FIDELITY SOUTHERN CORP
Form 10-Q
May 10, 2017

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the quarterly period ended March 31, 2017
Commission file number 001-34981

Fidelity Southern Corporation
(Exact name of registrant as specified in its charter)

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

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

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of April 30, 2017 (the most recent practicable date), the Registrant had outstanding 26,365,908 shares of Common Stock.

FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
Quarterly Report on Form 10-Q
For the Three Months Ended March 31, 2017

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

($ in thousands)	(Unaudited) March 31, 2017	December 31, 2016
Assets		
Cash and due from banks	$42,183	$31,985
Interest-bearing deposits with banks	285,319	97,726
Federal funds sold	23,000	20,000
Cash and cash equivalents	350,502	149,711
Investment securities available-for-sale	139,071	144,310
Investment securities held-to-maturity (fair value of $15,964 and $16,534, respectively)	15,977	16,583
Loans held-for-sale (includes loans at fair value of $201,661 and $252,712, respectively)	361,117	465,328
Loans	3,354,926	3,302,264
Allowance for loan losses	(30,455)	(29,831)
Loans, net of allowance for loan losses	3,324,471	3,272,433
Premises and equipment, net	87,222	87,915
Other real estate, net	11,284	14,814
Bank owned life insurance	70,587	70,151
Servicing rights, net	105,039	99,295
Other assets	65,787	69,145
Total assets	$4,531,057	$4,389,685
Liabilities		
Deposits		
Noninterest-bearing demand deposits	$1,005,372	$964,900
Interest-bearing deposits	2,749,736	2,665,694
Total deposits	3,755,108	3,630,594
Short-term borrowings	239,466	243,351
Subordinated debt, net	120,488	120,454
Other liabilities	44,693	32,639
Total liabilities	4,159,755	4,027,038
Shareholders’ equity		
Preferred stock, no par value. Authorized 10,000,000; zero issued and outstanding	—	—
Common stock, no par value. Authorized 50,000,000; issued and outstanding 26,358,620 and 26,318,400, respectively	206,590	205,309
Accumulated other comprehensive income, net of tax	699	692
Retained earnings	164,013	156,646
Total shareholders’ equity	371,302	362,647
Total liabilities and shareholders’ equity	$4,531,057	$4,389,685

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
($ in thousands, except per share data)	2017	2016
Interest income:		
Loans, including fees	$36,083	$32,945
Investment securities:		
Taxable interest income	1,163	1,203
Nontaxable interest income	45	77
Other	351	67
Total interest income	37,642	34,292
Interest expense:		
Deposits	3,449	3,265
Short-term borrowings	392	294
Subordinated debt	1,567	1,439
Total interest expense	5,408	4,998
Net interest income	32,234	29,294
Provision for loan losses	2,100	500
Net interest income after provision for loan losses	30,134	28,794
Noninterest income:		
Service charges on deposit accounts	1,455	1,370
Other fees and charges	1,871	1,666
Mortgage banking activities	25,869	14,735
Indirect lending activities	4,426	4,264
SBA lending activities	1,818	1,234
Bank owned life insurance	439	454
Securities gains	—	82
Other	1,492	1,081
Total noninterest income	37,370	24,886
Noninterest expense:		
Salaries and employee benefits	25,438	23,055
Commissions	7,498	6,598
Occupancy	4,163	4,384
Professional and other services	4,067	4,032
Other	9,406	8,489
Total noninterest expense	50,572	46,558
Income before income tax expense	16,932	7,122
Income tax expense	6,405	2,581
Net income	$10,527	$4,541
Earnings per common share:		
Basic	$0.40	$0.19
Diluted	$0.40	$0.18
Cash dividends declared per common share	$0.12	$0.12
Net income	$10,527	$4,541

Other comprehensive income, net of tax:		
Change in net unrealized gains on available-for-sale securities, net of tax effect	7	1,348
Adjustments for net gains included in net income, net of tax effect	—	(51)
Other comprehensive income, net of tax	7	1,297
Total comprehensive income	$10,534	$5,838

See accompanying notes to unaudited consolidated financial statements.

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

(in thousands)	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Accumulated Other Comprehensive Income, Net of Tax	Retained Earnings	Total
Balance at December 31, 2015	—	$ —	23,141	$169,848	$ 1,544	$130,067	$301,459
Net income						4,541	4,541
Other comprehensive income, net of tax					1,297		1,297
Comprehensive income							5,838
Common stock issued for AEB acquisition			1,470	22,727	—	—	22,727
Common stock issued under various employee plans, net			330	1,282	—	—	1,282
Stock issuance pursuant to exercise of warrants	—	—	500	1,343	—	—	1,343
Cash dividends paid	—	—	—	—	—	(2,871)	(2,871)
Balance at March 31, 2016	—	$ —	25,441	$195,200	$ 2,841	$131,737	$329,778
Balance at December 31, 2016	—	$ —	26,318	$205,309	$ 692	$156,646	$362,647
Net income						10,527	10,527
Other comprehensive income, net of tax					7		7
Comprehensive income							10,534
Common stock issued under various employee plans, net			40	1,281	—	—	1,281
Cash dividends paid	—	—	—	—	—	(3,160)	(3,160)
Balance at March 31, 2017	—	$ —	26,358	$206,590	$ 699	$164,013	$371,302

See accompanying notes to consolidated financial statements.

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

(in thousands)	Three Months Ended March 31, 2017	2016
Cash flows from operating activities:		
Net income	$10,527	$4,541
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,100	500
Depreciation and amortization of premises and equipment	1,159	1,240
Amortization of FDIC indemnification asset, net	510	74
Accretion of purchase discounts or premiums, net	(309)	(1,441)
Other amortization	363	377
Impairment of other real estate	839	384
Amortization and impairment of servicing rights, net	2,475	8,748
Share-based compensation expense	752	481
Postretirement benefits, net	526	459
Net gain on investment securities called or sold	—	(82)
Gains on loan sales, including origination of servicing rights	(20,659)	(16,607)
Net gain on sales of other real estate	(301)	(525)
Net income on bank owned life insurance	(436)	(427)
Net change in deferred income tax, net of acquisition	5,632	(1,677)
Net change in fair value of loans held-for-sale	(2,907)	(2,618)
Originations of loans held-for-sale	(668,270)	(727,760)
Proceeds from sales of loans held-for-sale	787,827	743,488
Net payments received from FDIC under loss-share agreements	413	21
Decrease in other assets, net of acquisition	2,878	685
Increase (decrease) in other liabilities, net of acquisition	5,891	(2,163)
Net cash provided by operating activities	129,010	7,698
Cash flows from investing activities:		
Maturities, calls, and repayment of investment securities available-for-sale	4,999	9,665
Purchases of investment securities held-to-maturity	—	(1,600)
Maturities, calls and repayment of investment securities held-to-maturity	576	715
Purchases of FHLB stock	(3,493)	(7,422)
Redemption of FHLB stock	3,187	6,589
Net increase in loans, net of loans acquired	(54,772)	(52,245)
Proceeds from sales of other real estate	3,986	2,828
Purchases of premises and equipment, net of acquisition	(700)	(2,002)
Cash received in excess of cash paid for acquisition	—	37,609
Net cash used in investing activities	(46,217)	(5,863)

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

	Three Months Ended March 31,	
(in thousands)	2017	2016
Cash flows from financing activities:		
Net increase in noninterest-bearing deposits, net of acquisition	$40,472	$34,175
Net increase in interest-bearing deposits, net of acquisition	84,042	24,079
Net decrease in other short-term borrowings	(3,885)	(30,452)
Proceeds from FHLB advances	200,000	625,000
Repayments on FHLB advances	(200,000)	(615,000)
Proceeds from the issuance of common stock, net	529	2,390
Cash dividends paid on common stock	(3,160)	(2,871)
Net cash provided by financing activities	117,998	37,321
Net increase in cash and cash equivalents	200,791	39,156
Cash and cash equivalents, beginning of period	149,711	86,133
Cash and cash equivalents, end of period	$350,502	$125,289
Supplemental cash flow information and non-cash disclosures:		
Cash paid during the period for:		
Interest on deposits and borrowings	$4,366	$3,670
Income taxes	7	1,694
Acquisition:		
Assets acquired	—	167,366
Liabilities assumed	—	186,030
Common stock issued	—	22,727
Transfers of loans from held-for-sale to held for investment	—	2,230
Transfers of loans to other real estate	994	2,683

See accompanying notes to unaudited consolidated financial statements.

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FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2017
(UNAUDITED)

1. Basis of Presentation and Summary of Significant Accounting Policies

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

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

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

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

Operating results for the three-month period ended March 31, 2017, are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K and Annual Report to Shareholders for the year ended December 31, 2016.

