FIDELITY SOUTHERN CORP
Form 10-K
March 14, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
Commission File Number 001-34981
Fidelity Southern Corporation
(Exact name of registrant as specified in its charter)

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

Registrant’s telephone number, including area code: (404) 639-6500
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, without stated par value
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No ý
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of “large accelerated filer” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No ý
The aggregate market value of the common equity held by non-affiliates of the registrant (assuming for these purposes, but without conceding, that all executive officers and directors are “affiliates” of the registrant) as of June 30, 2016 (based on the price the Common Stock was last sold on June 30, 2016 on the NASDAQ Global Select Market System), was $335,430,343.

At March 6, 2017, there were 26,354,790 shares of Common Stock outstanding, without stated par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive Proxy Statement for the 2017 Annual Meeting of Shareholders are incorporated by reference into Part III.

FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
Report on Form 10-K
December 31, 2016

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[1] All or portions of this item are incorporated by reference to the Registrant's Definitive Proxy Statement for the 2017 Annual Meeting of Shareholders.

PART I

Item 1. Business

General

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.

FSC is a legal entity separate and distinct from the Bank. We coordinate the financial resources of the consolidated enterprise and thereby maintain financial, operational and administrative systems that allow centralized evaluation of subsidiary operations and coordination of selected policies and activities. FSC's operating revenues and net income are derived primarily from cash dividends received from the Bank. At December 31, 2016, we had total assets of $4.4 billion, total net loans of $3.8 billion, total deposits of $3.6 billion, and shareholders’ equity of $362.6 million. For more information about our business and recent material transactions, see Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

This report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that reflect our current expectations relating to present or future trends or factors generally affecting the banking industry and specifically affecting our operations, markets and services. 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 based upon the current beliefs and expectations of management and on information currently available to management based upon assumptions that management believes are reasonable and may relate to, among other things, the difficult economic conditions and the economy’s impact on operating results, credit quality, liquidity, capital, the adequacy of the allowance for loan losses, changes in interest rates, and litigation results. These forward-looking statements are subject to risks and uncertainties. Actual results could differ materially from those projected for many reasons, including without limitation, changing events and trends that have influenced our assumptions.

These trends and events include: (1) 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; (2) events adversely affecting our investment portfolio, resulting in potential impairments or losses that may adversely affect earnings and capital; (3) 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; (4) expectations of and actual timing and amount of interest rate movements, and the slope and shape of the yield curve; (5) 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; (6) maintaining adequate liquidity, the failure or which would adversely impact our growth and ability to meet our current or future funding obligations; (7) our ability to maintain sufficient capital and to raise additional capital when needed; (8) 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; (9) 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; (10) events that adversely affect our reputation, and the resulting potential adverse impact on our operations in the event of negative public opinion; and (11) 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 FDIC insurance with respect to our common stock, regulatory limitations on stock ownership, and provisions in our bylaws that may make it more difficult for another party to obtain control of us.

This list is intended to identify some of the principal factors that could cause actual results to differ materially from those described in the forward-looking statements included herein and are not intended to represent a complete list of all risks and uncertainties in our business. We assume no obligation to update or revise, whether as a result of new information, future events, or otherwise, any forward-looking statements that are made in our 2016 Annual Report or in any other statement, release, report, or filing from time to time. Investors are encouraged to read the risks discussed under “Item 1A.—Risk Factors.”

Market Area, Products and Services

We provide an array of financial products and services for business and retail customers primarily in the metropolitan Atlanta and Jacksonville, Orlando and Sarasota-Bradenton, Florida markets, and online at www.LionBank.com. Our customers are primarily individuals and small to medium-sized businesses. Mortgage loans, indirect automobile loans, and Small Business Administration ("SBA") loans are provided throughout the South and parts of the Midwest.

We are primarily engaged in attracting deposits from individuals and businesses and using these deposits and borrowed funds to originate commercial, residential mortgage, construction and installment loans. We actively sell residential mortgage loans, SBA loans and indirect automobile loans, retaining servicing on a significant amount of the sales. Internet banking, including online bill pay and mobile deposit, and Internet cash management services are available to individuals and businesses. We also offer cash management services, remote deposit services and international trade services for businesses. The Wealth Management services focus on providing independent fiduciary and asset allocation investment management services to the customers of the Bank. Through our marketing partners, we offer merchant services for businesses and credit cards for both individuals and businesses.

We have grown our assets, deposits, and business internally by building on our lending products, expanding our deposit products and delivery capabilities, opening new branches, and hiring experienced bankers with existing customer relationships in our market areas. We do not generally purchase loan participations from any other financial institution.

We have also completed both FDIC-assisted and non FDIC-assisted transactions and continue to review other acquisition opportunities as they arise. We conduct due diligence activities in connection with these opportunities and as a result, discussions and, in some cases, negotiations, take place. Any resulting business combinations or series of business combinations could involve cash, debt or equity securities and may be material in terms of assets acquired or liabilities assumed.

Deposits

We offer a full range of deposit accounts and services to both individuals and businesses. We also utilize deposits from brokers as a funding source. As of December 31, 2016 and 2015, deposits consisted of the following:

	December 31, 2016		December 31, 2015	
(in thousands)	Amount	% of Total	Amount	% of Total
Noninterest-bearing demand deposits	$964,900	26.6 %	$786,779	24.8 %
Interest-bearing deposits:				
Demand and money market	1,214,382	33.5	1,040,281	32.7
Savings deposits	399,754	11.0	362,793	11.4
Time deposits	923,565	25.4	855,218	26.9
Brokered time deposits	127,993	3.5	134,440	4.2
Total deposits	$3,630,594	100.0%	$3,179,511	100.0%

During 2016, we continued a marketing program to increase the number and volume of our personal and business demand deposit accounts with the goals of building relationships with existing customers, adding new customers, increasing transaction accounts, and helping manage our cost of funds. We believe the marketing program was a contributing factor to the growth in our core deposits in 2016 in addition to the $181.8 million in deposits acquired from American Enterprise Bankshares, Inc., ("AEB"), during 2016.

Lending

Our primary lending activities include originating commercial loans to small and medium sized businesses, SBA loans, consumer installment loans (primarily indirect automobile loans), construction loans, and residential real estate loans. Commercial lending consists of the extension of credit for business purposes, primarily in the Atlanta metropolitan and northern Florida areas. We originate SBA loans primarily through our SBA loan production offices located in Georgia, Florida, North Carolina, South Carolina, and Texas. Indirect loans are originated in Georgia, Florida, North Carolina, South Carolina, Alabama, Arkansas, Mississippi, Virginia, Texas, Tennessee, Oklahoma, and Louisiana. We offer direct installment loans to consumers on both a secured and unsecured basis. Residential mortgage loans are offered in Georgia, Florida, Alabama, Tennessee, North Carolina, South Carolina, Virginia, Washington, D.C., and Maryland. Residential construction loans to home builders and developers are originated

primarily in the Atlanta, Georgia, Savannah, Georgia, Birmingham, Alabama, Jacksonville, Florida, and Orlando, Florida metropolitan areas.

The following table summarizes the carrying value of our total net loans outstanding by category as of December 31, 2016:

(in thousands)	Loans	Loans Held-for-Sale	Total Loans
Commercial (including SBA)	$934,516	$ 12,616	$947,132
Construction	238,910	—	238,910
Consumer	1,592,868	200,000	1,792,868
Mortgage (including HELOC)	535,970	252,712	788,682
Total loans	$3,302,264	$ 465,328	$3,767,592

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

Commercial and Industrial Lending

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

Commercial Real Estate Lending

We engage in commercial real estate lending through direct originations. Our primary focus is on originating owner-occupied loans to finance real estate out of which an individual or company will operate their business. Non-owner occupied real estate loans for investment purposes are made on a selective basis and only where the borrowers or guarantors add substantial support to the credit. Loans where the sole source of repayment is derived from the project, or where the absence of the project’s success would significantly impact the ability of the borrower to service the debt, are avoided. We make commercial real estate loans to individuals and to small and medium sized businesses to provide loan diversification, to generate assets that are sensitive to fluctuations in interest rates, and to generate deposit and other relationships. Commercial real estate loans are generally prime-based floating-rate loans or shorter-term (one to five year) fixed-rate loans. At December 31, 2016, approximately 54% of our commercial real estate loans were owner occupied real estate loans. The remaining non-owner occupied loans were generally made to established commercial customers for purposes other than retail development.

We have a portfolio of SBA loans and SBA loans held-for-sale. These loans are primarily commercial real estate related, with a portion of each loan guaranteed by the SBA or with other credit enhancements provided by the government.

Indirect Automobile Lending

We purchase, on a nonrecourse basis, consumer installment contracts secured by new and used vehicles purchased by consumers from franchised motor vehicle dealers and selected independent dealers located throughout our lending footprint. A portion of our originated indirect automobile loans is sold with servicing retained. During 2016, we produced approximately $1.4 billion of indirect automobile loans, while profitably selling $510.5 million to third parties with servicing retained. At December 31, 2016, we were servicing $1.1 billion in indirect automobile loans we had sold, primarily to other financial institutions.

Consumer Lending

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

Real Estate Construction Lending

We originate real estate construction loans that consist primarily of one-to-four family residential construction loans made to builders. Loan disbursements are closely monitored by management to ensure that funds are being used strictly for the purposes agreed upon in the loan covenants. We employ both internal staff and external inspectors to ensure that requests for loan disbursements are substantiated by regular inspections and reviews. Construction and

development loans are similar to all residential loans in that borrowers are underwritten according to their adequacy of repayment sources at the time of approval. Unlike conventional residential lending, however, signs of deterioration in a construction loan or development loan customer's ability to repay the loan are measured throughout the life of the loan and not only at origination or when the loan becomes past due. In most instances, loan amounts are limited to 80% of the appraised value upon completion of the construction project. We originate real estate construction loans primarily throughout the metropolitan areas of Atlanta, Georgia, Savannah, Georgia, Birmingham, Alabama, Jacksonville, Florida, and Orlando, Florida.

Real Estate Mortgage Lending

Our residential mortgage lending focuses on one-to-four family properties. We offer Federal Housing Authority ("FHA"),

Veterans Administration (“VA”), and conventional and non-conforming residential mortgage loans. We originate our residential mortgage banking loans primarily in the Southeast and Mid-Atlantic regions through 27 retail loan production offices. For the year ended December 31, 2016, 69.0% of our residential mortgage loan production of $3.0 billion was for home purchases and 31.0% was for refinances. We are an approved originator and servicer for the Federal Home Loan Mortgage Corporation (“FHLMC”) and the Federal National Mortgage Association (“FNMA”), and an approved originator for loans insured by the Department of Housing and Urban Development (“HUD”) and the Government National Mortgage Association (“GNMA”).

We primarily sell originated residential mortgage loans to investors, retaining servicing on a significant amount of the loans sold. The balance of mortgage loans held-for-sale fluctuates due to economic conditions, interest rates, the level of real estate activity, the amount of mortgage loans we retain, and seasonal factors. During 2016, we sold approximately $2.8 billion in originated residential mortgage loans to third party investors consisting of $2.0 billion in conventional loans, $644.5 million in FHA/VA/USDA loans and $194.2 million in jumbo loans. At December 31, 2016, we were servicing $7.8 billion in residential mortgage loans we had sold to FNMA, FHLMC, and GNMA. As a seller, we make certain standard representations and warranties with respect to the loans being transferred. To date, our repurchases of mortgage loans previously sold have been immaterial.

Wealth Management

We began offering Wealth Management services in July 2014 including trust services and investment services. The Wealth Management services focus on providing independent fiduciary and asset allocation investment management services to the customers of the Bank. We have grown the level of assets under management and plan to offer additional products and services in the future.

Significant Operating Policies

Lending Policy

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

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

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

- secured loans be made to persons and companies who maintain depository relationships with us and who are well-established and have adequate net worth, collateral, and cash flow to support the loan;
- unsecured loans be made to persons who maintain depository relationships with us and have significant financial strength;
- real estate loans be secured by real property located primarily in our market area or primarily in the Southeast for SBA loans;
- working capital loans be repaid out of conversion of assets or earnings of the commercial borrower and that such loans generally be secured by the assets of the commercial borrower; and
- loan renewal requests be reviewed in the same manner as an application for a new loan.

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

Loan Review and Nonperforming Assets

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

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

Management also estimates the fair value of collateral dependent real estate loans and Other Real Estate ("ORE") based on the latest appraised value, trends of similar property values within our market areas and our own observations and experience with similar properties. At least quarterly, valuations are reviewed to take into account the aging of the appraisals and the recent economic trends for the specific types of collateral.

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

Asset Liability Management

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

Investment Portfolio Policy

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

Supervision and Regulation

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

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

General

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

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

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

banking are:

- making or servicing loans and certain types of leases;
- performing certain data processing services;
- acting as fiduciary or investment or financial advisor;
- providing brokerage services;
- underwriting bank eligible securities;
- underwriting debt and equity securities on a limited basis through separately capitalized subsidiaries; and
- making investments in corporations or projects designed primarily to promote community welfare.

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

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

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

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

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

TARP Capital Purchase Program

On October 14, 2008, the U.S. Department of the Treasury (“Treasury”) announced the Troubled Asset Relief Program (“TARP”) Capital Purchase Program (the “Program”). The Program was intended to encourage U.S. financial institutions to build capital and thereby increase the flow of financing to businesses and consumers. On December 19, 2008, as part of the Program, we entered into a Letter Agreement (“Letter Agreement”) and a Securities Purchase Agreement – Standard Terms with the Treasury, pursuant to which we agreed to issue and sell, and the Treasury agreed to purchase: (1) 48,200 shares (the “Preferred Shares”) of our Fixed Rate Cumulative Perpetual Preferred Stock, Series A, having a liquidation preference of $1,000 per share; and (2) a ten-year warrant (the “Warrant”) to purchase up to 2,693,747 shares of our common stock at an exercise price of approximately $2.69 per share, adjusted for dividends, for an aggregate purchase price of $48.2 million in cash. We have redeemed all of these Preferred Shares.

On May 28, 2015, the U.S. Treasury sold its Warrant in a private transaction with two unaffiliated third-party investors.

During 2015, we received Warrant exercise notices for cash and cashless exercises, resulting in the issuance of 1,487,487 shares of common stock. 1,346,873 equivalent shares exercised during 2015 were cashless, resulting in the issuance of 1,140,614 shares of common stock. The cash exercise aggregated $931,354, resulting in the issuance of 346,873 shares of common stock. At December 31, 2015, one investor had a warrant to purchase 1,000,000 shares of our common stock.

During 2016, we received Warrant exercise notices, resulting in the issuance of 1,000,000 shares of common stock for $2.7 million. All exercises in 2016 were cash exercises. At December 31, 2016, there were no Warrant outstanding.

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) was signed into law on July 21, 2010. The Dodd-Frank Act affects financial institutions in numerous ways, including the creation of a new Financial Stability Oversight Council responsible for monitoring and managing systemic risk, granting additional authority to the Federal Reserve to regulate certain types of non-bank financial companies, granting new authority to the FDIC as liquidator and receiver, abolishing the Office of Thrift Supervision, changing the manner in which insurance deposit assessments are made, requiring the regulators to modify capital standards, establishing the Consumer Financial Protection Bureau (“CFPB”) to regulate compliance with consumer laws and regulations, capping interchange fees which banks charge merchants for debit card transactions, and imposing additional requirements on mortgage lenders. The CFPB was granted the authority to take enforcement actions against banks and

other financial services companies that fail to satisfy the standards imposed by it. There are many provisions in the Dodd-Frank Act mandating regulators to adopt new regulations and conduct studies upon which future regulation may be based.

A number of regulations issued by the CFPB affecting the origination, administration, and servicing of mortgage loans became effective in January 2014 and continue to evolve through new guidance and amendments. These new regulations contain various compliance requirements and standards which have increased our compliance costs and create new rights for consumers in the event of certain violations.

Some of the key Dodd-Frank Act provisions that affect public companies are as follows:

- Public companies are required to provide their shareholders with a non-binding vote: (i) at least once every three years on the compensation paid to executive officers; and (ii) at least once every six years on whether they should have a "say on pay" vote every one, two or three years.
- A separate, non-binding shareholder vote is required regarding golden parachutes for named executive officers when a shareholder vote takes place on mergers, acquisitions, dispositions or other transactions that would trigger the parachute payments.
- Securities exchanges are required to prohibit brokers from using their own discretion to vote shares not beneficially owned by them for certain "significant" matters, which include votes on the election of directors, executive compensation matters, and any other matters determined to be significant.
- Stock exchanges are prohibited from listing the securities of any issuer that does not have a policy providing for: (i) disclosure of its policy on incentive compensation payable on the basis of financial information reportable under the securities laws; and (ii) the recovery from current or former executive officers, following an accounting restatement triggered by material noncompliance with securities law reporting requirements, of any incentive compensation paid erroneously during the three-year period preceding the date on which the restatement was required that exceeds the amount that would have been paid on the basis of the restated financial information.
- Disclosure in annual proxy materials is required concerning the relationship between the executive compensation paid and the financial performance of the issuer.
- Item 402 of Regulation S-K was amended on October 19, 2015 to require companies, for the first fiscal year beginning on or after January 1, 2017, to disclose the ratio of the Chief Executive Officer's annual total compensation to the median annual total compensation of all other employees.
- The SEC is authorized to adopt rules requiring public companies to make their proxy materials available to shareholders for nomination of their own candidates for election to the board of directors.
- In October 2015, the CFPB adopted a final rule amending its Home Mortgage Disclosure Act regulations. The final rule, which will become generally effective on January 1, 2018, among other things: (i) expands the regulation's coverage to apply data collection and reporting requirements to all consumer loans and lines of credit secured by a dwelling; and (ii) adds numerous new data collection requirements.
- In July 2016, the CFPB issued a proposed rule to amend various disclosure requirements under the Truth in Lending Act (Regulation Z). The proposed changes affect tolerances for the total number of payments, housing assistance lending, cooperatives, and privacy and sharing of information.
- In August 2016, the CFPB issued a final rule to clarify the interaction between the Fair Debt Collection Practices Act "FDCPA" and the mortgage servicing rules in the Real Estate Settlement Procedures Act (Regulations X) and Regulation Z. Specifically, this final rule serves as an advisory opinion covering three situations:

i) servicers do not violate the FDCPA when communicating about the mortgage with confirmed successors in interest in compliance with the mortgage servicing rules found in Regulations X and Z;

ii) servicers do not violate the FDCPA when providing the written early intervention notice required by Regulation X to a borrower who has invoked the cease communication right under the FDCPA; and

iii) servicers do not violate the FDCPA when responding to borrower-initiated communications regarding loss mitigation after the borrower has invoked the cease communication right under the FDCPA.

