reduce the value of the loan.

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value less estimated selling costs. A loan is considered impaired if it is probable that we will be unable to collect all amounts contractually due according to the terms of the loan agreement. Measuring the impairment of loans using the present value of expected future cash flows, discounted at the loan's effective interest rate, is not considered a fair value measurement. For collateral-dependent loans, fair value is measured based on the value of the collateral securing these loans and is classified as a Level 3 in the fair value hierarchy. Collateral may include real estate or business assets, including equipment, inventory and accounts receivable. The value of real estate collateral is determined based on an appraisal by qualified licensed appraisers ordered by our internal appraisal department, which is independent of our lending function. If significant, the value of business equipment is based on an appraisal by qualified licensed appraisers ordered by our internal appraisal department; otherwise, the equipment's net book value on the business's financial statements is the basis for the value of business equipment. Inventory and accounts receivable collateral are valued based on independent field examiner review or aging reports. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business. Impaired loans are evaluated on at least a quarterly basis for additional impairment and adjusted accordingly.

Foreclosed assets are adjusted to fair value less estimated selling costs upon transfer of the loans to ORE, which becomes the new carrying value of the ORE. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value less estimated selling costs. Fair value is based upon independent market prices, appraised values of the collateral, sales agreements, or management's estimation of the value of the collateral using market data including recent sales activity for similar assets in the property's market. When the fair value of the collateral is based on an observable market price or a current appraised value, we record the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, we record the foreclosed asset as nonrecurring Level 3. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the property. Management continues to evaluate the appropriateness of appraised values on at least an annual basis.

Servicing assets and servicing liabilities are initially recorded on our Consolidated Balance Sheets at fair value when loans are sold with servicing retained with the income statement effect recorded in gains on sales of loans. In evaluating servicing rights and estimating the fair value of the underlying loan pools based on the present value of net future cash flows, we use a number of assumptions and estimates including: prepayment speeds, discount rates commensurate with the risks involved, potential credit losses, and comparable assumptions used by market participants to value and bid servicing rights available for sale in the market. When the contractually specified servicing fees on loans sold with servicing retained are expected to be more than adequate compensation to a servicer for performing the servicing, a capitalized servicing asset is recognized. When the expected income to a servicer for performing loan servicing is not expected to adequately compensate a servicer, a capitalized servicing liability is recognized.

Servicing rights are subsequently measured using the amortization method which requires servicing rights to be amortized in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. Servicing fee income, net of amortization of servicing rights, is reported as part of noninterest income from mortgage banking activities, indirect lending activities, and SBA lending activities, as applicable, in our Consolidated Statements of Comprehensive Income.

Servicing rights are tested for impairment on at least a quarterly basis based on fair value. Management uses a model operated and maintained by an independent third party to assist in determining fair value which stratifies the servicing portfolio into homogeneous subsets with unique behavior characteristics. The model then converts those characteristics into income and expense streams, adjusts those streams for prepayments, present values the adjusted streams, and combines the present values into a total. Management makes certain estimates and assumptions related to costs to service varying types of loans and pools of loans, prepayment speeds, the projected lives of loans and pools of loans sold servicing retained, and discount factors used in calculating the present values of servicing fees projected to be received. Management periodically obtains an independent review of the valuation assumptions to validate the fair value estimate and the reasonableness of the assumptions used in measuring fair value.

The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. If the cost basis of any loan stratification tranche is higher than the present value of the tranche, an impairment is recognized through a valuation allowance which reduces servicing rights on our Consolidated Balance Sheets and reduces noninterest income from mortgage banking activities, indirect lending activities, and SBA lending activities, as applicable, in our Consolidated Statements of Comprehensive Income.

No less frequently than quarterly, management reviews the status of mortgage loans held-for-sale for which fair value has been elected and pools of servicing assets to determine if there is any impairment to those assets due to such factors as earlier than estimated repayments or significant prepayments. Any impairment identified in these assets results in reductions in their carrying values through a valuation allowance and a corresponding increase in operating expenses.