The Company's significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in the 2016 Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC"). There were no new accounting policies or changes to existing policies adopted in the first three months of 2017 which had a significant effect on the results of operations or statement of financial condition. For interim reporting purposes, the Company follows the same basic accounting policies and considers each interim period as an integral part of an annual period.

Contingencies

Due to the nature of their activities, the Company and its subsidiaries are at times engaged in various legal proceedings that arise in the course of normal business, some of which were outstanding as of March 31, 2017. Although the ultimate outcome of all claims and lawsuits outstanding as of March 31, 2017 cannot be ascertained at this time, it is the opinion of management that these matters, when resolved, will not have a material adverse effect on the Company's results of operations or financial condition.

Recent Accounting Pronouncements

In March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-08, "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities," that amends the amortization period for certain purchased callable debt securities held at a premium. Under the current GAAP, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. The new update shortens the amortization period for the premium to the earliest call date. This amendment affects all entities that hold investments in callable debt securities that have an amortized cost basis in excess of the amount that is repayable by the issuer at the earliest call date, i.e., at a premium. The guidance is effective for public Companies for fiscal years beginning after December 15, 2018, and interim periods therein. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. These amendments should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the adoption period. In addition, in the period of adoption, disclosures should be provided about a change in accounting principle. The adoption of this ASU is not expected to have a significant impact on the Company's Consolidated Financial Statements.

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In March 2017, the FASB issued ASU 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," that will change how employers who sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Employers will be required to present the service cost component of net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. In addition, only the service cost component will be eligible for capitalization in assets. The other components of the net periodic benefit cost will be presented separately from the line item(s) that includes the service cost and outside of any subtotal of operating income, if one is presented. Employers will be required to disclose the line(s) used to present the other components of net periodic benefit cost, if the components are not presented separately in the income statement. The guidance on the presentation of the components of net periodic benefit cost in the income statement will be applied retrospectively while the guidance limiting the capitalization of net periodic benefit cost in assets to the service cost component will be applied prospectively. Employers will have to provide the relevant disclosures required under ASC 250, Accounting Changes and Error Corrections, in the first interim and annual periods when they adopt the guidance. The guidance also provides a practical expedient for disaggregating the service cost component and other components for comparative periods. An employer that elects to apply the practical expedient must disclose the reason for doing so and other qualitative information about the capitalization of net periodic benefit cost. The guidance is effective for public Companies for fiscal years beginning after December 15, 2017, and interim periods therein. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. That is, early adoption must be within the first interim period if an employer issues interim financial statements. The adoption of this ASU is not expected to have a significant impact on the Company's Consolidated Financial Statements.

In January 2017, the FASB issued 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 the Company's 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 the Company's 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 the Company's 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 the Company's Consolidated Financial Statements.

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In August 2016, the FASB issued Accounting Standards Update ("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 is not expected to have a significant impact on the Company's Consolidated Financial Statements.

In June 2016, the FASB issued ASU No. 2016-13, "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 continuing to evaluate the provisions of ASU No. 2016-13 to determine the potential impact the standard will have on the Company's Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, "Leases." The standard requires the recognition of assets and liabilities arising from most 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 the Company's 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 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 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 the Company's 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

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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, mortgage origination and servicing activities, 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 the Company's Consolidated Financial Statements.

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

2. Business Combinations

The Company accounts for its 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. 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. Purchase price allocations on completed acquisitions may be modified through the measurement period which cannot exceed one year from the acquisition date. If the Company recognizes adjustments to provisional amounts that are identified during the measurement period, the adjustments will be reported in the period in which the amounts are determined. Fair value adjustments based on updated estimates could materially affect the goodwill, if any, recorded on the acquisition. The Company may incur losses on the acquired loans that are materially different from losses originally projected in the fair value estimate. Acquisition-related costs are expensed as incurred.

The effects of the acquired assets and liabilities have been included in the consolidated financial statements since their respective acquisition date. Pro forma results have not been disclosed as those amounts are not significant to the unaudited consolidated financial statements.

American Enterprise Bankshares, Inc.

On March 1, 2016, the Company acquired American Enterprise Bankshares, Inc. (“AEB”), the holding company for American Enterprise Bank of Florida, a Jacksonville, Florida-based community bank. The Company acquired all of the outstanding common stock of the former AEB shareholders, including common shares issued upon conversion of subordinated debentures prior to the acquisition. Total consideration of $22.8 million was issued in the transaction. With this acquisition, the Company added $208.8 million in assets, $147.3 million in loans, and $181.8 million in deposits.

For a more in-depth discussion about the AEB acquisition, refer to Note 2 - “Business Combinations” previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

3. Investment Securities

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

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The following table summarizes the amortized cost and fair value of debt securities and the related gross unrealized gains and losses at March 31, 2017 and December 31, 2016:

	March 31, 2017			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available-for-sale:				
Obligations of U.S. Government sponsored enterprises	$22,209	$ 249	$ (11)	$22,447
Municipal securities	10,516	318	(54)	10,780
SBA pool securities	13,778	—	(210)	13,568
Residential mortgage-backed securities	60,563	1,451	(74)	61,940
Commercial mortgage-backed securities	30,878	—	(542)	30,336
Total available-for-sale	$137,944	$ 2,018	$ (891)	$139,071
Investment securities held-to-maturity:				
Municipal securities	$1,588	$ 5	$ —	$1,593
Residential mortgage-backed securities	10,316	153	(171)	10,298
Commercial mortgage-backed securities	4,073	—	—	4,073
Total held-to-maturity	$15,977	$ 158	$ (171)	$15,964

	December 31, 2016			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available-for-sale:				
Obligations of U.S. Government sponsored enterprises	$22,218	$ 227	$ (40)	$22,405
Municipal securities	11,706	329	(54)	11,981
SBA pool securities	14,142	—	(230)	13,912
Residential mortgage-backed securities	64,141	1,584	(95)	65,630
Commercial mortgage-backed securities	30,987	—	(605)	30,382
Total available-for-sale	$143,194	$ 2,140	$ (1,024)	$144,310
Investment securities held-to-maturity:				
Municipal securities	$1,588	$ —	$ (52)	$1,536
Residential mortgage-backed securities	10,899	160	(157)	10,902
Commercial mortgage-backed securities	4,096	—	—	4,096
Total held-to-maturity	$16,583	$ 160	$ (209)	$16,534

The Company held 18 and 21 investment securities available-for-sale that were in an unrealized loss position at March 31, 2017, and December 31, 2016, respectively. There were six and seven investment securities held-to-maturity that were in an unrealized loss position at March 31, 2017, and December 31, 2016, respectively.

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

	March 31, 2017			
	Less Than 12 Months		12 Months or Longer	
(in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available-for-sale:				
Obligations of U.S. Government sponsored enterprises	$5,075	$ (11)	$—	$ —
Municipal securities	3,372	(54)	—	—
SBA pool securities	8,686	(209)	—	—
Residential mortgage-backed securities	3,995	(43)	2,421	(32)
Commercial mortgage-backed securities	25,555	(542)	—	—
Total available-for-sale	$46,683	$ (859)	$2,421	$ (32)
Investment securities held-to-maturity:				
Residential mortgage-backed securities	$7,763	$ (153)	$766	$ (18)
Total held-to-maturity	$7,763	$ (153)	$766	$ (18)

	December 31, 2016			
	Less Than 12 Months		12 Months or Longer	
(in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available-for-sale:				
Obligations of U.S. Government sponsored enterprises	$10,050	$ (40)	$—	$ —
Municipal securities	3,380	(54)	—	—
SBA pool securities	13,912	(230)	—	—
Residential mortgage-backed securities	7,539	(65)	2,624	(30)
Commercial mortgage-backed securities	23,595	(605)	—	—
Total available-for-sale	$58,476	$ (994)	$2,624	$ (30)
Investment securities held-to-maturity:				
Municipal securities	$1,536	$ (52)	$—	$ —
Residential mortgage-backed securities	8,065	(136)	930	(21)
Total held-to-maturity	$9,601	$ (188)	$930	$ (21)

At March 31, 2017, and December 31, 2016, the unrealized losses on investment securities were related to market interest rate fluctuations since purchase. Management does not have the intent to sell the temporarily impaired securities and it is not more likely than not that the Company will be required to sell the investments before recovery of the amortized cost, which may be maturity. Accordingly, as of March 31, 2017, management has reviewed its portfolio for other-than-temporary-impairment and believes the impairment detailed in the table above is temporary and no other-than-temporary impairment loss has been recognized in the Company’s Consolidated Statements of Comprehensive Income.