- In August 2016, the CFPB amended the mortgage servicing rules issued in 2013, which will be implemented in 2017. Specifically, this final rule amends provisions regarding force-placed insurance notices, policies and procedures, early intervention, and loss mitigation requirements. Additionally, this final rule amends the prompt crediting and periodic statement requirements under TILA servicing requirements.

- In August 2016, the CFPB issued proposed rules that would amend TILA and Consumer Leasing Act (Regulation M). The proposed rules would require the dollar threshold for exempt consumer credit transactions be adjusted annually by the annual percentage increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers.

Banking regulatory agencies have increasingly used a general consumer protection statute to address unethical or otherwise bad business practices that may not necessarily fall directly under the purview of a specific banking or consumer finance law. The

CFPB continues to wield the power granted to them under the “unfair or deceptive acts or practices” (“UDAP”) law, included in Dodd-Frank, which provides little clarity as to what is unfair, deceptive, or abusive.

Many of the provisions of the Dodd-Frank Act have delayed effective dates, and the legislation has required various federal agencies to promulgate numerous and extensive implementing regulations, some of which have not yet been issued in final form. The overall financial impact on us and our subsidiaries or the financial services industry due to the impact of these new requirements generally cannot be anticipated at this time.

FDIC Insurance Assessments

Deposits at our bank are insured up to applicable limits by the Deposit Insurance Fund (“DIF”) of the FDIC. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the GBDF. Our management is not aware of any practice, condition or violation that might lead to termination of the Bank's deposit insurance. The FDIC maintains the DIF by assessing depository institutions an insurance premium. The amount each institution is assessed is based upon statutory factors that include the balance of insured deposits as well as the degree of risk the institution poses to the DIF. The Dodd-Frank Act permanently raised the FDIC insurance coverage limit per depositor to $250,000.

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

Payment of Dividends

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

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

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

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

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

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

In 2016 and 2015, FSC paid $12.2 million and $8.6 million in cash dividends on its common shares, respectively. In 2016 and 2015, the Bank paid cash dividends of $4.8 million and $2.0 million to FSC, respectively. FSC also received dividends of $2.0 million and $1.5 million in 2016 and 2015, respectively, from its wholly-owned insurance subsidiary, LionMark. The Boards of Directors for the Bank, LionMark and FSC review whether to declare and pay dividends on a quarterly basis, in light of current regulatory limitations, earnings, capital requirements, and forecasts of future earnings.

Capital Adequacy

Basel III

In 2004, the Basel Committee on Banking Supervision (“BCBS”) published a new capital accord (“Basel II”) to replace Basel I. Basel II provided two approaches for setting capital standards for credit risk—an internal ratings-based approach tailored to individual institutions’ circumstances and a standardized approach that bases risk weightings on external credit assessments to a much greater extent than permitted in previous risk-based capital guidelines. Basel II also set capital requirements for operational risk and refined the existing capital requirements for market risk exposures.

In December 2010, the BCBS released its final framework for strengthening international capital and liquidity regulation, now officially identified by the BCBS as “Basel III.” Basel III, when fully phased-in, will require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity.

The Basel III final capital framework, among other things: (i) introduces as a new capital measure “Common Equity Tier 1” (“CET1”); (ii) specifies that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting specified requirements; (iii) defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expands the scope of the adjustments as compared to existing regulations.

On July 2, 2013, the Federal Reserve Bank of Atlanta (“FRB”) approved the final rules implementing the BCBS's Basel III capital guidelines (“final rules”) for U.S. banking organizations. Under the final rules, minimum requirements will increase for both the quantity and quality of capital we maintain. The rules include a new CET1 capital to risk-weighted assets ratio of 4.50% and a CET1 capital conservation buffer of 2.50% of risk-weighted assets. The final 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 final rules also implement strict eligibility criteria for regulatory capital instruments.

On July 9, 2013, the FDIC approved, as an interim final rule, the Basel III regulatory capital requirements for U.S. banks, following the actions of the FRB. The FDIC's rule is identical in substance to the final rules issued by the FRB. The Basel III final rules became effective for us on January 1, 2015, with full compliance with all of the final rule's requirements phased in over a three year period ending 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 revise 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 well-capitalized, an institution generally must have risk-based Total capital and Tier 1 capital ratios of at least 10.00% and 6.00%, respectively, and must not be subject to any order or written directive to meet and maintain a specific capital level for any capital measure. To be considered “adequately capitalized,” we are subject to minimum CET1, Tier 1 capital, and Total capital ratios of 4.50%, 6.00%, and 8.00%, respectively. While the prompt corrective action rules apply to banks and nonbank 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.

To continue to conduct our business as currently conducted, we must maintain capital levels well above the minimum regulatory requirements. At December 31, 2016 and 2015, the Bank's capital ratios exceeded the well capitalized and regulatory minimum ratios discussed above. The following table presents the Bank's capital ratios:

Fidelity Bank

	December 31, 2016	December 31, 2015
Leverage capital ratio	8.140%	8.350%
Risk-Based capital:		
Common Equity Tier 1	8.580%	8.530%
Tier 1	8.970%	8.990%
Total	11.910%	12.230%

The following table presents the Company's capital ratios:

Fidelity Southern Corporation		
	December 31, 2016	December 31, 2015
Leverage capital ratio	8.580%	8.800%
Risk-Based capital:		
Common Equity Tier 1	8.350%	8.200%
Tier 1	9.460%	9.500%
Total	12.110%	12.400%

Commercial Real Estate

In December 2006, the federal banking agencies, including the FDIC, issued final guidance on concentrations in commercial real estate lending (the “Guidance”), noting that increases in banks’ commercial real estate concentrations could create safety and soundness concerns in the event of a significant economic downturn. The Guidance mandated certain minimal risk management practices and categorized banks with defined levels of such concentrations as banks that may warrant elevated examiner scrutiny. The regulatory guideline defined a bank as having a concentration in commercial real estate if its portfolio of land, construction (both commercial and residential) and Acquisition and Development loans (“A&D loans”) exceeds 100% of the Bank’s total risk based capital. On December 18, 2015, an Interagency CRE Statement was issued on Prudent Risk Management for Commercial Real Estate Lending reminding financial institutions to re-examine existing regulations and guidance related to CRE lending on the management of concentration risk in CRE lending. Our ratio of total Land, Construction A&D loans to total risk-based capital was 50% at December 31, 2015 and 56% at December 31, 2016. The regulatory guideline for all commercial real estate loans, except owner-occupied property, as a percentage of capital is a maximum of 300%. Our ratio of all commercial real estate loans, except owner-occupied property, as a percentage of capital, decreased from 130% at December 31, 2015, to 127% at December 31, 2016.

The Guidance does not formally prohibit a bank from exceeding either of these two thresholds. Rather, it defines the circumstances under which a bank will be declared to have a commercial real estate concentration. Further, the Guidance requires any banks with commercial real estate concentrations to have heightened and sophisticated risk management systems in place to adequately manage the increased levels of risk. Management believes that our credit processes, procedures and systems continue to meet the risk management standards required by the Guidance and we continue to maintain our commercial real estate loan portfolio at a level below the concentration thresholds. Regulatory authorities continue to emphasize the risks associated with CRE lending and focus on our implementation of the Guidance which could effectively limit future increases in the commercial real estate concentrations in our loan portfolios or require additional credit administration and management costs.

Loans

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

Transactions with Affiliates

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

Financial Privacy

In accordance with the GLB Act, federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to non-affiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a non-affiliated third party. The privacy provisions of the GLB

Act affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Anti-Money Laundering Initiatives and the USA Patriot Act

A major focus of governmental policy on financial institutions has been aimed at combating terrorist financing. This has generally been accomplished by amending existing anti-money laundering laws and regulations. We are subject to the USA Patriot Act of 2001 (the “USA Patriot Act”) which imposes significant compliance and due diligence obligations, creating new crimes and penalties. The Treasury has issued a number of implementing regulations that apply to various requirements of the USA Patriot

Act. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

Future Legislation

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

Competition

The banking business is highly competitive. We compete for traditional bank business with numerous other financial institutions in our primary market areas for residential construction and development loans, commercial loans, SBA loans, residential mortgages, and indirect automobile loans. We also compete for loans with insurance companies, regulated small loan companies, credit unions, and certain governmental agencies. We compete with independent brokerage and investment companies, as well as state and national banks and their affiliates and other financial companies for trust services. Many of the companies with whom we compete have greater financial resources.

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

Employees and Executive Officers

As of December 31, 2016, we had 1,284 full-time equivalent employees. We are not a party to any collective bargaining agreement and we believe that our employee relations are good. We offer our employees a variety of competitive benefit programs including a retirement plan and group health, life and other insurance programs. We also support training and educational programs designed to ensure that employees have the types and levels of skills needed to perform at their best in their current positions and to help them prepare for positions of increased responsibility.

Executive Officers of the Registrant

Our executive officers, their ages, their positions with FSC and the Bank at March 6, 2017, and the period during which they have served as executive officers, are as follows:

Name	Age	Since	Position
James B. Miller, Jr.	76	1979	Principal Executive Officer, Chairman of the Board and Chief Executive Officer of Fidelity since 1979; President of Fidelity from 1979 to April 2006; Chairman of Fidelity Bank since 1998; President of Fidelity Bank from 1977 to 1997, and from December 2003 through September 2004; and Chief Executive Officer of Fidelity Bank from 1977 to 1997 and from December 2003 until present. A director of Fidelity Bank since 1976. Chairman of LionMark Insurance Company, a wholly-owned subsidiary, since November 2004.
H. Palmer Proctor, Jr.	49	1996	President of Fidelity since April 2006; Senior Vice President of Fidelity from January 2006 through April 2006; Vice President of Fidelity from April 1996 through January 2006; Director and President of Fidelity Bank since October 2004 and Senior Vice President of Fidelity Bank from October 2000 through September 2004. Director and Secretary/Treasurer of LionMark Insurance Company since November 2004.
Stephen H. Brolly	54	2008	

			Principal Financial and Accounting Officer of Fidelity and Chief Financial Officer of Fidelity and Fidelity Bank since August 2008; Treasurer of Fidelity and Fidelity Bank from May 2006 through August 2008. Chief Financial Officer of LionMark Insurance Company since August 2008.
David Buchanan	59	1995	Vice President of Fidelity since 1999; Executive Vice President of Fidelity Bank since October 2004; and Senior Vice President of Fidelity Bank from 1995 through September 2004. President of LionMark Insurance Company since November 2004.

Available Information

We file annual, quarterly, and current reports, proxy statements, and other documents with the SEC under the Securities Exchange Act. The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling

the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet web site that contains reports, proxy and information statements, and other information regarding issuers, including Fidelity, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at http://www.sec.gov.

We also make available free of charge on our web sites http://www.FidelitySouthern.com or http://www.Lionbank.com, our Annual Report to Shareholders, our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our current reports on Form 8-K and if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Information contained on our website is not part of this Annual Report on Form 10-K.

Item 1A. Risk Factors

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

Loan Portfolio Risks

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

Currently, our businesses are concentrated in the Atlanta metropolitan area and eastern, central, and northern Florida. As of December 31, 2016, commercial real estate, real estate mortgage, and construction loans, accounted for approximately 52.4% of our total loan portfolio. Unlike larger national or regional banks that are more geographically diversified, our success depends primarily on the general economic conditions of the specific local markets in which we operate. Conditions in these markets strongly affect our results of operations and financial condition. Real estate values and the demand for commercial and residential mortgages and construction loans are affected by, among other things, general and local economic conditions, changes in governmental regulation, monetary and fiscal policies, interest rates and weather. Declines in our markets could adversely affect the demand for new real estate loans, and the value and liquidity of the collateral securing our existing loans. Adverse conditions in our markets could also reduce our growth rate, impair our ability to collect loans, and generally unfavorably impact our financial condition and results of operations.

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

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

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

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

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

The allowance for loan losses may be insufficient.

We maintain an allowance for loan losses, which is established and maintained through provisions charged to operations. Such provisions are based on management's evaluation of the loan portfolio, including loan portfolio concentrations, current

economic conditions, past loan loss experience, adequacy of underlying collateral, and such other factors which, in management's judgment, deserve consideration in estimating loan losses. Loans are charged off when, in the opinion of management, such loans are deemed to be uncollectable. Subsequent recoveries are added to the allowance.

The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires management to make significant estimates of current credit risks and trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the estimated charge-offs utilized in determining the sufficiency of the allowance for loan losses, we will need additional provisions to increase the allowance. Any increases in the allowance for loan losses will result in a decrease in net income and, possibly, regulatory capital, and may have a material adverse effect on our financial condition and results of operations.

Financial services companies depend on the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions, we rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports, and other financial information. We may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

We earn a portion of our noninterest revenue through sales of residential mortgages in the secondary market. We are exposed to counterparty credit, market, repurchase and other risks associated with these activities.

Our noninterest revenue attributable to mortgage banking activities is a significant driver of our noninterest income. We are exposed to counterparty credit risk in the normal course of these sales activities as well as market risk when engaging in this activity that is greatly impacted by the amount of liquidity in the secondary markets and changes in interest rates. Additionally, we retain repurchase risk associated with sales of these loans that is related to our residential mortgage loan underwriting and closing practices. Increases in claims under these repurchase or make-whole demands could have a material impact on our ability to continue participating in these types of activities as well as materially impact our financial condition, results of operations, and cash flows.

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

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

Investment Portfolio Risk

Future impairment losses could be required on various investment securities, which may materially reduce the Company’s and the Bank’s regulatory capital levels.

We establish fair value estimates of securities available-for-sale in accordance with generally accepted accounting principles. The Company’s estimates can change from reporting period to reporting period, and we cannot provide any assurance that the fair value estimates of our investment securities would be the realizable value in the event of a sale of the securities.

A number of factors could cause the Company to conclude in one or more future reporting periods that any difference between the fair value and the amortized cost of one or more of the securities that we own constitutes an other-than-temporary impairment. These factors include, but are not limited to:

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

In addition, depending on various factors, including the fair values of other securities that we hold, we may be required to take additional other-than-temporary impairment charges on other investment securities. Any other-than-temporary impairment

charges would negatively affect our regulatory capital levels, and may result in a change to our capitalization category, which could limit certain corporate practices and could compel us to take specific actions.

Economic Risks

The earnings of financial services companies are significantly affected by general business and economic conditions.

Our operations and profitability are impacted by general business and economic conditions in the U.S. and abroad. These conditions include recession, short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, fluctuations in both debt and equity capital markets, broad trends in industry and finance, and the strength of the U.S. economy and the local economies in which we operate, all of which are beyond our control. A deterioration in economic conditions could result in an increase in loan delinquencies and nonperforming assets, decreases in loan collateral values and a decrease in demand for our products and services, among other things, any of which could have a material adverse impact on our financial condition and results of operations.

Changes in national and local economic conditions could lead to higher losses in connection with assets acquired in our past FDIC-assisted transactions and any associated loss sharing agreements with the FDIC may not cover all of those losses.

In connection with our past FDIC-assisted transactions, we acquired portfolios of loans and ORE. Although we have marked down the loan portfolios and ORE we acquired, the non-impaired loans we acquired may become impaired or may further deteriorate in value, resulting in additional charge-offs to our loan portfolio and ORE losses. The fluctuations in national, regional and local economic conditions, including those related to local residential, commercial real estate and construction markets, may increase the level of charge-offs that we make to our loan portfolio and ORE losses and consequently reduce our capital. The fluctuations are not predictable, cannot be controlled and may have a material adverse impact on business financial condition and results of operations even if other favorable events occur.

Interest Rate Risks

The Federal Reserve has implemented significant economic strategies that have impacted interest rates, inflation, asset values, and the shape of the yield curve, and currently is transitioning from many years of easing to what may be a new period of tightening.

In recent years, the Federal Reserve has begun to gradually unwind the remaining domestic monetary policy initiatives as the economy continues to recover. In December 2015, the Federal Reserve raised the target federal funds rate after a prolonged period of no change by 25 bps and did so again by 25 bps a year later in December 2016. These developments, along with the U. S. government's credit and deficit concerns, a potential re-emerging European sovereign debt crisis and the economic slowdown in China, could cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms. Other significant governmental monetary strategies could be implemented in the future which might impact interest rates. Federal Reserve strategies can, and often are intended to, affect the domestic money supply, inflation, interest rates, and the shape of the yield curve. Effects on the yield curve often are most pronounced at the short end of the curve, which is of particular importance to us and other banks. Among other things, easing strategies are intended to lower interest rates, flatten the yield curve, expand the money supply, and stimulate economic activity, while tightening strategies are intended to increase interest rates, steepen the yield curve, tighten the money supply, and restrain economic activity. Other things being equal, the current transition from easing to possible tightening should tend to diminish or reverse downward pressure on rates, and to diminish or eventually end the stimulus effect that low rates tend to have on the economy. Many external factors may interfere with the effects of these plans or cause them to be changed unexpectedly. Such factors include significant economic trends or events as well as significant international monetary policies and events. Such strategies can also affect the U.S. and world-wide financial systems in ways that may be difficult to predict.

