FIDELITY SOUTHERN CORP
Form 10-Q
May 03, 2019

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the quarterly period ended March 31, 2019
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)

(404) 639-6500
(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, without stated par value	LION	NASDAQ Global Select Market System

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 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 o Smaller reporting company o

Emerging growth company o
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No ý
As of April 30, 2019 (the most recent practicable date), the Registrant had outstanding 27,657,411 shares of Common Stock.

FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
Quarterly Report on Form 10-Q
For the Three Months Ended March 31, 2019

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

($ in thousands)	(Unaudited) March 31, 2019	December 31, 2018
Assets		
Cash and due from banks	$41,334	$36,615
Interest-bearing deposits with banks	157,034	171,151
Federal funds sold	4,553	4,527
Cash and cash equivalents	202,921	212,293
Investment securities available-for-sale	285,518	251,602
Investment securities held-to-maturity (fair value of $19,701 and $19,410, respectively)	19,925	20,126
Loans held-for-sale (includes loans at fair value of $252,238 and $225,342, respectively)	263,723	239,302
Loans	3,676,805	3,685,478
Allowance for loan losses	(31,155)	(31,151)
Loans, net of allowance for loan losses	3,645,650	3,654,327
Premises and equipment, net	94,393	93,699
Other real estate, net	8,504	8,290
Bank owned life insurance	71,894	71,510
Servicing rights, net	116,736	120,390
Other assets	80,681	62,257
Total assets	$4,789,945	$4,733,796
Liabilities		
Deposits		
Noninterest-bearing demand deposits	$1,203,173	$1,214,534
Interest-bearing deposits	2,779,360	2,767,044
Total deposits	3,982,533	3,981,578
Short-term borrowings	162,453	139,760
Subordinated debt, net	120,733	120,707
Other liabilities	65,212	45,510
Total liabilities	4,330,931	4,287,555
Shareholders' equity		
Preferred stock, no par value. Authorized 10,000,000; zero issued and outstanding	—	—
Common stock, no par value. Authorized 50,000,000; issued and outstanding 27,629,860 and 27,279,729, respectively	238,330	230,841
Accumulated other comprehensive income, net of tax	4,637	985
Retained earnings	216,047	214,415
Total shareholders' equity	459,014	446,241
Total liabilities and shareholders' equity	$4,789,945	$4,733,796

See accompanying notes to unaudited consolidated financial statements.

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FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended March 31,	
($ in thousands, except per share data)	2019	2018
Interest income:		
Loans, including fees	$43,865	$39,849
Investment securities:		
Taxable interest income	2,363	1,098
Nontaxable interest income	81	77
Other	732	538
Total interest income	47,041	41,562
Interest expense:		
Deposits	6,266	4,313
Short-term borrowings	935	910
Subordinated debt	1,698	1,571
Total interest expense	8,899	6,794
Net interest income	38,142	34,768
Provision for loan losses	936	2,130
Net interest income after provision for loan losses	37,206	32,638
Noninterest income:		
Service charges on deposit accounts	1,785	1,472
Other fees and charges	2,309	2,235
Mortgage banking activities	16,735	28,562
Indirect lending activities	706	2,148
SBA lending activities	1,324	1,157
Trust and wealth management fees	655	532
Other	432	1,027
Total noninterest income	23,946	37,133
Noninterest expense:		
Salaries and employee benefits	27,812	27,561
Commissions	6,972	7,506
Occupancy and equipment	5,095	4,932
Professional and other services	4,366	4,798
Other	9,230	9,945
Total noninterest expense	53,475	54,742
Income before income tax expense	7,677	15,029
Income tax expense	1,564	3,262
Net income	$6,113	$11,767
Earnings per common share:		
Basic	$0.22	$0.44
Diluted	$0.22	$0.43
Net income	$6,113	$11,767
Other comprehensive income/(loss), net of tax:		
Change in net unrealized gains/(losses) on available-for-sale debt securities, net of tax effect of $1,217 and ($365), respectively	3,652	(1,094)

Total other comprehensive income/(loss), net of tax	3,652	(1,094)
Comprehensive income	$9,765	$10,673

See accompanying notes to unaudited consolidated financial statements.

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FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(UNAUDITED)

(in thousands)	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Accumulated Other Comprehensive Income/(Loss), Net of Tax	Retained Earnings	Total
Balance at December 31, 2017	—	$ —	27,019	$217,555	$ 383	$183,694	$401,632
Net income						11,767	11,767
Impact of adoption of new accounting standard (1)					80	(80)	—
Other comprehensive income, net of tax					(1,094)		(1,094)
Comprehensive income							10,673
Common stock issued under various employee plans, net			15	1,679			1,679
Common stock declared cash dividends, $0.12 per share						(3,240)	(3,240)
Balance at March 31, 2018	—	$ —	27,034	$219,234	$ (631)	$192,141	$410,744
Balance at December 31, 2018	—	$ —	27,280	$230,841	$ 985	$214,415	$446,241
Net income						6,113	6,113
Other comprehensive income, net of tax					3,652		3,652
Comprehensive income							9,765
Impact of adoption of new accounting standard (2)						(1,239)	(1,239)
Common stock issued under various employee plans, net			350	7,489			7,489
Common stock declared cash dividends, $0.12 per share						(3,242)	(3,242)
Balance at March 31, 2019	—	$ —	27,630	$238,330	$ 4,637	$216,047	$459,014

(1) Represents the impact of the adoption of Accounting Standards Update ("ASU") No. 2018-02, Reporting Comprehensive Income.
(2) Represents the impact of the adoption of Accounting Standards Update ("ASU") No. 2016-02, Leases.

See accompanying notes to unaudited consolidated financial statements.

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FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31,	
(in thousands)	2019	2018
Cash flows from operating activities:		
Net income	$6,113	$11,767
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	936	2,130
Depreciation and amortization of premises and equipment	1,067	1,091
Amortization of FDIC indemnification asset, net	—	4
Accretion of purchase discounts or premiums, net	(388)	(291)
Other amortization	46	236
Impairment of other real estate	288	85
Amortization and impairment of servicing rights, net	9,368	48
Amortization of operating lease right-of-use assets	1,577	—
Share-based compensation expense	581	1,478
Postretirement benefits, net	547	618
Gains on loan sales, including origination/sale of servicing rights	(13,191)	(17,723)
Net loss on sales of other real estate	2	—
Income on bank owned life insurance	(384)	(401)
Net change in deferred income tax	971	(365)
Net change in fair value of loans held-for-sale	(3,606)	(2,109)
Originations of loans held-for-sale	(552,073)	(659,011)
Proceeds from sales of loans held-for-sale	539,779	605,996
Net payments paid to FDIC under loss-share agreements	—	(256)
Decrease in other assets	(1,707)	(592)
(Decrease) increase in other liabilities	(1,096)	5,346
Net cash used in operating activities	(11,170)	(51,949)
Cash flows from investing activities:		
Purchases of investment securities available-for-sale	(35,211)	(9,923)
Maturities, calls, and repayment of investment securities available-for-sale	5,904	3,826
Maturities, calls and repayment of investment securities held-to-maturity	191	330
Purchases of FHLB stock	(2,269)	(8,671)
Redemption of FHLB stock	1,063	—
Net decrease (increase) in loans	6,322	(135,550)
Proceeds from sales of other real estate	245	—
Purchases of premises and equipment	(1,761)	(1,252)
Net cash used in investing activities	(25,516)	(151,240)

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FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - Continued
(UNAUDITED)

	Three Months Ended March 31,	
(in thousands)	2019	2018
Cash flows from financing activities:		
Net (decrease) increase in noninterest-bearing deposits	$(11,361)	$26,717
Net increase in interest-bearing deposits	12,316	6,490
Net decrease in other short-term borrowings	(2,307)	(12,785)
Proceeds from FHLB advances	375,000	725,000
Repayments on FHLB advances	(350,000)	(525,000)
Proceeds from the issuance of common stock, net	6,908	201
Cash dividends paid on common stock	(3,242)	(3,240)
Net cash provided by financing activities	27,314	217,383
Net (decrease) increase in cash and cash equivalents	(9,372)	14,194
Cash and cash equivalents, beginning of period	212,293	186,302
Cash and cash equivalents, end of period	$202,921	$200,496
Supplemental cash flow information and non-cash disclosures:		
Cash paid during the period for:		
Interest on deposits and borrowings	$7,555	$5,701
Income taxes	—	—
Transfers of loans from held-for-sale to held for investment	1,044	1,684
Transfers of loans to other real estate	749	132
Initial recognition of operating lease right-of-use assets	17,070	—
Initial recognition of operating lease liabilities	18,309	—

See accompanying notes to unaudited consolidated financial statements.

FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019
(UNAUDITED)

1. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements include the accounts of Fidelity Southern Corporation (“FSC” or “Fidelity”) and its wholly-owned subsidiaries. FSC owns 100% of Fidelity Bank (the “Bank”) and LionMark Insurance Company, an insurance agency offering consumer credit related insurance products. FSC also owns three subsidiaries established to issue trust preferred securities, which are not consolidated for financial reporting purposes in accordance with current accounting guidance, as FSC is not the primary beneficiary. The “Company” or “our,” as used herein, includes FSC and its consolidated subsidiaries, unless the context otherwise requires.

These unaudited consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”) followed within the financial services industry for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information or notes required for complete financial statements.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the periods presented. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan losses; the calculations of, amortization of, and the potential impairment of capitalized servicing rights; the valuation of loans held-for-sale and certain derivatives; the valuation of real estate or other assets acquired in connection with foreclosures or in satisfaction of loans; estimates used for fair value acquisition accounting, goodwill impairment testing and valuation of deferred income taxes. In addition, the actual lives of certain amortizable assets and income items are estimates subject to change. The Company principally operates in one business segment, which is community banking.

In the opinion of management, all adjustments, consisting of normal and recurring items, considered necessary for a fair presentation of the consolidated financial statements for the interim periods have been included. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain amounts reported in prior periods have been reclassified to conform to current year presentation. These reclassifications did not have a material effect on previously reported net income, shareholders’ equity or cash flows.

Operating results for the three-month period ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission (“SEC”).

The Company’s significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in the 2018 Annual Report on Form 10-K filed with the SEC. There were no new accounting policies or changes to existing policies adopted during the first three months of 2019 which had a significant effect on the Company’s results of operations or statement of financial condition. For interim reporting purposes, the Company follows the same basic accounting policies and considers each interim period as an integral part of an annual period.

Proposed Merger with Ameris Bancorp

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.

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Contingencies

Due to the nature of their activities, the Company and its subsidiaries are at times engaged in various legal proceedings that arise in the course of normal business, some of which were outstanding as of March 31, 2019. Although the ultimate outcome of all claims and lawsuits outstanding as of March 31, 2019 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 the Company's results of operations or financial condition.

However, on March 8, 2019, an action captioned Paul Parshall v. Fidelity Southern Corporation et al., Case 1:19-cv-01098-MHC (the "Parshall Action"), was filed in the U.S. District Court for the Northern District of Georgia on behalf of a purported class of Fidelity shareholders against Fidelity, its current directors and Ameris. This complaint contends, among other things, that the registration statement on Form S-4 (as amended, the "Registration Statement") filed by Ameris on February 12, 2019 in connection with the Merger is false and misleading because it omits certain allegedly material information in violation of Sections 14(a) and 20(a) of the Exchange Act, and Rule 14a-9 promulgated under the Exchange Act. The complaint filed in connection with the Parshall Action seeks, among other things, injunctive relief enjoining the defendants from consummating the Merger, a supplement to the Registration Statement (or, in the event the Merger is consummated, rescinding the Merger or awarding rescissory damages). The complaint also seeks to recover costs, including attorneys' fees and experts' fees.

On April 24, 2019, an action captioned Morten Oftedal v. Fidelity Southern Corporation et al., Case 1:19-cv-03656 (the "Oftedal Action" and together with the Parshall Action, the "Actions"), was filed in the U.S. District Court for the Southern District of New York on behalf of a purported class of Fidelity shareholders against Fidelity and its current directors. This complaint contends, among other things, that the definitive joint proxy statement/prospectus contained in the Registration Statement (the "Definitive Proxy Statement") is false and misleading because it omits certain allegedly material information in violation of Sections 14(a) and 20(a) of the Exchange Act, and Rule 14a-9 promulgated under the Exchange Act. The complaint filed in connection with the Oftedal Action seeks, among other things, injunctive relief enjoining the defendants from consummating the Merger, a supplement to the Registration Statement (or, in the event the Merger is consummated, rescinding the Merger or awarding rescissory damages). The complaint also seeks to recover costs, including attorneys' fees and experts' fees.

Management believes that the Actions are without merit, and denies that any further disclosure beyond that already contained in the Registration Statement and the Definitive Proxy Statement included therein is required under applicable law to supplement the Registration Statement and the Definitive Proxy Statement included therein which has been disseminated to Fidelity and Ameris stockholders. Nonetheless, to avoid the risk that the Actions may delay or otherwise adversely affect the consummation of the Merger and to minimize the expense of defending such Actions, FSC made certain supplemental disclosures to the Registration Statement in a Current Report on Form 8-K filed with the SEC on April 26, 2019, as amended on April 30, 2019 (the "Form 8-K"). Nothing in this Quarterly Report on Form 10-Q or the Form 8-K shall be deemed an admission of the legal necessity or materiality under applicable laws of any of the supplemental disclosures set forth herein or therein. At this time, FSC is unable to state whether the likelihood of an unfavorable outcome of either action is probable or remote. FSC is also unable to provide an estimate of the range or amount of potential loss if the outcome for either action should be unfavorable.

Tax Cuts and Jobs Act

Public Law No. 115-97, known as the Tax Cuts and Jobs Act (the "Tax Act"), was enacted on December 22, 2017 and reduced the U.S. Federal corporate tax rate from 35% to 21% effective January 1, 2018. Additionally, on December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on accounting for provisions of the Tax Act. SAB 118 provides a measurement period of up to one year from the enactment date to complete the accounting. Any adjustments during this measurement period were to be included in net earnings from continuing operations as an adjustment to income tax expense in the reporting period when such adjustments are determined. Based on the information available and current interpretation of the provisions of the Tax Act, the Company completed the remeasurement of its net deferred tax liability at December 31, 2017 which reduced income tax expense by $4.9 million for the fourth quarter of 2017. No further material adjustments have been recorded related to the remeasurement of the Company's net deferred tax liability balance as a result of the Tax Act. The Company completed its accounting under SAB 118 during 2018.

Accounting Changes

Accounting Standards Update ("ASU") No. 2016-02 "Leases (Topic 842)", as amended, requires that lessees and lessors recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. The Company elected the modified retrospective approach which we applied on January 1, 2019 (as opposed to January 1, 2017), and therefore have not restated comparative periods. The Company elected certain relief options offered in ASU 2016-02 including the package of practical expedients, and the option not to recognize right-of-use assets and lease liabilities that arise from short-term leases (i.e., leases with terms of twelve months or less). In addition, the Company elected the hindsight practical expedient to determine the lease term for existing leases.

Our operating leases relate primarily to office space and bank branches, as well as ATM locations. As a result of the adoption of ASU 2016-02, the Company recognized an operating lease right-of-use ("ROU") asset of $15.5 million and an operating lease liability of $17.1 million as of March 31, 2019, with no impact on our Consolidated Statements of Comprehensive Income or

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Consolidated Statements of Cash Flows compared to the prior lease accounting model. The ROU asset and operating lease liability are recorded in other assets and other liabilities, respectively, in the Consolidated Balance Sheets.
The weighted-average remaining lease term and the weighted-average discount rate for our operating leases were 3.4 years and 3.41%, respectively, at March 31, 2019.
Recently Adopted Accounting Pronouncements
In March 2018, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2018-05, “Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SAB 118). This ASU was effective upon issuance. The adoption of this ASU did not have a significant impact on the Company's Consolidated Financial Statements.
In March 2018, the FASB issued ASU No. 2018-04, “Investments-Debt Securities (Topic 320) and Regulated Operations (Topic 980): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273. For public business entities, the Update was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The adoption of this ASU effective January 1, 2018 did not have a significant impact on the Company's Consolidated Financial Statements.
In February 2018, the FASB issued ASU No. 2018-03, “Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2018-03"). This guidance amended ASU No. 2016-01, “Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”) on recognizing and measuring financial instruments to clarify certain aspects of the guidance originally issued in January 2016. The adoption of this Update effective January 1, 2018 did not have a significant impact on the Company's Consolidated Financial Statements.
In February 2018, the FASB issued ASU No. 2018-02, “Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income” ("ASU 2018-02"), that allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act that passed U.S. Congress in December 2017. The Company elected to early adopt this guidance effective January 1, 2018. The adoption of ASU 2018-02 resulted in a reclassification of stranded tax effects of $80,000 from accumulated other comprehensive income (loss) to retained earnings.
In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities,” (“ASU 2017-12”) that is intended to improve and simplify rules relevant to hedge accounting by refining and expanding hedge accounting for both financial (e.g., interest rate) and commodity risks. The adoption of this ASU effective January 1, 2019 did not have a significant impact on the Company’s Consolidated Financial Statements.
In May 2017, the FASB issued ASU No. 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting,” (“ASU 2017-09”) that provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The adoption of this ASU effective January 1, 2018 did not have a significant impact on the Company’s Consolidated Financial Statements.
In March 2017, the FASB issued ASU No. 2017-08, “Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities,” (“ASU 2017-08”) that amended the amortization period for certain purchased callable debt securities held at a premium. The adoption of this ASU effective January 1, 2019 did not have a significant impact on the Company’s Consolidated Financial Statements.
In March 2017, the FASB issued ASU No. 2017-07, “Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,” (“ASU 2017-07”) that will change how employers who sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. The adoption of this ASU effective January 1, 2018 did not have a significant impact on the Company’s Consolidated Financial Statements.
In January 2017, the FASB issued ASU No. 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” (“ASU 2017-04”) which simplifies the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test. The new guidance is effective for public business entities for fiscal years beginning after December 15, 2019 and is required to be applied prospectively, with early adoption permitted for any impairment tests performed on testing dates after January 1, 2017. The early adoption of this ASU in the fourth

quarter of 2017 did not have a significant impact on the Company’s Consolidated Financial Statements.
In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations (Topic 805) - Clarifying the Definition of a Business,” (“ASU 2017-01”) which provides clarification on the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The adoption of this ASU effective January 1, 2018 did not have a significant impact on the Company’s Consolidated Financial Statements.
In December 2016, the FASB issued ASU No. 2016-20, “Technical Corrections and Improvements to Topic 606: Revenue from Contracts with Customers.” ASU 2016-20 updates the new revenue standard by clarifying issues that had arisen from ASU

No. 2014-09 but does not change the core principle of the new standard. In August 2015, the FASB issued ASU No. 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date” which deferred the effective date of ASU No. 2014-09, “Revenue from Contracts with Customers,” (“ASU 2014-09”) by one year to annual reporting periods beginning after December 15, 2017, and interim reporting periods therein. The FASB had previously issued ASU 2014-09 in May 2014. The Company adopted the guidance on January 1, 2018 utilizing the modified retrospective approach. The Company did not record a cumulative effect adjustment to opening retained earnings as the adoption of ASU 2014-09 did not have a significant impact on the Company's Consolidated Financial Statements. The Company also completed its evaluation of the expanded disclosure requirements for disaggregation of revenue and other information regarding material contracts and began presenting the required disclosures in its Consolidated Financial Statements for the quarter ended March 31, 2018. See Note 11. Revenue Recognition for more information.