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The amortized cost and fair value of investment securities at March 31, 2017, and December 31, 2016 are categorized in the following table by remaining contractual maturity. The amortized cost and fair value of securities not due at a single maturity (i.e., mortgage-backed securities) are shown separately and are calculated based on estimated average remaining life:

(in thousands)	March 31, 2017 Amortized Cost	March 31, 2017 Fair Value	December 31, 2016 Amortized Cost	December 31, 2016 Fair Value
Investment securities available-for-sale:				
Obligations of U.S. Government sponsored enterprises				
Due after one year through five years	$15,001	$15,133	$15,001	$15,112
Due five years through ten years	7,208	7,314	7,217	7,293
Municipal securities				
Due after one year through five years	1,516	1,509	431	448
Due five years through ten years	2,869	2,980	3,961	4,070
Due after ten years	6,131	6,291	7,314	7,463
SBA pool securities				
Due after five years through ten years	8,233	8,193	8,407	8,325
Due after ten years	5,545	5,375	5,735	5,587
Residential mortgage-backed securities	60,563	61,940	64,141	65,630
Commercial mortgage-backed securities	30,878	30,336	30,987	30,382
Total available-for-sale	$137,944	$139,071	$143,194	$144,310
Investment securities held-to-maturity:				
Municipal securities				
Due after ten years	$1,588	$1,593	$1,588	$1,536
Residential mortgage-backed securities	10,316	10,298	10,899	10,902
Commercial mortgage-backed securities	4,073	4,073	4,096	4,096
Total held-to-maturity	$15,977	$15,964	$16,583	$16,534

There were two investment securities available-for-sale called, matured, or paid off during the three months ended March 31, 2017, and one investment security called, matured, or paid off during the three months ended March 31, 2016. There were no gross gains or losses for the investment securities that were called during the three months ended March 31, 2017, and a gross gain of $82,000 during the same period in 2016.

There were no transfers from investment securities available-for-sale to investment securities held-to-maturity during the three months ended March 31, 2017, and 2016.

The following table summarizes the investment securities that were pledged as collateral at March 31, 2017, and December 31, 2016:

(in thousands)	March 31, 2017	December 31, 2016
Public deposits	$102,925	$ 103,104
Securities sold under repurchase agreements	17,470	19,183
Total pledged securities	$120,395	$ 122,287

4. Loans Held-for-Sale

Residential mortgage loans held-for-sale are carried at fair value and SBA and indirect automobile loans are carried at the lower of cost or fair value. The following table summarizes loans held-for-sale at March 31, 2017 and December 31, 2016:

(in thousands)	March 31, 2017	December 31, 2016
Residential mortgage	$201,661	$ 252,712
SBA	9,456	12,616

Indirect automobile	150,000	200,000
Total loans held-for-sale	$ 361,117	$ 465,328

During the three months ended March 31, 2017, no loans were transferred to the held for investment residential mortgage portfolio. During the three months ended March 31, 2016, the Company transferred loans with unpaid principal balances of $2.2 million to the held for investment residential mortgage portfolio.

The Company had residential mortgage loans held-for-sale with unpaid principal balances of $123.3 million and $188.5 million pledged to the FHLB at March 31, 2017 and December 31, 2016, respectively.

5. Loans

Loans outstanding, by class, are summarized in the following table at carrying value and include net unamortized costs of $34.9 million and $35.5 million at March 31, 2017 and December 31, 2016. Covered loans represent previously acquired loans covered under Loss Share Agreements with the FDIC. Non-covered loans represent loans acquired that are not covered under Loss Share Agreements with the FDIC and legacy Bank loans. Legacy Bank loans represent existing portfolio loans originated prior to each acquisition and additional loans originated subsequent to each acquisition (collectively, "legacy loans"). Because of the difference in accounting for acquired loans, the tables below further segregate the Company's non-covered loans between legacy loans and acquired loans:

	March 31, 2017			
	Non-covered Loans		Covered	
(in thousands)	Legacy	Acquired	Loans Acquired[1]	Total
Commercial	$623,781	$173,703	$ 5,421	$802,905
SBA	143,458	6,269	—	149,727
Total commercial loans	767,239	179,972	5,421	952,632
Construction	239,317	10,014	134	249,465
Indirect automobile	1,565,298	—	—	1,565,298
Installment loans and personal lines of credit	26,920	4,727	—	31,647
Total consumer loans	1,592,218	4,727	—	1,596,945
Residential mortgage	384,406	34,234	301	418,941
Home equity lines of credit	113,380	20,160	3,403	136,943
Total mortgage loans	497,786	54,394	3,704	555,884
Total loans	$3,096,560	$249,107	$ 9,259	$3,354,926

	December 31, 2016			
	Non-covered Loans		Covered	
(in thousands)	Legacy	Acquired	Loans Acquired[1]	Total
Commercial	$601,557	$172,747	$ 10,433	$784,737
SBA	143,339	6,098	342	149,779
Total commercial loans	744,896	178,845	10,775	934,516
Construction	225,795	12,180	935	238,910
Indirect automobile	1,575,865	—	—	1,575,865
Installment loans and personal lines of credit	26,291	6,850	84	33,225
Total consumer loans	1,602,156	6,850	84	1,609,090
Residential mortgage	346,512	39,732	338	386,582
Home equity lines of credit	107,390	21,980	3,796	133,166
Total mortgage loans	453,902	61,712	4,134	519,748
Total loans	$3,026,749	$259,587	$ 15,928	$3,302,264

[1]Included in covered loans at March 31, 2017 are $5.4 million in assets whose reimbursable loss period will end in 2017, and included in covered loans at December 31, 2016, are $6.3 million of assets whose reimbursable loss period

ended at December 31, 2016, and $5.4 million of assets whose reimbursable loss period will end in 2017.

The Company has extended loans to certain officers and directors. The Company does not believe these loans involve more than the normal risk of collectability or present other unfavorable features when originated. None of the related party loans were classified as nonaccrual, past due, restructured, or potential problem loans at March 31, 2017 or December 31, 2016.

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Nonaccrual Loans

The accrual of interest income is generally discontinued when a loan becomes 90 days past due. Past due status is based on the contractual terms of the loan agreement. A loan may be placed on nonaccrual status sooner if reasonable doubt exists as to the full, timely collection of principal or interest. When a loan is placed on nonaccrual status, previously accrued and uncollected interest is reversed against current period interest income. Subsequent interest collected is recorded as a principal reduction. Nonaccrual loans are returned to accrual status when all contractually due principal and interest amounts are brought current and the future payments are reasonably assured.

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

(in thousands)	March 31, 2017	December 31, 2016
Commercial	$ 7,262	$ 8,488
SBA	4,497	5,664
Total commercial loans	11,759	14,152
Construction	6,206	6,408
Indirect automobile	1,295	1,276
Installment loans and personal lines of credit	453	581
Total consumer loans	1,748	1,857
Residential mortgage	14,709	10,860
Home equity lines of credit	3,955	2,081
Total mortgage loans	18,664	12,941
Total nonaccrual loans	$ 38,377	$ 35,358

If such nonaccrual loans had been on a full accrual basis, interest income on these loans for the three months ended March 31, 2017, and 2016 would have been $531,000 and $457,000, respectively. The amount of repurchased government-guaranteed loans, entirely residential mortgage loans, included in the table above was $12.3 million and $7.8 million at March 31, 2017 and December 31, 2016, respectively.

Accruing loans delinquent 30-89 days, 90 days or more, and troubled debt restructured loans ("TDRs") accruing interest, including PCI loans, presented by class of loans at March 31, 2017 and December 31, 2016, were as follows:

(in thousands)	March 31, 2017			December 31, 2016		
	Accruing Delinquent 30-89 Days	Accruing Delinquent 90 Days or More	TDRs Accruing	Accruing Delinquent 30-89 Days	Accruing Delinquent 90 Days or More	TDRs Accruing
Commercial	$1,899	$ 7,800	$ 8,577	$1,407	$ 4,231	$ 5,942
SBA	2,371	—	3,759	1,452	—	3,788
Construction	—	242	—	32	343	—
Indirect automobile	2,223	—	1,777	2,972	—	1,474
Installment and personal lines of credit	419	24	—	39	26	—
Residential mortgage	4,352	205	404	380	1,577	406
Home equity lines of credit	471	143	53	1,320	12	53
Total	$11,735	$ 8,414	$ 14,570	$7,602	$ 6,189	$ 11,663

TDR Loans

The following table presents TDRs that occurred during the three months ended March 31, 2017, and 2016, along with the type of modification. Modified PCI loans are not removed from their accounting pool and accounted for as TDRs, even if those loans would otherwise be deemed TDRs.