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

Like other financial institutions, our earnings and cash flows are subject to interest rate risk. Approximately one-half of our income is net interest income, which is the difference between interest earned on loans and investments and the interest paid on deposits and borrowings. We expect that we will periodically experience imbalances in the interest rate sensitivities of our assets and liabilities and the relationships of various interest rates to each other. Over any

defined period of time, our interest-earning assets may be more sensitive to changes in market interest rates than our interest-bearing liabilities, or vice versa. In addition, the individual market interest rates underlying our loan and deposit products (e.g., prime versus competitive market deposit rates) may not change to the same degree over a given time period. In any event, if market interest rates should move contrary to our position, our earnings may be negatively affected. Also, the volume of nonperforming assets will negatively impact average yields if and as volume increases. In addition to risk, loan volume and quality, as well as deposit volume and mix, can be affected by market interest rates. As a result of the sustained low interest rate environment, an increasing percentage of our deposits are comprised of money market accounts, short-term certificates of deposit and other deposits yielding no or very low rates of interest. Changes in levels of market interest rates, including the current rate environment, could materially adversely affect our net interest spread, asset quality, origination volume and overall profitability. Income could also be adversely affected if the interest rates paid on deposits and short-term borrowings increase quicker than the interest rates received on loans and other investments during periods of rising interest rates.

We principally manage interest rate risk by managing our volume and the mix of our earning assets and funding liabilities. In a changing interest rate environment, we may not be able to manage this risk effectively. If we are unable to manage interest rate risk effectively, our business, financial condition, and results of operations could be materially harmed. Changes in the level of interest rates also may negatively affect our ability to originate construction, commercial and residential real estate loans, the value of our assets, and our ability to realize gains from the sale of our assets, all of which ultimately affect our earnings.

Regulatory and Legal Risks

We are subject to extensive governmental regulation.

We are subject to extensive supervision and regulation by Federal and state governmental agencies, including the FRB, the GDBF and the FDIC. This supervision and regulation is designed primarily to protect depositors, federal deposit insurance funds, and the banking system as a whole, but not shareholders. Legislation, regulations, and government policy could adversely affect us and the financial institution industry as a whole, including the cost of doing business.

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

Congress and state legislatures and federal and state regulatory authorities continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including interpretation and implementation of statutes, regulations or policies could affect us in substantial and unpredictable ways, including limiting the types of financial services and products we may offer or increasing the ability of non-banks to offer competing financial services and products. Any regulatory changes or scrutiny could increase or decrease the cost of doing business, limit or expand our permissible activities, or affect the competitive balance among banks, credit unions, savings and loan associations and other institutions. We cannot predict whether new legislation will be enacted and, if enacted, the effect that it, or any regulations, would have on our business, financial condition, and results of operations.

The current regulatory environment may be impacted by future legislative developments, such as amendments to key provisions of the Dodd-Frank Act. On January 20, 2017, Mr. Donald J. Trump became President of the United States. On February 3, 2017, President Trump signed an executive order calling for the administration to review U.S. financial laws and regulations in order to determine their consistency with a set of core principles identified in the order. The full scope of President Trump’s short-term legislative agenda is not yet fully known, but it may include certain deregulatory measures for the banking industry, and the structure and powers of the CFPB, among other areas.

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

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

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

Federal and state regulators have the ability to impose or request that we consent to substantial sanctions, restrictions and requirements on our banking and nonbanking subsidiaries if they determine, upon examination or otherwise, violations of laws, rules or regulations with which we or our subsidiaries must comply, or weaknesses or failures with respect to general standards of safety and soundness. Such enforcement may be formal or informal and can include directors’ resolutions, memoranda of understanding, cease and desist or consent orders, civil money penalties and termination of deposit insurance and bank closures. Enforcement actions may be taken regardless of the capital level of the institution. Enforcement actions may require certain corrective steps (including staff additions or changes), impose limits on activities (such as lending, deposit taking, acquisitions or branching), prescribe lending parameters

(such as loan types, volumes and terms) and require additional capital to be raised, any of which could adversely affect our financial condition and results of operations. Enforcement actions, including the imposition of monetary penalties, may have a material impact on our financial condition or results of operations, and damage to our reputation, and loss of our holding company status. In addition, compliance with any such action could distract management’s attention from our operations, cause us to incur significant expenses, restrict us from engaging in potentially profitable activities, and limit our ability to raise capital.

We are subject to claims and litigation.

From time to time, customers and others make claims and take legal action against us. Whether such customer claims and legal action are founded or unfounded, or if such claims and legal actions are not resolved in a manner favorable to us, they may result in significant financial liability and/or adversely affect the market perception of us and our products and services, as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material

adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Liquidity Risks

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

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

Our funding costs may increase due to loss of customer’s deposits.

We rely on bank deposits as a low cost and stable source of funding to extend loans to our customers. There is a high degree of competition in the market with other banks and financial services companies for deposits. If our competitors rates that they pay on deposits rises, our funding costs may increase, either because we raise our rates to avoid losing deposits or because we lose deposits and have to rely on more expensive sources of funding. Higher funding costs would reduce our net interest margin and net interest income.

Capital Risks

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

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

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

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

Like most banking organizations, we were required to apply the new Basel III capital rules beginning on January 1, 2015. In early July 2013, the Federal Reserve approved revisions to its capital adequacy guidelines and prompt corrective action rules that implemented the Basel III regulatory capital reforms in the U. S. As a result, Basel III will generally lead to higher capital requirements and more restrictive leverage and liquidity ratios than those requirements currently in place which will not be fully reflected in our capital ratios until the new rules are fully phased in. Compliance with these rules will impact our capital plans, affect returns on capital, and impose additional costs on us.

Operational Risks

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

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

the importance and some limitations of managing unanticipated risks. If our risk management framework proves to be ineffective, we could suffer unexpected losses and could be materially adversely affected.
Our controls and procedures may fail or be circumvented.
Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to our controls and procedures could have a material adverse effect on our business, results of operations, and financial condition.

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

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

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

We contract with a number of third party vendors to support our infrastructure. Many of these vendors are large national companies who are dominant in their area of expertise and would be difficult to quickly replace. Failures of certain vendors to provide services could adversely affect our ability to deliver products and services to our customers, disrupting our business and causing us to incur significant expense. External vendors also present information security risks. We maintain a vendor management program to monitor vendor risk, including the financial stability of our critical vendors.

We are at risk of increased losses from fraud.

Criminals committing fraud are increasingly applying sophisticated techniques and in some cases are parts of larger criminal enterprises, which allow them to be more effective. Fraudulent activity in recent years has taken many forms, ranging from check fraud, mechanical devices attached to ATM machines, social engineering and phishing attacks to obtain personal information or impersonation of our clients through the use of falsified or stolen credentials. Furthermore, in addition to fraud committed against us, we may suffer losses as a result of fraudulent activity committed against third parties. Increased deployment of new technologies to keep ahead of these criminals, such as chip card technology, defray and reduce aspects of fraud. However, criminals are turning to other sources to steal personally identifiable information, such as unaffiliated healthcare providers and government entities and utilize that information to impersonate the consumer and commit fraud.

The information systems we use to operate our business may experience an interruption or breach in security.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan, and other systems. While we have policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. Additionally, to the extent we rely on third party vendors to perform or assist operational functions, the challenge of managing the associated risks becomes more difficult. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations. Additionally, future legislation and regulation related to privacy, data breach notification, cybersecurity and information security could have a significant impact on our current and planned data privacy and security practices.

Our customer electronic information systems may experience a security breach, computer virus or disruption of service.

We provide our customers with the ability to bank online. The secure transmission of confidential information over the Internet is a critical element of online banking. We also deploy part or all of a number of our other core business applications and services under cloud computing arrangements using the Internet. While we use qualified third party vendors to test and audit our network and maintain an enterprise-wide information security program, our network could become vulnerable to unauthorized access, computer viruses, phishing schemes and other security problems. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. To the extent that our activities or the activities of our customers involve the storage and transmission of confidential information, security breaches and viruses could expose us to claims, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in our systems and could

adversely affect our reputation and our ability to generate deposits. Any failures, interruptions or security breaches could result in damage to our reputation, a loss of customer business, increased regulatory scrutiny, or possible exposure to financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

The operational functions of business counterparties may experience similar disruptions that could adversely impact us and over which we may have limited or no control.

A number of major U.S. corporations, particularly retailers, have experienced data systems intrusions, mainly perpetrated at point of sale devices and reportedly resulting in the thefts of sensitive financial data of tens of millions of individuals. These intrusions affected cards issued and deposit accounts maintained by many banks, including the Bank. Although our systems were not breached in these intrusions, these events can cause us to take costly steps such as reissuing debit cards to avoid significant theft loss to the Bank and our customers. Other possible points of intrusion or disruption not within our control include Internet service providers, electronic mail portal providers, social media portals, distant-server (“cloud”) service providers, electronic data

security providers, telecommunications companies, and smart phone manufacturers.

Our business is technology dependent, and an inability to invest in technological improvements may adversely affect our financial condition and results of operations.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services, which may require substantial capital expenditures to modify or adapt existing products and services. In addition to better customer service, the effective use of technology increases efficiency and results in reduced costs. Our future success will depend in part upon our ability to use technology to provide products and services that provide convenience to customers and to create additional efficiencies in operations. Many competitors have substantially greater resources to invest in technological improvements. We cannot make assurances that technological improvements will increase operational efficiency or that we will be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. The ability to keep pace with technological change is important, and the failure to do so on our part could have a material adverse impact on our business and therefore on our financial condition and results of operations.

Hurricanes, tropical storms and other adverse weather events could negatively affect our local economies or disrupt operations, which would have an adverse effect on our business or results of operations.

Currently, our lending and other businesses have a market presence in areas that may be susceptible to hurricanes, tropical storms and other adverse weather events. Such adverse weather events may disrupt our operations, result in damage to our properties and negatively affect the local economies in which we operate. Such adverse weather events could also result in a decline in loan originations, a decline in value or destruction of properties securing our loans and/or an increase in payment delinquencies, foreclosures and loan losses. Our business results may be adversely affected by these and other negative effects of hurricanes, tropical storms or other adverse weather events.

Competitive and Strategic Risks

We operate in a highly competitive industry and market areas.

We face substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and have greater financial resources. Such competitors primarily include national, regional, and community banks within the markets in which we operate. Additionally, various out-of-state banks continue to enter the market area in which we currently operate. We also face competition from many other types of financial institutions, including, without limitation, savings and loans, credit unions, finance companies, brokerage firms, insurance companies, and other financial intermediaries. Many of our competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services, as well as better pricing for those products and services. Our ability to compete successfully will depend on a number of factors, including, among other things:

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

Increased competition could require us to increase the rates that we pay on deposits or lower the rates that we offer on loans, which could reduce our profitability. A weakening in our competitive position could adversely affect our growth and profitability, which, in turn, could have a material adverse effect on our financial condition and results of operations.

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

We intend to continue to build market share through our branching strategy. There are considerable costs involved in opening new branches. New branches also generally require a period of time to generate sufficient revenues to offset their costs, especially in areas in which we do not have an established presence. Accordingly, any new branch can be expected to negatively impact our earnings for some period of time until the branch reaches certain economies of scale. Our expenses could be further increased if we encounter delays in the opening of new branches. Finally, we

have no assurance that new branches will be successful, even after they have been established.

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

As part of our strategic plan of steady, consistent growth, we may enter into new lines of business or begin offering new products or services to our customers. There are risks and uncertainties associated with expansion into a new line of business, as well as any other new material product or service we may decide to offer in the future. In developing and marketing new lines of business and/or new products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences,

may also impact the successful implementation of new lines of business. If we do not successfully manage these risks in the development and implementation of these new lines of business and/or new products and services that we may decide to engage in, such failure could have a material adverse effect on our business, financial condition and results of operations.

Acquisitions may disrupt our business and dilute shareholder value.

From time to time, we evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions. There is no assurance that any additional acquisitions will occur in the future. However, if we do acquire other banks, businesses, or branches, such future acquisitions would involve various risks, including the following:

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

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

We are subject to risks related to our acquisitions.

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

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

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

As with any acquisition involving a financial institution, there may be higher than average levels of service disruptions that would cause inconveniences to our new customers or potentially increase the effectiveness of

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

We may not be able to attract and retain skilled people.
Our success depends, in large part, on our ability to attract and retain key people. Competition for the best people in most activities that we engage in can be intense and we may not be able to hire or retain people. The unexpected loss of services of one or more of our key personnel could have a material adverse impact on our business because of their skills, knowledge of our market, years of industry experience, and the difficulty of promptly finding qualified replacement personnel.

Reputational Risk

Negative public opinion could damage our reputation and adversely impact business and revenues.
The risk to our business, earnings and capital from negative public opinion regarding our reputation, our competitors, and the financial institutions industry in general, is inherent in our business. In addition, negative public opinion of third parties with whom we have important relationships may adversely impact our reputation. Negative public opinion may result from our actual or alleged conduct in any number of activities, including lending practices, the failure of a product or service to meet our customers expectations or applicable regulatory requirements, corporate governance and acquisitions, or from actions taken by government regulators and community organizations in response to those activities. Actual or alleged conduct by one of our business lines may result in negative public opinion about our business lines. Negative public opinion may adversely affect our ability to keep and attract customers and employees and may expose us to litigation and regulatory action. Although we take steps to minimize reputation risk in dealing with our customers and communities, this risk will always be present given the nature of our business.

Stock Ownership Risks

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

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

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

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

bank holding companies, financial holding companies and insurance agencies. Paying this acquisition premium, in addition to the dilutive effect of issuing additional shares, may also adversely affect the prevailing market price of our common stock.

Our ability to declare and pay dividends is limited.

There can be no assurance of whether or when we may pay dividends in the future. Future dividends, if any, will be declared and paid at the discretion of our board of directors and will depend on a number of factors. Our recent dividends have primarily been paid out of excess cash at the holding company. Historically, the principal source of funds used by us to pay cash dividends has been dividends received from the Bank. The Bank’s asset quality, earnings performance, liquidity and capital requirements will be taken into account in addition to our liquidity and capital requirements.

Federal and state banking laws and regulations and state corporate laws restrict the amount of dividends Fidelity or the Bank may declare and pay. For example, under the regulations of the GDBF, dividends may not be declared out of the retained

earnings of a state bank without first obtaining the written permission of the GDBF, unless such bank meets certain classified assets ratio, dividend payout and equity ratio.

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

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

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

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

The market for our common stock historically has experienced and may continue to experience significant price and volume fluctuations similar to those experienced by the broader stock market in recent years. Generally, the fluctuations experienced by the broader stock market have affected the market prices of securities issued by many companies for reasons unrelated to their operating performance and may adversely affect the price of our common stock. Industry factors, and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease, regardless of operating results. In addition, our announcements of our quarterly or annual financial results, changes in general conditions in the economy or the financial markets and other developments affecting us, our affiliates or our competitors could cause the market price of our common stock to fluctuate substantially. We expect that the market price of our common stock will continue to fluctuate and there can be no assurances about the levels of market prices for our common stock or that it will trade at prices at or above the price offered hereby.

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

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

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

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

accept less favorable terms for the issuance of our securities in the future.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

We deliver our products and services through a network of offices located in Southern states. At December 31, 2016, we owned 55 and leased 10 retail bank branches and we leased 27 loan production offices.

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

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

Item 3. Legal Proceedings

We are a party to claims and lawsuits arising in the course of our normal business activities. Although the ultimate outcome of all claims and lawsuits outstanding as of December 31, 2016 cannot be ascertained at this time, it is the opinion of management that these matters, when resolved, will not have a material adverse effect on our results of operations, cash flows, or financial condition.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Our common stock trades on the NASDAQ Global Select Market under the symbol "LION." As of March 6, 2017, there were approximately 1,300 shareholders of record. In addition, shares of approximately 3,550 beneficial owners of our common stock were held by brokers, dealers, and their nominees.

The following table sets forth the per share cash dividends declared and the high and low closing sale prices per share for our common stock for the calendar quarters indicated, as published by NASDAQ.

	High	Low	Cash Dividends Declared
2016			
First quarter	$22.31	$14.01	$ 0.12
Second quarter	17.53	14.45	0.12
Third quarter	18.49	14.80	0.12
Fourth quarter	24.50	17.36	0.12
2015			
First quarter	$17.15	$14.80	$ 0.09
Second quarter	17.49	15.33	0.10
Third quarter	21.98	16.94	0.10
Fourth quarter	23.05	19.73	0.10

A cash dividend of $0.12 per share was declared by our Board of Directors on January 20, 2017, paid on February 15, 2017, to holders of record as of February 3, 2017.

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

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

Issuer Purchases of Equity Securities

The following table presents information relating to our repurchase of shares of common stock in the fourth quarter of 2016.

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs
October 2016	—	—	—	$ 10,000,000
November 2016	—	—	—	10,000,000
December 2016	—	—	—	10,000,000
Total	—	—	—	$ 10,000,000

The repurchase plan announced April 3, 2014, authorizing the repurchase of up to $10 million of our outstanding common stock, has no expiration date for the authorized share repurchases under such plan.

Sale of Unregistered Securities

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

Securities Authorized for Issuance Under Equity Compensation Plans

The following table presents information as of December 31, 2016, with respect to shares of our common stock that may be issued under our equity compensation plans. Our equity compensation plans consist of the stock options, restricted stock grants, and other awards as defined in the 2006 Equity Incentive Plan, as amended and the 401(k) tax qualified savings plan.

Plan Category	(a) Number of Securities to be Issued upon Exercise of Outstanding Options	(b) Weighted Average Exercise Price of Outstanding Options	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))
Equity Compensation Plans Approved by Shareholders[1]	747,333	$ 15.89	2,669,314
Equity Compensation Plans Not Approved by Shareholders[2]	—	—	—
Total	747,333	$ 15.89	2,669,314

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

Shareholder Return Performance Graph

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

Fidelity Southern Corporation

The graph assumes that the value invested in our common stock and in each of the two indices was $100.00 on December 31, 2011, and all dividends were reinvested during the periods presented.