The significant unobservable input used in the fair value measurement of our IRLCs is the pull-through ratio, which represents the percentage of loans currently in a lock position which management estimates will ultimately close. Generally, the fair value of an IRLC is positive (negative) if the prevailing interest rate is lower (higher) than the IRLC rate. Therefore, an increase in the pull-through ratio (i.e., higher percentage of loans are estimated to close) will result in the fair value of the IRLC increasing if in a gain position, or decreasing if in a loss position. The pull-through ratio is largely dependent on the processing stage that a loan is currently in and the change in prevailing interest rates from the time of the rate lock. The pull-through ratio is computed by the secondary marketing department using historical data and the ratio is reviewed by the Secondary Marketing Department of the Mortgage Banking Division for reasonableness.

Forward commitments are instruments that are used to hedge the value of the IRLC's and mortgage loans held-for-sale. We take investor commitments to sell a loan or pool of newly originated loans to an investor for an agreed upon price for delivery in the future. This type of forward commitment is also known as a mandatory commitment. Generally, the fair value of a forward is negative (positive) if the prevailing interest rate is lower (higher) than the current commitment interest rate. The value of these commitments is ultimately determined by the investor that sold the commitment and represents a significant unobservable input used in the fair value measurement of our forward commitments.

Non-GAAP Financial Measures

In addition to traditional measures, management provides information it considers useful to investors in understanding the Company's operating performance and trends, and to facilitate comparisons with the performance of its peers. Management also uses these measures internally to assess and better understand the Company's underlying business performance and trends related to core business activities. The non-GAAP financial measures and key performance indicators used by the Company may differ from the non-GAAP financial measures and performance indicators used by other financial institutions to assess their performance and trends.

Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, the Company's reported results prepared in accordance with GAAP. Non-GAAP measures have inherent limitations, are not required to be uniformly applied and are not audited. Although these non-GAAP financial measures frequently are used by shareholders in the evaluation of a company, they have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of results as reported under GAAP. We encourage readers to consider the Consolidated Financial Statements in their entirety and not to rely on any single financial measure.

In particular, management uses tangible shareholders' equity, adjusted allowance for loan losses, adjusted nonperforming assets, adjusted nonperforming loans, adjusted total loans, and related ratios, each of which is a non-GAAP financial measure. Management uses (i) tangible shareholders' equity (which exclude goodwill and other intangibles from equity) and related ratios to evaluate the adequacy of shareholders' equity and to facilitate comparisons with peers; and (ii) adjusted allowance for loan losses (which includes adjustments related to acquired loans and indirect auto loans), adjusted non-performing assets and adjusted loans (which includes adjustments for repurchased government-guaranteed loans, SBA guaranteed loans and acquired loans) as supplemental information to evaluate both asset quality and asset quality trends, and to facilitate comparisons with peers. A reconciliation of these non-GAAP finance measures to their nearest GAAP measure appears in the following table:

Reconciliation of Non-GAAP Financial Measures

($ in thousands)	As of or for the year ended 2018	2017	2016	2015	2014
Reconciliation of nonperforming assets to adjusted nonperforming assets:					
Nonperforming assets (GAAP)	$71,478	$63,338	$58,635	$50,862	$62,293
Less: GNMA repurchased government-guaranteed loans included in nonaccrual loans	(29,057)	(19,478)	(7,771)	(163)	(334)
Less: SBA guaranteed loans included in nonaccrual	(3,561)	(1,652)	(4,248)	(2,853)	(3,047)
Less: Nonaccrual acquired loans	(6,120)	(6,370)	(6,136)	(7,077)	(1,978)
Adjusted nonperforming assets, excluding GNMA,SBA and acquired loans (Non-GAAP)	$32,740	$35,838	$40,480	$40,769	$56,934
Reconciliation of loans, ORE and repossessions to adjusted loans, ORE and repossessions, less acquired loans:					
Loans, excluding loans held-for-sale	$3,685,478	$3,580,966	$3,302,264	$2,896,948	$2,253,306
Add: ORE	8,290	7,621	14,814	18,677	22,564
Add: repossessions	1,696	2,392	2,274	1,560	1,183
Total loans, ORE, and repossessions (GAAP)	3,695,464	3,590,979	3,319,352	2,917,185	2,277,053
Less: acquired loans	(141,198)	(196,567)	(275,515)	(199,870)	(37,284)
Adjusted loans, ORE, and repossessions, excluding acquired loans (non-GAAP)	$3,554,266	$3,394,412	$3,043,837	$2,717,315	$2,239,769
Nonperforming assets to loans, ORE, and repossessions (GAAP)	1.93%	1.76%	1.77%	1.74%	2.74%
Adjusted nonperforming assets to adjusted loans, ORE, and repossessions (non-GAAP)	0.92%	1.06%	1.33%	1.50%	2.54%
Reconciliation of allowance to adjusted allowance:					
Allowance for loan losses (GAAP)	$31,151	$29,772	$29,831	$26,464	$25,450
Less: allowance allocated to indirect auto loans	(8,669)	(10,258)	(9,522)	(8,338)	(5,917)
Less: allowance allocated to acquired loans	(284)	(209)	(284)	(613)	(715)
Adjusted allowance for loan losses (non-GAAP)	$22,198	$19,305	$20,025	$17,513	$18,818
Reconciliation of period end loans to adjusted period end loans:					
Loans, excluding loans held-for-sale	$3,685,478	$3,580,966	$3,302,264	$2,896,948	$2,253,306
Less: indirect auto loans	(1,569,274)	(1,716,156)	(1,575,865)	(1,449,480)	(1,219,232)
Less: acquired loans	(141,198)	(196,567)	(275,515)	(199,870)	(37,284)
Adjusted period end loans (non-GAAP)	$1,975,006	$1,668,243	$1,450,884	$1,247,598	$996,790
Allowance to total loans (GAAP)	0.85%	0.83%	0.90%	0.91%	1.13%
Adjusted allowance to adjusted period end loans (non-GAAP)	1.12%	1.16%	1.38%	1.40%	1.89%
Reconciliation of book value per common share to tangible book value per common share:					
Shareholders' equity	$446,241	$401,632	$362,647	$301,459	$264,951
Less: intangibles	(11,197)	(12,306)	(13,649)	(8,382)	(3,858)
Tangible shareholders' equity	$435,044	$389,326	$348,998	$293,077	$261,093
End of period shares	27,279,729	27,019,201	26,318,400	23,140,774	21,365,098
Book value per share (GAAP)	16.36	14.86	13.78	13.03	12.40
Tangible book value per share(non-GAAP)	15.95	14.41	13.26	12.66	12.22

Results of Operations - 2018 Compared to 2017

Net Income

Our net income for the year ended December 31, 2018 was $43.8 million and we reported $1.61 for the basic and fully diluted earnings per share. Net income for the year ended December 31, 2017 was $39.8 million and we reported basic and fully diluted earnings per share of $1.50 and $1.49, respectively. The $4.0 million increase in net income in 2018 compared to 2017 was primarily due to an increase in net interest income of $14.3 million, and increase in noninterest income of $3.9 million; offset by an increase in noninterest expense of $14.4 million. Details of the changes in the various components of net income are discussed further below.

Net Interest Income/Margin

A portion of our profitability, as with most financial institutions, is dependent upon net interest income, which is the difference between the interest we receive on interest-earning assets, such as loans and securities, and the interest we pay on interest-bearing liabilities, principally deposits and borrowings. Our net interest margin is affected by prevailing interest rates, nonperforming assets and competition among financial institutions for loans and deposits.