	Three Months Ended March 31, 2017		Three Months Ended March 31, 2016	
(in thousands)	Interest Rate	Term	Interest Rate	Term
Commercial	$ 187	$ —	$ —	$ —
SBA	—	—	—	—
Construction	—	—	—	—
Indirect automobile	—	—	—	331
Installment and personal lines of credit	—	—	—	—
Residential mortgage	—	—	—	—
Home equity lines of credit	—	—	—	—
Total	$ 187	$ —	$ —	$ 331

During the three months ended March 31, 2017, the amount of loans which were restructured in the past twelve months and subsequently redefaulted was $195,000, which was comprised of commercial and indirect loans. During the three months ended March 31, 2016, the amount of loans which were restructured in the previous twelve months and subsequently redefaulted were $3,000, which was comprised of an indirect automobile loan. The company defines subsequently redefaulted as a payment default within 12 months of the restructuring date.

The Company had total TDRs with a balance of $18.2 million and $16.1 million at March 31, 2017, and December 31, 2016, respectively. There were net charge-offs of TDR loans of $44,000 and net recoveries of TDR loans of $773,000 for the three months ended March 31, 2017, and 2016, respectively. Net charge-offs on such loans are factored into the rolling historical loss rate, which is used in the calculation of the allowance for loan losses.

The Company is not committed to lend a material amount of additional funds as of March 31, 2017 or December 31, 2016 to customers with outstanding loans that are classified as impaired or as TDRs.

Pledged Loans

Presented in the following table is the unpaid principal balance of loans held for investment that were pledged to the Federal Home Loan Bank of Atlanta ("FHLB of Atlanta") as collateral for borrowings under a blanket lien arrangement at March 31, 2017, and December 31, 2016:

(in thousands)	March 31, 2017	December 31, 2016
Commercial real estate	$ 257,423	$ 257,645
Home equity lines of credit	100,345	93,560
Residential mortgage	212,933	223,013
Total	$ 570,701	$ 574,218

Indirect automobile loans with an unpaid principal balance of approximately $330.0 million and $311.4 million were pledged to the Federal Reserve Bank of Atlanta ("FRB") at March 31, 2017, and December 31, 2016, respectively, as collateral for potential Discount Window borrowings under a blanket lien arrangement.

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Impaired Loans

The following tables present by class the unpaid principal balance, recorded investment and related allowance for impaired legacy loans and acquired non PCI loans at March 31, 2017, and December 31, 2016. Legacy impaired loans include all TDRs and all other nonaccrual loans, excluding nonaccrual loans below the Company's specific review threshold:

	March 31, 2017			December 31, 2016		
(in thousands)	Unpaid Principal Balance	Recorded Investment[1]	Related Allowance	Unpaid Principal Balance	Recorded Investment[1]	Related Allowance
Impaired Loans with Allowance						
Commercial	$15,632	$ 15,313	$ 1,057	$17,337	$ 14,412	$ 993
SBA	6,634	3,729	239	4,671	1,956	156
Indirect automobile	2,733	2,241	234	2,655	2,151	246
Installment and personal lines of credit	280	232	232	283	235	235
Residential mortgage	2,722	2,653	587	3,178	3,117	703
Home equity lines of credit	1,500	1,025	278	1,279	1,171	333
Loans	$29,501	$ 25,193	$ 2,627	$29,403	$ 23,042	$ 2,666

	March 31, 2017		December 31, 2016	
(in thousands)	Unpaid Principal Balance	Recorded Investment[1]	Unpaid Principal Balance	Recorded Investment[1]
Impaired Loans with No Allowance				
Commercial	$8,731	$ 4,689	$7,267	$ 5,888
SBA	5,310	4,696	9,135	8,045
Construction	7,674	6,193	7,875	6,394
Installment and personal lines of credit	1,445	163	1,445	163
Residential mortgage	11,844	11,703	9,464	9,347
Home equity lines of credit	960	913	1,149	749
Loans	$35,964	$ 28,357	$36,335	$ 30,586

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

The average recorded investment in impaired loans and interest income recognized for the three months ended March 31, 2017, and 2016, by class, are summarized in the table below. Impaired loans include legacy impaired loans, which include all TDRs and all other nonaccrual loans. Interest income recognized during the periods on a cash basis was insignificant.

	Three Months Ended March 31,			
	2017		2016	
(in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial	$20,155	$ 139	$16,727	$ 183
SBA	9,048	101	13,399	156
Construction	6,274	1	5,951	4
Indirect automobile	2,237	52	2,278	72
Installment and personal lines of credit	396	34	435	28
Residential mortgage	13,763	48	5,503	45
Home equity lines of credit	1,952	16	670	22
Total	$53,825	$ 391	$44,963	$ 510

Credit Quality Indicators

The Company uses an asset quality ratings system to assign a numeric indicator of the credit quality and level of existing credit risk inherent in a loan ranging from 1 to 8, where a higher rating represents higher risk. Management regularly reviews loans in the portfolio to assess credit quality indicators and to determine appropriate loan classification and grading in accordance with

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the Company's internal loan policy. These ratings are adjusted periodically as the Company becomes aware of changes in the credit quality of the underlying loans.

Indirect automobile loans typically receive a risk rating only when being downgraded to an adverse rating which typically occurs when payments of principal and interest are greater than 90 days past due. The Company uses a number of factors, including FICO scoring, to help evaluate the likelihood consumer borrowers will pay their credit obligations as agreed. The weighted-average FICO score for the indirect automobile portfolio was 753 for the quarter ended March 31, 2017 and 752 for the year ended December 31, 2016.

The following are definitions of the asset rating categories:

•Pass – These categories include loans rated satisfactory with high, good, average or acceptable business and credit risk.

•Special Mention – A special mention asset has potential weaknesses that deserve management's close attention.

•Substandard – A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. A substandard asset has a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt.

•Doubtful – Doubtful assets have all the weaknesses inherent in assets classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

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

The following tables present the recorded investment in loans, by loan class and risk rating category, as of March 31, 2017, and December 31, 2016:

(in thousands)	March 31, 2017							
Asset Rating	Commercial	SBA	Construction	Indirect Automobile	Installment and Personal Lines of Credit	Residential Mortgage	Home Equity Lines of Credit	Total
Pass	$738,325	$133,307	$ 240,996	$—	$ 30,926	$ 398,729	$132,200	$1,674,483
Special Mention	32,374	9,910	430	—	181	1,689	923	45,507
Substandard	32,206	6,510	8,039	4,681	540	18,523	3,820	74,319
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
	802,905	149,727	249,465	4,681	31,647	418,941	136,943	1,794,309
Ungraded Performing	—	—	—	1,560,617	—	—	—	1,560,617
Total	$802,905	$149,727	$ 249,465	$1,565,298	$ 31,647	$ 418,941	$136,943	$3,354,926

(in thousands)	December 31, 2016							
Asset Rating	Commercial	SBA	Construction	Indirect Automobile	Installment and Personal Lines of Credit	Residential Mortgage	Home Equity Lines of Credit	Total
Pass	$721,133	$131,047	$ 229,978	$—	$ 32,521	$ 368,492	$129,847	$1,613,018
Special Mention	31,040	10,997	615	—	45	2,759	550	46,006
Substandard	32,564	7,735	8,317	4,003	659	15,331	2,769	71,378
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
	784,737	149,779	238,910	4,003	33,225	386,582	133,166	1,730,402
Ungraded Performing	—	—	—	1,571,862	—	—	—	1,571,862
Total	$784,737	$149,779	$ 238,910	$1,575,865	$ 33,225	$ 386,582	$133,166	$3,302,264

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Acquired Loans

As part of the AEB acquisition on March 1, 2016, the Company acquired loans with a fair value of $147.3 million. Of this amount, $145.8 million were determined to have no evidence of deteriorated credit quality and are accounted for as acquired performing loans. The remaining $1.5 million were determined to have exhibited deteriorated credit quality since origination and were accounted for as PCI loans.

The tables below show the balances acquired for these two subsections of the portfolio as of the acquisition date. Contractually required principal and interest payments are based on a loan's contractual rate and payment schedule at acquisition, assuming no loss or prepayment.

Acquired Performing Loans

(in thousands)	2016
Contractually required principal and interest payments at acquisition	$173,726
Fair value of acquired performing loans at acquisition	$145,843

Acquired PCI Loans

(in thousands)	2016
Contractually required principal and interest payments at acquisition	$2,515
Less: Nonaccretable difference (expected losses and foregone interest)	(962)
Cash flows expected to be collected at acquisition	1,553
Less: Accretable yield	(92)
Basis in acquired PCI loans at acquisition	$1,461

The carrying amount and outstanding balance at March 31, 2017 of the PCI loans from the acquisitions prior to 2016 was $35.5 million and $46.8 million, respectively, and $37.3 million and $48.9 million, respectively, at December 31, 2016.