In November 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows (Topic 230) - Restricted Cash,” (“ASU 2016-18”). The ASU was to be applied retrospectively beginning in fiscal year 2018, including interim periods therein with early adoption permitted, including adoption in an interim period, with retrospective application. The adoption of this ASU effective January 1, 2018 did not have a significant impact on the Company’s Consolidated Financial Statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)", as amended, that requires lessees to recognize the following for all leases (with the exception of short-term leases): 1) a lease liability, and 2) a right-of-use asset. The adoption of this ASU effective January 1, 2019 did not have a significant impact on the Company’s Consolidated Financial Statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In August 2018, the FASB issued ASU No. 2018-15, “Goodwill and Other Internal-Use Software (Subtopic 350-400): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract requiring for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The adoption of this ASU is not expected to have a significant impact on the Company's Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-13, “Fair Value Measurement (Topic 820), which changes the fair value measurement disclosure requirements of ASC 820. The amendments in this ASU were the result of a broader disclosure project called FASB Concepts Statement, Conceptual Framework for Financial Reporting - Chapter 8: Notes to Financial Statements, which the Board finalized on August 28, 2018. The ASU is effective for all entities for fiscal years beginning after December 15, 2019, including interim periods therein with early adoption permitted for any eliminated or modified disclosures upon issuance of this ASU. The adoption of this ASU is not expected to have a significant impact on the Company's Consolidated Financial Statements.

In June 2016, the FASB issued ASU No. 2016-13 which significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. In issuing the standard, the FASB is responding to criticism that today’s guidance delays recognition of credit losses. The standard will replace today’s “incurred loss” approach with an “expected loss” model. The new model, referred to as the current expected credit loss (“CECL”) model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale (“AFS”) securities. For AFS securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. All other things being equal, higher credit losses will result in lower regulatory capital ratios for the Company. The ASU also simplifies the accounting model for purchased credit-impaired securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity’s assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. The standard will take effect for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Entities will apply the standard’s provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company has established a working group which includes representatives from various internal departments with the expertise needed to implement the guidance. The working group has assigned key tasks to complete and established a timeline to be followed. The team is meeting regularly to review progress on the assigned tasks and to share current information on industry practices. Members of the working group are also attending conferences and meetings with peer banks to keep current on evolving interpretations of the guidance. As part of its implementation plan, the Company has allocated staff and put resources in place to evaluate the appropriate model options and is collecting, reviewing, and validating historical loan data for use in these models. The Company is implementing a software package supported by a third-party vendor. Management is continuing to evaluate the impact that the guidance will have on the Company’s Consolidated Financial Statements and its regulatory capital ratios through its effective date.

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Other proposed accounting standards that have recently been issued by the FASB or other standard-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

2. Investment Securities

Management’s primary objective in managing the investment securities portfolio includes maintaining a portfolio of high quality investments with competitive returns while providing for pledging and liquidity needs within overall asset and liability management parameters. The Company is required under federal regulations to maintain adequate liquidity to ensure safe and sound operations. As such, management regularly evaluates the investment portfolio for cash flows, the level of loan production and sales, current interest rate risk strategies and the potential future direction of market interest rate changes. Individual investment securities differ in terms of default, interest rate, liquidity and expected rate of return risk.

The following table summarizes the amortized cost and fair value of debt securities and the related gross unrealized gains and losses at March 31, 2019 and December 31, 2018:

	March 31, 2019			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available-for-sale:				
Obligations of U.S. Government sponsored enterprises	$22,135	$ 86	$ (110)	$22,111
Municipal securities	9,808	390	(14)	10,184
SBA pool securities	10,150	—	(164)	9,986
Residential mortgage-backed securities	215,760	5,990	(83)	221,667
Commercial mortgage-backed securities	21,838	—	(268)	21,570
Total available-for-sale	$279,691	$ 6,466	$ (639)	$285,518
Investment securities held-to-maturity:				
Municipal securities	$8,479	$ 46	$ (135)	$8,390
Residential mortgage-backed securities	7,568	53	(188)	7,433
Commercial mortgage-backed securities	3,878	—	—	3,878
Total held-to-maturity	$19,925	$ 99	$ (323)	$19,701

	December 31, 2018			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available-for-sale:				
Obligations of U.S. Government sponsored enterprises	$22,145	$ 53	$ (240)	$21,958
Municipal securities	9,824	278	(39)	10,063
SBA pool securities	11,036	—	(298)	10,738
Residential mortgage-backed securities	185,464	2,270	(256)	187,478
Commercial mortgage-backed securities	21,929	—	(564)	21,365
Total available-for-sale	$250,398	$ 2,601	$ (1,397)	$251,602
Investment securities held-to-maturity:				
Municipal securities	$8,504	$ 8	$ (486)	$8,026
Residential mortgage-backed securities	7,719	48	(286)	7,481
Commercial mortgage-backed securities	3,903	—	—	3,903
Total held-to-maturity	$20,126	$ 56	$ (772)	$19,410

The Company held 22 and 32 investment securities available-for-sale that were in an unrealized loss position at March 31, 2019 and December 31, 2018, respectively. There were seven investment securities held-to-maturity that were in an unrealized loss position at March 31, 2019 and December 31, 2018.

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The following table reflects the gross unrealized losses and fair values of the investment securities with unrealized losses, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position:

	March 31, 2019			
	Less Than 12 Months		12 Months or Longer	
(in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available-for-sale:				
Obligations of U.S. Government sponsored enterprises	$—	$ —	$14,943	$ (110)
Municipal securities	—	—	1,036	(14)
SBA pool securities	—	—	9,987	(164)
Residential mortgage-backed securities	706	(2)	8,847	(81)
Commercial mortgage-backed securities	—	—	21,569	(268)
Total available-for-sale	$706	$ (2)	$56,382	$ (637)
Investment securities held-to-maturity:				
Municipal securities	$—	$ —	$6,757	$ (135)
Residential mortgage-backed securities	—	—	6,514	(188)
Total held-to-maturity	$—	$ —	$13,271	$ (323)

	December 31, 2018			
	Less Than 12 Months		12 Months or Longer	
(in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available-for-sale:				
Obligations of U.S. Government sponsored enterprises	$4,978	$ (24)	$14,841	$ (216)
Municipal securities	532	(5)	1,021	(34)
SBA pool securities	—	—	10,738	(298)
Residential mortgage-backed securities	32,556	(101)	8,228	(155)
Commercial mortgage-backed securities	—	—	21,365	(564)
Total available-for-sale	$38,066	$ (130)	$56,193	$ (1,267)
Investment securities held-to-maturity:				
Municipal securities	$6,431	$ (486)	$—	$ —
Residential mortgage-backed securities	$—	$ —	$6,492	$ (286)
Total held-to-maturity	$6,431	$ (486)	$6,492	$ (286)

At March 31, 2019 and December 31, 2018, the unrealized losses on investment securities were related to market interest rate fluctuations since purchase and not credit losses. Management does not intend to sell the temporarily impaired securities and it is not more likely than not that the Company will be required to sell the investments before recovery of the amortized cost, which may be maturity.

As part of the Company’s evaluation of its intent and ability to hold investments for a period of time sufficient to allow for any anticipated recovery in the market, the Company considers its investment strategy, cash flow needs, liquidity position, capital adequacy and interest rate risk position.

Accordingly, as of March 31, 2019, management has reviewed its portfolio for other-than-temporary-impairment and believes the impairment detailed in the table above is temporary, and no other-than-temporary impairment loss has been recognized in the Company's Consolidated Statements of Comprehensive Income. Management continues to monitor all of its securities with a high degree of scrutiny. There can be no assurance that the Company will not conclude in future periods that conditions existing at that time indicate some or all of these securities may be sold or are other than temporarily impaired, which would require a charge to earnings in such periods.

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The amortized cost and fair value of investment securities at March 31, 2019 and December 31, 2018, are categorized in the following table by remaining contractual maturity. The amortized cost and fair value of securities not due at a single maturity (i.e., mortgage-backed securities) are shown separately and the fair value is calculated based on estimated average remaining life:

(in thousands)	March 31, 2019 Amortized Cost	March 31, 2019 Fair Value	December 31, 2018 Amortized Cost	December 31, 2018 Fair Value
Investment securities available-for-sale:				
Obligations of U.S. Government sponsored enterprises				
Due after one year through five years	$21,132	$21,051	$21,142	$20,919
Due after five years through ten years	1,003	1,060	1,003	1,039
Municipal securities				
Due after one year through five years	1,051	1,037	1,055	1,021
Due after five years through ten years	2,431	2,558	2,435	2,539
Due after ten years	6,326	6,589	6,334	6,503
SBA pool securities				
Due after five years through ten years	6,066	6,029	6,730	6,569
Due after ten years	4,084	3,957	4,306	4,169
Residential mortgage-backed securities	215,760	221,667	185,464	187,478
Commercial mortgage-backed securities	21,838	21,570	21,929	21,365
Total available-for-sale	$279,691	$285,518	$250,398	$251,602
Investment securities held-to-maturity:				
Municipal securities				
Due after five years through ten years	$1,588	$1,634	$1,588	$1,595
Due after ten years	6,891	6,756	6,916	6,431
Residential mortgage-backed securities	7,568	7,433	7,719	7,481
Commercial mortgage-backed securities	3,878	3,878	3,903	3,903
Total held-to-maturity	$19,925	$19,701	$20,126	$19,410

There were no gross gains or losses for the investment securities that were called or sold during the three months ended March 31, 2019, or 2018.

There were no transfers from investment securities available-for-sale to investment securities held-to-maturity during the three months ended March 31, 2019, or 2018.

The following table summarizes the investment securities that were pledged as collateral at March 31, 2019 and December 31, 2018:

(in thousands)	March 31, 2019	December 31, 2018
Public deposits	$93,763	$ 121,790
Securities sold under repurchase agreements	21,432	20,600
Total pledged securities	$115,195	$ 142,390

3. Loans Held-for-Sale

Residential mortgage loans held-for-sale are carried at fair value and SBA held-for-sale are carried at the lower of cost or fair value. The following table summarizes loans held-for-sale at March 31, 2019 and December 31, 2018:

(in thousands)	March 31, 2019	December 31, 2018
Residential mortgage	$252,238	$ 225,342
SBA	11,485	13,960
Total loans held-for-sale	$263,723	$ 239,302

During the three months ended March 31, 2019 and 2018, the Company transferred loans with unpaid principal balances of $1.0 million and $1.7 million, respectively, to the held for investment residential mortgage portfolio.

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The Company had residential mortgage loans held-for-sale with unpaid principal balances of $148.9 million and $160.1 million pledged to the FHLB at March 31, 2019 and December 31, 2018, respectively.

4. Loans

Loans outstanding, by class, are summarized in the following table at carrying value and include net unamortized costs of $26.6 million and $29.7 million at March 31, 2019 and December 31, 2018, respectively. Acquired loans represent previously acquired loans. Legacy loans represent existing portfolio loans originated by the Bank prior to each acquisition, additional loans originated subsequent to each acquisition and Government National Mortgage Association ("GNMA") optional repurchase loans (collectively, "legacy loans").

	March 31, 2019		
	Loans		
(in thousands)	Legacy	Acquired	Total
Commercial	$857,098	$100,982	$958,080
SBA	161,381	5,460	166,841
Total commercial loans	1,018,479	106,442	1,124,921
Construction	290,055	1,467	291,522
Indirect automobile	1,454,748	—	1,454,748
Installment loans and personal lines of credit	24,558	688	25,246
Total consumer loans	1,479,306	688	1,479,994
Residential mortgage	610,967	14,464	625,431
Home equity lines of credit	145,014	9,923	154,937
Total mortgage loans	755,981	24,387	780,368
Total loans	$3,543,821	$132,984	$3,676,805

	December 31, 2018		
	Loans		
(in thousands)	Legacy	Acquired	Total
Commercial	$799,057	$105,103	$904,160
SBA	150,519	6,093	156,612
Total commercial loans	949,576	111,196	1,060,772
Construction	277,573	1,836	279,409
Indirect automobile	1,569,274	—	1,569,274
Installment loans and personal lines of credit	27,289	881	28,170
Total consumer loans	1,596,563	881	1,597,444
Residential mortgage	577,471	16,624	594,095
Home equity lines of credit	143,097	10,661	153,758
Total mortgage loans	720,568	27,285	747,853
Total loans	$3,544,280	$141,198	$3,685,478

The Company has extended loans to certain officers and directors. The Company does not believe these loans involve more than the normal risk of collectability or present other unfavorable features when originated. None of the related party loans were classified as nonaccrual, past due, restructured, or potential problem loans at March 31, 2019 or December 31, 2018. The outstanding balances of related party loans totaled $28.1 million at March 31, 2019 and December 31, 2018.

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Nonaccrual Loans

The accrual of interest income is generally discontinued when a loan becomes 90 days past due. Past due status is based on the contractual terms of the loan agreement. A loan may be placed on nonaccrual status sooner if reasonable doubt exists as to the full, timely collection of principal or interest. When a loan is placed on nonaccrual status, previously accrued and uncollected interest is reversed against current period interest income. If a borrower on a residential mortgage loan previously sold makes no payment for three consecutive months, the Company, as servicer, may exercise its option to repurchase the delinquent loan from its securitized loan pool in an amount equal to 100% of the loan's remaining principal balance less the principal payments advanced to the pool prior to the buyback, in which case no previously accrued interest would be reversed since the loan was previously sold. Interest advanced to the pool prior to the buyback is capitalized for future reimbursement as part of the government guarantee. Subsequent interest collected on nonaccrual loans is recorded as a principal reduction. Nonaccrual loans are returned to accrual status when all contractually due principal and interest amounts are brought current and the future payments are reasonably assured.

Loans in nonaccrual status are presented by class of loans in the following table. The Company has repurchased certain GNMA government-guaranteed loans, which are accounted for in nonaccrual status. The Company's loss exposure on government-guaranteed loans is mitigated by the government guarantee in whole or in part. Purchased credit impaired ("PCI") loans are considered to be performing due to the application of the accretion method and are excluded from the table.

(in thousands)	March 31, 2019	December 31, 2018
Commercial	$ 11,638	$ 12,001
SBA	5,218	5,076
Total commercial loans	16,856	17,077
Construction	242	242
Indirect automobile	1,204	1,320
Installment loans and personal lines of credit	302	261
Total consumer loans	1,506	1,581
Residential mortgage	40,555	33,518
Home equity lines of credit	2,310	2,328
Total mortgage loans	42,865	35,846
Total nonaccrual loans	$ 61,469	$ 54,746

If such nonaccrual loans had been on a full accrual basis, interest income on these loans for the three months ended March 31, 2019 and 2018, would have been $516,000 and $648,000, respectively. Residential mortgage loans on nonaccrual status include $35.5 million and $29.1 million in repurchased GNMA government-guaranteed loans at March 31, 2019 and December 31, 2018, respectively.