	Period Ended December 31,					
Index	2011	2012	2013	2014	2015	2016
Fidelity Southern Corporation	$100.00	$166.71	$299.40	$297.73	$421.23	$459.97
NASDAQ Composite Index	100.00	117.45	164.57	188.84	201.98	219.89
SNL Bank NASDAQ Index	100.00	119.19	171.31	177.42	191.53	265.56

Item 6. Selected Financial Data

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

	Years Ended December 31,				
($ in thousands, except per share data)	2016	2015	2014	2013	2012
INCOME STATEMENT DATA:					
Interest income	$149,283	$116,642	$101,667	$97,563	$97,570
Interest expense	20,448	15,804	11,226	13,961	17,078
Net interest income	128,835	100,838	90,441	83,602	80,492
Provision for loan losses	8,231	4,351	531	5,440	13,420
Noninterest income	141,325	127,888	95,320	96,878	88,268
Securities gains (losses), net	578	(329)	—	189	307
Noninterest expense	201,020	162,946	138,754	132,325	115,397
Net income	38,766	39,135	30,036	27,638	25,327
PERFORMANCE:					
Earnings per common share - basic [(1)]	$1.52	$1.77	$1.41	$1.35	$1.47
Earnings per common share - diluted [(1)]	$1.50	$1.64	$1.28	$1.21	$1.32
Book value per common share [(1)]	$13.78	$13.03	$12.40	$11.07	$9.57
Tangible book value per common share	$13.26	$12.66	$12.22	$10.96	$9.40
Cash dividends paid per common share	$0.48	$0.39	$0.30	$0.05	$—
Dividend payout ratio	31.58 %	22.03 %	21.28 %	3.70 %	— %
Return on average assets	0.92 %	1.16 %	1.11 %	1.09 %	1.08 %
Return on average shareholders' equity	11.61 %	13.85 %	12.07 %	12.20 %	14.19 %
Equity to assets ratio	7.93 %	8.37 %	9.16 %	8.90 %	7.61 %
Net interest margin	3.32 %	3.24 %	3.62 %	3.58 %	3.74 %
END OF PERIOD BALANCE SHEET SUMMARY:					
Total assets	$4,389,685	$3,849,063	$3,085,135	$2,564,053	$2,476,745
Earning assets	4,059,414	3,558,669	2,847,971	2,355,530	2,252,497
Loans, excluding loans held-for-sale	3,302,264	2,896,948	2,253,306	1,893,037	1,777,031
Total loans	3,767,592	3,294,782	2,622,241	2,080,403	2,081,125
Total deposits	3,630,594	3,179,511	2,458,022	2,202,452	2,068,011
Shareholders' equity	362,647	301,459	264,951	236,230	192,888
Assets serviced for others	9,043,167	8,033,478	6,562,506	5,108,684	3,150,846
DAILY AVERAGE BALANCE SHEET SUMMARY:					
Total assets	$4,212,634	$3,377,129	$2,715,657	$2,543,145	$2,344,605
Earning assets	3,901,571	3,119,335	2,510,247	2,345,492	2,161,438
Loans, excluding loans held-for-sale	3,201,909	2,514,130	2,015,068	1,818,575	1,723,966
Total loans	3,614,456	2,895,847	2,284,245	2,109,575	1,931,714
Total deposits	3,455,692	2,759,836	2,259,825	2,103,465	1,933,473
Shareholders' equity	333,940	282,581	248,783	226,457	178,517
ASSET QUALITY RATIOS:					
Net charge-offs to average loans	0.13 %	0.12 %	0.33 %	0.38 %	0.60 %
Allowance to period-end loans	0.90 %	0.91 %	1.13 %	1.78 %	1.91 %
Allowance to period-end loans, excluding acquired loans	0.99 %	0.98 %	1.15 %	1.84 %	2.00 %

Nonperforming assets to total loans, ORE and repossessions	1.58	%	1.67	%	2.61	%	3.78	%	4.56	%
Allowance to nonperforming loans, ORE and repossessions	0.57x		0.52x		0.43x		0.46x		0.41x	
SELECTED RATIOS:										
Loans to total deposits	90.96	%	91.11	%	91.67	%	85.95	%	85.93	%
Average total loans to average earning assets	92.64	%	92.84	%	91.00	%	90.00	%	89.91	%
Noninterest income to revenue	48.63	%	52.30	%	48.39	%	49.83	%	47.50	%
Leverage ratio	8.58	%	8.80	%	10.40	%	11.02	%	10.18	%
Common equity Tier 1 capital	8.35	%	8.20	%	N/A		N/A		N/A	
Tier 1 risk-based capital	9.46	%	9.50	%	11.07	%	12.71	%	12.06	%
Total risk-based capital	12.11	%	12.40	%	12.01	%	13.96	%	13.43	%

(1) Historical periods prior to and including December 31, 2013 adjusted for stock dividends

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

CONSOLIDATED FINANCIAL REVIEW

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

Overview

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

Our franchise primarily spans the metropolitan Atlanta, Jacksonville, Orlando and Sarasota-Bradenton, Florida markets. We also conduct indirect automobile lending, residential mortgage lending and SBA lending activities in thirteen states and Washington, D.C.

During 2016, we continued to expand our footprint and customer base with the acquisition of two branches located in the Jacksonville, Florida area in the merger with American Enterprise Bankshares, Inc. ("AEB"). We have continued to focus on organic growth as well as the integration of the assets and deposits of the seven branches of The Bank of Georgia, Peachtree City, Georgia, and building meaningful presence and relationships in Georgia and northern, eastern and central Florida. Wealth Management services began operations in July 2014 and has continued to grow.

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

Financial Performance

We recorded net income of $38.8 million in 2016 compared to $39.1 million in 2015, a slight decrease of $369,000, or 0.9%. Net income per basic and diluted common share were $1.52 and $1.50, respectively, for 2016 and $1.77 and $1.64, respectively, for 2015. Income increases of $13.4 million, or 10.5%, in noninterest income and $28.0 million, or 27.8%, in net interest income were offset by expense increases of $38.1 million, or 23.4%, in noninterest expense and $3.9 million, or 89.2%, in the provision for loan losses.

We derive approximately half of our revenues from noninterest income sources such as service charges on loan and deposit accounts, fees from other products and services and income from mortgage banking, indirect automobile lending, and SBA lending activities. The majority of the noninterest income earned from these sources is generated from gains on sales of loans including recognition of loan servicing 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.

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

We continue to attract new customer relationships, and talented and experienced bankers to support our growth. During 2016, we have made significant progress in integrating and leveraging our recent acquisitions and continued expansion. We are also continuing to focus on asset quality, revenue growth, deposit growth and quality loan growth at a well-maintained capital level.

Critical Accounting Policies

Our accounting and reporting policies are in accordance with U.S. generally accepted accounting principles and conform to general practices within the financial services industry. Our financial position and results of operations are affected by management's application of accounting policies, including estimates, assumptions, and judgments made to arrive at the carrying value of assets and liabilities and amounts reported for revenues, expenses, and related

disclosures. Different assumptions in the application of these policies, or conditions significantly different from certain assumptions, could result in material changes in our consolidated financial position or consolidated results of operations. Our accounting policies are fundamental to understanding our consolidated financial position and consolidated results of operations. Our significant accounting policies are discussed in detail in Note 1 in the "Notes to Consolidated Financial Statements." Significant accounting policies have been periodically discussed and reviewed with and approved by the Audit Committee of the Board of Directors and the Board of Directors.

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

Allowance for Loan Losses

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

A formal review of the allowance for loan losses is prepared quarterly to assess the probable credit risk inherent in the loan portfolio and to determine the adequacy of the allowance for loan losses. For purposes of the monthly management review, the loan portfolio is separated by loan type. The level of allowance required for each loan type is determined based upon historical charge-off experience and current economic trends. In addition to homogeneous pools of loans, every commercial, commercial real estate, SBA, and construction loan is assigned a risk rating using established credit policy guidelines. All nonperforming commercial, commercial real estate, SBA, and construction loans and loans deemed to have greater than normal risk characteristics are reviewed monthly by our Credit Review Department to determine the level of additional allowance for loan losses, if any, required to be specifically assigned to these loans.

Acquisition Accounting

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

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

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

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

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

Subsequent decreases to the expected cash flows generally result in a provision for loan losses, net of any amounts due from the FDIC under the applicable loss share agreement. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges and adjusted accretable discount, which has a positive effect on interest income. We have recorded acquired loans at fair value, exclusive of any amounts due from the FDIC under applicable loss share agreements.

Because we record acquired loans at fair value, we recorded no allowance for loan losses related to the acquired loans on the acquisition date, given that the fair value of the loans acquired incorporates assumptions regarding credit risk. The fair value estimates associated with the acquired loans include estimates related to expected prepayments and the amount and timing of expected principal, interest and other cash flows.

Other Real Estate ("ORE")

ORE, consisting of properties obtained through acquisition, foreclosure or through a deed in lieu of foreclosure in satisfaction of loans, is initially reported at fair value, determined on the basis of current appraisals, comparable sales, and other estimates of

value obtained principally from independent sources, adjusted for estimated selling costs. Management also considers other factors, including changed economic conditions since the last appraisal, changes in absorption rates, stale appraisals or imprecision and subjectivity of the appraisal process, length of time the property has been on the market and anticipated sales values, which have resulted in adjustments to the collateral value estimates indicated in certain appraisals.

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

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

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

Revenue from ORE operations as well as gains or losses on sales are recorded as a component of noninterest income, net of amounts due to/from the FDIC on ORE covered under loss share agreements. Expenses from ORE operations are recorded as a component of noninterest expense, net of amounts due from the FDIC on ORE covered under loss share agreements.

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

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

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

For our annual goodwill impairment evaluation, management bypassed the qualitative assessment for each respective reporting unit and performed Step 1 of the goodwill impairment test. Step 1 of the goodwill impairment test requires us to compare the fair value of our reporting unit with its carrying amount, including goodwill. Accordingly, we determined the fair value of our reporting unit and compared the fair value to the reporting unit’s carrying amount. We determined that our reporting unit’s fair value exceeded its carrying amount; therefore, we concluded our goodwill was not impaired. No events have occurred since the last annual goodwill impairment assessment that would necessitate an interim goodwill impairment assessment. For additional information on goodwill, see Note 2, Business Combinations, to the consolidated financial statements.

Capitalized Servicing Assets and Liabilities

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

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

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

Income Taxes

We file a consolidated federal income tax return, as well as tax returns in several states. Under the liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement

carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are recovered or settled. The net deferred tax asset is reviewed at each reporting period to assess the probability of realization of benefits in future periods and whether valuation allowances are appropriate. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded in situations where it is "more likely than not" that a deferred tax asset is not realizable. Management has reviewed all evidence, both positive and negative, and concluded that a valuation allowance against any deferred tax asset is not needed at December 31, 2016. The calculation of the income tax provision is complex and requires the use of judgments and estimates in its determination.

Fair Value

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

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

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

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

Derivative instruments are primarily transacted in the secondary mortgage and institutional dealer markets and priced with observable market assumptions at a mid-market valuation point, with appropriate valuation adjustments for liquidity and credit risk. For purposes of valuation adjustments to our derivative positions, we evaluate liquidity premiums that may be demanded by market participants, as well as the credit risk of our counterparties and our own credit if applicable. To date, no material losses due to a counterparty's inability to pay any net uncollateralized position have occurred. Derivative instruments are considered to be Level 3.

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

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

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

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value less estimated selling costs. A loan is considered impaired if it is probable that we will be unable to collect all amounts contractually due according to the terms of the loan agreement. Measuring the impairment of loans using the present value of expected future cash flows, discounted at the loan's effective interest rate, is not considered a fair value measurement. For collateral-dependent loans, fair value is measured based on the value of the collateral securing these loans and is classified as a Level 3 in the fair value hierarchy. Collateral may include real estate or business assets, including equipment, inventory and accounts receivable. The value

of real estate collateral is determined based on an appraisal by qualified licensed appraisers ordered by our internal appraisal department, which is independent of our lending function. If significant, the value of business equipment is based on an appraisal by qualified licensed appraisers ordered by our internal appraisal department; otherwise, the equipment's net book value on the business's financial statements is the basis for the value of business equipment. Inventory and accounts receivable collateral are valued based on independent field examiner review or aging reports. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business. Impaired loans are evaluated on at least a quarterly basis for additional impairment and adjusted accordingly.

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

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

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

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

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

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

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

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

Results of Operations - 2016 Compared to 2015

Net Income

Our net income for the year ended December 31, 2016 was $38.8 million and we reported basic and fully diluted earnings per share of $1.52 and $1.50, respectively. Net income for the year ended December 31, 2015 was $39.1 million and we reported basic and fully diluted earnings per share of $1.77 and $1.64, respectively. The $369,000 decrease in net income in 2016 compared to 2015 was due primarily to an increase in interest income of $32.6 million and an increase in noninterest income of $13.4 million, offset by an increase in noninterest expense of $38.1 million, an increase in provision for loan losses expense of $3.9 million and an increase in interest expense of $4.6 million. Details of the changes in the various components of net income are discussed further below.

Net Interest Income/Margin

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

Taxable-equivalent net interest income was $129.4 million in 2016 compared to $101.2 million in 2015, an increase of $28.2 million, or 27.8%. Average interest-earning assets in 2016 increased by $782.2 million to $3.9 billion, a 25.1% increase when compared to 2015. Average interest-bearing liabilities increased by $521.1 million to $2.9 billion, a 21.8% increase. The net interest margin increased by 8 basis points to 3.32% in 2016 when compared to 2015. The primary components of our net interest income and margin are described below.

Taxable-equivalent interest income had an increase of $32.8 million for 2016 as compared to 2015. The yield on interest-earning assets in 2016 reflected a 9 basis point increase as compared to 2015. The increase in our interest income primarily occurred due to the net growth of $782.2 million, or 25.1%, in average interest-earning assets, primarily in our loan portfolio. The average balance of loans outstanding in 2016 increased by $718.6 million, or 24.8%, to $3.6 billion when compared to 2015 as the number of loan originations increased, net of payoffs and problem asset resolutions, and we added $147.3 million in loans in the AEB acquisition.

The yield on average loans for 2016 increased by 12 basis points to 3.98% when compared to 2015. Discount accretion on acquired loans contributed 17 basis points to the loan yield for 2016, as compared to 3 basis points in the prior year, or a change of 14 basis points, due to higher resolution of problem assets and loan payoffs during 2016. The remainder of the change in the loan yield was attributable to a combination of fluctuations in prepayment penalties on commercial loans and dealer reserve amortization on indirect loans combined with slightly lower contractual loan yields as new loans, on average, have been originated at lower yields over the previous twelve months.

Interest expense in 2016 increased by $4.6 million, or 29.4%, to $20.4 million, primarily as the result of a $521.1 million, or 21.8%, increase in average interest-bearing liability balances and, to a lesser degree, a 4 basis point increase in the cost of interest-bearing liabilities. The increase in average interest-bearing liabilities for 2016 was primarily due to organic growth, as well as the addition of $117.5 million in interest bearing deposits in March in the AEB acquisition along with the issuance of $75.0 million in subordinated debt in May 2015 that was outstanding for a full calendar year in 2016.

Average interest-bearing deposits increased by $444.0 million, or 21.3%, to $2.5 billion during 2016 compared to 2015, while average borrowings increased by $77.1 million, or 25.2%, to $383.1 million. The increase in average interest-bearing deposits was primarily due to an increase of $238.0 million in interest-bearing money market and NOW deposits, and $169.2 million in time deposits, a result of both organic growth and the AEB acquisition. The increase in interest expense in 2016 was primarily attributable to the $2.0 million increase in subordinated debt

expense, as a result of the subordinated debt issuance in May 2015 being outstanding for a full calendar year in 2016. In addition, interest expense on interest bearing deposits increased by $1.8 million, as average balances increased as discussed above.

Average Balances, Interest and Yields

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

	For the Years Ended December 31,								
	2016			2015			2014		
($ in thousands)	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets									
Interest-earning assets:									
Loans, net of unearned income [1]	$3,614,456	$143,783	3.98%	$2,895,847	$111,828	3.86%	$2,284,245	$96,830	4.24%
Investment securities [1]	192,274	5,574	2.90	176,382	5,117	2.90	175,174	5,141	2.93
Other earning assets	94,841	445	0.47	47,106	80	0.17	50,828	85	0.17
Total interest-earning assets	3,901,571	149,802	3.84%	3,119,335	117,025	3.75%	2,510,247	102,056	4.07%
Noninterest-earning assets:									
Cash and due from banks	29,796			16,092			13,605		
Allowance for loan losses	(27,797)			(24,443)			(30,363)		
Premises and equipment	86,807			67,192			52,666		
Other real estate	18,268			18,375			26,327		
Other assets	203,989			180,578			143,175		
Total assets	$4,212,634			$3,377,129			$2,715,657		
Liabilities and shareholders' equity									
Interest-bearing liabilities:									
Demand and money market	$1,128,029	$2,910	0.26%	$889,985	$2,164	0.24%	$722,448	$1,889	0.26%
Savings deposits	359,194	1,199	0.33	322,385	1,096	0.34	316,439	1,147	0.36
Time deposits	910,492	8,008	0.88	751,579	7,299	0.97	622,911	6,258	1.00
Brokered time deposits	132,012	1,077	0.82	121,773	790	0.65	59,004	413	0.70
Total interest-bearing deposits	2,529,727	13,194	0.52	2,085,722	11,349	0.54	1,720,802	9,707	0.56
Federal funds purchased	25,531	216	0.85	21,733	133	0.61	16,947	116	0.68
Securities sold under agreements to repurchase	17,427	28	0.16	17,230	26	0.15	15,064	23	0.15
Short-term borrowings	219,716	1,180	0.54	176,722	491	0.28	102,502	267	0.26
Subordinated debt	120,388	5,830	4.84	90,303	3,805	4.21	46,291	1,113	2.40

Total interest-bearing liabilities	2,912,789	20,448	0.70%	2,391,710	15,804	0.66%	1,901,606	11,226	0.59%
Noninterest-bearing liabilities and shareholders' equity:									
Demand deposits	925,965			674,114			539,023		
Other liabilities	39,940			28,724			26,245		
Shareholders’ equity	333,940			282,581			248,783		
Total liabilities and shareholders' equity	$4,212,634			$3,377,129			$2,715,657		
Net interest income/spread		$129,354	3.14%		$101,221	3.09%		$90,830	3.48%
Net interest rate margin			3.32%			3.24%			3.62%

(1) Interest income includes the effects of taxable-equivalent adjustment using a 35% tax rate

Rate/Volume Analysis

(in thousands)	2016 Compared to 2015 Variance Attributed to[1]			2015 Compared to 2014 Variance Attributed to[1]		
	Average Volume	Average Yield/Rate	Net Change	Average Volume	Average Yield/Rate	Net Change
Interest-Earning Assets:						
Loans[2]	$28,472	$ 2,369	$ 30,841	$24,178	$ (9,180)	$ 14,998
Investment securities[2]	433	(80)	353	(128)	104	(24)
Other earning assets	117	—	117	(3)	(2)	(5)
Total interest-earning assets	$29,022	$ 2,289	$ 31,311	$24,047	$ (9,078)	$ 14,969
Interest-Bearing Liabilities:						
Demand and money market	$609	$ 137	$ 746	$415	$ (140)	$ 275
Savings deposits	124	(21)	103	21	(72)	(51)
Time deposits and brokered time deposits	1,500	(503)	997	1,820	(402)	1,418
Total interest-bearing deposits	2,233	(387)	1,846	2,256	(614)	1,642
Short-term borrowings	170	604	774	239	5	244
Subordinated debt	1,409	614	2,023	1,502	1,190	2,692
Total interest-bearing liabilities	$3,812	$ 831	$ 4,643	$3,997	$ 581	$ 4,578

[1] The change in interest due to both rate and volume has been allocated to the components in proportion to the relationship of the dollar amounts of the change. Average loan volumes include nonperforming loans which result in the impact in the associated lost interest on nonaccrual loans being reflected in the average rate.
[2] Reflects fully taxable equivalent adjustments using a Federal tax rate of 35%.