Changes in the accretable yield, or income expected to be collected on PCI loans for the three months ended March 31, 2017, and 2016, was as follows:

	For the Three Months Ended March 31,	
(in thousands)	2017	2016
Beginning balance	$4,403	$3,797
Increase due to acquired loans	—	92
Accretion of income	(360)	(549)
Other activity, net [(1)]	—	178
Ending balance	$4,043	$3,518

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

6. Allowance for Loan Losses

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

	Three Months Ended March 31, 2017						
	Commercial Loans						
(in thousands)	Commercial	SBA	Construction	Consumer	Mortgage	Unallocated	Total
Beginning balance	$9,331	$1,978	$ 2,176	$ 9,812	$ 5,755	$ 779	$29,831
Charge-offs	(133)	(85)	—	(1,835)	(51)	—	(2,104)
Recoveries	161	44	207	291	35	—	738
Net recoveries / (charge offs)	28	(41)	207	(1,544)	(16)	—	(1,366)
Decrease in FDIC indemnification asset	(110)	—	—	—	—		(110)
Provision for loan losses[(1)]	200	191	(61)	1,667	71	32	2,100
Ending balance	$9,449	$2,128	$ 2,322	$ 9,935	$ 5,810	$ 811	$30,455

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	Three Months Ended March 31, 2016						
	Commercial Loans						
(in thousands)	Commercial	SBA	Construction	Consumer	Mortgage	Unallocated	Total
Beginning balance	$8,582	$2,433	$ 1,711	$ 8,668	$4,294	$ 776	$26,464
Charge-offs	(4)	(265)	—	(1,163)	(44)	—	(1,476)
Recoveries	722	—	534	358	1	—	1,615
Net recoveries / (charge offs)	718	(265)	534	(805)	(43)	—	139
(Decrease) increase in FDIC indemnification asset	(53)	—	(348)	—	24	—	(377)
Provision for loan losses(1)	(357)	(106)	(40)	603	292	108	500
Ending balance	$8,890	$2,062	$ 1,857	$ 8,466	$4,567	$ 884	$26,726

(1)Net of benefit attributable to FDIC indemnification asset.

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

	March 31, 2017						
	Commercial Loans						
(in thousands)	Commercial	SBA	Construction	Consumer	Mortgage	Unallocated	Total
Individually evaluated	$1,056	$239	$ —	$467	$865	$ —	$2,627
Collectively evaluated	8,156	1,889	2,297	9,461	4,931	811	27,545
Acquired with deteriorated credit quality	237	—	25	7	14	—	283
Total ALL	$9,449	$2,128	$ 2,322	$9,935	$5,810	$ 811	$30,455
Individually evaluated	$20,002	$8,425	$ 6,193	$2,636	$16,294	$ —	$53,550
Collectively evaluated	757,388	140,794	240,777	1,594,176	532,783	—	3,265,918
Acquired with deteriorated credit quality	25,515	508	2,495	133	6,807	—	35,458
Total loans	$802,905	$149,727	$ 249,465	$1,596,945	$555,884	$ —	$3,354,926

	December 31, 2016						
	Commercial Loans						
(in thousands)	Commercial	SBA	Construction	Consumer	Mortgage	Unallocated	Total
Individually evaluated	$993	$156	$ —	$481	$1,036	$ —	$2,666
Collectively evaluated	8,101	1,822	2,151	9,324	4,705	779	26,882
Acquired with deteriorated credit quality	237	—	25	7	14	—	283
Total ALL	$9,331	$1,978	$ 2,176	$9,812	$5,755	$ 779	$29,831
Individually evaluated	$20,300	$10,001	$ 6,394	$2,549	$14,384	$ —	$53,628
Collectively evaluated	738,297	139,246	229,907	1,590,110	513,821	—	3,211,381
Acquired with deteriorated credit quality	26,140	532	2,609	209	7,765	—	37,255
Total loans	$784,737	$149,779	$ 238,910	$1,592,868	$535,970	$ —	$3,302,264

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

Total loans includes acquired loans of $258.4 million and $275.5 million at March 31, 2017 and December 31, 2016, respectively, which were recorded at fair value when acquired. The ALL for acquired loans is evaluated at each reporting date subsequent to acquisition. For acquired performing loans, an allowance is determined for each loan pool using a methodology similar to that used for originated loans and then compared to the remaining fair value discount for that pool. For PCI loans, estimated cash flows expected to be collected are re-evaluated at each reporting date for each loan pool. The methodology also considers the remaining fair value discounts recognized upon acquisition associated with acquired performing loans in estimating a general allowance and also includes establishing an ALL for PCI loans that have deteriorated since acquisition.

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7. Other Real Estate

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

(in thousands)	March 31, 2017	December 31, 2016
Commercial	$ 3,738	$ 6,625
Residential	1,443	1,514
Undeveloped property	6,103	6,675
Total ORE, net	$ 11,284	$ 14,814

The following table summarizes the changes in ORE:

	For the Three Months Ended March 31,	
(in thousands)	2017	2016
Beginning balance	$14,814	$18,677
ORE acquired in acquisition	—	809
Transfers of loans to ORE	994	2,683
Sales	(3,685)	(2,303)
Write-downs	(839)	(384)
Ending balance	$11,284	$19,482

At March 31, 2017 and December 31, 2016, the unpaid principal balance of residential mortgage loans formally in the process of foreclosure proceedings was approximately $479,000 and $2.0 million, respectively.

8. Fair Value of Financial Instruments

Valuation Methodologies and Fair Value Hierarchy

The primary financial instruments that the Company carries at fair value include investment securities available-for-sale, derivative instruments including IRLCs, and residential mortgage loans held-for-sale.

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

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

The Company classifies IRLCs on residential mortgage loans held-for-sale, which are derivatives under ASC 815-10-15, on a gross basis within other assets or other liabilities. The fair value of these commitments, while based on interest rates observable in the market, is highly dependent on the ultimate closing of the loans. These "pull-through" rates are based on both the Company's historical data and the current interest rate environment and reflect the Company's best estimate of the likelihood that a commitment will ultimately result in a closed loan. The loan servicing value is also included in the fair value of IRLCs. Because these inputs are not transparent in market trades, IRLCs are considered to be Level 3 assets.

Derivative instruments are primarily transacted in the secondary mortgage and institutional dealer markets and priced with observable market assumptions at a mid-market valuation point, with appropriate valuation adjustments for liquidity and credit risk. For purposes of valuation adjustments to its derivative positions, the Company has evaluated liquidity premiums that may be demanded by market participants, as well as the credit risk of its counterparties and its

own credit if applicable. To date, no material losses due to a counterparty's inability to pay any net uncollateralized position have occurred. Derivative instruments are considered to be Level 3.
The credit risk associated with the underlying cash flows of an instrument carried at fair value was a consideration in estimating the fair value of certain financial instruments. Credit risk was considered in the valuation through a variety of inputs, as applicable, including, the actual default and loss severity of the collateral, and level of subordination. The assumption used to estimate credit risk applied relevant information that a market participant would likely use in valuing an instrument. Because mortgage loans

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held-for-sale are generally sold within a few weeks of origination, they are unlikely to demonstrate any of the credit weaknesses discussed above and as a result, the amount of any credit related adjustments to fair value during the three months ended March 31, 2017, and 2016 was insignificant.

Recurring Fair Value Measurements

The following tables present certain information regarding the financial assets measured at fair value on a recurring basis by level within the fair value hierarchy based on the inputs used to estimate the fair value at the measurement date. There were no transfers between Levels 1, 2, and 3 during the three months ended March 31, 2017.