Accruing loans delinquent 30-89 days, 90 days or more, and troubled debt restructured loans ("TDRs") accruing interest, including PCI loans, presented by class of loans at March 31, 2019 and December 31, 2018, were as follows:

(in thousands)	March 31, 2019			December 31, 2018		
	Accruing Delinquent 30-89 Days	Accruing Delinquent 90 Days or More	TDRs Accruing	Accruing Delinquent 30-89 Days	Accruing Delinquent 90 Days or More	TDRs Accruing
Commercial	$ 1,421	$ 5,894	$ 7,135	$ 1,788	$ 6,022	$ 8,005
SBA	2,936	—	1,385	4,335	—	1,408
Construction	5	50	—	2,595	44	—
Indirect automobile	2,478	2	2,749	3,197	4	2,585
Installment and personal lines of credit	52	—	21	4	—	27

Residential mortgage	9,443	505	2,629	12,611	663	3,803
Home equity lines of credit	765	13	343	208	13	400
Total	$17,100	$ 6,464	$ 14,262	$24,738	$ 6,746	$ 16,228

TDR Loans

During the three months ended March 31, 2019, loans in the amount of $2.2 million were restructured and modified for term and $534,000 of loans were modified for interest rate. The modified loans were mortgage and indirect auto loans. During the three months ended March 31, 2018, $1.1 million in indirect auto and mortgage loans were modified for term and a mortgage loan in

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the amount of $12,000 was modified for interest rate. Modified PCI loans are not removed from their accounting pool and accounted for as TDRs, even if those loans would otherwise be deemed TDRs.

During the three months ended March 31, 2019 and 2018, the amount of loans which were restructured in the past twelve months and subsequently redefaulted was $1.5 million and $267,000, respectively, all of which were mortgage and indirect auto loans.

The Company had total TDRs with a balance of $25.5 million and $24.6 million at March 31, 2019 and December 31, 2018, respectively. Net charge-offs for TDR loans for the three months ended March 31, 2019 and 2018 were insignificant. Net charge-offs/recoveries on such loans are factored into the rolling historical loss rate, which is used in the calculation of the allowance for loan losses.

The Company was not committed to lend additional amounts to customers with outstanding loans classified as TDRs as of March 31, 2019 or December 31, 2018.

Pledged Loans

Presented in the following table is the unpaid principal balance of loans held for investment that were pledged to the Federal Home Loan Bank of Atlanta ("FHLB of Atlanta") as collateral for borrowings under a blanket lien arrangement at March 31, 2019 and December 31, 2018:

(in thousands)	March 31, 2019	December 31, 2018
Commercial	$389,135	$ 294,275
Home equity lines of credit	71,579	104,556
Residential mortgage	439,994	407,713
Total	$900,708	$ 806,544

Indirect automobile loans with an unpaid principal balance of approximately $330.0 million at March 31, 2019 and December 31, 2018, respectively, were pledged to the Federal Reserve Bank of Atlanta ("FRB") as collateral for potential Discount Window borrowings under a blanket lien arrangement.

Impaired Loans

The following tables present by class the unpaid principal balance, recorded investment and related allowance for impaired legacy loans and acquired non PCI loans at March 31, 2019 and December 31, 2018. Legacy impaired loans include all TDRs and all other nonaccrual loans, excluding nonaccrual loans below the Company's specific review threshold:

	March 31, 2019			December 31, 2018		
(in thousands)	Unpaid Principal Balance	Recorded Investment(1)	Related Allowance	Unpaid Principal Balance	Recorded Investment(1)	Related Allowance
Impaired Loans with Allowance						
Commercial	$13,326	$ 11,829	$ 941	$15,460	$ 14,557	$ 1,371
SBA	4,827	3,377	422	2,338	1,886	127
Construction	—	—	—	—	—	—
Installment and personal lines of credit	127	92	92	1,626	310	93
Residential mortgage	14,189	14,180	350	4,368	4,357	472
Home equity lines of credit	478	363	258	659	558	202
Loans	$32,947	$ 29,841	$ 2,063	$24,451	$ 21,668	$ 2,265

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(in thousands)	March 31, 2019 Unpaid Principal Balance	March 31, 2019 Recorded Investment[1]	December 31, 2018 Unpaid Principal Balance	December 31, 2018 Recorded Investment[1]
Impaired Loans with No Allowance				
Commercial	$10,234	$ 9,795	$8,280	$ 7,223
SBA	5,692	3,597	7,039	4,972
Construction	960	242	965	242
Installment and personal lines of credit	1,498	215	—	—
Residential mortgage	31,781	30,677	34,507	33,564
Home equity lines of credit	2,146	1,949	1,975	1,797
Loans	$52,311	$ 46,475	$52,766	$ 47,798

[1]The primary difference between the unpaid principal balance and recorded investment represents charge-offs previously taken; it excludes accrued interest receivable due to materiality. Related allowance is calculated on the recorded investment, not the unpaid principal balance.

Included in impaired loans with no allowance are $35.5 million and $29.1 million in government-guaranteed residential mortgage loans at March 31, 2019 and December 31, 2018, respectively. These loans are collateralized by first mortgages on the underlying real estate collateral and are individually reviewed for a specific allowance.

The average recorded investment in impaired loans and interest income recognized for the three months ended March 31, 2019 and 2018, by class, are summarized in the table below. Impaired loans include legacy impaired loans, all TDRs and all other nonaccrual loans including GNMA optional repurchase loans.

	Three Months Ended March 31,			
	2019		2018	
(in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial	$21,392	$ 81	$24,282	$ 152
SBA	7,154	32	6,429	96
Construction	242	1	4,424	7
Indirect automobile	3,318	64	3,260	64
Installment and personal lines of credit	308	65	447	46
Residential mortgage	42,660	245	31,317	208
Home equity lines of credit	2,327	23	3,480	19
Total	$77,401	$ 511	$73,639	$ 592

Credit Quality Indicators

The Company uses an asset quality ratings system to assign a numeric indicator of the credit quality and level of existing credit risk inherent in a loan ranging from 1 to 8, where a higher rating represents higher risk. Management regularly reviews loans in the portfolio to assess credit quality indicators and to determine appropriate loan classification and grading in accordance with the Company’s internal loan policy. These ratings are adjusted periodically as the Company becomes aware of changes in the credit quality of the underlying loans through its ongoing monitoring of the credit quality of the loan portfolio.

Indirect automobile loans typically receive a risk rating only when being downgraded to an adverse rating which typically occurs when payments of principal and interest are greater than 90 days past due. The Company uses a number of factors, including FICO scoring, to help evaluate the likelihood consumer borrowers will pay their credit obligations as agreed. The weighted-average FICO score for the indirect automobile portfolio was 764 and 762 at March 31, 2019 and December 31, 2018, respectively.

The following are definitions of the Company's loan rating categories:

•Pass – Pass loans include loans rated satisfactory with high, good, average or acceptable business and credit risk.
•Special Mention – A special mention loan has potential weaknesses that deserve management’s close attention.

•Substandard – A substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. A substandard asset has a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt.
•Doubtful – Doubtful loans have all the weaknesses inherent in assets classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

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•Loss – Loss loans are considered uncollectable and of such little value that their continuance as recorded assets is not warranted.

The following tables present the recorded investment in loans, by loan class and risk rating category, as of March 31, 2019 and December 31, 2018:

(in thousands)	March 31, 2019							
Asset Rating	Commercial	SBA	Construction	Indirect Automobile	Installment and Personal Lines of Credit	Residential Mortgage	Home Equity Lines of Credit	Total
Pass	$919,506	$154,320	$ 271,253	$—	$ 24,861	$ 580,637	$151,617	$2,102,194
Special Mention	14,085	5,461	19,977	—	65	441	787	40,816
Substandard	24,489	7,060	292	5,335	320	44,353	2,533	84,382
	958,080	166,841	291,522	5,335	25,246	625,431	154,937	2,227,392
Ungraded Performing	—	—	—	1,449,413	—	—	—	1,449,413
Total	$958,080	$166,841	$ 291,522	$1,454,748	$ 25,246	$ 625,431	$154,937	$3,676,805

(in thousands)	December 31, 2018							
Asset Rating	Commercial	SBA	Construction	Indirect Automobile	Installment and Personal Lines of Credit	Residential Mortgage	Home Equity Lines of Credit	Total
Pass	$859,770	$144,977	$ 256,813	$—	$ 27,759	$ 556,622	$150,338	$1,996,279
Special Mention	14,410	4,674	22,306	—	69	512	800	42,771
Substandard	29,980	6,961	290	5,632	342	36,961	2,620	82,786
	904,160	156,612	279,409	5,632	28,170	594,095	153,758	2,121,836
Ungraded Performing	—	—	—	1,563,642	—	—	—	1,563,642
Total	$904,160	$156,612	$ 279,409	$1,569,274	$ 28,170	$ 594,095	$153,758	$3,685,478

Acquired Loans

The carrying amount and outstanding balance at March 31, 2019 of the PCI loans from acquisitions prior to 2018 was $21.4 million and $27.1 million, respectively, and $21.5 million and $27.5 million, respectively, at December 31, 2018. There were no loans acquired during the three months ended March 31, 2019.

Changes in the accretable yield, or income expected to be collected on PCI loans, for the three months ended March 31, 2019 and 2018, were as follows:

	For the three Months Ended March 31,	
(in thousands)	2019	2018
Beginning balance	$2,666	$3,005
Accretion of income	(374)	(569)
Other activity, net [1]	66	880
Ending balance	$2,358	$3,316

[1]Includes changes in cash flows expected to be collected due to changes in timing of liquidation events and prepayment assumptions.

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5. Allowance for Loan Losses

A summary of changes in the allowance for loan losses ("ALL") by loan portfolio type is as follows:

	Three Months Ended March 31, 2019						
	Commercial Loans						
(in thousands)	Commercial	SBA	Construction	Consumer	Mortgage	Unallocated	Total
Beginning balance	$9,889	$2,266	$ 2,849	$ 9,110	$ 7,037	$ —	$31,151
Charge-offs	—	(21)	—	(1,439)	(83)	—	(1,543)
Recoveries	101	49	73	382	6	—	611
Net recoveries / (charge-offs)	101	28	73	(1,057)	(77)	—	(932)
Provision for loan losses	174	278	218	—	266	—	936
Ending balance	$10,164	$2,572	$ 3,140	$ 8,053	$ 7,226	$ —	$31,155

	Three Months Ended March 31, 2018						
	Commercial Loans						
(in thousands)	Commercial	SBA	Construction	Consumer	Mortgage	Unallocated	Total
Beginning balance	$7,846	$1,968	$ 2,396	$ 10,758	$ 5,928	$ 876	$29,772
Charge-offs	—	(105)	—	(1,434)	(40)	—	(1,579)
Recoveries	(75)	5	364	309	14	—	617
Net (charge-offs) / recoveries	(75)	(100)	364	(1,125)	(26)	—	(962)
Provision for loan losses	1,966	112	(160)	726	362	(876)	2,130
Ending balance	$9,737	$1,980	$ 2,600	$ 10,359	$ 6,264	$ —	$30,940

The following tables present, by loan portfolio type, the balance in the ALL disaggregated on the basis of the Company's impairment measurement method and the related recorded investment in loans:

	March 31, 2019					
	Commercial Loans					
(in thousands)	Commercial	SBA	Construction	Consumer	Mortgage	Total
Individually evaluated	$941	$422	$ —	$92	$608	$2,063
Collectively evaluated	9,222	2,150	3,114	7,961	6,618	29,065
Acquired with deteriorated credit quality	1	—	26	—	—	27
Total ALL	$10,164	$2,572	$ 3,140	$8,053	$7,226	$31,155
Individually evaluated	$21,624	$6,974	$ 242	$307	$47,169	$76,316
Collectively evaluated	918,932	159,549	291,225	1,479,685	729,652	3,579,043
Acquired with deteriorated credit quality	17,524	318	55	2	3,547	21,446
Total loans	$958,080	$166,841	$ 291,522	$1,479,994	$780,368	$3,676,805

	December 31, 2018					
	Commercial Loans					
(in thousands)	Commercial	SBA	Construction	Consumer	Mortgage	Total
Individually evaluated	$1,371	$127	$ —	$93	$674	$2,265
Collectively evaluated	8,517	2,139	2,823	9,017	6,363	28,859
Acquired with deteriorated credit quality	1	—	26	—	—	27
Total ALL	$9,889	$2,266	$ 2,849	$9,110	$7,037	$31,151
Individually evaluated	$21,780	$6,858	$ 242	$310	$40,276	$69,466
Collectively evaluated	864,935	149,433	279,118	1,597,126	703,893	3,594,505
Acquired with deteriorated credit quality	17,445	321	49	8	3,684	21,507
Total loans	$904,160	$156,612	$ 279,409	$1,597,444	$747,853	$3,685,478

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The determination of the overall allowance for credit losses has two components, the allowance for originated loans and the allowance for acquired loans.

The ALL for acquired loans is evaluated at each reporting date subsequent to acquisition. Total loans include acquired loans of $133.0 million and $141.2 million at March 31, 2019 and December 31, 2018, respectively, which were recorded at fair value when acquired. For acquired performing loans, an allowance is determined for each loan pool using a methodology similar to that used for originated loans and then compared to the remaining fair value discount for that pool. For PCI loans, decreases in cash flows expected to be collected is generally recognized by recording an allowance for loan losses. Subsequent increases in cash flows result in a reversal of the allowance for loan losses to the extent of prior charges, or in the prospective recognition of interest income.

6. Other Real Estate

The following table segregates the other real estate ("ORE") by type:

(in thousands)	March 31, 2019	December 31, 2018
Commercial	$ 2,812	$ 2,598
Residential	400	400
Undeveloped property	5,292	5,292
Total ORE, net	$ 8,504	$ 8,290

The following table summarizes the changes in ORE:

	For the Three Months Ended March 31,	
(in thousands)	2019	2018
Beginning balance	$8,290	$7,621
Transfers of loans to ORE	749	132
Sales	(247)	—
Write-downs	(288)	(85)
Ending balance	$8,504	$7,668

At March 31, 2019 and December 31, 2018, the recorded investment of residential mortgage loans formally in the process of foreclosure proceedings was approximately $5.5 million and $6.9 million, respectively. Of these amounts, $4.6 million and $6.0 million, respectively, are residential mortgage loans where the Company has the intent to convey the property to the respective government agency guaranteeing the loan. Upon foreclosure, a separate other receivable in the amount expected to be recovered from the guarantee will be recognized and reported as part of other assets in the accompanying Consolidated Balance Sheets.

7. Fair Value of Financial Instruments

Valuation Methodologies and Fair Value Hierarchy

The primary financial instruments that the Company carries at fair value include investment securities available-for-sale, derivative financial instruments used to hedge the value of its mortgage pipeline and mortgage loans held for sale portfolio including Interest Rate Lock Commitments ("IRLCs"), and residential mortgage loans held-for-sale.

Debt securities issued by U.S. Government corporations and agencies, debt securities issued by U.S. states and political subdivisions, and agency residential and commercial mortgage-backed securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains 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 the Company's portfolio are generally not quoted on an exchange but are actively traded in the secondary institutional markets.

The fair value of 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, the Company classifies these loans as Level 2.

The Company classifies IRLCs on residential mortgage loans held-for-sale, which are derivatives under GAAP, on a gross basis within other assets or other liabilities. 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 the Company’s historical data and the current interest rate environment and reflect the Company’s best estimate of the likelihood that a commitment

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will ultimately result in a closed loan. The loan servicing value is also included in the fair value of IRLCs. Because these inputs are not transparent in market trades, IRLCs are considered to be Level 3 assets.

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

The credit risk associated with the underlying cash flows of an instrument 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 assumption used to estimate credit risk applied relevant information that a market participant would likely use in valuing an instrument. Because mortgage loans held-for-sale are generally sold within several weeks of origination, they are unlikely to demonstrate any of the credit weaknesses discussed above and as a result, the amount of any credit related adjustments to fair value during the three months ended March 31, 2019 and 2018, was insignificant.

Recurring Fair Value Measurements

The following tables present certain information regarding the financial assets measured at fair value on a recurring basis by level within the fair value hierarchy based on the inputs used to estimate the fair value at the measurement date. There were no transfers between Levels 1, 2, and 3, during the three months ended March 31, 2019 and 2018.

	March 31, 2019			
(in thousands)	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities available-for-sale	$285,518	$—	$285,518	$ —
Mortgage loans held-for-sale	252,238	—	252,238	—
Other assets [1]	7,393	—	—	7,393
Other liabilities [1]	(3,031)	—	—	(3,031)

	December 31, 2018			
(in thousands)	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities available-for-sale	$251,602	$—	$251,602	$ —
Mortgage loans held-for-sale	225,342	—	225,342	—
Other assets [1]	5,402	—	—	5,402
Other liabilities [1]	(3,492)	—	—	(3,492)

[1] Includes mortgage-related IRLCs and derivative financial instruments to hedge interest rate risk. IRLCs are recorded on a gross basis.

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The following table presents a reconciliation of all other assets and other liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended March 31, 2019 and 2018. The changes in the fair value of economic hedges were recorded in noninterest income from mortgage banking activities in the Consolidated Statements of Comprehensive Income and are designed to partially offset the change in fair value of the derivative financial instruments referenced in the following table:

	As of or for the Three Months Ended March 31,			
	2019		2018	
(in thousands)	Other Assets[1]	Other Liabilities[1]	Other Assets[1]	Other Liabilities[1]
Beginning balance	$5,402	$ (3,492)	$4,168	$ (691)
Total gains / (losses) included in earnings:				
Issuances	7,393	(3,031)	7,580	(1,641)
Settlements and closed loans	(4,915)	3,492	(4,168)	691
Expirations	(487)	—	—	—
Ending balance	$7,393	$ (3,031)	$7,580	$ (1,641)

[1]Includes mortgage-related IRLCs and derivative financial instruments entered to hedge interest rate risk.