Taxable-equivalent net interest income was $149.7 million in 2018 compared to $135.5 million in 2017, an increase of $14.2 million, or 10.5%. Average interest-earning assets in 2018 increased by $270.4 million to $4.4 billion, a 6.5% increase, when compared to 2017. Average interest-bearing liabilities increased by $96.8 million to $3.1 billion, a 3.2% increase. The net interest margin increased by 12 basis points to 3.38% in 2018 when compared to 2017. The primary components of our net interest income and margin are described below.

Taxable-equivalent interest income had an increase of $23.4 million for 2018 as compared to 2017. The increase in our interest income primarily occurred due to the net growth of $270.4 million, or 6.5%, in average interest-earning assets, primarily in our loan portfolio, as well as an increase in yield on loans of 21 basis points, primarily in the commercial, construction, and mortgage loan portfolios, including an increase of 3 basis points attributable to accretable yield.

The average balance of loans outstanding in 2018 increased by $324.7 million, or 8.7%, to $4.1 billion when compared to 2017 as the number of loan originations increased, particularly commercial, construction and mortgage loans. The average balance of investments also increased by $41.9 million as the Bank continues to increase its investments available-for-sale portfolio as part of its strategy to reposition the balance sheet to higher yielding assets, and reduce its reliance on "gain on sale" income. The yield on interest-earning assets in 2018 reflected a 30 basis point increase as compared to 2017, as interest rates rose over the year.

Interest expense in 2018 increased by $9.2 million, or 40.3%, to $31.9 million, primarily as the result of a $96.8 million, or 3.2%, increase in average interest-bearing liability balances and a 27 basis point increase in the cost of interest-bearing liabilities. This increase was primarily due to an increase in average borrowings of $109.7 million, offset by a slight decrease in average deposits of $13.0 million.

Average Balances, Interest and Yields

The following table sets forth, for the periods indicated, information regarding (i) the total dollar amount of interest income from earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average rate; (iii) net interest income; (iv) net interest spread; and (v) net interest margin. The average balances are principally daily averages, and, for loans, include both performing and non-performing balances. Interest income on loans includes the effects of discount accretion on acquired loans and net deferred loan origination costs accounted for as yield adjustments.

	For the Years Ended December 31,								
	2018			2017			2016		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
($ in thousands)									
Assets									
Interest-earning assets:									
Commercial	$917,578	$45,378	4.95%	$802,958	$39,285	4.89%	$785,299	$40,052	5.10%
SBA	161,259	12,622	7.83	154,077	13,131	8.52	155,874	10,797	6.93
Construction	263,273	17,519	6.65	241,448	15,346	6.36	211,152	14,661	6.94
Indirect automobile	1,707,526	53,402	3.13	1,706,323	49,587	2.91	1,695,782	47,516	2.80
Installment loans and personal lines of credit	39,106	1,173	3.00	41,062	1,488	3.62	44,867	2,060	4.59
Residential mortgage	837,689	34,673	4.14	665,745	25,801	3.88	589,400	23,027	3.91
Home equity lines of credit	151,826	7,961	5.24	141,950	6,527	4.60	132,082	5,670	4.29
Loans, net of unearned income [1]	4,078,257	172,728	4.24	3,753,563	151,165	4.03	3,614,456	143,783	3.98
Investment securities [1]	198,313	6,404	3.23	156,383	4,477	2.86	192,274	5,574	2.90
Other earning assets	155,364	2,455	1.58	251,550	2,576	1.02	94,841	445	0.47
Total interest-earning assets	4,431,934	181,587	4.10%	4,161,496	158,218	3.80%	3,901,571	149,802	3.84%
Noninterest-earning assets:									
Cash and due from banks	37,494			40,871			29,796		
Allowance for loan losses	(31,014)			(30,253)			(27,797)		
Premises and equipment	90,522			87,732			86,807		
Other real estate	7,574			10,676			18,268		
Other assets	243,914			223,657			203,989		
Total assets									