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 $8.2 million in 2016 and $4.4 million in 2015. Net charge-offs were $4.2 million in 2016 as compared to $3.1 million in 2015. The increase in the provision in 2016, compared to 2015 was primarily due to the increase in average loan balances of $718.6 million, or 24.8%, and the increase in net charge-offs, year over year, primarily in the indirect auto loan portfolio.

Average nonperforming assets were $56.9 million for the year ended December 31, 2016, compared to $62.0 million for the same period in 2015, a decrease of $5.1 million or 8.3%.

The allowance for loan losses as a percentage of loans outstanding at the end of 2016 and 2015 was 0.90% and 0.91%, respectively. The allowance for loan losses as a percentage of loans outstanding, excluding acquired loans, at the end of 2016 and 2015 was 0.99% and 0.98%, respectively. The improvement in asset quality over the past several years has offset the need for a higher allowance for loan losses as a percentage of loans as a result of loan growth.

Analysis of the Allowance for Loan Losses

The following table outlines the changes in our allowance for losses during the five-year period ended December 31, 2016:

	December 31,				
($ in thousands)	2016	2015	2014	2013	2012
Balance at beginning of year	$26,464	$25,450	$33,684	$33,982	$27,956
Charge-offs:					
Commercial	2,349	1,275	3,870	3,017	1,053
SBA	387	313	1,943	889	516
Construction	—	—	602	491	5,592
Consumer	5,233	4,399	4,461	4,993	4,460
Mortgage	1,047	187	268	690	705
Total charge-offs	9,016	6,174	11,144	10,080	12,326
Recoveries:					
Commercial	923	195	409	342	—
SBA	82	227	32	156	61
Construction	2,157	1,265	2,494	791	678
Consumer	1,486	1,372	1,424	1,757	1,193
Mortgage	201	48	79	119	21
Total recoveries	4,849	3,107	4,438	3,165	1,953
Net charge-offs	4,167	3,067	6,706	6,915	10,373
Provision for loan losses[1]	8,231	4,351	531	5,440	13,420
(Decrease) increase in FDIC Indemnification Asset	(697)	(270)	(2,059)	1,177	2,979
Balance at end of year	$29,831	$26,464	$25,450	$33,684	$33,982
Allowance for loan losses as a percentage of loans	0.90%	0.91%	1.13%	1.78%	1.91%
Allowance for loan losses as a percentage of loans, excluding acquired loans [2]	0.99%	0.98%	1.15%	1.84%	2.00%
Ratio of net charge-offs to average loans outstanding, net	0.13%	0.12%	0.33%	0.38%	0.60%

(1) Net of benefit attributable to FDIC indemnification asset

(2) Excludes the recorded investment of acquired loans due to valuation calculated at acquisition

In 2016, net charge-offs totaled $4.2 million, an increase of $1.1 million, or 35.9%, as compared to 2015. The primary reason for the increase in net charge-offs from 2015 to 2016 was due to an increase of $720,000 in consumer loan charge-offs, primarily indirect automobile loans, as low levels of average charge-offs in the indirect loan portfolio over the past several years have begun to return to a more normalized level. In addition, net charge-offs for mortgage and home equity lines of credit increased by $707,000. These increases were partially offset by net recoveries of $892,000 in the construction portfolio.

Included in the net charge-offs for 2016 above, the Company noted an increase in recoveries of $395,000 from the acquired loans in 2016 as compared to 2015.

Noninterest Income

The categories of noninterest income, and the dollar and percentage change between the years ended December 31, 2016 and 2015, are as follows:

($ in thousands)	For the Year Ended December 31, 2016	2015	$ Change	% Change
Service charges on deposit accounts	$5,941	$4,955	$986	19.9 %
Other fees and charges	7,731	5,356	2,375	44.3
Mortgage banking activities	101,577	85,540	16,037	18.7
Indirect lending activities	14,900	18,821	(3,921)	(20.8)
SBA lending activities	5,659	5,265	394	7.5
Bank owned life insurance	2,374	2,440	(66)	(2.7)
Securities gains / (losses)	578	(329)	907	275.7
Other	2,565	5,840	(3,275)	(56.1)
Total noninterest income	$141,325	$127,888	$13,437	10.5

Noninterest income for 2016 was $141.3 million compared to $127.9 million in 2015, a $13.4 million, or 10.5% increase. This increase was primarily due to an increase in noninterest income from mortgage banking activities of $16.0 million, or 18.7%, and an increase of $2.4 million, or 44.3%, in other fees and charges, partially offset by a decrease in noninterest income from indirect lending activities of $3.9 million, or 20.8%, and a decrease in other noninterest income of $3.3 million, or 56.1%, as further described below.

Mortgage banking revenues increased by $16.0 million to $101.6 million in 2016, compared to $85.5 million in 2015, an increase of 18.7%. The year over year increase was primarily due to increased mortgage loan production. Mortgage loan production for the year increased from $2.7 billion in 2015 to $3.0 billion in 2016, a $297.9 million, or 11.1%, year over year change. Increased production led to an increase in the volume of residential mortgage loans sold from $2.5 billion in 2015 to $2.8 billion in 2016, a $332.3 million, or 13.4%, year over year change. Gain on sales of mortgage loans increased by $12.7 million or 18.2%, year over year, from $69.8 million in 2015 to $82.5 million in 2016. In addition to the volume increase, we earned a higher margin on loan sales during 2016, as we sold a higher percentage of GNMA loans, compared to 2015. GNMA loans typically carry a higher margin compared to other product type originations.

The increase in revenue from other fees and charges of $2.4 million, or 44.3%, stems from an increase in customer accounts from a combination of organic growth and acquisition over the past year, increasing revenue from debit card and ATM fees in 2016, as compared to 2015.

Indirect lending revenues decreased by $3.9 million, or 20.8%, as indirect loan sales decreased by $140.9 million, or 21.6%, in 2016 as compared to 2015, leading to decreased gains on loan sales in 2016, as compared to 2015. The decrease in gains occurred due to a reduction in demand from investors.

Other noninterest income decreased by $3.3 million, or 56.1%, primarily due to lower gains on sales of ORE in 2016 of $1.7 million, or a decrease of 55.7%, as compared to 2015. In addition, income from insurance commissions on policies sold on indirect auto loans decreased by $662,000, or 26.7%, and miscellaneous income decreased by $496,000, or 76.5% in 2016, as compared to 2015, due to timing of expense reimbursements on government-guaranteed loans.

Noninterest Expense

The categories of noninterest expense, and the dollar and percentage change between the years ended December 31, 2016 and 2015 are as follows:

($ in thousands)	For the Year Ended December 31, 2016	2015	$ Change	% Change

Salaries and employee benefits	$96,684	$76,871	$19,813	25.8 %
Commissions	33,907	27,342	6,565	24.0
Occupancy, net	17,890	15,877	2,013	12.7
Communication	4,938	4,336	602	13.9
Other	47,601	38,520	9,081	23.6
Total noninterest expense	$201,020	$162,946	$38,074	23.4

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Noninterest expense increased by $38.1 million, or 23.4%, in 2016 to $201.0 million when compared to 2015, primarily due to increases in salaries and employee benefits, other noninterest expenses, commissions, and net occupancy expenses, as the number of branches and mortgage loan production offices continued to grow in 2016 organically and through acquisition.

Salaries and benefits expense increased by $19.8 million, or 25.8%, in 2016, compared to 2015. The increase was primarily due to the higher salaries associated with the net addition of 38 full-time equivalent employees during 2016, primarily as a result of adding two branches in the AEB acquisition, realizing full year salaries and benefits for the 2015 acquisition of nine branches, as well as associated operations and administrative support functions. A portion of the increase was also due to the higher cost of employer-paid benefits, mainly medical premiums.

Commissions increased by $6.6 million, or 24.0%, to $33.9 million in 2016 as compared to $27.3 million for 2015. Mortgage loan production increased by $297.9 million during 2016, resulting in the increase in commission expense.

Communication and net occupancy expenses increased by $2.6 million in 2016 to $22.8 million as compared to $20.2 million in 2015, primarily due to increases in telephone, postage, rental and depreciation expenses over the course of the year. The increase in the number of locations added organically and through acquisition and the resulting increase in the number of customer accounts is the primary reason for these increases.

Other operating expenses were $47.6 million for the year ended December 31, 2016, a $9.1 million, or 23.6%, increase compared to $38.5 million for the year ended December 31, 2015 as a result of increases associated with acquisitions and new locations. These increases include a $3.1 million increase in professional fees and amounts paid to third party vendors for outside services, a $1.5 million increase in credit reports and investigations expenses, and a $1.0 million increase in regulatory fee assessment expense due to larger asset balances.

Income Tax Expense

The provision for income taxes expense for 2016 and 2015 was $22.1 million and $22.3 million, respectively, with effective tax rates of 36.4% and 36.3%, respectively.

Results of Operations - 2015 Compared to 2014

Net Income

Our net income for the year ended December 31, 2015 was $39.1 million and we reported basic and fully diluted earnings per share of $1.77 and $1.64, respectively. Net income for the year ended December 31, 2014 was $30.0 million and basic and fully diluted earnings per share were $1.41 and $1.28, respectively. The $9.1 million increase in net income in 2015 compared to 2014 was due primarily to an increase in interest income of $15.0 million, partially offset by an increase in provision for loan losses expense of $3.8 million, and an increase in interest expense of $4.6 million. In addition, there was an increase in noninterest income of $32.6 million and an increase in noninterest expense of $24.2 million. Details of the changes in the various components of net income are discussed below.

Net Interest Income/Margin

Taxable-equivalent net interest income was $101.2 million in 2015 compared to $90.8 million in 2014, an increase of $10.4 million, or 11.5%. Average interest-earning assets in 2015 increased $609.1 million to $3.1 billion, a 24.3% increase when compared to 2014. Average interest-bearing liabilities increased $490.1 million to $2.4 billion, a 25.8% increase. The net interest margin decreased by 38 basis points to 3.24% in 2015 when compared to 2014. The primary components of the net interest margin are described below.

Taxable-equivalent interest income increased $15.0 million for 2015 as compared to 2014. Although the yield on interest-earning assets in 2015 reflected a 32 basis point decrease as compared to 2014, interest income increased due to the net growth of $609.1 million, or 24.3%, in average interest-earning assets, primarily in our loan portfolio. The average balance of loans outstanding in 2015 increased $611.6 million, or 26.8%, to $2.9 billion when compared to 2014 due to the increased number of loan originations and market expansion, including $181.3 million in loans acquired, net of loan payoffs and problem loan resolutions. However, consistent with changes in market interest rates, the yield on average loans for 2015 decreased 38 basis points to 3.86% when compared to 2014.

Interest expense in 2015 increased $4.6 million, or 40.8%, to $15.8 million, primarily as the result of a 7 basis point increase in the cost of interest-bearing liabilities, and a $490.1 million, or 25.8%, increase in average interest-bearing liability balances. The increase in average interest-bearing liabilities for 2015 was due to organic growth, as well as acquisitions of $365.7 million in interest bearing deposits along with the issuance of $75.0 million in subordinated debt in May 2015.

Average interest-bearing deposits increased $364.9 million, or 21.2%, to $2.1 billion during 2015 compared to 2014, while average borrowings increased $125.2 million, or 69.2%, to $306.0 million. The increase in average interest-bearing deposits was primarily due to an increase of $167.5 million in interest-bearing money market and NOW deposits, and $191.4 million in time deposits, a result of both organic growth and acquisitions. The increase in interest expense in 2015 was primarily attributable to the $2.7 million increase in subordinated debt expense, as a result of the subordinated debt issuance. In addition, interest expense on interest bearing deposits increased $1.6 million, as average balances increased as discussed above.

Provision for Loan Losses

The provision for loan losses was $4.4 million in 2015 and $531,000 in 2014. Net charge-offs were $3.1 million in 2015 as compared to $6.7 million in 2014. The increase in the provision in 2015, compared to 2014 was primarily due to net new loans originated during 2015 even as credit quality continued to improve. Average nonperforming assets were $62.0 million for the year ended December 31, 2015, compared to $75.9 million for the same period in 2014, a decrease of $13.9 million or 18.3%.

The allowance for loan losses as a percentage of loans outstanding at the end of 2015 and 2014 was 0.91% and 1.13%, respectively. The allowance for loan losses as a percentage of loans outstanding, excluding acquired loans, at the end of 2015 and 2014 was 0.97% and 1.15%, respectively. The improvement in asset quality over the past several years has offset the need for a higher allowance for loan losses as a percentage of loans as a result of loan growth.

Net recoveries on construction loans decreased by $1.1 million during 2015 to $783,000, compared to net recoveries of $1.9 million in 2014. Net recoveries on construction loans were higher during 2014 primarily due to a recovery of $1.5 million on one relationship during 2014.

Commercial net charge-offs decreased $4.2 million during 2015 from $5.4 million in 2014 to $1.2 million in 2015, primarily as a result of several large loan charge-offs in the prior year.

Net charge-offs on consumer loans increased slightly in 2015 to $3.0 million and continue to comprise the majority of the net charge-offs. However, net charge-offs have decreased as a percentage of the average loans outstanding for this portfolio as indirect auto balances have grown steadily during the past five years.

Noninterest Income

The categories of noninterest income, and the dollar and percentage change between the years ended December 31, 2015 and 2014, are as follows:

	For the Year Ended December 31,			
($ in thousands)	2015	2014	$ Change	% Change
Service charges on deposit accounts	$4,955	$4,438	$517	11.6 %
Other fees and charges	5,356	4,349	1,007	23.2
Mortgage banking activities	85,540	55,781	29,759	53.3
Indirect lending activities	18,821	18,457	364	2.0
SBA lending activities	5,265	4,987	278	5.6
Bank owned life insurance	2,440	1,673	767	45.8
Securities gains	(329)	—	(329)	100.0
Other	5,840	5,635	205	3.6
Total noninterest income	$127,888	$95,320	$32,568	34.2

Noninterest income for 2015 was $127.9 million compared to $95.3 million in 2014, a 34.2% increase. This increase was primarily due to a increases in revenues from mortgage banking, as described below.

Mortgage banking revenues increased $29.8 million to $85.5 million in 2015, compared to $55.8 million in 2014, an increase of 53.3%. The increase was due to increased mortgage loan production. Mortgage production for the year increased from $1.9 billion in 2014 to $2.7 billion in 2015, a $739.2 million, or 38.2%, year over year change. Increased production led to an increase in the total of residential mortgage loans sold, an increase from $1.8 billion in 2014 to $2.5 billion in 2015, a $696.4 million or 39.0% year over year change. Gain on sales of mortgage loans increased $26.7 million or 61.9%, year over year, from $43.1 million in 2014 to $69.8 million in 2015. In addition to the volume increase, we were was able to realize a 17% higher margin on loan sales during 2015. Higher margins were, in part, the result of an increase in the margin charged on all products and in part, the result of a higher percentage of loans sold into GNMA MBS, 23.5% of total sales in 2015 compared to 20.7% in 2014. Loans in GNMA MBS can typically be originated with higher margins compared to other product type originations.