Nonrecurring Fair Value Measurements

Certain financial assets held by the Company are not included in the tables above, but are measured at fair value on a nonrecurring basis. The following tables present the assets that had changes in their recorded fair value and still held at the end of the reporting period by level within the fair value hierarchy based on the inputs used to estimate the fair value at the measurement date.

	March 31, 2019			
(in thousands)	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$30,409	$ —	$ —	$ 30,409
ORE, net	64	—	—	64
Residential mortgage servicing rights	68,109	—	—	68,109

	December 31, 2018			
(in thousands)	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$16,283	$ —	$ —	$ 16,283
ORE, net	1,556	—	—	1,556
Residential mortgage servicing rights	56,737	—	—	56,737

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Quantitative Information about Level 3 Fair Value Measurements

The following table shows the valuation technique and range, including weighted average, of the significant unobservable inputs and assumptions used in the fair value measurement of the Company’s Level 3 assets and liabilities:

	Fair Value at					
($ in thousands)	March 31, 2019	December 31, 2018	Valuation Technique	Unobservable Inputs	Range/Weighted Average at March 31, 2019	Range/Weighted Average at December 31, 2018
Nonrecurring:						
Impaired loans	$30,409	$ 16,283	Appraised value less estimated selling costs	Estimated selling costs	0% - 10.00% 10.00%	0.00% - 10.00% 9.69%
Other real estate	64	1,556	Discounted appraisals less estimated selling costs	Estimated selling costs	0% - 10.00% 9.65%	0.00% - 10.00% 9.38%
Residential mortgage servicing rights	68,109	56,737	Discounted cash flows	Discount rate	9.77% - 11.25% 10.14%	10.27% - 11.75% 10.64%
				Modeled prepayment speeds	7.86% - 11.33% 8.85%	6.78% - 10.75% 7.30%
Recurring:						
IRLCs	$6,656	$ 4,630	Pricing model	Modeled pull-through ratio	79.50%	85.00%
Forward commitments	(2,294)	(2,720)	Investor pricing	Pricing spreads	90.00% - 104.59% 102.56%	99.00% - 104.83% 102.47%

The tables above exclude the initial measurement of assets and liabilities that were acquired as part of acquisitions accounted for as business combinations. These assets and liabilities were recorded at their fair value upon acquisition and were not remeasured during the periods presented unless specifically required by GAAP. Acquisition date fair values represent either Level 2 fair value measurements (investment securities, ORE, property, equipment and borrowings) or Level 3 fair value measurements (loans, deposits and core deposit intangible asset).

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 the Company 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 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 appraisals prepared by qualified licensed appraisers ordered by the Company’s internal appraisal department, which is independent of the Company’s lending function. If significant, the value of business equipment is based on an appraisal by qualified licensed appraisers ordered by the Company; 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 on 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, the Company records

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the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines there is no observable market price, the Company records 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.

Mortgage and SBA servicing rights are initially recorded at fair value when loans are sold with servicing retained. These assets are then amortized in proportion to and over the period of estimated net servicing income. On at least a quarterly basis, these servicing assets are assessed for impairment 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 estimated prepayments, present values the adjusted streams, and combines the present values into a total. If the cost basis of any loan stratification tranche is higher than the present value of the tranche, an impairment is recorded. 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. See Note 10 for additional disclosures related to assumptions used in the fair value calculation for mortgage and SBA servicing rights.

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.

No less frequently than quarterly, management reviews the status of mortgage loans held-for-sale for which the fair value option has been elected. Management also evaluates pools of servicing assets at least quarterly 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 servicing assets results in reductions in their carrying values through a valuation allowance and a corresponding decrease in servicing income.

The significant unobservable input used in the fair value measurement of the Company's 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 IRLCs is positive (negative) if the prevailing interest rate is lower (higher) than the IRLCs 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 IRLCs 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 estimated based on calculations provided by the secondary marketing department using historical data. The estimated pull-through ratio is periodically reviewed by the Company's Secondary Marketing Department of the Mortgage Banking Division for reasonableness.

Forward commitments are instruments that are used to hedge the value of the IRLCs and mortgage loans held-for-sale. The Company takes 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 commitment 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 the Company's forward commitments.

Fair Value Option

The Company records mortgage loans held-for-sale at fair value. The Company chose to fair value these mortgage loans held-for-sale to align results with the underlying economic changes in value of the loans and related hedge instruments. Interest income on residential mortgage loans held-for-sale is recorded on an accrual basis in the Consolidated Statements of Comprehensive Income under the heading "Interest Income: Loans, including fees."

The servicing value is included in the fair value of the mortgage loans held-for-sale and initially recognized at the time the Company enters into IRLCs with borrowers. The mark-to-market adjustments related to loans held-for-sale and the associated economic hedges are reported as part of noninterest income from mortgage banking activities in the consolidated statements of comprehensive income.

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The following table presents the difference between the aggregate fair value and the aggregate unpaid principal balance of loans held-for-sale for which the fair value option ("FVO") has been elected as of March 31, 2019 and December 31, 2018. There were no loans held-for-sale measured under FVO that were 90 days or more past due or in nonaccrual status at March 31, 2019 and December 31, 2018.

(in thousands)	Aggregate Fair Value March 31, 2019	Aggregate Unpaid Principal Balance at March 31, 2019	Aggregate Fair Value Over Unpaid Principal
Residential mortgage loans held-for-sale	$252,238	$244,131	$ 8,107

(in thousands)	Aggregate Fair Value December 31, 2018	Aggregate Unpaid Principal Balance at December 31, 2018	Aggregate Fair Value Over Unpaid Principal
Residential mortgage loans held-for-sale	$225,342	$218,494	$ 6,848

Net fair value gains/(losses) related to mortgage banking activities for items measured at fair value pursuant to election of FVO for the three months ended March 31, 2019 and 2018 were $1.2 million and $(107,000), respectively.

Fair Value of Financial Instruments

The estimated fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. In cases where quoted market prices for the Company's various financial instruments are not available, fair values are based on settlements using present value or other valuation techniques. Those techniques are significantly affected by the imprecision in estimating unobservable inputs and the assumptions used, including the discount rate and estimates of future cash flows. While the Company believes its valuation methods are appropriate, the derived fair value estimates cannot be substantiated by comparison to independent markets, and, in many cases, could not be realized in immediate settlement of the instruments. In that regard, the aggregate fair value amounts presented in the tables below do not represent the underlying value of the Company.

The following tables include the carrying amount and estimated fair value, as well as the level within the fair value hierarchy, of the Company's financial instruments. The fair value estimates presented are based upon relevant information available to management as of March 31, 2019 and December 31, 2018:

		Fair Value Measurements at March 31, 2019			
(in thousands)	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Financial instruments (assets):					
Cash and cash equivalents	$202,291	$202,291	$ —	$ —	$202,291
Investment securities available-for-sale	285,518	—	285,518	—	285,518
Investment securities held-to-maturity	19,925	—	15,823	3,878	19,701
Total loans, net (1)	3,909,373	—	252,238	3,365,463	3,617,701
Financial instruments (liabilities):					
Noninterest-bearing demand deposits	$1,203,173	$—	$ —	$ 1,203,173	$1,203,173

Interest-bearing deposits	2,779,360	—	—	2,775,984	2,775,984
Short-term borrowings	162,453	—	162,453	—	162,453
Subordinated debt	120,733	—	114,825	—	114,825

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(in thousands)	Carrying Amount	Fair Value Measurements at December 31, 2018 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Financial instruments (assets):					
Cash and cash equivalents	$212,293	$212,293	$ —	$ —	$212,293
Investment securities available-for-sale	251,602	—	251,602	—	251,602
Investment securities held-to-maturity	20,126	—	15,507	3,903	19,410
Total loans, net [(1)]	3,893,629	—	225,342	3,404,277	3,629,619
Financial instruments (liabilities):					
Noninterest-bearing demand deposits	$1,214,534	$—	$ —	$ 1,214,534	$1,214,534
Interest-bearing deposits	2,767,044	—	—	2,760,520	2,760,520
Short-term borrowings	139,760	—	139,760	—	139,760
Subordinated debt	120,707	—	113,141	—	113,141

[(1)]Includes $252,238 and $225,342 in residential mortgage loans held-for-sale at March 31, 2019 and December 31, 2018, respectively, for which the Company has elected FVO.

The carrying amounts reported in the Consolidated Balance Sheets for cash and cash equivalents reasonably approximates the fair values of those assets. For investment securities, fair value equals quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities or dealer quotes.

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type. The fair value of performing loans is calculated by discounting scheduled cash flows through the remaining maturities using estimated market discount rates that reflect the credit and interest rate risk inherent in the loans along with a market risk premium and liquidity discount.

Fair value for significant nonperforming loans is estimated taking into consideration recent external appraisals of the underlying collateral for loans that are collateral dependent. If appraisals are not available or if the loan is not collateral dependent, estimated cash flows are discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows, and discount rates are judgmentally determined using available market information and specific borrower information.

The fair value of deposits with no stated maturities, such as noninterest-bearing demand deposits, savings, interest-bearing demand, and money market accounts, is equal to the amount payable on demand. The fair value of time deposits is based on the discounted value of contractual cash flows based on the discount rates currently offered for deposits of similar remaining maturities.

The fair value of the Company’s borrowings is estimated based on the quoted market price for the same or similar issued or on the current rates offered for debt of the same remaining maturities.

For off-balance sheet instruments, fair values are based on rates currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties’ credit standing for loan commitments and letters of credit. Fees related to these instruments were immaterial at March 31, 2019 and December 31, 2018, and the carrying amounts represent a reasonable approximation of their fair values. Loan commitments, letters and lines of credit, and similar obligations typically have variable interest rates and clauses that deny funding if the customer’s credit quality deteriorates. Therefore, the fair values of these items are not significant and are not included in the foregoing schedule.

8. Derivative Financial Instruments

The Company uses derivative financial instruments to hedge the value of its mortgage pipeline and its mortgage loans held for sale. These instruments are not designated as hedges and are not speculative in nature.
Gains of $2.5 million were recorded for each of the three months ended March 31, 2019 and 2018 for all mortgage-related derivatives, and are included in the Consolidated Statements of Comprehensive Income as part of noninterest income from mortgage banking activities.
Derivatives contracts are used to help offset changes in fair value and are written in amounts referred to as notional amounts. Notional amounts provide a basis for calculating payments between counterparties but do not represent amounts to be exchanged between the parties, and are not a measure of financial risk. The notional amounts of the Company’s derivative positions at March 31, 2019 and December 31, 2018 were as follows:

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(in thousands)	Contract or Notional Amount as of March 31, 2019	December 31, 2018
Forward rate commitments	$504,003	$ 390,533
Interest rate lock commitments	284,405	191,843
Total derivatives contracts	$788,408	$ 582,376

The Company’s derivative contracts are not subject to master netting arrangements.

9. Earnings Per Common Share

Earnings per common share (“EPS”) were calculated as follows:

(in thousands, except per share data)	Three Months Ended March 31, 2019	2018
Net income	$6,113	$11,767
Weighted average common shares outstanding - basic [1]	27,493	27,011
Effect of dilutive stock options [2]	200	110
Weighted average common shares outstanding – diluted	27,693	27,121
EPS:		
Basic	$0.22	$0.44
Diluted	$0.22	$0.43

[1]Includes participating securities related to unvested restricted stock awards, net of forfeitures during the period, if any.

[2]Effect of dilutive stock options includes the dilutive effect of additional potential common shares issuable under contracts outstanding during each respective period.

As of March 31, 2019, there were no common stock options that were excluded as potentially dilutive. As of March 31, 2018, 612,500 common stock options were excluded from the potentially dilutive stock options. These shares were not included in the computation of diluted EPS because they were anti-dilutive in the period (i.e., the options’ exercise price was greater than the average market price of the common shares).

10. Certain Transfers of Financial Assets

Servicing rights

The Company sells certain residential mortgage loans, SBA loans and indirect automobile loans to third parties. All such transfers are accounted for as sales and the continuing involvement in the loans sold is limited to certain servicing responsibilities. Loan servicing rights are initially recorded at fair value and subsequently recorded at the lower of cost or fair value and are amortized over the remaining service life of the loans, with consideration given to prepayment assumptions. The carrying value of the loan servicing rights assets is shown in the table below:

(in thousands)	March 31, 2019	December 31, 2018
Loan servicing rights		
Residential mortgage	$108,417	$ 111,414
SBA	4,472	4,511
Indirect automobile	3,847	4,465
Total servicing rights	$116,736	$ 120,390

Residential Mortgage Loans

The Company typically sells certain first-lien residential mortgage loans to third party investors, primarily Federal National Mortgage Association (“Fannie Mae”), Government National Mortgage Association ("Ginnie Mae"), and

Federal Home Loan Mortgage Corporation ("Freddie Mac"). The Company retains the related mortgage servicing rights ("MSRs") and receives servicing fees on certain of these loans. During the three months ended March 31, 2019 and 2018, the Company sold $449.3 million and $431.6 million in residential mortgage loans, respectively, with servicing retained.

The net gain on loan sales, MSRs amortization and recoveries/impairment, and ongoing servicing fees on the portfolio of loans serviced for others are recorded in the Consolidated Statements of Comprehensive Income as part of noninterest income

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from mortgage banking activities. During the three months ended March 31, 2019 and 2018, the Company recorded gains on sales of residential mortgage loans of $15.2 million and $17.6 million, respectively.
During the three months ended March 31, 2019 and 2018, the Company recorded servicing fee income of $6.3 million and $6.2 million, respectively. Servicing fee income includes servicing fees, late fees and ancillary fees earned for each period.
The table below is an analysis of the activity in the Company's MSRs and impairment:

	For the Three Months Ended March 31,	
(in thousands)	2019	2018
Residential mortgage servicing rights		
Beginning carrying value, net	$111,414	$100,679
Additions	5,343	6,146
Amortization	(3,504)	(3,426)
(Impairment)/recoveries, net [(1)]	(4,836)	4,544
Ending carrying value, net	$108,417	$107,943

[(1)]Principally reflects changes in market interest rates and prepayment speeds, both of which affect future cash flow projections.

	For the Three Months Ended March 31,	
(in thousands)	2019	2018
Residential mortgage servicing impairment		
Beginning balance	$1,954	$9,818
Additions	4,930	—
Recoveries	(94)	(4,544)
Ending balance	$6,790	$5,274

The fair value of MSRs, key metrics, and the sensitivity of the fair value to adverse changes in model inputs and/or assumptions are summarized below:

($ in thousands)	March 31, 2019	December 31, 2018
Residential Mortgage Servicing Rights		
Fair Value	$113,551	$116,827
Composition of residential loans serviced for others:		
Fixed-rate	99.53 %	99.57 %
Adjustable-rate	0.47 %	0.43 %
Total	100.00 %	100.00 %
Remaining term (years)	26.0	26.1
Modeled prepayment speed	8.85 %	7.30 %
Decline in fair value due to a 10% adverse change	$(4,019)	$(3,578)
Decline in fair value due to a 20% adverse change	(7,717)	(7,002)
Weighted average discount rate	10.14 %	10.64 %
Decline in fair value due to a 10% adverse change	$(4,666)	$(5,290)
Decline in fair value due to a 20% adverse change	(9,011)	(10,245)

As demonstrated in the table above, the Company's methodology is highly sensitive to changes in model inputs and/or assumptions. The sensitivity calculations above are hypothetical and should not be considered to be predictive of future performance. As indicated, changes in fair value based on adverse changes in model inputs and/or assumptions generally cannot be extrapolated because the relationship of the change in input or assumption to the change in fair value may not be linear. In addition, the effect of an adverse variation in a particular input or assumption on the fair value of the MSRs is calculated without changing any other input or assumptions. In reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which may magnify or counteract the effect of the change.

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Information about the asset quality of residential mortgage loans serviced by the Company is shown in the table below:

Residential mortgage loans serviced	March 31, 2019			Net
		Delinquent (days)		Charge-offs for the Three Months Ended March 31, 2019
(in thousands)	Unpaid Principal Balance	30 to 89	90+	
Serviced for others	$9,244,005	$146,278	$8,761	$ —
Held-for-sale [(1)]	244,131	153	—	—
Held-for-investment [(2)]	624,638	17,844	22,929	82
Total residential mortgage loans serviced	$10,112,774	$164,275	$31,690	$ 82

[(1)] There were no loans held-for-sale that were 90+ days past due recorded under the fair value option for mortgage loans held-for-sale. There were no applicable discounts for loans held-for-sale that were 30-89 days past due.
[(2)] Delinquent loans held-for-investment include repurchased loans covered by government agency guarantees that were 30-89 days past due and 90+ days past due of $6.8 million and $19.6 million, respectively.

Loans serviced for others are not included in the Consolidated Balance Sheets as they are not assets of the Company.