	March 31, 2017			
(in thousands)	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities available-for-sale	$139,071	$—	$139,071	$ —
Mortgage loans held-for-sale	201,661	—	201,661	—
Other assets[1]	8,025	—	—	8,025
Other liabilities[1]	(2,349)	—	—	(2,349)

	December 31, 2016			
(in thousands)	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities available-for-sale	$144,310	$—	$144,310	$ —
Mortgage loans held-for-sale	252,712	—	252,712	—
Other assets[1]	7,111	—	—	7,111
Other liabilities[1]	(1,065)	—	—	(1,065)

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

The following table presents a reconciliation of all other assets and other liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended March 31, 2017, and 2016. The changes in the fair value of economic hedges were recorded in noninterest income from mortgage banking activities in the Consolidated Statements of Comprehensive Income and are designed to partially offset the change in fair value of the financial instruments referenced in the following table:

	As of or for the Three Months Ended March 31,			
	2017		2016	
(in thousands)	Other Assets[1]	Other Liabilities[1]	Other Assets[1]	Other Liabilities[1]
Beginning balance	$7,111	$ (1,065)	$4,022	$ (651)
Total gains / (losses) included in earnings:				

Issuances	8,025	(2,349)	7,181	(2,497)
Settlements and closed loans	(7,238)	1,065	(4,000)	651
Expirations	127	—	(22)	—
Ending balance	$8,025	$ (2,349)	$7,181	$ (2,497)

(1)Includes mortgage-related IRLCs and derivative financial instruments entered to hedge interest rate risk

Nonrecurring Fair Value Measurements

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

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	March 31, 2017			
(in thousands)	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$20,984	$—	$ —	$ 20,984
ORE, net	6,546	—	—	6,546
Residential mortgage servicing rights	32,209	—	—	32,209
SBA servicing rights	1,232	—	—	1,232

	December 31, 2016			
(in thousands)	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$22,338	$—	$ —	$ 22,338
ORE, net	9,396	—	—	9,396
Residential mortgage servicing rights	44,600	—	—	44,600

Quantitative Information about Level 3 Fair Value Measurements

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

	Fair Value at					
($ in thousands)	March 31, 2017	December 31, 2016	Valuation Technique	Unobservable Inputs	Range/Weighted Average at March 31, 2017	Range/Weighted Average at December 31, 2016
Nonrecurring:						
Impaired loans	$20,984	$ 22,338	Appraised value less estimated selling costs	Estimated selling costs	0% - 10% 9.56%	0% - 10% 9.69%
Other real estate	6,546	9,396	Discounted appraisals less estimated selling costs	Estimated selling costs	0% - 10% 9.24%	0% - 10% 9.13%
Residential mortgage servicing rights	32,209	44,600	Discounted cash flows	Discount rate	9.77% - 11.25% 10.04%	9.64% - 11.13% 9.91%

				Modeled prepayment speeds	6.93% - 16.22% 7.33%	7.47% - 18.03% 7.98%
SBA servicing rights	1,232	—	Discounted cash flows	Discount rate	13.12%	N/A
				Modeled prepayment speeds	8.64%	N/A
Recurring:						
IRLCs	7,269	3,231	Pricing model	Modeled pull-through ratio	82.50%	82.50%
Forward commitments	(1,593)	2,815	Investor pricing	Pricing spreads	90.00% - 105.69% 102.78%	90.00% - 106.14% 101.94%

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

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

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

Mortgage and SBA servicing rights are initially recorded at fair value when loans are sold with servicing retained. These assets are then amortized in proportion to and over the period of estimated net servicing income. On at least a quarterly basis, these servicing assets are assessed for impairment based on fair value. Management uses a model operated and maintained by an independent third party to assist in determining fair value which stratifies the servicing portfolio into homogeneous subsets with unique behavior characteristics. The model then converts those characteristics into income and expense streams, adjusts those streams for estimated prepayments, present values the adjusted streams, and combines the present values into a total. If the cost basis of any loan stratification tranche is higher than the present value of the tranche, an impairment is recorded. Management periodically obtains an independent review of the valuation assumptions to validate the fair value estimate and the reasonableness of the assumptions used in measuring fair value. See Note 11 for additional disclosures related to assumptions used in the fair value calculation for mortgage and SBA servicing rights.

Management makes certain estimates and assumptions related to costs to service varying types of loans and pools of loans, prepayment speeds, the projected lives of loans and pools of loans sold servicing retained, and discount factors used in calculating the present values of servicing fees projected to be received. Management periodically obtains an independent review of the valuation assumptions to validate the fair value estimate and the reasonableness of the assumptions used in measuring fair value.

No less frequently than quarterly, management reviews the status of mortgage loans held-for-sale for which the fair value option has been elected 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 the Company's IRLCs is the pull-through ratio, which represents the percentage of loans currently in a lock position which management estimates will ultimately close. Generally, the fair value of an 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 estimated based on calculations provided by the secondary marketing department using historical data. The estimated pull-through ratio is periodically reviewed by the Company's Secondary Marketing Department of the Mortgage Banking Division for reasonableness.

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

Fair Value Option

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

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

The following table presents the difference between the aggregate fair value and the aggregate unpaid principal balance of loans held-for-sale for which the fair value option ("FVO") has been elected as of March 31, 2017 and December 31, 2016. There were no loans held-for-sale that were 90 days or more past due or in nonaccrual status at March 31, 2017 or December 31, 2016.

(in thousands)	Aggregate Fair Value March 31, 2017	Aggregate Unpaid Principal Balance at March 31, 2017	Aggregate Fair Value Over Unpaid Principal
Residential mortgage loans held-for-sale	$201,661	$195,768	$ 5,893

(in thousands)	Aggregate Fair Value December 31, 2016	Aggregate Unpaid Principal Balance at December 31, 2016	Aggregate Fair Value Over Unpaid Principal
Residential mortgage loans held-for-sale	$252,712	$250,096	$ 2,616

Net gains resulting from the change in fair value of these loans were $3.3 million and $1.5 million for the three months ended March 31, 2017, and 2016, respectively.

Fair Value of Financial Instruments

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

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The following tables include the carrying amount and estimated fair value, as well as the level within the fair value hierarchy, of the Company's financial instruments. The fair value estimates presented are based upon relevant information available to management as of March 31, 2017 and December 31, 2016:

(in thousands)	Carrying Amount	Fair Value Measurements at March 31, 2017 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Financial instruments (assets):					
Cash and cash equivalents	$350,502	$350,502	$ —	$ —	$350,502
Investment securities available-for-sale	139,071	—	139,071	—	139,071
Investment securities held-to-maturity	15,977	—	11,891	4,073	15,964
Total loans, net (1)	3,685,588	—	201,661	3,206,800	3,408,461
Financial instruments (liabilities):					
Noninterest-bearing demand deposits	1,005,372	—	—	1,005,372	1,005,372
Interest-bearing deposits	2,749,736	—	—	2,750,821	2,750,821
Short-term borrowings	239,466	—	239,466		239,466
Subordinated debt	120,488	—	114,359	—	114,359

(in thousands)	Carrying Amount	Fair Value Measurements at December 31, 2016 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Financial instruments (assets):					
Cash and cash equivalents	$149,711	$149,711	$ —	$ —	$149,711
Investment securities available-for-sale	144,310	—	144,310	—	144,310
Investment securities held-to-maturity	16,583	—	12,438	4,096	16,534
Total loans, net (1)	3,737,761	—	252,712	3,236,345	3,489,057
Financial instruments (liabilities):					
Noninterest-bearing demand deposits	964,900	—	—	964,900	964,900
Interest-bearing deposits	2,665,694	—	—	2,664,872	2,664,872
Short-term borrowings	243,351	—	243,351	—	243,351
Subordinated debt	120,454	—	114,537	—	114,537

(1) Includes $201,661 and $252,712 in residential mortgage loans held-for-sale at March 31, 2017 and December 31, 2016, respectively, for which the Company has elected FVO.

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

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

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

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

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The fair value of the Company's borrowings is estimated based on the quoted market price for the same or similar issued or on the current rates offered for debt of the same remaining maturities.
For off-balance sheet instruments, fair values are based on rates currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties’ credit standing for loan commitments and letters of credit. Fees related to these instruments were immaterial at March 31, 2017 and December 31, 2016, and the carrying amounts represent a reasonable approximation of their fair values. Loan commitments, letters and lines of credit, and similar obligations typically have variable interest rates and clauses that deny funding if the customer’s credit quality deteriorates. Therefore, the fair values of these items are not significant and are not included in the foregoing schedule.
Netting of Financial Instruments
Securities sold under repurchase agreements consist primarily of balances in the transaction accounts of 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 following table presents the net position of securities sold under repurchase agreements:

(in thousands)	March 31, 2017	December 31, 2016
Securities sold under repurchase agreements [(1)]	$ 14,466	$ 18,351
Fair value of securities pledged	17,470	19,183
Net position of overnight repurchase agreements	$ 3,004	$ 832

[(1)]Included as part of Short-term borrowings on the Consolidated Balance Sheets
The following table summarizes the collateral type pledged for the securities sold under repurchase agreements presented above:

(in thousands)	March 31, 2017	December 31, 2016
Municipal securities	$ 4,390	$ 5,568
Residential mortgage-backed securities	13,080	13,615
Total fair value of securities pledged	$ 17,470	$ 19,183

For both periods presented, all of the repurchase agreements contractually mature overnight. Risk arises if the collateral value drops below agreed upon levels and the Company would be required to pledge further securities. Management has mitigated this risk by reviewing the collateral on a daily basis, and reviewing the market value of the collateral on a monthly basis.
There are no derivative contracts subject to master netting agreements.
9. Derivative Financial Instruments
(Losses)/gains of $(369,000) and $1.3 million were recorded for the three months ended March 31, 2017, and 2016, respectively, for all mortgage-related derivatives, and are included in the Consolidated Statements of Comprehensive Income as part of noninterest income from mortgage banking activities.
The Company’s derivative positions were as follows:

	Contract or Notional Amount as of	
(in thousands)	March 31, 2017	December 31, 2016
Forward rate commitments	$ 492,223	$ 429,283
Interest rate lock commitments	309,160	174,835
Total derivatives contracts	$ 801,383	$ 604,118

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

10. Earnings Per Common Share

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

	Three Months Ended March 31,	
($ in thousands, except per share data)	2017	2016
Net income	$10,527	$4,541
Weighted average common shares outstanding - basic [(1)]	26,335	24,273
Effect of dilutive stock options and warrants [(2)]	142	568
Weighted average common shares outstanding – diluted	26,477	24,841
EPS:		
Basic	$0.40	$0.19
Diluted	$0.40	$0.18

[(1)]Includes participating securities related to unvested restricted stock awards, net of forfeitures during the period

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

As of March 31, 2017, there were no common stock options excluded as potentially dilutive. As of March 31, 2016, there were 378,000 common stock options which were not included in the potentially dilutive stock options and warrants, respectively. These shares were not included in the computation of diluted EPS because they were anti-dilutive in the period (i.e., the options' exercise price was greater than the average market price of the common shares.)