Noninterest Expense
The categories of noninterest expense, and the dollar and percentage change between the years ended December 31, 2015 and 2014 are as follows:

($ in thousands)	For the Year Ended December 31, 2015	2014	$ Change	% Change
Salaries and employee benefits	$76,871	$67,006	$9,865	14.7 %
Commissions	27,342	19,988	7,354	36.8
Net occupancy	15,877	12,985	2,892	22.3
Communication	4,336	3,897	439	11.3
Other	38,520	34,878	3,642	10.4
Total noninterest expense	$162,946	$138,754	$24,192	17.4

Noninterest expense during 2015 increased $24.2 million, or 17.4%, to $162.9 million when compared to 2014, primarily due to increases in salaries and employee benefits, and increases in net occupancy expenses, as the number of branches and mortgage loan production offices continued to grow in 2015.
Salaries and benefits expense increased $9.9 million, or 14.7%, in 2015, compared to 2014. The increase was primarily due to the higher salaries associated with the net addition of 208 full-time equivalent employees during 2015, primarily as a result of opening or acquiring the twelve new branches during the year as well as additional mortgage and SBA locations in 2015 and the associated back-office and administrative support functions.
Commissions increased by $7.4 million, or 36.8% for the year ended December 31, 2015 to $27.3 million as compared to $20.0 million for the year ended December 31, 2014. This increase occurred primarily as production increased $739 million in the mortgage division during 2015 as the commissions are a variable expense that is calculated as a percentage of the loan production in the division.
Communication and net occupancy expenses increased by $3.3 million for the year ended December 31, 2015 to $20.2 million as compared to $16.9 million for the year ended December 31, 2014. The increase in communication expense is primarily attributable to increases in telephone and postage expenses over the course of the year. Both of these increases are in relation to the increase in the number of locations associated with the Bank's strategy of growth and acquisition. The increase in net occupancy expense is primarily due to increases in rental expense and depreciation expense year over year. Net occupancy acquisition related expenditures for the year ended December 31, 2015 totaled approximately $500,000 relating primarily to computer hardware, equipment, and branch signage, primarily associated with the acquisition of The Bank of Georgia in October 2015. The acquisition related expenditures are capitalized and expensed to depreciation over the estimated useful life. Both of these increases are in relation to the increase in the number of locations associated with the Bank's strategy of growth and acquisition.
Other operating expenses were $38.5 million for the year ended December 31, 2015, a $3.6 million, or 10.4%, increase compared to $34.9 million for the year ended December 31, 2014 as a result of increases associated with acquisitions and new locations. Acquisition related expenditures for the year ended December 31, 2015 totaled approximately $1.5 million relating to the costs associated with professional fees, conversion, and integration.
Income Tax Expense
The provision for income taxes expense for 2015 and 2014 was $22.3 million and $16.4 million, respectively, with effective tax rates of 36.3% and 35.4%, respectively. The primary driver of the change in expense was an increase in the level of pre-tax income. In addition, the effective tax rate increased between periods due to growth in taxable income exceeding growth in permanent difference items.
Financial Condition
Total assets grew to $4.4 billion at December 31, 2016, an increase of $540.6 million, or 14.0%, compared to December 31, 2015, primarily due to steady loan production supplemented by assets added in the AEB acquisition in March 2016.
We manage our assets and liabilities to maximize long-term earnings opportunities while maintaining the integrity of our financial position and the quality of earnings. To accomplish this objective, management strives for efficient management of interest rate risk and liquidity needs. The primary objectives of interest-sensitivity management are to

minimize the effect of interest rate changes on the net interest margin and to manage the exposure to risk while maintaining net interest income at acceptable levels. Liquidity is provided by our attempt to carefully structure our balance sheet as well as through both unsecured and secured lines of credit with other financial institutions, the Federal Home Loan Bank of Atlanta (the "FHLB"), and the FRB.

The Asset Liability Management Committee ("ALCO"), which is comprised of various senior executives, meets regularly to review our interest rate sensitivity positions and balance sheet mix; monitor our capital position and ratios; review our product offerings and pricing, including rates, fees and charges; monitor our funding needs and sources; and review cash flows to assess our current and projected liquidity.

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

The primary tool management uses to estimate and manage the sensitivity of net interest income to changes in interest rates is an asset/liability simulation model. Resulting estimates are based upon a number of assumptions for each scenario, including the level of balance sheet growth, loan and deposit repricing characteristics, and the rate of prepayment. ALCO periodically reviews the assumptions for accuracy based on historical data and future expectations; however, actual net interest income may differ from model results. A third party reviewer also validates the model on an annual basis.

The primary objective of the simulation model is to measure the potential change in net interest revenue over time using multiple interest rate scenarios. The base scenario assumes the most likely estimate of future interest rate increases and balance sheet changes and is the scenario from which others are compared. Policy limits are based on immediate rate shock scenarios which are compared to the base scenario. While the primary policy scenarios focus on a twelve month time frame, longer time horizons are also modeled. In addition, management reviews the impact of various yield curve scenarios on earnings and cash flows. Our policy states that an immediate and sustained 200 basis point increase or decrease in interest rates should not negatively impact net interest income by more than 10%.

We also use the simulation model to calculate the sensitivity of the economic value of equity ("EVE") under various interest rate scenarios. EVE is defined as the net present value of assets less the net present value of liabilities, net of any impact due to derivatives.

The following table summarizes the results of a 12-month forecasting period of an immediate and sustained increase or decrease of 100 and 200 basis points in market interest rates as of December 31, 2016:

Basis Point Change in Interest Rates	% Change in Projected Net Interest Income

+200	0.66 %
+100	-0.86
-100	-1.81
-200	-2.01

Year over year balance sheet changes and assumption updates have slightly decreased net interest income sensitivity to changes in interest rates. The rate shock analysis at December 31, 2016 indicated that all of the scenarios would fall within policy parameters and approved tolerances for net interest income and EVE at risk. If large downward shocks were to occur from today's low rates, increased modeled impairment may breach net income 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 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 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.

Liquidity

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 appropriate levels of capital resources.

We define liquidity as our 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. 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; from our use of available unsecured overnight federal funds lines from correspondent banks, securities sold under agreements to repurchase and other short-term borrowings such as a collateralized line of credit at the Federal Reserve Bank of Atlanta (“FRB”) Discount Window and a collateralized line of credit from the Federal Home Loan Bank of Atlanta (“FHLB”).

We engage in routine activities to retain deposits intended to enhance our liquidity position. These routine activities include various measures, such as the following:

- Emphasizing relationship banking to new and existing customers, where borrowers are encouraged and normally expected to maintain deposit accounts with us;
- Pricing deposits, including certificates of deposit, at rate levels that will sustain balances at levels that will enhance our asset liability management and net interest margin requirements; and
- Continually working to identify and introduce new products that will attract customers or enhance our appeal as a primary provider of financial services.

Management seeks to maintain a stable net liquidity position while optimizing operating results, as reflected in net interest income, the net yield on interest-earning assets and the cost of interest-bearing liabilities in particular. We employ our funds in a manner to provide liquidity from both assets and liabilities sufficient to meet our cash needs. In addition to monitoring our interest rate sensitivity, ALCO also manages our liquidity risk. ALCO meets regularly to review the current and projected net liquidity positions and to review actions taken by management to achieve this liquidity objective. 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. While the desired level of liquidity will vary depending on a number of factors, 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.

Our ongoing philosophy is to remain in a liquid position as reflected by such indicators as the composition of our earning assets, which typically includes some level of federal funds sold, cash balances at the FRB, and/or other short-term investments; asset quality; being in a well-capitalized position; and having profitable operating results. Cyclical and other economic trends and conditions can disrupt the Bank's desired liquidity position at any time. Under such circumstances, our federal funds sold position, or cash balances at the FRB, if any, serve as the primary sources of immediate liquidity.

In addition to cash and cash equivalents, our investment securities available-for-sale, and the availability of deposits from brokers, as of December 31, 2016, we had the following sources of available unused liquidity:

(in thousands)	December 31, 2016
FRB discount window	$ 248,501
FHLB advances	331,488
Unpledged securities	37,841
Unsecured federal funds lines	185,000
Total sources of available unused liquidity	$ 802,830

Our loans held for sale are considered highly liquid. The majority of these loans are conforming residential mortgage loans sold to GNMA, FNMA and FHLMC. Other categories of loans held for sale include the government-guaranteed portion of SBA loans and the balance of indirect automobile loans purchased from motor vehicle dealers.
We believe that our liquidity position continues to be adequate and readily available. Our contingency funding plan describes several potential stages based on liquidity levels. Our Board of Directors reviews liquidity benchmarks quarterly. Also, we review on at least an annual basis our liquidity position and our contingency funding plans with our principal banking regulator. We also maintain various wholesale sources of funding and expect our interest cost to vary based on the range of interest rates charged.
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. Substantially all of FSC's is obtained from capital raises and dividends from its wholly-owned subsidiaries, LionMark Insurance Company and the Bank, which are limited by applicable law. In addition, the Bank pays interest to FSC on the Bank’s subordinated debt. Under the regulations of the GDBF, bank dividends may not exceed 50% of the prior year’s net earnings without approval from the GDBF. If dividends received from the Bank were reduced or eliminated, our liquidity could be adversely affected.
Contractual Obligations and Other Commitments
The following schedule provides a summary of our financial commitments to make future payments, primarily to fund loan and other credit obligations, long-term debt, and rental commitments under operating leases, primarily for the lease of various facilities housing our business development, executive administration and operational support functions as of December 31, 2016. Loan commitments, lines of credit, and letters of credit are presented at contractual amounts; however, since many of these commitments are “revolving” commitments as discussed below and many are expected to expire unused or partially used, the total amount of these commitments does not necessarily reflect future cash requirements. Payments for borrowings do not include interest. Payments related to leases are based on actual payments specified in the underlying contracts.

	Commitment Maturity or Payment Due by Period				
(in thousands)	1 Year or Less	More Than 1 Year but Less Than 3 Years	3 Years or More but Less Than 5 Years	5 Years or More	Total
Commercial real estate, construction and land development loans	$100,356	$ 5,351	$ —	$—	$105,707
Commercial loans	76,611	26,327	22,485	4,118	129,541
SBA loans	6,614	—	—	—	6,614
Home equity loans	4,037	9,445	6,241	80,895	100,618
Residential mortgage loans	55,226	—	—	—	55,226
Lines of credit	4,052	3,464	55	84	7,655
Standby letters of credit and bankers acceptances	528	—	—	—	528
Total loan commitments(1)	247,424	44,587	28,781	85,097	405,889
Short-term borrowings(2)	243,351	—	—	—	243,351
Subordinated debt(3)	—	—	—	121,393	121,393
Rental commitments(4)	5,219	8,162	5,638	2,160	21,179
Purchase obligations(5)	6,677	6,963	6,664	13,500	33,804
Time deposits	758,088	117,540	47,620	317	923,565
Brokered time deposits	124,450	1,500	2,043	—	127,993
Total commitments and long-term borrowings	$1,385,209	$ 178,752	$ 90,746	$222,467	$1,877,174

(1) Financial commitments include both secured and unsecured obligations to fund. Certain residential construction and acquisition and development commitments relate to “revolving” commitments whereby payments are received as individual homes or parcels are sold; therefore, the outstanding balances at any one-time will be less than the total commitment. Construction loan commitments in excess of one year have provisions to convert to term loans at the end of the construction period.

(2) Collateralized with investment grade securities or with pledged real estate loans.

(3) Subordinated debt is comprised of three trust preferred security issuances and subordinated notes. We have no obligations related to the trust preferred security holders other than to remit periodic interest payments and to remit principal and interest due at maturity. Each trust preferred security provides us with the opportunity to prepay the securities at specified dates from inception at par after designated periods for all issues.

(4) Leases and other rental agreements typically have renewal options either at predetermined rates or market rates on renewal.

(5) Purchase obligations include significant contractual obligations under legally enforceable contracts with contract terms that are both fixed and determinable with initial terms greater than one year. The majority of these amounts are primarily related to salary continuation agreements, and routine services, including core processing systems and telecommunications maintenance.

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.

Loans

Total loans, which includes loans held for investment and loans held-for-sale increased by $472.8 million, or 14.4%, at December 31, 2016 over December 31, 2015, as a result of organic growth and acquisition.

The following table summarizes the carrying amount of total loans by loan type:

	December 31,				
(in thousands)	2016	2015	2014	2013	2012
Loans held for investment:					
Commercial	$784,737	$703,291	$524,145	$530,978	$509,243
SBA	149,779	135,993	134,766	134,824	121,428
Construction	238,910	177,033	123,994	101,698	89,924
Indirect automobile	1,575,865	1,449,481	1,219,232	975,223	930,232
Installment	17,003	14,055	13,372	15,362	18,774
Residential mortgage	386,582	302,378	158,348	60,928	37,785
Home equity lines of credit	149,388	114,717	79,449	74,024	69,645
Loans	3,302,264	2,896,948	2,253,306	1,893,037	1,777,031
Allowance for loan losses	(29,831)	(26,464)	(25,450)	(33,684)	(33,982)
Loans, net of allowance for loan losses	$3,272,433	$2,870,484	$2,227,856	$1,859,353	$1,743,049
Total loans:					
Loans held for investment	$3,302,264	$2,896,948	$2,253,306	$1,893,037	$1,777,031
Loans held-for-sale:					
Residential mortgage	252,712	233,525	181,424	127,850	253,108
SBA	12,616	14,309	12,511	9,516	20,986
Indirect automobile	200,000	150,000	175,000	50,000	30,000
Total loans held-for-sale	465,328	397,834	368,935	187,366	304,094

Total loans	$3,767,592	$3,294,782	$2,622,241	$2,080,403	$2,081,125

Loans held for investment at December 31, 2016 grew to $3.3 billion, an increase of $405.3 million, or 14.0%, over December 31, 2015. Expansion into new markets through recent acquisitions, realizing full year production in 2016 for the 2015 acquisitions, and an overall increase in residential mortgage production over the prior year were the main drivers of the growth in loans. Residential mortgage loans increased by $84.2 million, or 27.8%, over December 31, 2015, as production increased by $297.9 million, or 11.1%.

Indirect automobile loans increased by $126.4 million, or 8.7%, over December 31, 2015 as lower sales volume was noted

in 2016 as compared to 2015 due a decrease in investor demand for loan sales. Commercial loans increased by $81.4 million, or 11.6%, over December 31, 2015 and construction loans increased by $61.9 million, or 35.0%, compared to December 31, 2015.
Loans held-for-sale at December 31, 2016 increased by $67.5 million, or 17.0%, over December 31, 2015. The indirect auto portfolio balance increased by $50.0 million, or 33.3%, as a result of timing of loan sales. In addition, growth in residential mortgage loans held-for-sale of $19.2 million, or 8.2%, occurred primarily due to an increase in production which was driven by expansion into new markets during the year.
The following table summarizes the scheduled contractual maturity of loans held for investment at origination for December 31, 2016. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due within one year:

	December 31, 2016			
(in thousands)	One Year or Less	After One Year Through Five Years	Over Five Years	Total
Commercial	$208,542	$317,080	$259,115	$784,737
SBA	4,589	4,011	141,179	149,779
Construction	226,886	11,918	106	238,910
Indirect automobile	7,631	341,631	1,226,603	1,575,865
Installment	3,948	9,747	3,308	17,003
Residential mortgage	40,672	27,378	318,532	386,582
Home equity lines of credit	17,485	28,103	103,800	149,388
Total loans	$509,753	$739,868	$2,052,643	$3,302,264

The following table summarizes loans held for investment at December 31, 2016 with maturity dates after one year and their general repricing characteristics:

(in thousands)	December 31, 2016
Fixed interest rates	$ 2,098,700
Floating or adjustable interest rates	693,811
Total	$ 2,792,511

Credit Quality
Credit quality risk in the loan portfolio provides our highest degree of risk. We manage and control risk in the loan portfolio through adherence to standards established by the Board of Directors and senior management, combined with a commitment to producing quality assets, monitoring loan performance, developing profitable relationships, and meeting the strategic loan quality and growth targets. Our credit policies establish underwriting standards, place limits on exposures, which include concentrations and commitments, and set other limits or standards as deemed necessary and prudent. Also included in the policy, primarily determined by the amount and type of loan, are various approval levels, ranging from the branch or department level to those that are more centralized.
We maintain a diversified portfolio intended to spread risk and reduce exposure to economic downturns, which may occur in different segments of the economy or in particular industries. Industry and loan type diversification is reviewed at least quarterly. Management has taken numerous steps to reduce credit risk in the loan portfolio and to strengthen the credit risk management team and processes. In addition, credit policies are continually reviewed and revised as necessary. Experienced managers are in place, strengthening lending areas and Credit Administration.
The provision for loan losses was $8.2 million in 2016 and $4.4 million in 2015. Net charge-offs were $4.2 million in 2016 as compared to $3.1 million in 2015. The increase in the provision in 2016, compared to 2015 was primarily due to the increase of average loan balances of $718.6 million, or 24.8%, and a slight increase in net charge-offs, year over year.
Average nonperforming assets were $56.9 million for the year ended December 31, 2016, compared to $62.0 million for the same period in 2015, a decrease of $5.1 million or 8.3%.

The Credit Review Department (“Credit Review”) regularly reports to senior management and the Loan and Discount Committee of the Board of Directors regarding the credit quality of the loan portfolio, as well as trends in the portfolio and the adequacy of the allowance for loan losses. Credit Review monitors loan concentrations, production, loan growth, as well as loan quality, and independent from the lending departments, reviews risk ratings and tests credits approved for adherence to our lending standards. Finally, Credit Review also performs ongoing, independent reviews of the risk management process and adequacy of loan documentation. The results of its reviews are reported to the Loan and Discount Committee of the Board of Directors. The

consumer collection function is centralized and automated to ensure timely collection of accounts and consistent management of risks associated with delinquent accounts.

Nonperforming Assets

Nonperforming assets consist of nonaccrual loans, loans past due 90 days or more and still accruing, repossessions, certain repurchased government guarantee loans, and other real estate. Nonaccrual loans are loans on which the interest accruals have been discontinued when it appears that future collection of principal or interest according to the contractual terms may be doubtful. Troubled debt restructured loans are those loans whose terms have been modified, because of economic or legal reasons related to the debtors' financial difficulties and provide a concession to the borrower such as, a reduction in principal, change in terms, or modification of interest rates to below market levels. Repossessions include vehicles and other personal property that have been repossessed as a result of payment defaults. Purchased credit impaired loans are considered to be performing due to the application of the accretion method and are excluded from the table.

	December 31,				
($ in thousands)	2016	2015	2014	2013	2012
Nonaccrual loans	$35,358	$27,128	$34,856	$40,531	$41,487
Loans past due 90 days or more and still accruing	—	1,284	827	—	—
Repossessions	2,274	1,560	1,183	1,219	1,625
Other real estate - non-covered	14,241	14,796	14,983	24,791	28,975
Other real estate - covered	573	3,881	7,581	6,191	10,781
Total nonperforming assets	$52,446	$48,649	$59,430	$72,732	$82,868
Ratio of loans past due 90 days or more and still accruing to total loans	— %	0.04 %	0.04 %	— %	— %
Ratio of nonperforming assets to total loans, repossessions and ORE	1.58 %	1.67 %	2.61 %	3.78 %	4.56 %

The Bank had $15.4 million in troubled debt restructured loans at December 31, 2016, of which $11.7 million were accruing loans and $3.7 million are on nonaccrual status and are included in nonperforming assets in the table above. The increase in nonperforming assets of $3.8 million from December 31, 2015, to December 31, 2016, primarily resulted from an increase in nonaccrual loans and repossessions, partially offset by a decrease in other real estate. Our noncovered nonperforming assets increased by $7.1 million, or 15.9%, from December 31, 2015 to December 31, 2016, mainly due to an $8.3 million increase in nonaccrual mortgage loans, partially offset by a $1.7 million decrease in commercial loans.