Mortgage Recourse Liability

During the last five years ended March 31, 2019, the Company has sold approximately 50,000 loans with a principal balance of approximately $12.6 billion. Purchasers generally have recourse to return a sold loan to the Company under limited circumstances. As seller, the Company has made various representations and warranties related to, among other things, the ownership of the loans, the validity of the liens, the loan selection and origination process, and the compliance with origination criteria established by the purchasers. In the event of a breach of these representations and warranties, the Company is obligated to repurchase loans with identified defects and/or to indemnify the purchasers. Some of these conditions include underwriting errors or omissions, fraud or material misstatements, and invalid collateral values. The contractual obligation arises only when the breach of representations and warranties is discovered and repurchase/indemnification is demanded. Generally, the maximum amount the Company would be required to pay would be equal to the unpaid principal balance of such loans that are deemed to have defects that were sold to purchasers, plus accrued interest, return of the premium received at the time of the loan sale, and reimbursement of certain expenses. To date, the claims to the Company from the purchasers to be paid upon repurchase or paid because of indemnification have been insignificant. In addition, the Company’s loan sale contracts define a condition in which the borrower defaults during a short period of time as an early payment default (“EPD”). In the event of an EPD, the Company may be required to return the premium paid for the loan, pay certain administrative fees, and may be required to repurchase the loan or indemnify the purchaser unless an EPD waiver is obtained. The Company also makes a number of representations and warranties that it will service the originated loans in accordance with investor servicing guidelines and standards.

Management recognizes the potential risk from costs related to breaches of representations and warranties made in connection with residential loan sales and subsequent required repurchases, indemnifications, and EPD claims. As a result, the Company has established a liability to cover potential costs related to these events based on historical experience, adjusted for any risk factors not captured in the historical losses, current business volume, and known claims outstanding. The recourse liability totaled $1.4 million at March 31, 2019 and December 31, 2018, respectively, and management believes this amount is adequate for potential exposure related to loan sale indemnification, repurchase loans, and EPD claims. There is a significant degree of judgment involved in estimating the recourse liability as the estimation process is inherently uncertain and subject to imprecision. Management will continue to monitor the adequacy of the reserve level and may decide that further additions to the reserve are appropriate in the future. However, there can be no assurance that the current balance of this reserve will prove sufficient to cover actual future losses.

It should be noted that the Company's historical loan sale activity began to increase at a time when underwriting requirements were strengthened from prior years and limited documentation conventional loans (i.e., non-government insured) were no longer eligible for purchase in the secondary market. Accordingly, the population of conventional loans the Company has sold has been underwritten based on fully documented information. While this does not eliminate all risk of repurchase or indemnification costs, management believes it significantly mitigates that risk.

SBA Loans

The Company customarily executes certain transfers of selected government loans to commercial borrowers, primarily SBA loans, with third parties in the secondary market. These loans, which are typically partially guaranteed by the SBA or otherwise credit enhanced, are generally secured by business property such as real estate, inventory, equipment, and accounts receivable. During the three months ended March 31, 2019 and 2018, the Company sold $17.0 million and $10.7 million in government loans, respectively, with servicing retained.

The Company retains the loan servicing rights and receives ongoing servicing fees on the portfolio of loans serviced for others. The net gain on SBA loan sales, amortization and recoveries/impairment of servicing rights, and ongoing servicing fees are recorded

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in the Consolidated Statements of Comprehensive Income as part of noninterest income from SBA lending activities. During the three months ended March 31, 2019 and 2018, the Company recorded gains on sales of SBA loans of $1.2 million and $938,000, respectively.

During the three months ended March 31, 2019 and 2018, the Company recorded servicing fee income of $565,000 and $571,000, respectively. Servicing fee income includes servicing fees, late fees and ancillary fees earned for each period.

The table below is an analysis of the activity in the Company's SBA loan servicing rights and impairment:

	For the Three Months Ended March 31,	
(in thousands)	2019	2018
SBA loan servicing rights		
Beginning carrying value, net	$4,511	$4,818
Additions	371	271
Amortization	(410)	(483)
Recoveries, net [1]	—	131
Ending carrying value, net	$4,472	$4,737

[1] Principally reflects changes in market interest rates and prepayment speeds, both of which affect future cash flow projections.

	For the Three Months Ended March 31,	
(in thousands)	2019	2018
SBA servicing rights impairment		
Beginning balance	$2	$134
Additions	—	—
Recoveries	—	(131)
Ending balance	$2	$3

The fair value of the SBA loan servicing rights, key metrics, and the sensitivity of the fair value to adverse changes in the model inputs and/or assumptions are summarized below:

($ in thousands)	March 31, 2019	December 31, 2018
SBA loan servicing rights		
Fair Value	$4,855	$ 4,629
Composition of loans serviced for others:		
Fixed-rate	— %	— %
Adjustable-rate	100.00 %	100.00 %
Total	100.00 %	100.00 %
Remaining term (years)	19.6	19.7
Modeled prepayment speed	15.06 %	15.10 %
Decline in fair value due to a 10% adverse change	$(204)	$ (194)
Decline in fair value due to a 20% adverse change	(392)	(373)
Weighted average discount rate	13.25 %	13.75 %
Decline in fair value due to a 10% adverse change	$(170)	$ (166)
Decline in fair value due to a 20% adverse change	(330)	(321)

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

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Information about the asset quality of SBA loans serviced by the Company is shown in the table below:

SBA loans serviced	March 31, 2019			Net Charge-offs for the Three Months Ended March 31, 2019
		Delinquent (days)		
(in thousands)	Unpaid Principal Balance	30 to 89	90+	
Serviced for others	$267,646	$3,842	$1,053	$ —
Held-for-sale	11,485	—	—	—
Held-for-investment	172,294	3,563	4,905	(28)
Total SBA loans serviced	$451,425	$7,405	$5,958	$ (28)

Loans serviced for others are not included in the Consolidated Balance Sheets as they are not assets of the Company.

Indirect Automobile Loans

The Company purchases, on a nonrecourse basis, consumer installment contracts secured by new and used vehicles purchased by consumers from franchised motor vehicle dealers and select independent dealers. A portion of the indirect automobile loans is sold with servicing retained and the Company receives ongoing servicing fees on the portfolio of loans serviced for others. During the three months ended March 31, 2019, the Company had no sales in indirect automobile loans with servicing retained. During the three months ended March 31, 2018, the Company sold $86.0 million in indirect automobile loans with servicing retained.

The gain on loan sales, amortization of servicing rights, and ongoing servicing fees are recorded in the Consolidated Statements of Comprehensive Income as part of noninterest income from indirect lending activities. During the three months ended March 31, 2019, the Company had no recorded gains on sales of indirect automobile loans. During the three months ended March 31, 2018, the Company recorded gains on sales of indirect automobile loans of $1.0 million.

During the three months ended March 31, 2019 and 2018, the Company recorded servicing fee income of $1.3 million, and $2.0 million, respectively. Servicing fee income includes servicing fees, late fees and ancillary fees earned for each period.

The table below is an analysis of the activity in the Company’s indirect automobile loan servicing rights:

	For the Three Months Ended March 31,	
(in thousands)	2019	2018
Indirect automobile loan servicing rights		
Beginning carrying value	$4,465	$7,118
Additions	—	569
Amortization	(618)	(814)
Ending carrying value	$3,847	$6,873

The Company has not recorded impairment on its indirect automobile loan servicing rights.

The fair value of the indirect automobile loan servicing rights, key metrics, and the sensitivity of the fair value to adverse changes in model inputs and/or assumptions are summarized below:

($ in thousands)	March 31, 2019	December 31, 2018
Indirect automobile loan servicing rights		
Fair value	$3,847	$ 4,491
Composition of loans serviced for others:		
Fixed-rate	100.00 %	100.00 %
Adjustable-rate	— %	— %

Total	100.00 %	100.00 %
Remaining term (years)	3.8	4.1
Modeled prepayment speed	22.59 %	22.59 %
Decline in fair value due to a 10% adverse change	$ (95)	$ (155)
Decline in fair value due to a 20% adverse change	(187)	(226)
Weighted average discount rate	7.51 %	7.87 %
Decline in fair value due to a 10% adverse change	$ (33)	$ (41)
Decline in fair value due to a 20% adverse change	(65)	(82)

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

Information about the asset quality of the indirect automobile loans serviced by the Company is shown in the table below:

Indirect automobile loans serviced	March 31, 2019			Net Charge-offs for the Three Months Ended March 31, 2019
	Unpaid Principal Balance	Delinquent (days)		
(in thousands)		30 to 89	90+	
Serviced for others	$622,859	$1,877	$1,528	$ 576
Held-for-sale	—	—	—	—
Held-for-investment	1,454,748	3,560	2,172	1,054
Total indirect automobile loans serviced	$2,077,607	$5,437	$3,700	$ 1,630

Loans serviced for others are not included in the Consolidated Balance Sheets as they are not assets of the Company.

11. Revenue Recognition

On January 1, 2018, the Company adopted ASU No. 2014-09, "Revenue from Contracts with Customers" (Topic 606) and all subsequent ASUs that modified Topic 606. As stated in Note 1. Basis of Presentation and Summary of Significant Accounting Policies, the implementation of the new guidance did not have a material impact on the measurement or recognition of revenue. The Company did not record a cumulative effect adjustment to opening retained earnings. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as fees associated with our servicing rights activities, financial guarantees, derivatives, and certain credit card fees are also not in scope of the new guidance. Topic 606 is applicable to noninterest revenue streams such as trust and asset management income, deposit related fees, interchange fees, merchant income, and annuity and insurance commissions. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Company's revenue is generated from contracts with customers. Noninterest revenue streams in-scope of Topic 606 are discussed below.

Service Charges on Deposit Accounts

Service charges on deposit accounts fees is mainly composed of maintenance fees, service fees, stop payment fees, and non-sufficient funds ("NSF") fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Debit Card Fees, Credit Card Fees, and Merchant Fees

Fees, exchange, and other service charges are primarily comprised of debit and credit card income, ATM fees, merchant services income, and other service charges. Debit and credit card income is primarily derived from interchange fees earned whenever the Company's debit and credit cards are processed through card payment networks such as Visa. ATM fees are primarily generated when a Company's card-holder uses a non-Company ATM or a non-Company card-holder uses the Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit and/or credit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, bill pay service, cashier’s checks, and other services. The Company’s performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Trust and Wealth Management

Trust and wealth management income is primarily comprised of fees earned from personal trust administration, estate settlement, investment management, employee benefit plan administration, custody, United States tax code sections 1031/1033 exchanges ("Sections 1031/1033 exchanges") and escrow accounts. Personal trust administration, investment management, employee benefit plan administration and custody fees are generally earned/accrued monthly with billings typically done monthly,

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and are based on the assets/trust under management or administration and services with certain annual minimum fees provided as outlined in the applicable fee schedule. Sections 1031/1033 exchanges and escrow accounts fees are based on a contractual agreement. The Company's fiduciary obligations are generally satisfied over time and the resulting fees are recognized monthly, based upon the monthly average market value of the assets under management and the applicable fee rate. Payment is typically received in the following month. The Company does not earn performance-based incentives.

Insurance Commissions

The Company earns insurance commissions through LionMark Insurance Company, Inc., a wholly owned subsidiary that markets credit loss protection insurance products on an agency basis. The contract between the Company and the Agent is primarily for vendor single interest coverage ("VSI insurance") and does not involve goods or services that are distinct in nature. The performance obligation is essentially completed upon the sale of the individual VSI insurance contracts.

Gain or Loss of ORE

The Company recognizes the sale of ORE, along with any associated gain or loss, when control of the property transfers to the buyer. Generally, the standard includes the following indicators that control of a promised asset has been transferred:

- The seller has a present right to payment for the asset.
- The buyer has legal title of the asset.
- The seller has transferred physical possession of the asset.
- The buyer has the significant risks and rewards of ownership of the asset.
- The buyer has accepted the asset.

The Company at times may finance an ORE sale and will need to apply judgment in evaluating, at contract inception, whether the contract conditions are met, including whether it is probable that the Company shall collect substantially all of the entitled consideration by assessing both the buyer's intent and ability (i.e., capacity) to pay substantially all the amount to which the Company is entitled. The Company enhanced its ORE internal business operating procedures to ensure that such financed ORE sale gain or loss is recognized once all the new standard requirements are met.

The following table presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31,	
($ in thousands)	2019	2018
Noninterest income:		
In-scope of Topic 606:		
Service charges on deposit accounts	$1,785	$1,472
Other fees and charges	2,107	2,035
Trust and wealth management	655	532
Other:		
Insurance commissions	4	398
Loss on ORE	(2)	—
Total other	$2	$398
Noninterest income (in-scope of Topic 606)	4,549	4,437
Noninterest income (out-of-scope of Topic 606)	19,397	32,696
Total noninterest income	$23,946	$37,133

Contract Balances

Typically, a contract asset balance occurs when an entity performs a service for a customer before the customer payment of consideration, creating a contract receivable, or before payment is due, creating a contract asset. On the other hand, a contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment of consideration from the customer. The Company's noninterest revenue streams are largely based on transactional activity, or standard month-end revenue accruals such as asset management fees, and insurance commissions based on the terms and conditions of the associated contracts. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of March 31, 2019 and December 31, 2018, the Company did not have any significant contract balances.

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Contract Acquisition Costs

In connection with the adoption of Topic 606, an entity is required to capitalize, and subsequently amortize into expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. The Company utilizes the practical expedient which allows entities to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. The Company did not capitalize any contract acquisition costs upon adoption of Topic 606.

12. Subsequent Events

On April 30, 2019, the Bank sold MSRs relating to certain single-family mortgage loans serviced for the Government National Mortgage Association ("Ginnie Mae") with an aggregate unpaid principal balance of $2.2 billion. The sale represented approximately 22.0% of the Bank's total single-family mortgage servicing portfolio as of March 31, 2019. The sale resulted in a pre-tax loss of approximately $3.3 million. The Bank will finalize the servicing transfer for these loans on July 1, 2019.

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

The following analysis reviews important factors affecting our financial condition at March 31, 2019 compared to December 31, 2018, and compares the results of operations for the three months ended March 31, 2019 and 2018. These comments should be read in conjunction with our consolidated financial statements and accompanying notes appearing in this Quarterly Report on Form 10-Q and the "Risk Factors" set forth in our Annual Report on Form 10-K for the year ended December 31, 2018. All percentage and dollar variances noted in the following analysis are calculated from the balances presented in the accompanying consolidated financial statements.

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.

Forward-Looking Statements

This Quarterly Report on Form 10-Q 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. 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," "p "outlook," or similar expressions or future conditional verbs such as "may," "will," "should," "would," and "could" are intende identify forward-looking statements. Such statements are not based on fact but instead 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. 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 this report or in any other statements, release, report or filing from time to time. Investors are encouraged to read the related section in our 2018 Annual Report on Form 10-K, including the "Risk Factors" set forth therein. Additional information and other factors that could affect future financial results may be included, from time to time, in our filings with the Securities and Exchange Commission ("SEC").

Selected Financial Data

The following table contains selected financial data and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and unaudited consolidated financial statements and accompanying notes included in Item 1 of this Quarterly Report on Form 10-Q.

	As of or for the Three Months Ended					
($ in thousands, except per share data)	March 31, 2019		December 31, 2018		March 31, 2018	
INCOME STATEMENT DATA:						
Interest income	$47,041		$48,271		$41,562	
Interest expense	8,899		8,713		6,794	
Net interest income	38,142		39,558		34,768	
Provision for loan losses	936		745		2,130	
Noninterest income	23,946		31,079		37,133	
Noninterest expense	53,475		56,113		54,742	
Net income before income taxes	7,677		13,779		15,029	
Income tax expense	1,564		3,855		3,262	
Net income	6,113		9,924		11,767	
PERFORMANCE:						
Earnings per common share - basic	$0.22		$0.36		$0.44	
Earnings per common share - diluted	0.22		0.36		0.43	
Total revenues	62,088		70,637		71,901	
Book value per common share	16.61		16.36		15.19	
Tangible book value per common share (1)	16.22		15.95		14.75	
Cash dividends paid per common share	0.12		0.12		0.12	
Dividend payout ratio	54.55	%	33.33	%	27.27	%
Return on average assets	0.53	%	0.82	%	1.03	%
Return on average shareholders' equity	5.49	%	9.05	%	11.83	%
Equity to assets ratio	9.58	%	9.43	%	8.54	%
Net interest margin	3.56	%	3.54	%	3.29	%
END OF PERIOD BALANCE SHEET SUMMARY:						
Total assets	$4,789,945		$4,733,796		4,811,659	
Earning assets	4,418,194		4,381,616		4,465,914	
Loans, excluding loans held-for-sale	3,676,805		3,685,478		3,714,308	
Total loans	3,940,528		3,924,780		4,139,608	
Total deposits	3,982,533		3,981,578		3,900,407	
Shareholders' equity	459,014		446,241		410,744	
Assets serviced for others	10,134,717		10,283,727		10,367,564	
ASSET QUALITY RATIOS:						
Net charge-offs, annualized to average loans	0.10	%	0.08	%	0.11	%
Allowance to period-end loans	0.85	%	0.85	%	0.83	%
Adjusted allowance to adjusted period-end loans (1)	1.11	%	1.12	%	1.15	%
Nonperforming assets to total loans, ORE and repossessions	2.11	%	1.93	%	2.04	%
Adjusted nonperforming assets to loans, ORE and repossessions (1)	0.92	%	0.92	%	1.14	%
Allowance to nonperforming loans, ORE and repossessions	0.40x		0.44x		0.41x	
SELECTED RATIOS:						
Loans to total deposits	92.32	%	92.56	%	95.23	%
Average total loans to average earning assets	89.59	%	90.21	%	92.71	%
Noninterest income to total revenue	38.57	%	44.00	%	51.64	%
Leverage ratio	9.60	%	9.18	%	8.74	%
Common equity tier 1 capital	9.80	%	9.54	%	8.41	%

Tier 1 risk-based capital	10.90 %	10.64 %	9.47 %
Total risk-based capital	13.47 %	13.24 %	11.98 %
LOAN PRODUCTION AND SALES VOLUME:			
Mortgage loan production	$580,645	$626,438	$613,314
Total mortgage loan sales	511,677	686,153	496,484
Indirect automobile loan production	60,040	94,407	258,560
Total indirect automobile loan sales	—	—	86,000

(1)Non-GAAP financial measure. See non-GAAP reconciliation table for the comparable GAAP

Overview

Fidelity Southern Corporation (“FSC” or “Fidelity”) 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.