11. Certain Transfers of Financial Assets

Servicing rights

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

(in thousands)	March 31, 2017	December 31, 2016
Servicing rights		
Residential mortgage	$91,387	$ 86,131
SBA	5,662	5,707
Indirect automobile	7,990	7,457
Total servicing rights	$105,039	$ 99,295

Residential Mortgage Loans

The Company typically sells certain first-lien residential mortgage loans to third party investors, primarily Fannie Mae, Ginnie Mae, and Freddie Mac. The Company retains the related mortgage servicing rights ("MSRs") and receives servicing fees on certain of these loans. During the three months ended March 31, 2017, and 2016, the Company sold $496.9 million and $473.5 million in residential mortgage loans, respectively, with servicing retained.

The net gain on loan sales, MSR amortization and recoveries/impairment, and ongoing servicing fees on the portfolio of loans serviced for others are recorded in the Consolidated Statements of Comprehensive Income as part of noninterest income from mortgage banking activities. During the three months ended March 31, 2017, and 2016, the Company recorded gains on sales of residential mortgage loans of $18.7 million and $15.2 million, respectively. During the three months ended March 31, 2017, and 2016, the Company recorded servicing fee income of $5.3 million and $4.5 million, respectively. Servicing fee income includes servicing fees, late fees and ancillary fees earned for each period.

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The table below is an analysis of the activity in the Company's MSRs and impairment:

(in thousands)	For the Three Months Ended March 31, 2017	2016
Residential mortgage servicing rights		
Beginning carrying value, net	$86,131	$72,766
Additions	6,425	5,094
Amortization	(3,158)	(3,272)
Recoveries/(impairment), net [1]	1,989	(4,661)
Ending carrying value, net	$91,387	$69,927

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

(in thousands)	For the Three Months Ended March 31, 2017	2016
Residential mortgage servicing impairment		
Beginning balance	$9,152	$9,523
Additions	57	5,822
Recoveries	(2,046)	(1,161)
Ending balance	$7,163	$14,184

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

($ in thousands)	March 31, 2017	December 31, 2016
Residential Mortgage Servicing Rights		
Fair Value	$96,737	$ 88,502
Composition of residential loans serviced for others:		
Fixed-rate	99.51 %	99.47 %
Adjustable-rate	0.49 %	0.53 %
Total	100.00 %	100.00 %
Weighted average remaining term (years)	25.7	25.7
Modeled prepayment speed	7.33 %	7.98 %
Decline in fair value due to a 10% adverse change	$(2,994)	$ (2,918)
Decline in fair value due to a 20% adverse change	(5,817)	(5,643)
Weighted average discount rate	10.04 %	9.91 %
Decline in fair value due to a 10% adverse change	$(4,123)	$ (3,619)
Decline in fair value due to a 20% adverse change	(7,915)	(6,889)

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

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

Residential mortgage loans serviced	March 31, 2017			Net Charge-offs for the Three Months Ended March 31, 2017
		Delinquent (days)		
(in thousands)	Unpaid Principal Balance	30 to 89	90+	
Serviced for others	$8,067,738	$32,218	$10,216	$ —
Held-for-sale	195,768	—	—	—
Held-for-investment	417,993	4,448	10,536	47
Total residential mortgage loans serviced	$8,681,499	$36,666	$20,752	$ 47

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

Mortgage Recourse Liability

During the last five years ended March 31, 2017, the Company has sold almost 50,000 loans with a principal balance of approximately $12.0 billion. Purchasers generally have recourse to return a sold loan to the Company under limited circumstances. As seller, the Company has made various representations and warranties related to, among other things, the ownership of the loans, the validity of the liens, the loan selection and origination process, and the compliance with origination criteria established by the purchasers. In the event of a breach of these representations and warranties, the Company is obligated to repurchase loans with identified defects and/or to indemnify the purchasers. Some of these conditions include underwriting errors or omissions, fraud or material misstatements, and invalid collateral values. The contractual obligation arises only when the breach of representations and warranties is discovered and repurchase/indemnification is demanded. Generally, the maximum amount the Company would be required to pay would be equal to the unpaid principal balance of such loans that are deemed to have defects that were sold to purchasers, plus accrued interest, return of the premium received at the time of the loan sale, and reimbursement of certain expenses. To date, the claims to the Company from the purchasers to be paid upon repurchase or paid because of indemnification have been insignificant. In addition, the Company's loan sale contracts define a condition in which the borrower defaults during a short period of time as an early payment default ("EPD"). In the event of an EPD, the Company may be required to return the premium paid for the loan, pay certain administrative fees, and may be required to repurchase the loan or indemnify the purchaser unless an EPD waiver is obtained. The Company also makes a number of representations and warranties that it will service the originated loans in accordance with investor servicing guidelines and standards.

Management recognizes the potential risk from costs related to breaches of representations and warranties made in connection with residential loan sales and subsequent required repurchases, indemnifications, and EPD claims. As a result, the Company has established a liability to cover potential costs related to these events based on historical experience, adjusted for any risk factors not captured in the historical losses, current business volume, and known claims outstanding. The recourse liability totaled $1.4 million at March 31, 2017, and December 31, 2016, respectively, and management believes this amount is adequate for potential exposure related to loan sale indemnification, repurchase loans, and EPD claims. There is a significant degree of judgment involved in estimating the recourse liability as the estimation process is inherently uncertain and subject to imprecision. Management will continue to monitor the adequacy of the reserve level and may decide that further additions to the reserve are appropriate in the future. However, there can be no assurance that the current balance of this reserve will prove sufficient to cover actual future losses.

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

SBA Loans

The Company has executed certain transfers of SBA loans with third parties. These loans, which are typically partially guaranteed by the SBA or otherwise credit enhanced, are generally secured by business property such as real estate, inventory, equipment, and accounts receivable. During the three months ended March 31, 2017, and 2016, the Company sold $14.0 million and $11.5 million in SBA loans, respectively, with servicing retained.

The Company retains the loan servicing rights and receives ongoing servicing fees on the portfolio of loans serviced for others. The net gain on SBA loan sales, amortization and recoveries/impairment of servicing rights, and ongoing servicing fees are recorded in the Consolidated Statements of Comprehensive Income as part of noninterest income from SBA lending activities. During the three months ended March 31, 2017, and 2016, the Company recorded gains on sales of SBA loans of $1.4 million and $856,000, respectively. During the three months ended March 31, 2017, and 2016, the Company recorded servicing fee income of $621,000 and $580,000, respectively. Servicing fee income includes servicing fees, late fees and ancillary fees earned for each period.