Included in nonaccrual loans at December 31, 2016 are $7.7 million in government-guaranteed residential mortgage loans. The Company has repurchased certain government-guaranteed loans, which are accounted for in nonaccrual status which account for the majority of the increase in nonaccrual loans from 2015 to 2016. The Company's loss exposure on government-guaranteed loans is mitigated by the government guarantee in whole or in part.

Management believes it has been proactive in charging down and charging off nonperforming assets as appropriate. Management's assessment of the overall loan portfolio is that loan quality and performance have improved in recent years, as indicated by the steady decrease in our non performing asset ratios. Management 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 and interest income is reduced by the interest accrued in the current year. If any portion of the accrued interest was accrued in a previous period, accrued interest is reduced and a charge for that amount is made to the allowance for loan losses. For 2016, the gross amount of interest income that would have been recorded on nonaccrual loans, if all such loans had been accruing interest at the original contract rate, was approximately $1.6 million compared to $1.3 million and $1.5 million during 2015 and 2014, respectively. For additional information on nonaccrual loans see "Critical Accounting Policies—Allowance for Loan Losses."

Allowance for Loan Losses

As discussed in "Critical Accounting Policies—Allowance for Loan Losses," the allowance for loan losses is established and maintained through provisions charged to operations. Such provisions are estimated based on management's

evaluation of the loan portfolio on at least a quarterly basis which are determined based on current economic conditions, loan portfolio concentrations, past loan loss experience, adequacy of underlying collateral, and such other factors which, in management’s judgment, deserve consideration in estimating loan losses. Loans are charged off when, in the opinion of management, such loans are deemed to be uncollectable. Subsequently, recoveries are added to the allowance.

For all loan categories, historical loan loss experience, adjusted for changes in the risk characteristics of each loan category, current trends, and other factors, is used to determine the level of allowance required. Additional amounts are provided based on the probable losses of individual impaired loans and the effect of economic conditions and other qualitative factors on both individual

loans and loan categories. Since the provision is based on estimates and subjective judgment, it is not necessarily indicative of the specific amounts of losses that may ultimately occur.

The allowance for loan losses for the homogeneous pools is based on historical net charge-off rates adjusted for current trends in qualitative factors. Nonperforming and substandard commercial loans with outstanding balances exceeding $50,000, as well as certain other performing loans with greater than normal credit risk characteristics, are not treated as homogeneous pools and are instead individually reviewed for a specific allowance. The specific allowance for these individually reviewed loans is based on a specific loan impairment analysis.

The unallocated portion of the allowance reflects a margin for the imprecision inherent in estimates of the range of the probable credit losses.

At December 31, 2016, the allowance for loan losses was $29.8 million, or 0.90% of loans, compared to $26.5 million, or 0.91% of loans, at December 31, 2015. Excluding acquired loans, the allowance for loan losses increased by 2 bps during 2016. Net charge-offs as a percentage of average loans outstanding during each respective period were 0.13% in 2016 compared to 0.12% for 2015.

The table below presents the loan loss reserves by loan type as of December 31, 2016 and 2015:

	December 31,		Increase(Decrease)
(in thousands)	2016	2015	in ALL
Commercial	$9,331	$8,582	$ 749
SBA	1,978	2,433	(455)
Construction	2,176	1,711	465
Consumer	9,812	8,668	1,144
Mortgage	5,755	4,294	1,461
Unallocated	779	776	3
Total allocated loan loss reserve by loan type	$29,831	$26,464	$ 3,367

Allocation of the Allowance for Loan Losses

	December 31, 2016		December 31, 2015		December 31, 2014	
($ in thousands)	Allowance	%[(1)]	Allowance	%[(1)]	Allowance	%[(1)]
Commercial	$9,331	23.8 %	$8,582	24.3 %	$10,152	23.3 %
SBA	1,978	4.5	2,433	4.7	3,015	6.0
Construction	2,176	7.2	1,711	6.1	1,486	5.5
Consumer	9,812	48.3	8,668	50.5	6,591	54.6
Mortgage	5,755	16.2	4,294	14.4	3,475	10.6
Unallocated	779	—	776	—	731	—
Total	$29,831	100.0%	$26,464	100.0%	$25,450	100.0%

	December 31, 2013		December 31, 2012	
($ in thousands)	Allowance	%[(1)]	Allowance	%[(1)]
Commercial	$15,749	28.0 %	$12,776	28.7 %
SBA	2,887	7.1	2,278	6.8
Construction	3,492	5.4	8,183	5.1
Consumer	6,538	52.4	6,303	53.4
Mortgage	4,121	7.1	3,412	6.0
Unallocated	897	—	1,030	—
Total	$33,684	100.0%	$33,982	100.0%

[(1)] Percentage of respective loan type to loans.

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. We are 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, 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. We maintain a relatively high percentage of the investment securities portfolio as available-for-sale to meet possible liquidity needs. The held-to-maturity investment securities are primarily utilized for pledging as collateral for public deposits.

The following table summarizes the amortized cost and fair value of debt securities at the time periods indicated:

(in thousands)	December 31, 2016 Amortized Cost	Fair Value	2015 Amortized Cost	Fair Value	2014 Amortized Cost	Fair Value
Investment securities available-for-sale:						
Obligations of U.S. Government sponsored enterprises	$22,218	$22,405	$41,252	$41,843	$25,717	$26,284
Municipal securities	11,706	11,981	14,513	14,951	14,170	14,860
SBA pool securities	14,142	13,912	14,803	14,640	—	—
Residential mortgage-backed securities	64,141	65,630	83,128	85,131	105,165	108,446
Commercial mortgage-backed securities	30,987	30,382	16,210	15,832	—	—
Total available-for-sale	$143,194	144,310	$169,906	$172,397	$145,052	$149,590
Investment securities held-to-maturity:						
Municipal securities	$1,588	$1,536	$1,589	$1,579	$—	$—
Residential mortgage-backed securities	10,899	10,902	8,621	8,831	3,072	3,414
Commercial mortgage-backed securities	4,096	4,096	4,188	4,188	4,277	4,277
Total held-to-maturity	$16,583	$16,534	$14,398	$14,598	$7,349	$7,691

Investment securities available-for-sale at December 31, 2016 decreased by $28.1 million, or 16.3%, from December 31, 2015, primarily as a result of securities being called during the year. Investment securities available for sale at December 31, 2015 increased by $22.8 million, or 15.2%, over December 31, 2014, primarily as a result of securities added in The Bank of Georgia acquisition.

Investment securities held-to-maturity at December 31, 2016 increased by $2.2 million, or 15.2%, over December 31, 2015, primarily as a result of purchases of residential mortgage-backed securities during 2016, net of payments. Investment securities held-to-maturity at December 31, 2015 increased by $7.0 million, or 95.9%, from December 31, 2014, primarily the result of acquisitions and a transfer from the available-for-sale portfolio.

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

($ in thousands)	December 31, 2016			December 31, 2015		
	Amortized Cost	Fair Value	Average Yield[1]	Amortized Cost	Fair Value	Average Yield[1]
Investment securities available-for-sale:						
Obligations of U.S. Government sponsored enterprises						
Due after one year through five years	$15,001	$15,112	2.06 %	$17,877	$18,176	2.29 %
Due after five years through ten years	7,217	7,293	2.38	23,375	23,667	2.35
Municipal securities[2]						
Due after one year through five years	431	448	5.88	—	—	—
Due after five years through ten years	3,961	4,070	4.60	3,316	3,399	4.68
Due after ten years	7,314	7,463	5.24	11,197	11,552	5.56
SBA pool securities						
Due within one year	—	—	—	5	5	1.99
Due after five years through ten years	8,407	8,325	2.41	8,605	8,554	2.40
Due after ten years	5,735	5,587	2.35	6,193	6,081	2.35
Residential mortgage-backed securities	64,141	65,630	2.68	83,128	85,131	2.86
Commercial mortgage-backed securities	30,987	30,382	2.25	16,210	15,832	1.92
Total available-for-sale	$143,194	$144,310		$169,906	$172,397	
Investment securities held-to-maturity:						
Municipal securities						
Due after ten years	$1,588	$1,536	3.47 %	$1,589	$1,579	3.47 %
Residential mortgage-backed securities	10,899	10,902	3.22	8,621	8,831	2.88
Commercial mortgage-backed securities	4,096	4,096	3.64	4,188	4,188	3.64
Total held-to-maturity	$16,583	$16,534		$14,398	$14,598	

[1] Weighted average yields are calculated on the basis of the amortized cost of the security.

[2] Average yields reflect the effect of taxable equivalent adjustments using a 35% tax rate.

Deposits

Deposits are a primary source of funding for us and provide us with the ability to successfully meet both short-term and long-term liquidity needs. While retail deposits are a primary source of funding and provide a customer base for cross-selling additional products and services, we also emphasize commercial accounts as an opportunity for growth and to meet our business customers' needs. We also utilize brokered time deposits as a funding source, although to a lesser degree.

Total deposits of $3.6 billion at December 31, 2016 increased by $451.1 million, or 14.2%, compared to December 31, 2015. The overall increase occurred primarily due to organic growth through the continued deposit marketing program, which continues to increase the number of demand deposit accounts. In addition, we assumed $181.8 million in deposits as part of our acquisition of AEB in March 2016. Core deposits, which are comprised of noninterest-bearing demand accounts and interest-bearing demand accounts, including money market accounts and savings deposits, increased by $389.2 million, or 17.8%, as the result of our continuing transaction account acquisition initiative, particularly in commercial and consumer accounts. Time deposits at December 31, 2016 increased by $61.9 million, or 6.3%, which included $46.8 million in time deposits added in the AEB acquisition.

The following table summarizes average balances and interest rates paid by category for the last three years:

($ in thousands)	For the Year Ended December 31, 2016 Average Amount	Rate	% of Total	2015 Average Amount	Rate	% of Total	2014 Average Amount	Rate	% of Total
Noninterest-bearing demand deposits	$925,965	— %	26.8 %	$674,114	— %	24.4 %	$539,023	— %	23.8 %
Demand and money market	1,128,029	0.26	32.6	889,985	0.24	32.3	722,448	0.26	32.0
Savings deposits	359,194	0.33	10.4	322,385	0.34	11.7	316,439	0.36	14.0
Time deposits	910,492	0.88	26.4	751,579	0.97	27.2	622,911	1.00	27.6
Brokered time deposits	132,012	0.82	3.8	121,773	0.65	4.4	59,004	0.70	2.6
Total average deposits	$3,455,692	0.38	100.0%	$2,759,836	0.41	100.0%	$2,259,825	0.43	100.0%

Total average deposits for 2016 increased by $695.9 million, or 25.2%, over 2015. Average core deposits for 2016 increased by $526.7 million, or 27.9%, over 2015, primarily due to organic growth from the continuing transaction account initiative as well as the AEB acquisition in March 2016. Average time deposits for 2016 increased by $169.2 million, or 19.4%, from 2015, which included organic growth through our strategic marketing initiatives as well as the impact of the addition of $46.8 million in time deposits from the AEB acquisition. Total average deposits for 2015 increased by $500.0 million, or 22.1%, over 2014, with $308.6 million of the increase coming from core deposits. The increase in core deposits was primarily due to the acquisitions in 2015 as well as organic growth from our continuing transaction account initiative.

The following table summarizes scheduled remaining maturities for time deposits in denominations of $100,000 and greater as of December 31, 2016:

(in thousands)	December 31, 2016
Three months or less	$ 110,183
Over three through six months	127,448
Over six through twelve months	229,817
Over 12 months	92,102
Total time deposits $100,000 and greater	$ 559,550

Time deposits that meet or exceed the FDIC insurance limit of $250,000 were $181.4 million and $145.2 million at December 31, 2016 and 2015, respectively.

Interest Rate and Maturity Distribution of Borrowings

We use our borrowing capability with the FHLB as our primary funding source for borrowings. We enter into FHLB advances with terms that are consistent with our interest rate risk position at the time we enter into each advance. Our FHLB advances mature in less than one year and are collateralized with qualifying residential mortgage, home equity and commercial real estate loans and, from time to time, agency notes or agency mortgage-backed securities.

We had $225.0 million and $165.0 million in fixed rate FHLB advances outstanding at December 31, 2016 and 2015, respectively. In addition, we utilized overnight funding sources of $18.4 million and $44.7 million at December 31, 2016 and 2015, respectively. The change in both categories from December 31, 2015 was primarily the result of fluctuations in short-term liquidity needs which the Bank manages through short-term FHLB advances and by accessing our unsecured overnight federal funds lines available from correspondent banks.

Securities sold under repurchase agreements consist primarily of balances in the transaction accounts of our commercial customers swept nightly to an overnight investment account. Securities sold under repurchase agreements are collateralized with investment securities having a market value no less than the balance borrowed, which can fluctuate daily. Securities sold under repurchase agreements are not subject to offset.

The interest rate characteristics of our overnight repurchase agreements, FHLB advances and federal funds purchased are presented in the table below:

($ in thousands)	December 31, 2016	2015
Repurchase agreements at an average period-end rate of 0.16% for both 2016 and 2015	$18,351	$19,730
FHLB Fixed Rate Credit Advances with interest rates ranging from 0.51% to 0.74% and 0.25% to 0.58%, at 2016 and 2015, respectively	225,000	165,000
Federal Funds Purchased at an average period-end rate of 0.39% for 2015	—	25,000
Total short-term borrowings	$243,351	$209,730

Schedule of Short-term Borrowings

The following information regarding short-term borrowings for the years ended December 31, 2016, 2015, and 2014 pertains to our overnight repurchase agreements, FHLB advances and federal funds purchased. Short-term borrowings have a maturity of one year or less.

($ in thousands)	2016	2015	2014
Outstanding at December 31	$243,351	$209,730	$291,087
Maximum month-end outstanding balance	352,603	303,521	291,087
Average daily outstanding balance	262,674	215,685	132,540
Average interest rate during the year	0.54 %	0.28 %	0.30 %
Weighted average interest rate at year end	0.58 %	0.37 %	0.32 %

Subordinated Debt

The aggregate principal balance of subordinated debt was $121.4 million at December 31, 2016 and 2015 and consisted of amounts outstanding pursuant to the issuance of subordinated notes and trust preferred securities. The unamortized balance of debt issuance costs is netted against the aggregate principal amount in the accompanying Consolidated Balance Sheets. Therefore, the balance reported as subordinated debt in the Consolidated Balance Sheets at December 31, 2016 and 2015 was $120.5 million and $120.3 million, respectively, after netting out unamortized acquisition costs of $939,000 and $1.1 million, respectively. Related interest expense is reported as “Interest expense: Subordinated debt” in our Consolidated Statements of Comprehensive Income.

On May 29, 2015, the Bank issued $75.0 million in aggregate principal amount of subordinated notes (the “Notes”). The Notes are due May 31, 2030 and bear a fixed rate of interest of 5.875% per year until May 31, 2025. From June 1, 2025 to the maturity date, the interest rate will be a floating rate equal to the three-month LIBOR plus 363 basis points. The Bank incurred approximately $1.1 million of acquisition costs in connection with the debt issuance. The Notes were priced at 100% of their par value. We can call the Notes at their par value in whole or in part on June 1, 2025 or any interest payment date thereafter. The Notes contain certain restrictions on the merger or consolidation of the Company or the sale or transfer of its assets into another entity. The Notes qualify as Tier 2 regulatory capital for the Bank and the Company.

On August 20, 2007, we issued $20.0 million in fixed-floating rate capital securities of Fidelity Southern Statutory Trust III with a liquidation value of $1,000 per security. Interest was fixed at 6.62% for five years and converted to a floating rate, which adjusts quarterly at a rate per annum equal to the three-month LIBOR plus 1.40%, with a rate of 2.36% and 1.91% at December 31, 2016 and 2015. The issuance has a final maturity of 30 years, but may be redeemed with regulatory approval at any distribution payment date or at any time upon certain events, such as a change in the regulatory treatment of the trust preferred securities, at the redemption price of 100%.

On March 17, 2005, we issued $10.0 million in floating rate capital securities of Fidelity Southern Statutory Trust II with a liquidation value of $1,000 per security. Interest adjusts quarterly at a rate per annum equal to the three-month LIBOR plus 1.89%,with a rate of 2.88% and 2.42% at December 31, 2016 and 2015. The issuance has a final maturity of 30 years, but may be redeemed at any distribution payment date at the redemption price of 100%.

On June 26, 2003, we issued $15.0 million in Floating Rate Capital Securities of Fidelity Southern Statutory Trust I with a liquidation value of $1,000 per security. Interest adjusts quarterly at a rate per annum equal to the three-month LIBOR plus 3.10%. The rates in effect on December 31, 2016 and 2015, were 4.10% and 3.70%, respectively. The issuance has a final maturity of 30 years, but may be redeemed at any distribution payment date at the redemption price of 100%.

The trust preferred securities were sold in private transactions exempt from registration under the Securities Act of 1933, as amended (the "Securities Act") and were not registered under the Securities Act. The payments to the holders of trust preferred securities are fully tax deductible.

The $45.0 million of trust preferred securities issued by our trust subsidiaries, as of December 31, 2016 and 2015, are not consolidated for financial reporting purposes. Thus, the equity investments in the subsidiaries we created to issue the obligations, the obligations themselves, and related dividend income and interest expense are reported on an unconsolidated basis, with the

investments in the amount of $1.4 million at December 31, 2016, and 2015, reported as other assets in our Consolidated Balance Sheets and dividends included as other noninterest income in our Statements of Comprehensive Income.

We included the $45.0 million of trust preferred securities in our Tier 1 capital at December 31, 2016 and 2015 as an element of restricted core capital. Restricted core capital elements are subject to an aggregate 25% of Tier 1 capital, net of goodwill limitation, as defined by the regulatory risk-based capital standards for bank holding companies. These standards also require that trust preferred securities be excluded from Tier 1 capital within five years of the maturity of the underlying junior subordinated notes issued. Our first junior subordinated note matures in June 2033.