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 also conduct indirect automobile lending in Georgia and Florida and residential mortgage lending throughout the South. SBA lending has a nation-wide footprint.

We have continued to focus on organic growth and building meaningful presence and relationships in Georgia and northern, eastern and central Florida. 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 currently have 70 total retail branches with 51 branches in Georgia and 19 in Florida. We believe our retail branch network positions us to generate new customers and business opportunities. We also continued to focus on asset quality, revenue growth, deposit growth, and quality loan growth at a well-maintained capital level.

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

Our lending activities are significantly influenced by the local economic environments in the markets we serve. We have grown our mortgage, construction, commercial, and consumer installment loan portfolios organically and through acquisitions as the economy continues to improve. The commercial loan production momentum that began in the fourth quarter of 2017 continued to be strong while we implemented strategies to grow our commercial bank. Our loan portfolio is well diversified among consumer, business, and real estate lending. The credit quality of the loans we have originated continued to be strong.

A portion of our profitability, as with other 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 and nonbank entities for loans and deposits.

We generally derive approximately half of our revenues from noninterest income sources such as service charges on loan and deposit accounts, fees on other products and services and income from mortgage banking, indirect automobile, and SBA activities. The majority of the noninterest income earned from these sources is generated from gains on sales of loans including recognition of gain on loan servicing on the majority of loans 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. During the three months ended March 31, 2019, impairment on mortgage servicing rights ("MSRs") of $4.8 million was recorded as part of noninterest income from mortgage banking activities.

We continued 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.

Financial Performance

We recorded net income for the three months ended March 31, 2019 of $6.1 million compared to $11.8 million for the same period in 2018, a decrease of $5.7 million, or 48.0%.

Basic and diluted earnings per common share for the three months ended March 31, 2019 were each $0.22, compared to $0.44 and $0.43 of the basic and diluted earnings per common share, respectively, for the same period last year.

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Non-GAAP Financial Measures

In addition to traditional measures, management provides non-GAAP financial information and performance indicators it considers useful to investors in understanding the Company’s operating performance and trends, and to facilitate comparisons with the performance of its peers and better comparability with prior periods. 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.

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 excludes 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 nonperforming 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 financial measures to their nearest GAAP measure appears in the table below.

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 financial 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 unaudited consolidated financial statements in their entirety and not to rely on any single financial measure.

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($ in thousands)	As of or for the quarter ended March 31, 2019	December 31, 2018	March 31, 2018
Reconciliation of nonperforming assets to adjusted nonperforming assets:			
Nonperforming assets (GAAP)	$77,800	$71,478	$75,955
Less: GNMA repurchased government-guaranteed loans included in nonaccrual loans	(35,460)	(29,057)	(26,091)
Less: SBA guaranteed loans included in nonaccrual loans	(4,000)	(3,561)	(1,541)
Less: Nonaccrual acquired loans	(5,573)	(6,120)	(7,890)
Adjusted nonperforming assets, excluding government-guaranteed and acquired loans (non-GAAP)	$32,767	$32,740	$40,433
Reconciliation of loans, ORE and repossessions to adjusted loans, ORE and repossessions, less acquired loans:			
Loans, excluding loans held-for-sale	$3,676,805	$3,685,478	$3,714,308
Add: ORE	8,504	8,290	7,668
Add: repossessions	1,363	1,696	1,853
Total loans, ORE, and repossessions (GAAP)	3,686,672	3,695,464	3,723,829
Less: acquired loans	(132,984)	(141,198)	(178,496)
Adjusted loans, ORE, and repossessions, excluding acquired loans (non-GAAP)	$3,553,688	$3,554,266	$3,545,333
Nonperforming assets to loans, ORE, and repossessions (GAAP)	2.11 %	1.93 %	2.04 %
Adjusted nonperforming assets to adjusted loans, ORE, and repossessions (non-GAAP)	0.92 %	0.92 %	1.14 %
Nonperforming assets to total assets (GAAP)	1.62 %	1.51 %	1.58 %
Adjusted nonperforming assets to total assets (non-GAAP)	0.68 %	0.69 %	0.84 %
Reconciliation of allowance to adjusted allowance:			
Allowance for loan losses (GAAP)	$31,155	$31,151	$30,940
Less: allowance allocated to indirect auto loans	(7,652)	(8,669)	(9,888)
Less: allowance allocated to acquired loans	(284)	(284)	(134)
Adjusted allowance for loan losses (non-GAAP)	$23,219	$22,198	$20,918
Reconciliation of period end loans to adjusted period end loans:			
Loans, excluding loans held-for-sale	$3,676,805	$3,685,478	$3,714,308
Less: indirect auto loans	(1,454,748)	(1,569,274)	(1,719,670)
Less: acquired loans	(132,984)	(141,198)	(178,496)
Adjusted period end loans (non-GAAP)	$2,089,073	$1,975,006	$1,816,142
Allowance to total loans (GAAP)	0.85 %	0.85 %	0.83 %
Adjusted allowance to adjusted period end loans (non-GAAP)	1.11 %	1.12 %	1.15 %
Reconciliation of book value per common share to tangible book value per common share:			
Shareholders' equity	$459,014	$446,241	$410,744
Less: intangibles	(10,933)	(11,197)	(12,028)
Tangible shareholders' equity	$448,081	$435,044	$398,716
End of period shares	27,629,860	27,279,729	27,034,255
Book value per common share (GAAP)	$16.61	$16.36	$15.19
Tangible book value per common share (non-GAAP)	16.22	15.95	14.75

Results of Operations

Net Income

Net income for the quarter was $6.1 million compared to $11.8 million for the same period in 2018, a decrease of $5.7 million. This decrease was primarily due to a $13.2 million decrease in noninterest income, primarily mortgage banking activities, offset by an increase in net interest income of $3.4 million, a decrease in noninterest expense of

$1.3 million, and a decrease in income tax expense of $1.7 million.

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On a linked-quarter basis, net income was $3.8 million lower than the previous quarter, primarily due to a decrease in noninterest income of $7.1 million driven by MSRs impairment of $4.8 million during the quarter.

Interest Income

Interest income for the quarter was $47.0 million, an increase of $5.5 million, or 13.2%, as the yield on total average interest-earning assets increased by 46 basis points, even though average loans decreased by $77.7 million, or 2.0%, compared to the same period in 2018.

On a linked-quarter basis, interest income decreased by $1.2 million, or 2.5%, primarily driven by a decrease in loan interest income of $1.4 million. Average loan balances decreased by $105.5 million for the quarter, $86.3 million of this was due to a decrease in lower yielding indirect loans, which were partially replaced in the portfolio mix with higher yielding commercial and SBA loans. Average mortgage loans also decreased by $35.0 million for the quarter. These decreases were offset by an increase in average investment securities of $40.6 million and in the average balances of commercial, SBA and construction loans. The yield on total average interest-bearing assets also increased by 7.0 basis points from the previous quarter.

Interest Expense

Interest expense for the quarter of $8.9 million reflects an increase of $2.1 million, or 31.0%, as compared to the same quarter a year ago, primarily due to rising market rates paid on money market and time deposits.

On a linked-quarter basis, interest expense increased by $186,000, or 2.1%, primarily due to a 6 basis points increase in deposit costs although average balances for interest-bearing deposits decreased by $24.5 million.

Net Interest Margin

As compared to the same quarter a year ago, net interest margin (tax equivalent) increased by 27 basis points, from 3.29% to 3.56%, primarily due to a 46 basis point increase in the yield on total average interest-earning assets of $4.4 billion, offset by an increase of 29 basis points in the yield on total average interest-bearing liabilities of $3.0 billion. Average earning assets increased by $62.7 million, primarily due to an increase in investment securities over the year, offset by a decrease in average loans, primarily indirect auto loans. Average interest-bearing liabilities decreased by $42.9 million, primarily driven by a decrease in average borrowings of $74.4 million, offset by an increase in average interest-bearing deposits of $31.4 million.

On a linked-quarter basis, the net interest margin increased from 3.54% to 3.56%, a slight increase of 2 basis points. The yield on total average interest-bearing liabilities increased by only 6 basis points while the yield on average earning assets increased by 7 basis points from 4.32% to 4.39%. Average loans decreased by $105.5 million, of which $86.3 million was a decrease in lower yielding indirect auto loans. Higher yielding investment securities increased by $40.6 million as the Bank continued to execute on its strategy to reposition its balance sheet. Average total interest-bearing liabilities decreased by $41.3 million as average deposits decreased by $24.5 million and average borrowings decreased by $16.8 million.

Taxable-equivalent Interest Income

The interest income earned on certain loans and investments is completely or partially exempt from federal income and state taxes. As such, these tax-exempt instruments typically yield lower returns than taxable instruments. To provide more meaningful comparisons of yields and margins for all earning assets, we also provide revenue on a taxable-equivalent basis by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable instruments. This adjustment is not permitted under GAAP in the Consolidated Statements of Comprehensive Income.

The following is a reconciliation of interest income as reported in the Consolidated Statements of Comprehensive Income to interest income on a taxable-equivalent basis:

Reconciliation of Non-GAAP Measure:	Three Months Ended March 31,	
(in thousands)	2019	2018
Interest income, GAAP basis	$47,041	$41,562
Taxable-equivalent adjustment	50	39
Interest income, taxable-equivalent basis	$47,091	$41,601

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Average Balances, Interest and Yields (Unaudited)

($ in thousands)	For the Three Months Ended March 31, 2019 Average Balance	Income/ Expense	Yield/ Rate	March 31, 2018 Average Balance	Income/ Expense	Yield/ Rate
Assets						
Interest-earning assets:						
Loans:						
Commercial	$939,337	$11,613	5.01%	$864,992	$10,310	4.83%
SBA	173,003	3,404	7.98%	153,732	3,062	8.08%
Construction	282,827	4,943	7.09%	258,072	4,162	6.54%
Indirect automobile	1,516,483	12,835	3.43%	1,784,982	13,095	2.98%
Installment loans and personal lines of credit	29,410	381	5.25%	41,468	302	2.95%
Residential mortgage	803,697	8,566	4.32%	724,684	7,126	3.99%
Home equity lines of credit	154,862	2,173	5.69%	149,398	1,811	4.92%
Total loans, net of unearned income (1)	3,899,619	43,915	4.57%	3,977,328	39,868	4.07%
Investment securities (1)	299,712	2,444	3.31%	155,920	1,195	3.11%
Other earning assets	153,393	732	1.94%	156,751	538	1.39%
Total interest-earning assets	4,352,724	47,091	4.39%	4,289,999	41,601	3.93%
Noninterest-earning assets:						
Cash and due from banks	41,867			36,370		
Allowance for loan losses	(31,117)			(30,002)		
Premises and equipment, net	94,594			88,732		
Other real estate	8,317			7,606		
Other assets	248,788			233,677		
Total noninterest-earning assets	362,449			336,383		
Total assets	$4,715,173			$4,626,382		
Liabilities and shareholders’ equity						
Interest-bearing liabilities:						
Demand deposits	$462,980	$140	0.12%	$461,614	$162	0.14%
Money market and savings deposits	1,343,178	2,510	0.76%	1,345,905	1,841	0.55%
Time deposits	934,110	3,616	1.57%	901,394	2,310	1.04%
Total interest-bearing deposits	2,740,268	6,266	0.93%	2,708,913	4,313	0.65%
Short-term borrowings	161,107	935	2.35%	235,519	910	1.57%
Subordinated debt	120,720	1,698	5.70%	120,604	1,571	5.28%
Total interest-bearing liabilities	3,022,095	8,899	1.19%	3,065,036	6,794	0.90%
Noninterest-bearing liabilities and shareholders' equity:						
Demand deposits	1,185,199			1,120,562		
Other liabilities	56,181			37,336		
Shareholders’ equity	451,698			403,448		
Total noninterest-bearing liabilities and shareholders’ equity	1,693,078			1,561,346		
Total liabilities and shareholders’ equity	$4,715,173			$4,626,382		
Net interest income/spread		$38,192	3.20%		$34,807	3.03%
Net interest margin			3.56%			3.29%

(1)Interest income includes the effect of taxable equivalent adjustment on nontaxable interest income using a 21% tax rate.

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Provision for Loan Losses

Management’s policy is to maintain the allowance for loan losses at a level sufficient to absorb probable incurred losses inherent in the loan portfolio as of the balance sheet date. The allowance is increased by the provision for loan losses and decreased by charge-offs, net of recoveries, net of amounts due from the FDIC under the loss sharing agreements for our past FDIC-assisted transactions. The provision for loan losses is subject to a quarterly review process which incorporates trends in factors such as historical credit losses, delinquencies, level of nonperforming loans, loan growth, composition of the loan portfolio, etc., combined with management's view on qualitative factors such as economic conditions, loan concentrations, etc.

The provision for loan losses was $936,000 for the three months ended March 31, 2019, a decrease of $1.2 million compared to the same period in 2018, as credit quality trend performance remained consistent and strong over the year.

On a linked-quarter basis, provision for loan losses increased by $191,000. The primary reason for the increase was the continued growth of our commercial, SBA and mortgage loan portfolio.

The following schedule summarizes the changes in the allowance for loan losses for the periods indicated:

	As of or for the Three Months Ended March 31,		Year Ended December 31,
($ in thousands)	2019	2018	2018
Balance at beginning of period	$31,151	$29,772	$29,772
Net (charge-offs) / recoveries:			
Commercial	101	(75)	(207)
SBA	28	(100)	(254)
Construction	73	364	716
Consumer	(1,057)	(1,125)	(3,901)
Mortgage	(77)	(26)	(496)
Total net charge-offs	(932)	(962)	(4,142)
Provision for loan losses	936	2,130	5,521
Balance at end of period	$31,155	$30,940	$31,151
Allowance for loan losses as a percentage of loans	0.85 %	0.83 %	0.85 %
Adjusted allowance as a percentage of adjusted loans (non-GAAP) [1]	1.11 %	1.15 %	1.12 %
Ratio of net charge-offs to average loans outstanding, net	0.10 %	0.11 %	0.11 %

[1] Excludes indirect and acquired loans. See non-GAAP reconciliation table for a reconciliation to the comparable GAAP measure.

Management believes the allowance for loan losses is adequate to provide for losses inherent in the loan portfolio at March 31, 2019.

Noninterest Income

The categories of noninterest income, and the dollar and percentage change between periods, are as follows:

	Three Months Ended March 31,			
($ in thousands)	2019	2018	$ Change	% Change
Service charges on deposit accounts	$1,785	$1,472	$313	21.3 %
Other fees and charges	2,309	2,235	74	3.3
Mortgage banking activities	16,735	28,562	(11,827)	(41.4)
Indirect lending activities	706	2,148	(1,442)	(67.1)
SBA lending activities	1,324	1,157	167	14.4
Trust and wealth management fees	655	532	123	23.1
Other	432	1,027	(595)	(57.9)

Total noninterest income	$23,946	$37,133	$(13,187)	(35.5)

Noninterest income was $23.9 million for the three months ended March 31, 2019, a decrease of $13.2 million, or 35.5%, compared to the same period in 2018, primarily driven by a decrease in mortgage banking activities stemming from a change in MSRs impairment of $9.4 million.

On a linked-quarter basis, noninterest income decreased by $7.1 million, or 23.0%, largely due to a decrease of $4.9 million, or 22.6%, in mortgage banking activities, primarily due to the previously mentioned MSRs impairment of $4.8 million for the

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quarter. SBA lending activities also decreased by $2.1 million as gains on SBA sales were seasonally lower for the quarter due to lower sales.

The majority of our noninterest income is derived from mortgage banking activities. The various components of noninterest income from mortgage banking activities are further detailed below:

(in thousands)	For the Three Months Ended March 31, 2019	March 31, 2018
Marketing gain, net	$15,205	$17,575
Origination points and fees	3,572	3,647
Loan servicing revenue	6,298	6,221
Gross mortgage revenue	$25,075	$27,443
Less: MSR amortization	(3,504)	(3,426)
MSR (impairment)/recovery, net	(4,836)	4,545
Total income from mortgage banking activities	$16,735	$28,562

Noninterest Expense

The categories of noninterest expense, and the dollar and percentage change between periods, are as follows:

	Three Months Ended March 31,			
($ in thousands)	2019	2018	$ Change	% Change
Salaries and employee benefits	$27,812	$27,561	$251	0.9 %
Commissions	6,972	7,506	(534)	(7.1)
Occupancy and equipment, net	5,095	4,932	163	3.3
Professional and other services	4,366	4,798	(432)	(9.0)
Other	9,230	9,945	(715)	(7.2)
Total noninterest expense	$53,475	$54,742	$(1,267)	(2.3)

For the three months ended March 31, 2019, noninterest expense of $53.5 million decreased by $1.3 million, or 2.3%, compared to the same period a year ago. Lower commissions accounted for $534,000 of the decrease due to lower mortgage production in the current quarter compared to the first quarter of 2018.

On a linked-quarter basis, noninterest expense decreased by $2.6 million, or 4.7%, primarily due to a decrease in other expenses of $1.5 million, of which $1.2 million were merger related expenses, from the previous quarter. Salaries and employee benefits also decreased by $1.1 million, or 3.90%.

Income Tax Expense

Income tax expense was $1.6 million and $3.3 million for the three months ended March 31, 2019 and 2018, respectively, a decrease of $1.7 million, or 52.1%, compared to 2018, driven primarily by a decrease in pre-tax income of $7.4 million. The effective tax rate for the three months ended March 31, 2019 was 20.4%, as compared to 21.7% for the same period in 2018.

On a linked quarter basis, income tax expense decreased by $2.3 million compared to $3.9 million in the prior quarter primarily due to a decrease of $6.1 million in pre-tax income during the quarter. The effective tax rate also decreased to 20.4% from 28.0% in prior quarter.

Financial Condition

Total assets grew to $4.8 billion at March 31, 2019, an increase of $56.1 million, or 1.2%, compared to December 31, 2018, primarily due to an increase in investment securities available-for-sale of $33.9 million and an increase in loans held-for-sale of $24.4 million. The increase in loans held-for-sale was primarily in mortgage loans, which increased $26.9 million, as seasonal production began to increase. The Bank continued to increase its available-for-sale investments portfolio as part of its strategy to reposition the balance sheet to higher yielding assets. Other assets also increased by $18.4 million, mainly due to the right of use lease asset of $15.5 million recorded during the quarter as a result of the implementation of the new lease standard.

Loans

Total loans of $3.9 billion at March 31, 2019, increased by $15.7 million, or 0.4%, as compared to December 31, 2018, as loans held for sale increased by $24.4 million, offset by an overall decrease in loans held for investment of $8.7 million. Loan growth in loans held for investment was experienced in all loan categories, excluding indirect auto, specifically in commercial,

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SBA and construction of $76.3 million and $31.3 million in mortgage. These increases were offset by a reduction of $114.5 million in indirect loans.

Fair Value Adjustments

Loan servicing rights decreased by $3.7 million, or 3.0%, to $116.7 million at March 31, 2019, compared to December 31, 2018. MSRs, the primary component of loan servicing rights, contributed the majority of the change, decreasing by $3.0 million, or 2.7%, to $108.4 million. The current estimated fair market value of MSRs was $113.6 million at March 31, 2019. In addition, indirect auto servicing rights decreased by $618,000 at March 31, 2019 as the Company executes its strategy to reposition its balance sheet to higher yielding assets.

At March 31, 2019, fair value adjustments recorded on the balance sheet for loans held-for-sale, interest rate lock commitments ("IRLCs"), and hedge items were $12.4 million, a $3.7 million, or 42.1% increase, from December 31, 2018. At March 31, 2019, the gross pipeline of interest rate lock commitments was $357.7 million, a $132.0 million, or 58.5% increase, from December 31, 2018, due to an increase in seasonal production.

Asset Quality

The following schedule summarizes our asset quality as of or for the three months ended for the dates indicated:

($ in thousands)	March 31, 2019	December 31, 2018	March 31, 2018
NONPERFORMING ASSETS			
Nonaccrual loans (2) (6)	$61,469	$ 54,746	$58,706
Loans past due 90 days or more and still accruing	6,464	6,746	7,728
Repossessions	1,363	1,696	1,853
Other real estate (ORE)	8,504	8,290	7,668
Nonperforming assets	$77,800	$ 71,478	$75,955
ASSET QUALITY RATIOS			
Loans 30-89 days past due	$17,100	$ 24,738	$15,695
Loans 30-89 days past due to loans	0.47 %	0.67 %	0.42 %
Loans past due 90 days or more and still accruing to loans	0.18 %	0.18 %	0.21 %
Nonperforming loans as a % of loans	1.85 %	1.67 %	1.79 %
Nonperforming assets to loans, ORE, and repossessions	2.11 %	1.93 %	2.04 %
Adjusted nonperforming assets to adjusted loans, ORE and repossessions (non-GAAP)(7)	0.92 %	0.92 %	1.14 %
Nonperforming assets to total assets	1.62 %	1.48 %	1.58 %
Adjusted nonperforming assets to total assets (non-GAAP) (7)	0.68 %	0.68 %	0.84 %
Classified Asset Ratio (4)	19.67 %	19.95 %	21.70 %
ALL to nonperforming loans	45.86 %	50.66 %	46.57 %
Net charge-offs, annualized to average loans	0.10 %	0.08 %	0.11 %
ALL as a % of loans	0.85 %	0.85 %	0.83 %
Adjusted ALL as a % of adjusted loans (non-GAAP) (8)	1.11 %	1.12 %	1.15 %
ALL as a % of loans, excluding acquired loans (5)	0.88 %	0.88 %	0.88 %
CLASSIFIED ASSETS			
Classified loans (1)	$84,382	$ 82,786	$83,867
ORE and repossessions	9,867	9,986	9,521
Total classified assets (3)	$94,249	$ 92,772	$93,388
(1)Amount of SBA guarantee included in classified loans.	$5,085	$ 3,561	$2,879
(2)Amount of repurchased government-guaranteed loans, primarily residential mortgage loans, included in nonaccrual loans.	$35,460	$ 29,057	$26,091

(3)Classified assets include loans having a risk rating of substandard or worse, both accrual and nonaccrual, repossessions and ORE, net of purchase discounts.

(4)Classified asset ratio is defined as classified assets as a percentage of the sum of Tier 1 capital plus allowance for loan losses.

(5)Allowance calculation excludes the recorded investment of acquired loans, due to valuation calculated at acquisition.
(6)Excludes purchased credit impaired (PCI) loans which are not removed from their accounting pool.
(7)Excludes acquired loans and net of government guarantees. See non-GAAP reconciliation table for a reconciliation to the comparable GAAP measure.
(8)Excludes indirect and acquired loans. See non-GAAP reconciliation table for a reconciliation to the comparable GAAP measure.

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The Bank had $25.5 million in troubled debt restructured loans ("TDRs") at March 31, 2019, compared to $24.6 million at December 31, 2018, of which $14.3 million were accruing loans and $11.2 million were on nonaccrual (including $7.9 million in real estate mortgage loans modified in accordance with government programs) and included in nonperforming assets in the table above. Prior to permanently modifying a loan, we may enter into trial modifications with certain borrowers under both government and proprietary programs. Trial modifications generally represent a three- to four-month period during which the borrower makes monthly payments under the anticipated modified payment terms. Upon successful completion of the trial period, the Bank and the borrower enter into a permanent modification. Binding trial modifications are classified as TDRs when the trial offer is made and continue to be classified as TDRs, regardless of whether the borrower enters into a permanent modification.

Nonperforming assets increased from December 31, 2018 to March 31, 2019, primarily due to an increase in nonaccrual loans of $6.7 million. The majority of the increase in nonaccrual loans was due to growth of $6.4 million in the portfolio of repurchased GNMA government-guaranteed mortgage loans. Our loss exposure on the government-guaranteed loans is mitigated by the government guarantee in whole or in part.

Qualifying residential mortgage loans guaranteed by U.S. governmental agencies have been sold into GNMA pools since 2012. Under certain performance conditions specified in government programs, the Company may have the right, but not the obligation to repurchase certain loans from the GNMA pools. These loans are recognized as residential mortgage loans in the Consolidated Balance Sheets at the time of repurchase and are classified according to delinquency status. The principal balance of the repurchased government-guaranteed loans is guaranteed in whole or in part. As the average age of the GNMA servicing portfolio increases, normal activity includes buying out delinquent loans which are covered by applicable government guarantees and reimbursements. Real estate property obtained upon foreclosure of delinquent repurchased loans repurchased is later classified as a separate receivable for the amount expected to be received under the guarantee as management intends to convey the property to the respective government agency and collect any unpaid mortgage principal balance on the loan from the government upon conveyance.

Management believes it has been proactive in charging down and charging-off its nonperforming assets as appropriate. Management's assessment of the overall loan portfolio is that loan quality and performance have improved in recent years. Management believes it is being aggressive in evaluating credit relationships and proactive in addressing problems.

When a loan is classified as nonaccrual, to the extent collection is in question, previously accrued interest is reversed, reducing interest income in the current year. If such nonaccrual loans had been on a full accrual basis, interest income on these loans for the three months ended March 31, 2019 and 2018 would have been $516,000 and $648,000, respectively.

Other Assets

Other assets were $80.7 million at March 31, 2019 compared to $62.3 million at December 31, 2018, an increase of $18.4 million. This increase was primarily due to the right-of-use asset of $15.5 million recognized for the Company's operating leases, coupled with increases in FHLB stock of $1.2 million and mortgage mark-to-market derivative asset of $2.0 million.

Deposits

Total deposits at March 31, 2019 were $4.0 billion, a slight increase of $1.0 million, compared to December 31, 2018. Core deposits, which are comprised of noninterest-bearing and interest-bearing demand accounts, decreased by $19.3 million during the quarter to $3.0 billion with decreases in money market and savings of $30.6 million and noninterest bearing demand deposits of $11.4 million, offset by increases in interest-bearing demand deposits of $22.7 million. The decrease in core deposits was offset by an increase in time deposits of $20.2 million during the quarter, mainly due to an increase of $30.0 million in brokered deposits, resulting to the increase in total deposits of $1.0 million.

The following table summarizes average deposit composition and average rate paid for the periods presented:

	For the Three Months Ended								
	March 31, 2019			December 31, 2018			March 31, 2018		
($ in millions)	Average Balance	Rate	Percent of Total	Average Balance	Rate	Percent of Total	Average Balance	Rate	Percent of Total

				Deposits					Deposits					Deposits	
Noninterest-bearing demand deposits	$1,186	—	%	30.2	%	$1,239	—	%	31.0	%	$1,121	—	%	29.3	%
Interest-bearing deposits:															
Demand deposits	463	0.12	%	11.8	%	458	0.12	%	11.4	%	462	0.14	%	12.1	%
Money market and savings	1,343	0.76	%	34.2	%	1,381	0.74	%	34.5	%	1,346	0.55	%	35.1	%
Time deposits	934	1.57	%	23.8	%	926	1.43	%	23.1	%	901	1.04	%	23.5	%
Total average deposits	$3,926	0.65	%	100.0	%	$4,004	0.60	%	100.0	%	$3,829	0.46	%	100.0	%

Average core deposits grew by $63.3 million, or 2.2%, compared to the same quarter in 2018, mainly due to growth in noninterest-bearing deposits of $64.6 million, offset by a slight decline in money market and savings accounts. Average time

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deposits grew by $32.8 million, or 3.6%, compared to the same quarter in 2018, primarily due to increases in brokered deposits.

Compared to the linked quarter, average core deposits decreased by $86.8 million, or 2.8%, mainly due to decreases in noninterest-bearing deposits of $54.2 million, and interest-bearing money market and savings accounts of $37.3 million, offset by increases in interest-bearing demand deposits of $4.6 million.

Time deposits that met or exceeded the FDIC insurance limit of $250,000 were $191.1 million, and $176.7 million at March 31, 2019 and December 31, 2018, respectively.

Borrowings

Short-term borrowings increased by $22.7 million, or 16.2%, compared to December 31, 2018, as FHLB borrowings increased by $25.0 million to finance higher loan production during the three months ended March 31, 2019, offset by a decrease in repurchase agreements of $2.3 million.

Liquidity and Capital Resources

Market and public confidence in our financial strength and that of financial institutions in general largely determines the access to appropriate levels of liquidity. This confidence is significantly dependent on our ability to maintain sound credit quality and the ability to maintain appropriate levels of capital resources.

We define liquidity as the ability to generate sufficient cash flows to support our operations and to meet our financial obligations at a reasonable cost and on a timely basis including repayment of borrowings, anticipated customer demands for funds under credit commitments and deposit withdrawals by customers. Liquidity risk is the risk to earnings or capital if we are unable to fulfill our obligations as they become due. Liquidity risk can also develop if we fail to timely recognize or address changes in market conditions that affect our ability to obtain adequate funding to continue to operate on a profitable basis.

Management measures our liquidity position by giving consideration to both on-balance sheet and off-balance sheet sources of and demands for funds on a daily and weekly basis. As of March 31, 2019 and December 31, 2018, our cash and liquid securities totaled 10.6% and 10.2% of total assets, respectively, providing ample liquidity to support our existing operations. In addition, due to FSC being a separate entity and apart from the Bank, it must provide for its own liquidity. FSC is responsible for the payment of dividends declared for its common and preferred shareholders, and interest and principal on any outstanding debt or trust preferred securities. As of March 31, 2019 and December 31, 2018, FSC had available cash balances of $13.6 million and $10.7 million, respectively. This cash is available for general corporate purposes, including FSC's debt service obligations, providing capital support to the Bank and potential future acquisitions.

Sources of the Bank’s liquidity include cash and cash equivalents, net of federal requirements to maintain reserves against deposit liabilities; investment securities eligible for sale or pledging to secure borrowings from dealers and customers pursuant to securities sold under agreements to repurchase; loan repayments; loan sales; etc. Our liabilities also provide liquidity on a day-to-day basis. Daily liquidity needs are met from deposits and certain interest-sensitive deposits; brokered deposits; securities sold under agreements to repurchase; a collateralized line of credit at the Federal Reserve Bank of Atlanta (“FRB”) Discount Window; a collateralized line of credit from the Federal Home Loan Bank of Atlanta (“FHLB”); and, to a lesser extent, borrowings under unsecured overnight Federal funds lines available from correspondent banks. The principal demands for liquidity are new loans, anticipated fundings under unfunded credit commitments to customers and deposit withdrawals. Substantially all of FSC’s liquidity is obtained from capital raises and dividends from its wholly-owned subsidiaries, LionMark Insurance Company and the Bank, which are limited by applicable law.

Management seeks to maintain a stable net liquidity position while optimizing operating results, as reflected in net interest income, the net yield spread on interest-earning assets and the cost of interest-bearing liabilities in particular. We deploy our funds in a manner to provide liquidity from both assets and liabilities sufficient to meet our cash needs. Our Asset Liability Management Committee (“ALCO”), which includes the CEO and senior management representatives, manages our liquidity risk. ALCO meets monthly to review the current and projected net liquidity positions and to review actions taken by management to achieve this liquidity objective. One of the primary goals of ALCO is to maintain a sufficient level of liquidity in both normal operating conditions and in periods of internal or industry stress. The Board of Directors also reviews performance against internal liquidity benchmarks on at least a quarterly basis.

Managing the levels of total liquidity, short-term liquidity, and short-term liquidity sources continues to be an important and complex exercise because of the coordination of the projected mortgage, SBA and indirect automobile loan production and sales, loans held-for-sale balances, and individual loans and pools of loans sold anticipated to fluctuate during the year. We also have fluctuating obligations related to our portfolio of loans serviced for others such as advances we are obligated to make to investors to fund scheduled principal, interest, tax and insurance payments that mortgage loan borrowers have failed to make, to cover foreclosure costs and various other items that are required to preserve the assets being serviced. These servicer advance obligations require capital and liquidity to fund these advances until we are contractually obligated to be reimbursed from the loan investors.

Our loans held for sale are considered highly liquid. The majority of commitments to purchase mortgage loans held-for-sale will be funded within sixty days of the loan closing. The majority of these loans are conforming residential mortgage loans sold to GNMA, Federal National Mortgage Association (“FNMA”), and Federal Home Loan Mortgage Corporation (“FHLMC”). Other categories of loans held for sale include indirect automobile loans purchased from motor vehicle dealers and the government-guaranteed portion of SBA and USDA loans. The portfolio of indirect auto loans held for sale fluctuates based on the demand for loan sales from investors, mainly other financial institutions, which has declined in recent years. Government-guaranteed SBA and USDA loans held for sale are sold upon completion of the disbursement period.

Our investment securities portfolio increased by $33.7 million, or 12.4%, compared to the balance at December 31, 2018. Our recent strategy has been to increase the investment portfolio as a percentage of total assets as we identify securities that meet our strategy and objectives.

Shareholders' Equity

Shareholders' equity was $459.0 million at March 31, 2019 and $446.2 million at December 31, 2018. The increase of $12.8 million in shareholders' equity during the three months ended March 31, 2019 was attributable to net income earned during the period of $6.1 million, partially offset by cash dividends declared on common shares of $3.2 million. The remainder of the increase is primarily attributable to stock issued through employee programs.

On May 5, 2017, we filed a shelf registration statement with the SEC for up to $100 million of common stock, preferred stock, warrants, or debt securities, to be issued from time to time for general corporate purposes which may include funding bank and non-bank subsidiaries, financing business expansion, or refinancing or extending the maturity of debt obligations and investments at the holding company level. The amount was available to be issued as of June 15, 2017, which was the date that the SEC issued a Notice of Effectiveness. As of March 31, 2019, we have not issued any securities under the shelf registration statement.

On May 4, 2018, we filed a registration statement with the SEC to issue up to 1,250,000 shares of common stock, pursuant to awards granted or exercised under the Fidelity Southern Corporation 2018 Omnibus Incentive Plan (the "Plan") reduced by grants under the Fidelity Southern Equity 2006 Incentive Plan, as amended (the "Prior Plan") after December 31, 2017, plus an indeterminate number of additional shares of underlying awards outstanding as of March 8, 2018 under the Prior Plan that thereafter terminate or expire unexercised, or are canceled, forfeited or lapse for any reason and may become issuable under the Plan, plus such indeterminate number of additional securities as may become issuable under the Plan as the result of any future stock splits, stock dividends or similar adjustments of the Common Stock. No further awards will be granted under the Prior Plan and the Prior Plan will remain in effect only for so long as awards granted thereunder remain outstanding. As of March 31, 2019, a total of 58,144 restricted stock grant awards have been issued to the Directors and Executive officers under the Plan.