Shareholders’ Equity

Shareholders’ equity at December 31, 2016 and 2015, was $362.6 million and $301.5 million, respectively. The $61.1 million increase in shareholders' equity over December 31, 2015 was attributable to net income earned during 2016 of $38.8 million, the common stock issued in the AEB acquisition of $22.8 million, $2.7 million added through the warrant exercises discussed below, partially offset by cash dividends declared on common shares during 2016 of $12.2 million. The remainder of the increase is attributable to stock issued through employee programs.

In December 2008, as part of the U.S. Treasury’s Capital Purchase Program, the U.S. Treasury purchased 48,200 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the “Preferred Stock”), and a warrant for an aggregate purchase price of $48.2 million in cash. On June 27, 2012, the Treasury sold all of its shares of the Company’s Preferred Stock in a public offering as part of a modified Dutch auction process. The Company did not receive any proceeds from this auction.

On May 28, 2015, the U.S. Treasury sold its warrant in a private transaction with two unaffiliated third-party investors.

During 2016 and 2015, we received Warrant exercise notices for cash and cashless exercises, resulting in the issuance of 1,000,000 and 1,487,487 shares of common stock. In 2016, all exercises were cash exercises for aggregate proceeds of $2.7 million, resulting in the issuance of 1,000,000 shares of common stock. During 2015, 1,346,873 equivalent shares exercised were cashless, resulting in the issuance of 1,140,614 shares of common stock and cash exercise aggregated $931,354, resulting in the issuance of 346,873 shares of common stock.

On April 3, 2014, we filed a shelf registration 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. As of December 31, 2016, we have not utilized the shelf registration.

Recent Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” which simplifies the accounting for goodwill impairment by removing step 2 of the goodwill impairment test. Under step 2, an entity was required to determine the fair value of individual assets and liabilities of a reporting unit (including unrecognized assets and liabilities) using the procedure for determining fair values in a business combination. Under the new guidance, goodwill impairment will be measured at the amount by which a reporting unit’s carrying amount, including those with a zero or negative carrying amount, exceeds its fair value. Any resulting impairment is limited to the carrying amount of goodwill. An entity must also disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount. The new guidance is effective for Companies that files with the SEC beginning in fiscal years after December 15, 2019 and is required to be applied prospectively with early adoption permitted for any impairment tests performed after January 1, 2017. The adoption of this ASU is not expected to have a significant impact on our Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805) - Clarifying the Definition of a Business,” 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 amendments in the ASU provide a screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the

number of transactions that need to be further evaluated, and therefore are considered businesses. The amendments also provide a framework to assist entities in evaluating whether both an input and a substantive process are present. The new guidance is effective for the annual period ending after December 15, 2017, including interim periods. The amendments in this update should be applied prospectively on or after the effective date and no disclosures are required at transition. The adoption of this ASU is not expected to have a significant impact on our Consolidated Financial Statements.
In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230) — Restricted Cash." The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU is effective for the Company beginning

in fiscal 2019. Early adoption is permitted with retrospective application. The adoption of this ASU is not expected to have a significant impact on our Consolidated Financial Statements.

In October 2016, the FASB issued ASU 2016-16, "Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory." This guidance addresses the income tax consequences of intra-entity transfers of assets other than inventory. Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. In addition, interpretations of this guidance have developed in practice over the years for transfers of certain intangible and tangible assets. The amendments in the update will require recognition of current and deferred income taxes resulting from an intra-entity transfer of an asset other than inventory when the transfer occurs. This standard is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The amendments in this ASU should be applied using a modified retrospective approach through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Early adoption is permitted as of the beginning of an annual reporting period for which financial statements have not been issued or made available for issuance. The adoption of this ASU is not expected to have a significant impact on our Consolidated Financial Statements.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The guidance addresses eight issues: (1) cash payments for debt prepayment or debt extinguishment costs; (2) cash payments for the settlement of zero-coupon debt instruments; (3) contingent consideration payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of corporate-owned life insurance ("COLI") policies, including bank-owned life insurance ("BOLI") policies; (6) distributions received from equity method investments; (7) beneficial interests in securitization transactions; and (8) separately identifiable cash flows using the application of the predominance principle, whereby an entity should classify each separately identifiable cash source and use on the basis of the nature of the underlying cash flows. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The adoption of this ASU may result in some cash flow category changes which we do not expect to have a significant impact on our Consolidated Financial Statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This ASU 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. 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. Early application for all organizations will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the provisions of ASU No. 2016-13 to determine the potential impact the standard will have on our Consolidated Financial Statements.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting" as part of its simplification initiative. This ASU affects all entities that issue share-based payment awards to their employees. Some of the key provisions of this ASU include: (1) companies will no longer record excess tax benefits

and certain tax deficiencies in additional paid-in capital ("APIC"). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, and APIC pools will be eliminated. The guidance also eliminates the requirement that excess tax benefits be realized before companies can recognize them. In addition, the guidance requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity; (2) increase the amount an employer can withhold to cover income taxes on awards and still qualify for the exception to liability classification for shares used to satisfy the employer's statutory income tax withholding obligation. The guidance will also require an employer to classify the cash paid to a tax authority when shares are withheld to satisfy its statutory income tax withholding obligation as a financing activity on its statement of cash flows (current guidance did not specify how these cash flows should be classified); and (3) permit companies to make an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated, as required today, or recognized when they occur. The provisions for ASU No. 2016-09 are effective for public business entities for interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted, but all of the guidance must be adopted in the same period. Effective January 1, 2016, the Company

elected early adoption of ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting." As a result of adoption, the Company recognized a $556,000 tax benefit during the year ended December 31, 2016. As part of this adoption, the Company did not adjust prior periods. The Company has elected to record compensation cost based on the number of actual forfeited awards. The adoption of this guidance did not have a significant impact on our Consolidated Financial Statements.

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, "Leases." The new standard requires the recognition of assets and liabilities arising from lease transactions on the balance sheet and the disclosure of key information about leasing arrangements. Accordingly, a lessee will recognize a lease asset for its right to use the underlying asset and a lease liability for the corresponding lease obligation. Both the asset and liability will initially be measured at the present value of the future minimum lease payments over the lease term. Subsequent measurement, including the presentation of expenses and cash flows, will depend on the classification of the lease as either a finance or an operating lease. Initial costs directly attributable to negotiating and arranging the lease will be included in the asset. For leases with a term of 12 months or less, a lessee can make an accounting policy election by class of underlying asset to not recognize an asset and corresponding liability. Lessees will also be required to provide additional qualitative and quantitative disclosures regarding the amount, timing and uncertainty of cash flows arising from leases. These disclosures are intended to supplement the amounts recorded in the financial statements and provide additional information about the nature of an organization's leasing activities. The new standard is effective for fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. In transition, lessees are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The transition guidance also provides specific guidance for sale and leaseback transactions, build-to-suit leases and amounts previously recognized in accordance with the business combinations guidance for leases. The Company is continuing to evaluate the impact of this ASU on our Consolidated Financial Statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The new guidance is intended to improve the recognition and measurement of financial instruments by requiring: equity investments that do not result in consolidation and are not accounted for under the equity method to be measured at fair value through net income, unless they qualify for the practicability exception for investments that do not have readily determinable fair values; changes in instrument-specific credit risk for financial liabilities that are measured under the fair value option will be recognized in other comprehensive income; and entities will make the assessment of the realizability of a deferred tax asset related to an available-for-sale debt security in combination with other deferred tax assets. The new guidance is effective for fiscal years beginning after December 15, 2017, and interim periods therein. Early adoption is permitted. The adoption of this ASU is not expected to have a significant impact on our Consolidated Financial Statements.

In September 2015, the FASB issued ASU 2015-16, "Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments." The new guidance eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, an acquirer will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment, including the effect on earnings of any amounts it would have recorded in previous periods if the accounting had been completed at the acquisition date. The guidance is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2015. We implemented this ASU as of December 31, 2015. The adoption of this ASU did not have a significant impact on our Consolidated Financial Statements.

In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date" which deferred the effective date of ASU 2014-09, "Revenue from Contracts with Customers," 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 amendments in ASU 2014-09 indicate that entities should recognize revenue to reflect the transfers of goods or services to customers in an amount equal to the consideration the entity receives or expects to receive. The Company's revenue is comprised of net interest income and noninterest income. As ASU 2014-09 does not apply to revenue associated with financial instruments, net interest income and gain and losses from securities are not impacted by the standard. The Company's revenue streams that are potentially affected by this ASU could include: 1) service charges on deposit accounts; 2) ORE revenue; 3) other fees and

charges; 4) trust and asset management fees; and 5) other noninterest income. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that period. The Company is continuing to evaluate the impact of this ASU on our Consolidated Financial Statements.

In June 2015, the FASB issued ASU 2015-10 “Technical Corrections and Improvements.” The amendments in this standard clarify the guidance, correct references and make minor improvements affecting a variety of topics. The substantive amendments are effective for entities during annual reporting periods beginning after December 15, 2015, and interim periods therein, and other amendments are effective immediately. The adoption of this ASU did not have a significant impact on our Consolidated Financial Statements.

In April 2015, the FASB issued ASU 2015-03 “Simplifying the Presentation of Debt Issuance Costs,” which amends certain provisions of ASC 835 “Interest-Imputation of Interest.” The amendments in this standard simplify the presentation of debt issuance costs by requiring that these costs be presented as a direct reduction of the related debt liability. The update does not change the recognition and measurement guidance for debt issuance costs.

Subsequently, the SEC announced that it would not object to the presentation of debt issuance costs for line-of-credit arrangements as other assets. As a result, in June 2015, the FASB issued ASU

2015-15 “Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements” to incorporate the SEC’s comments in the codification. ASU 2015-03 is effective for annual periods, and for interim periods within those annual periods, beginning after December 15, 2015. Early adoption was permitted and we early adopted ASU 2015-03 as of June 30, 2015 on a retrospective basis. The adoption of this ASU resulted in an insignificant balance sheet reclassification of $90,000 between the amounts previously reported as other assets and subordinated debt on our Consolidated Balance Sheet as of December 31, 2014.

In February 2015, the FASB issued ASU 2015-02 “Consolidation (Topic 810): Amendments to the Consolidation Analysis.” The amendments in this standard provide guidance for performing a consolidation analysis and all reporting entities will be within the scope of Topic 810. As a result, the ASU clarifies when limited partnerships and other similar entities will be considered variable interest entities; three of the six criteria for determining if fees paid to a decision maker or service provider represent a variable interest were eliminated; reduces the extent to which related party arrangements cause an entity to be considered a primary beneficiary, and eliminates the deferral of ASU 2009-17 for certain investment funds. The amendments are effective for entities during annual reporting periods beginning after December 15, 2015. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements.

In January 2015, the FASB issued ASU 2015-01 “Income Statement-Extraordinary and Unusual Items: Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.” The new guidance eliminates the concept of an extraordinary item. As a result, an entity will no longer segregate extraordinary items from the results of ordinary operations; separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; nor disclose income taxes and EPS data applicable to an extraordinary item. The ASU does not affect the reporting and disclosure requirements for an event that is unusual in nature or that occurs infrequently. The amendments are effective for entities during annual reporting periods beginning after December 15, 2015, and interim reporting periods therein and those requirements may be applied prospectively or retrospectively. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements.

In August 2014, the FASB issued ASU 2014-15 “Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern.” The amendments in this standard provide guidance about management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. The amendments will be effective for public entities during annual reporting periods beginning after December 15, 2016, and interim reporting periods therein and those requirements should be applied retrospectively. The Company elected early adoption of ASU 2014-15. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements.

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

CONSOLIDATED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following tables set forth, for the periods indicated, certain consolidated quarterly financial information. This information is derived from unaudited consolidated financial statements that include, in the opinion of management, all normal recurring adjustments which we consider necessary for a fair presentation of the results for such periods. The results for any quarter are not necessarily indicative of results for any future period. This information should be read in conjunction with our consolidated financial statements and the notes thereto included elsewhere in this report.

(in thousands, except per share data)	2016 Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest income	$38,287	$39,898	$36,806	$34,292
Interest expense	5,352	5,135	4,963	4,998
Net interest income	32,935	34,763	31,843	29,294
Provision for loan losses	2,485	2,118	3,128	500
Securities gains, net	—	296	200	82
Noninterest income	47,143	39,029	29,771	24,804
Noninterest expense	54,170	52,167	48,125	46,558
Income before income taxes	23,423	19,803	10,561	7,122
Income tax expense	8,358	7,288	3,916	2,581
Net income	$15,065	$12,515	$6,645	$4,541
Earnings per common share:				
Basic	$0.57	$0.48	$0.26	$0.19
Diluted	$0.57	$0.48	$0.26	$0.18
Weighted average shares outstanding - basic	26,230	25,993	25,481	24,273
Weighted average shares outstanding - diluted	26,342	26,127	25,961	24,841

(in thousands, except per share data)	2015 Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest income	$33,043	$29,597	$27,516	$26,486
Interest expense	4,897	4,460	3,502	2,945
Net interest income	28,146	25,137	24,014	23,541
Provision for loan losses	3,097	1,328	(182)	108
Securities losses, net	(329)	—	—	—
Noninterest income	28,865	30,619	36,695	32,038
Noninterest expense	43,097	40,049	41,165	38,635
Income before income taxes	10,488	14,379	19,726	16,836
Income tax expense	3,711	5,162	7,275	6,146
Net income	$6,777	$9,217	$12,451	$10,690
Earnings per common share:				
Basic	$0.29	$0.41	$0.58	$0.50
Diluted	$0.28	$0.39	$0.52	$0.45
Weighted average shares outstanding - basic	23,083	22,604	21,456	21,380
Weighted average shares outstanding - diluted	24,071	23,903	23,756	23,629

Consolidated quarterly financial information (unaudited) presented above reflects the impact of acquisitions as of and for the periods following the acquisition date.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

See Item 7, “Market Risk and Interest Rate Sensitivity” for a quantitative and qualitative discussion about our market risk.

Item 8. Financial Statements and Supplementary Data

Management's Report on Internal Control over Financial Reporting

Management of Fidelity Southern Corporation (the “Company”) is responsible for establishing and maintaining adequate internal control over financial reporting. Management has assessed the effectiveness of internal control over financial reporting using the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (2013 framework).

The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisitions, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on the testing performed using the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (2013 framework), management of the Company believes that the company's internal control over financial reporting was effective as of December 31, 2016.

The effectiveness of our internal control over financial reporting as of December 31, 2016, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

FIDELITY SOUTHERN CORPORATION

by /s/ JAMES B. MILLER, JR.
James B. Miller, Jr.
Chief Executive Officer and Chairman of the Board

by /s/ STEPHEN H. BROLLY
Stephen H. Brolly
Chief Financial Officer

March 14, 2017

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Fidelity Southern Corporation

We have audited Fidelity Southern Corporation and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Fidelity Southern Corporation and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Fidelity Southern Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Fidelity Southern Corporation and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2016 and our report dated March 14, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia
March 14, 2017

Report of Independent Registered Public Accounting Firm
The Board of Directors and Shareholders of Fidelity Southern Corporation

We have audited the accompanying consolidated balance sheets of Fidelity Southern Corporation and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fidelity Southern Corporation and subsidiaries at December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Fidelity Southern Corporation and subsidiaries’ internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 14, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia
March 14, 2017

FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2016	2015
($ in thousands)		
Assets		
Cash and due from banks	$31,985	$19,176
Interest-bearing deposits with banks	97,726	66,957
Federal funds sold	20,000	—
Cash and cash equivalents	149,711	86,133
Investment securities available-for-sale	144,310	172,397
Investment securities held-to-maturity (fair value of $16,534 and $14,598, respectively)	16,583	14,398
Loans held-for-sale (includes loans at fair value:$252,712 and $233,525, respectively)	465,328	397,834
Loans	3,302,264	2,896,948
Allowance for loan losses	(29,831)	(26,464)
Loans, net of allowance for loan losses	3,272,433	2,870,484
Premises and equipment, net	87,915	79,629
Other real estate, net	14,814	18,677
Bank owned life insurance	70,151	66,109
Servicing rights, net	99,295	84,944
Other assets	69,145	58,458
Total assets	$4,389,685	$3,849,063
Liabilities		
Deposits		
Noninterest-bearing demand deposits	$964,900	$786,779
Interest-bearing deposits	2,665,694	2,392,732
Total deposits	3,630,594	3,179,511
Short-term borrowings	243,351	209,730
Subordinated debt, net	120,454	120,322
Other liabilities	32,639	38,041
Total liabilities	4,027,038	3,547,604
Shareholders' equity		
Preferred stock, no par value. Authorized 10,000,000; no shares issued and outstanding	—	—
Common stock, no par value. Authorized 50,000,000; issued and outstanding 26,318,400 and 23,140,774, respectively	205,309	169,848
Accumulated other comprehensive income, net of tax	692	1,544
Retained earnings	156,646	130,067
Total shareholders’ equity	362,647	301,459
Total liabilities and shareholders’ equity	$4,389,685	$3,849,063

See accompanying notes to consolidated financial statements.

FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2016	2015	2014
($ in thousands, except per share data)			
Interest income:			
Loans, including fees	$143,605	$111,626	$96,664
Investment securities:			
Taxable interest income	4,941	4,601	4,505
Nontaxable interest income	292	335	413
Other	445	80	85
Total interest income	149,283	116,642	101,667
Interest expense:			
Deposits	13,194	11,349	9,707
Short-term borrowings	1,424	650	406
Subordinated debt	5,830	3,805	1,113
Total interest expense	20,448	15,804	11,226
Net interest income	128,835	100,838	90,441
Provision for loan losses	8,231	4,351	531
Net interest income after provision for loan losses	120,604	96,487	89,910
Noninterest income:			
Service charges on deposit accounts	5,941	4,955	4,438
Other fees and charges	7,731	5,356	4,349
Mortgage banking activities	101,577	85,540	55,781
Indirect lending activities	14,900	18,821	18,457
SBA lending activities	5,659	5,265	4,987
Bank owned life insurance	2,374	2,440	1,673
Securities gains (losses)	578	(329)	—
Other	2,565	5,840	5,635
Total noninterest income	141,325	127,888	95,320
Noninterest expense:			
Salaries and employee benefits	96,684	76,871	67,006
Commissions	33,907	27,342	19,988
Occupancy	17,890	15,877	12,985
Communication			