On May 8, 2018, we filed a registration statement with the SEC to issue up to 1,224,616 shares of common stock to be issued to shareholders and first-time investor participation in our Direct Stock Purchase and Dividend Investment Plan (the "DRIP Plan"). As of March 31, 2019, there were 905,748 shares remaining to be granted under the DRIP Plan.

Capital Ratios

FSC is subject to certain regulations with respect to certain risk-based capital ratios. We are regulated by the Board of Governors of the Federal Reserve Board and is subject to the securities registration and public reporting regulations of the SEC. The Bank is regulated by the Federal Deposit Insurance Corporation ("FDIC") and the Georgia Department of Banking and Finance.

The Bank must comply with regulatory capital requirements established by its regulators. Failure to meet minimum regulatory capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific regulatory capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. These regulatory capital standards require us to maintain minimum ratios of "Tier 1" capital to total risk-weighted assets and total capital to risk-weighted assets of 6.00% and 8.00%, respectively. 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 excess loan servicing rights.

As part of our capital management strategy, we carefully monitor the impact of the loan servicing rights on our capital ratios and evaluate ways to effectively manage capital requirements, including selling portions of our MSRs. As part of our analysis, we consider current and proposed regulatory capital guidelines surrounding MSRs. 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. Risk-weighted assets refer to our on- and off-balance sheet exposures, adjusted for their related risk levels using formulas set forth in FDIC regulations.

In addition to the risk-based capital requirements described above, we are subject to a leverage capital requirement, which calls for a minimum ratio of Tier 1 capital to quarterly average total assets of 4.00%. The Tier 1 leverage ratio does not assign risk weights to assets. The Bank is also subject to a Common Equity Tier 1 (“CET1”) capital to total risk-weighted assets ratio of 4.50%. CET1 is comprised of Tier 1 capital less amounts attributable to qualifying non-cumulative perpetual preferred stock and minority interests in consolidated subsidiaries.

Basel III

On July 2, 2013, the Federal Reserve Bank (“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, 2017, the capital conservation buffer was 1.25% of risk-weighted assets.

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.

The Basel III final rules became effective for us on January 1, 2015, with full compliance with all of the final rule's requirements originally required to be phased in over a three year period ending January 1, 2018. However, the banking regulators released a final rule on November 21, 2017 which effectively freezes the currently applicable phase of the transition provisions for these capital requirements until a separate rulemaking is finalized. This ruling delays the last phase of the Basel III capital rules’ transition provisions relating to certain deductions from capital and limitations on the recognition of minority interests, which were scheduled to become effective January 1, 2018.

Prompt Corrective Action

In July 2013, the final rules implementing the BCBS's Basel III capital guidelines increased regulatory capital requirements of U.S. banking organizations in a manner that more closely reflected risk exposures, and brought the regulatory capital framework into compliance with Basel III. The final rules revised the level 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. The final rules amended the thresholds in the prompt corrective action framework to reflect the higher capital ratios required.

Under the final rules, to be considered “adequately capitalized,” or “well-capitalized”, an institution generally must meet the capital measures as laid out on the table below:

	Adequately Capitalized			Well Capitalized
	(minimum)	(with buffer in 2018)	(with buffer fully phased in 2019)	(minimum)
Total risk-based capital	8.000%	9.875%	10.500%	10.000%
Tier 1 risk-based capital	6.000%	7.875%	8.500%	8.000%
CET 1 capital	4.500%	6.375%	7.000%	6.500%
Leverage ratio	4.000%	N/A	N/A	5.000%

While the prompt corrective action rules apply to banks and not bank holding companies, the FRB is authorized to take actions at the holding company level. Failure to meet applicable capital standards could subject the bank holding company or financial institution 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. FSC is not subject to the provisions of prompt corrective action.

To continue to conduct our business as currently conducted, we must maintain capital levels well above the minimum regulatory requirements. At March 31, 2019, the Bank’s capital ratios exceeded the well capitalized and regulatory minimum ratios discussed above.

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The following tables sets forth the minimum regulatory capital requirements for the Bank under FDIC regulations and the Bank’s regulatory capital ratios at March 31, 2019 and December 31, 2018:

Fidelity Bank	March 31, 2019		December 31, 2018	
($ in thousands)	Amount	Percent	Amount	Percent
Common Equity Tier 1 Capital:				
Actual	$403,994	9.83 %	$396,577	9.72 %
Minimum	184,941	4.50 %	183,600	4.50 %
Tier 1 Capital:				
Actual	$419,994	10.22%	$412,577	10.11%
Minimum	246,572	6.00 %	244,853	6.00 %
Total Risk-Based Capital:				
Actual	$537,226	13.08%	$529,784	12.98%
Minimum	328,579	8.00 %	326,523	8.00 %
Tier 1 Capital Leverage Ratio:				
Actual		9.00 %		8.72 %
Minimum		4.00 %		4.00 %

The FRB, as the primary regulator of FSC, has established minimum regulatory capital requirements as a function of its oversight of bank holding companies. The following tables depict FSC’s regulatory capital ratios at March 31, 2019 and December 31, 2018, in relation to the minimum capital ratios established by the regulations of the FRB:

Fidelity Southern Corporation	March 31, 2019		December 31, 2018	
($ in thousands)	Amount	Percent	Amount	Percent
Common Equity Tier 1 Capital:				
Actual	$402,938	9.80 %	$388,975	9.54 %
Minimum	185,023	4.50 %	183,479	4.50 %
Tier 1 Capital:				
Actual	$447,938	10.90%	$433,975	10.64%
Minimum	246,571	6.00 %	244,723	6.00 %
Total Risk-Based Capital:				
Actual	$553,777	13.47%	$539,789	13.24%
Minimum	328,895	8.00 %	326,156	8.00 %
Tier 1 Capital Leverage Ratio:				
Actual		9.60 %		9.18 %
Minimum		4.00 %		4.00 %

Our regulatory capital ratios are currently well in excess of the minimum standards and continue to be in the "well capitalized" regulatory classification.

Dividends

On April 18, 2019, we declared a cash dividend of $0.12 per share, payable on May 10, 2019, to common shareholders of record as of April 29, 2019.

Future dividends require a quarterly review of current and projected earnings for the remainder of 2019 in relation to capital requirements prior to the determination of the dividend, and be subject to regulatory restrictions under applicable law. The Board of Directors for both the Bank and the Company will review on a quarterly basis whether to declare and pay dividends for the remainder of the fiscal year 2019, with the declared and paid dividend consistent with current regulatory limitations, earnings, capital requirements, and forecasts of future earnings.

Market Risk

Market risk is defined as the sensitivity of income, fair value measurements and capital to changes in market rates or prices. Our primary market risk exposure is credit risk and, to a lesser extent, interest rate risk and liquidity risk. We have little or no risk related to trading accounts, commodities, or foreign exchange. Our real estate loan portfolio is subject to risks associated with the local economies of our various markets and, in particular, the regional economy of the South. Interest rate risk, which encompasses price risk, is the exposure of our financial condition and earnings ability to withstand adverse movements in interest rates. Price and interest rate risks arise from the financial instruments and positions we hold including loans, mortgage servicing rights, investment securities, deposits, borrowings, and derivative financial instruments. Accepting this risk can be an important source of profitability and shareholder value; however, excessive levels of interest rate risk can pose a significant threat to assets, earnings, and capital. Accordingly, effective risk management that maintains interest rate risk at prudent levels is essential to our success.

ALCO monitors and considers methods of managing the rate and sensitivity repricing characteristics of the balance sheet components consistent with maintaining acceptable levels of changes in portfolio values and net interest income with changes in interest rates. The primary purposes of ALCO are to manage our interest rate risk consistent with earnings and liquidity, to effectively invest our capital, and to preserve the value created by our core business operations. In addition, our exposure to interest rate risk is compared to established tolerances on at least a quarterly basis by our Board of Directors.

Evaluating our exposure to changes in interest rates includes assessing both the adequacy of the process we use to control interest rate risk and our quantitative levels of exposure. When assessing the interest rate risk management process, we seek to ensure that appropriate policies, procedures, management information systems, and internal controls are in place to maintain interest rate risk at prudent levels with consistency and continuity. Evaluating the quantitative level of interest rate risk exposure requires us to assess the existing and potential future effects of changes in interest rates on our consolidated financial condition, including capital adequacy, earnings, liquidity, and, where appropriate, asset quality.

Interest Rate Sensitivity

Economic value of equity (“EVE”) sensitivity analysis measures the estimated changes in the net present value of our cash flows from assets, liabilities and off-balance sheet items to changes in market interest rates. This analysis assesses the risk of balance sheet value decline in the event of a sudden and sustained 100, 200, 300, and 400 basis point increase or decrease in market interest rates. In addition, management reviews the impact of various yield curve scenarios on earnings and cash flows.

The most recent rate shock analysis indicated that the effects of an immediate and sustained change in rates would fall within policy parameters and approved tolerances for net interest income. If large downward shocks did occur from today's already low rates, increased modeled impairment may breach net income and equity at risk internal benchmarks.

Rate shock analysis provides only a limited, point in time view of interest rate sensitivity. The actual impact of interest rate changes upon earnings and net present value may differ from that implied by any static rate shock. In addition, net interest income and net present value under various future interest rate scenarios are affected by multiple other factors not embodied in a static rate shock, including competition, changes in the shape of the Treasury yield curve, divergent movement among various interest rate indices, and the speed with which interest rates change. Varying interest rate environments can create unexpected changes in prepayment levels of assets and liabilities that are not reflected in the interest rate sensitivity analysis.

Visa Class B Stock

As of March 31, 2019, we owned 46,436 shares of Class B common stock of Visa, Inc. We received these Class B shares in 2008 as part of Visa’s initial public offering. These shares are transferable only under limited circumstances until they can be converted into the publicly traded Class A shares. This conversion will not occur until the settlement of certain litigation which is indemnified by Visa members. Visa funded an escrow account from its initial public offering to settle these litigation claims. Should this escrow account not be sufficient to cover these litigation claims, Visa is entitled to fund additional amounts to the escrow account by reducing each member bank’s Class B conversion ratio to unrestricted Class A shares. Effective June 28, 2018, the conversion rate for each Class B common share decreased to 1.6298 shares of Class A common stock. Based on the existing transfer restriction and the uncertainty of the covered litigation, the Visa Class B shares (75,681 Class A equivalent shares) that we own are carried at a zero cost basis as of March 31, 2019.

Off-Balance Sheet Arrangements

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers, and to reduce our own exposure to fluctuations in interest rates. These financial instruments, which include commitments to extend credit and letters of credit, involve to varying degrees elements of credit and interest rate risk in excess of the amount recognized in the consolidated financial statements. The contract or notional amounts of these instruments reflect the extent of involvement we have in particular classes of financial instruments.

Our exposure to credit loss, in the event of nonperformance by customers for commitments to extend credit and letters of credit, is represented by the contractual or notional amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for recorded loans. Loan commitments and other off-balance sheet exposures are evaluated by the Credit Review department quarterly and reserves are provided for risk as deemed appropriate.

Commitments to extend credit are agreements to lend to customers as long as there is no violation of any condition established in the agreement. Substantially all of our commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. We minimize our exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures. Thus, we will deny funding a commitment if the borrower's financial condition deteriorates during the commitment period, such that the customer no longer meets the pre-established conditions of lending. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Standby and import letters of credit are commitments issued by us to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans or lines of credit to customers. We hold collateral supporting those commitments as deemed necessary.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See "Market Risk" and "Interest Rate Sensitivity" contained in Item 2 of Part I of this report for quantitative and qualitative discussion about our market risk.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the three months ended March 31, 2019, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are a party to various legal proceedings such as claims and lawsuits arising in the course of our normal business activities. Although the ultimate outcome of all claims and lawsuits outstanding as of March 31, 2019 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 business, results of operations or financial condition.

However, on March 8, 2019, an action captioned Paul Parshall v. Fidelity Southern Corporation et al., Case 1:19-cv-01098-MHC (the "Parshall Action"), was filed in the U.S. District Court for the Northern District of Georgia on behalf of a purported class of Fidelity shareholders against Fidelity, its current directors and Ameris. This complaint contends, among other things, that the registration statement on Form S-4 (as amended, the "Registration Statement") filed by Ameris on February 12, 2019 in connection with the Merger is false and misleading because it omits certain allegedly material information in violation of Sections 14(a) and 20(a) of the Exchange Act, and Rule 14a-9 promulgated under the Exchange Act. The complaint filed in connection with the Parshall Action seeks, among other things, injunctive relief enjoining the defendants from consummating the Merger, a supplement to the Registration Statement (or, in the event the Merger is consummated, rescinding the Merger or awarding rescissory damages). The complaint also seeks to recover costs, including attorneys' fees and experts' fees.

On April 24, 2019, an action captioned Morten Oftedal v. Fidelity Southern Corporation et al., Case 1:19-cv-03656 (the "Oftedal Action" and together with the Parshall Action, the "Actions"), was filed in the U.S. District Court for the Southern District of New York on behalf of a purported class of Fidelity shareholders against Fidelity and its current directors. This complaint contends, among other things, that the definitive joint proxy statement/prospectus contained in the Registration Statement (the "Definitive Proxy Statement") is false and misleading because it omits certain allegedly material information in violation of Sections 14(a) and 20(a) of the Exchange Act, and Rule 14a-9 promulgated under the Exchange Act. The complaint filed in connection with the Oftedal Action seeks, among other things, injunctive relief enjoining the defendants from consummating the Merger, a supplement to the Registration Statement (or, in the event the Merger is consummated, rescinding the Merger or awarding rescissory damages). The complaint also seeks to recover costs, including attorneys' fees and experts' fees.

Management believes that the Actions are without merit, and denies that any further disclosure beyond that already contained in the Registration Statement and the Definitive Proxy Statement included therein is required under applicable law to supplement the Registration Statement and the Definitive Proxy Statement included therein which has been disseminated to Fidelity and Ameris stockholders. Nonetheless, to avoid the risk that the Actions may delay or otherwise adversely affect the consummation of the Merger and to minimize the expense of defending such Actions, FSC made certain supplemental disclosures to the Registration Statement in a Current Report on Form 8-K filed with the SEC on April 26, 2019, as amended on April 30, 2019 (the "Form 8-K"). Nothing in this Quarterly Report on Form 10-Q or the Form 8-K shall be deemed an admission of the legal necessity or materiality under applicable laws of any of the supplemental disclosures set forth herein or therein. At this time, FSC is unable to state whether the likelihood of an unfavorable outcome of either action is probable or remote. FSC is also unable to provide an estimate of the range or amount of potential loss if the outcome for either action should be unfavorable.

Item 1A. Risk Factors

While the Company attempts to identify, manage, and mitigate risks and uncertainties associated with its business to the extent practical under the circumstances, some level of risk and uncertainty will always be present. Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018, describes some of the risks and uncertainties associated with our business. These risks and uncertainties have the potential to materially affect our cash flows, results of operations, and financial condition. We do not believe that there have been any material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

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

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
January 2019	7,559	$ 28.95	—	$ 10,000,000
February 2019	—	—	—	10,000,000
March 2019	—	—	—	10,000,000
Total	7,559	$ 28.95	—	$ 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.

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

Not Applicable

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Item 6. Exhibits
The following exhibits are filed or furnished as part of this Report:

		Incorporated by Reference			
Exhibit Number	Description of Document	Form	Filing Date	Exhibit Number	SEC File No.
3(a)	Amended and Restated Articles of Incorporation of Fidelity Southern Corporation, as amended effective December 16, 2008	10-K	03/17/2009	3(a)	001-34981
3(b)	Articles of Amendment to the Articles of Incorporation of Fidelity Southern Corporation	8-K	11/23/2010	3.1	001-34981
3(c)	By-Laws of Fidelity Southern Corporation, as amended	10-Q	11/08/2007	3(b)	001-34981
3(d)	Amendment to By-Laws of Fidelity Southern Corporation	8-K	11/23/2010	3.2	001-34981
4(a)	See Exhibits 3(a) through 3(d) for provisions of the Amended and Restated Articles of Incorporation, as amended, and By-laws of Fidelity Southern Corporation, which define the rights of the shareholders.	See 3(a) through 3(d) above			001-34981
4(b)	Form of Global Note representing the Fixed/Floating Rate Subordinated Notes due 2030 of Fidelity Bank	8-K	06/03/2015	4.1	001-34981
31.1+	Certification of Principal Executive Officer pursuant to Securities Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
31.2+	Certification of Principal Financial Officer pursuant to Securities Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
32.1#	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
32.2#	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
101	Financial Statements submitted in XBRL format				

+ Filed herewith
# Furnished herewith

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SIGNATURES

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

FIDELITY SOUTHERN CORPORATION
(Registrant)

Date:	May 3, 2019	BY:	/s/ JAMES B. MILLER, JR. James B. Miller, Jr. Chief Executive Officer
Date:	May 3, 2019	BY:	/s/ CHARLES D. CHRISTY Charles D. Christy Chief Financial Officer