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

(in thousands)	For the Three Months Ended March 31, 2017	2016
SBA loan servicing rights		
Beginning carrying value, net	$5,707	$5,358
Additions	391	293
Amortization	(416)	(315)
(Impairment) / recoveries, net [1]	(20)	113
Ending carrying value, net	$5,662	$5,449

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

(in thousands)	For the Three Months Ended March 31, 2017	2016
SBA servicing rights impairment		
Beginning balance	$—	$243
Additions	20	—
Recoveries	—	(113)
Ending balance	$20	$130

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

($ in thousands)	March 31, 2017	December 31, 2016
SBA loan servicing rights		
Fair Value	$6,548	$ 6,424
Composition of loans serviced for others:		
Fixed-rate	— %	0.19 %
Adjustable-rate	100.00 %	99.81 %
Total	100.00 %	100.00 %
Weighted average remaining term (years)	19.4	19.6
Modeled prepayment speed	8.64 %	8.62 %
Decline in fair value due to a 10% adverse change	$(161)	$ (161)
Decline in fair value due to a 20% adverse change	(315)	(314)
Weighted average discount rate	13.12 %	13.13 %
Decline in fair value due to a 10% adverse change	$(234)	$ (226)
Decline in fair value due to a 20% adverse change	(451)	(443)

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

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

SBA loans serviced	March 31, 2017			Net Charge-offs for the Three Months Ended March 31, 2017
		Delinquent (days)		
(in thousands)	Unpaid Principal Balance	30 to 89	90+	
Serviced for others	$287,923	$2,062	$2,928	$ —
Held-for-sale	9,456	—	—	—
Held-for-investment	158,166	3,693	2,928	41
Total SBA loans serviced	$455,545	$5,755	$5,856	$ 41

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

Indirect Automobile Loans

The Company purchases, on a nonrecourse basis, consumer installment contracts secured by new and used vehicles purchased by consumers from franchised motor vehicle dealers and select independent dealers. A portion of the indirect automobile loans is sold with servicing retained and the Company receives ongoing servicing fees on the portfolio of loans serviced for others. During the three months ended March 31, 2017, and 2016, the Company sold $192.4 million and $171.8 million in indirect automobile loans, respectively with servicing retained.

The gain on loan sales, amortization of servicing rights, and ongoing servicing fees are recorded in the Consolidated Statements of Comprehensive Income as part of noninterest income from indirect lending activities. During the three months ended March 31, 2017, and 2016, the Company recorded gains on sales of indirect automobile loans of $3.2 million and $2.8 million, respectively. During the three months ended March 31, 2017, and 2016, the Company recorded servicing fee income of $2.1 million and $2.0 million, respectively. Servicing fee income includes servicing fees, late fees and ancillary fees earned for each period.

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

	For the Three Months Ended March 31,	
(in thousands)	2017	2016
Indirect automobile loan servicing rights		
Beginning carrying value	$7,457	$6,820
Additions	1,403	1,297
Amortization	(870)	(613)
Ending carrying value	$7,990	$7,504

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

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

($ in thousands)	March 31, 2017	December 31, 2016
Indirect automobile loan servicing rights		
Fair value	$7,994	$ 7,579
Composition of loans serviced for others:		
Fixed-rate	100 %	100 %
Adjustable-rate	— %	— %
Total	100 %	100 %
Weighted average remaining term (years)	4.8	4.8
Modeled prepayment speed	18.95 %	18.95 %

Decline in fair value due to a 10% adverse change	$ (199)	$ (190)
Decline in fair value due to a 20% adverse change	(390)	(371)
Weighted average discount rate	7.02 %	6.94 %
Decline in fair value due to a 10% adverse change	$ (75)	$ (71)
Decline in fair value due to a 20% adverse change	(150)	(141)

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

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

Indirect automobile loans serviced	March 31, 2017			Net Charge-offs for the Three Months Ended March 31, 2017
		Delinquent (days)		
(in thousands)	Unpaid Principal Balance	30 to 89	90+	
Serviced for others	$1,197,160	$2,528	$1,968	$ 839
Held-for-sale	150,000	—	—	—
Held-for-investment	1,565,298	3,505	2,345	1,502
Total indirect automobile loans serviced	$2,912,458	$6,033	$4,313	$ 2,341

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

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

The following analysis reviews important factors affecting our financial condition at March 31, 2017 compared to December 31, 2016, and compares the results of operations for the three months ended March 31, 2017, and 2016. These comments should be read in conjunction with our consolidated financial statements and accompanying notes appearing in this Quarterly Report on Form 10-Q and the "Risk Factors" set forth in our Annual Report on Form 10-K for the year ended December 31, 2016. All percentage and dollar variances noted in the following analysis are calculated from the balances presented in the accompanying consolidated financial statements.

Forward-Looking Statements

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that reflect our current expectations relating to present or future trends or factors generally affecting the banking industry and specifically affecting our operations, markets and services. Forward-looking statements are subject to significant risks and uncertainties. Investors are cautioned against placing undue reliance on such statements. Without limiting the foregoing, the words "believes," "expects," "anticipates," "estimates," "projects," "intends," "plans," "targets," "initiatives," "p "outlook," or similar expressions or future conditional verbs such as "may," "will," "should," "would," and "could" are intende identify forward-looking statements. Such statements are 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. Investors are encouraged to read the related section in our 2016 Annual

Report on Form 10-K, including the “Risk Factors” set forth therein. Additional information and other factors that could affect future financial results may be included, from time to time, in our filings with the Securities and Exchange Commission (“SEC”).

Selected Financial Data

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

($ in thousands, except per share data)	As of or for the Three Months Ended March 31, 2017	December 31, 2016	March 31, 2016
INCOME STATEMENT DATA:			
Interest income	$37,642	$38,287	$34,292
Interest expense	5,408	5,352	4,998
Net interest income	32,234	32,935	29,294
Provision for loan losses	2,100	2,485	500
Noninterest income	37,370	47,143	24,886
Noninterest expense	50,572	54,170	46,558
Net income	10,527	15,065	4,541
PERFORMANCE:			
Earnings per common share - basic	$0.40	$0.57	$0.19
Earnings per common share - diluted	0.40	0.57	0.18
Book value per common share	14.09	13.78	12.96
Tangible book value per common share	13.58	13.26	12.40
Cash dividends paid per common share	0.12	0.12	0.12
Return on average assets	0.97 %	1.37 %	0.46 %
Return on average shareholders' equity	11.78 %	16.90 %	5.90 %
Net interest margin	3.21 %	3.25 %	3.24 %
END OF PERIOD BALANCE SHEET SUMMARY:			
Total assets	$4,531,057	$4,389,685	$4,101,499
Earning assets	4,192,919	4,059,414	3,779,885
Loans, excluding loans held-for-sale	3,354,926	3,302,264	3,092,632
Total deposits	3,755,108	3,630,594	3,421,448
Shareholders' equity	371,302	362,647	329,778
Assets serviced for others	9,553,855	9,207,070	8,336,541
DAILY AVERAGE BALANCE SHEET SUMMARY:			
Total assets	$4,409,492	$4,368,579	$3,942,683
Earning assets	4,082,544	4,051,164	3,651,635
Loans, excluding loans held-for-sale	3,320,992	3,323,513	3,023,312
Total loans	3,718,260	3,774,939	3,370,645
Total deposits	3,644,047	3,561,713	3,212,691
Shareholders' equity	362,321	354,542	308,952
Assets serviced for others	9,382,261	9,043,167	8,162,343
ASSET QUALITY RATIOS:			
Net charge-offs, annualized to average loans	0.16 %	0.29 %	(0.20)%
Allowance to period-end loans	0.91 %	0.90 %	0.86 %
Nonperforming assets to total loans, ORE and repossessions	1.60 %	1.55 %	1.54 %
Allowance to nonperforming loans, ORE and repossessions	0.51x	0.51x	0.49x
SELECTED RATIOS:			
Loans to total deposits	89.34 %	90.96 %	90.39 %
Average total loans to average earning assets	91.08 %	93.18 %	92.31 %
Noninterest income to revenue	49.82 %	55.18 %	42.05 %
Leverage ratio	8.48 %	8.58 %	8.88 %
Common equity tier 1 capital	8.37 %	8.35 %	8.25 %

Tier 1 risk-based capital	9.51 %	9.46 %	9.47 %
Total risk-based capital	12.20 %	12.11 %	12.21 %

Overview

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

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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, Georgia and Jacksonville, Orlando, and Sarasota-Bradenton, Florida markets. We also conduct indirect automobile lending, residential mortgage lending, and SBA lending activities in the South and parts of the Midwest.

During 2017, we expect to continue to leverage our acquisitions to expand our footprint and customer base to focus on growth and profitability in growth markets. Organic growth remains our focus, while we emphasize systems and efficiencies to provide support for our continued growth. We are also continuing to focus on asset quality, revenue growth, deposit growth, and quality loan growth at a well-maintained capital level. We believe the commencement of mortgage retail lending activities in Tennessee, as well as, expanding our mortgage retail lending in Florida through the addition of new lenders, will provide growth in that area. Our investment in the Wealth Management business is expected to contribute to earnings by the end of the year.

On March 1, 2016, we completed our acquisition of American Enterprise Bankshares, Inc. (“AEB”), the holding company for American Enterprise Bank of Florida, headquartered in Jacksonville, Florida. Under the terms of the acquisition agreement, AEB merged with and into the Company and American Enterprise Bank of Florida merged with and into Fidelity Bank. With this acquisition, we added approximately $208.8 million in assets, $147.3 million in loans, and $181.8 million in deposits and expanded and strengthened our retail branch footprint by adding two branches in the Jacksonville, Florida area.

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.

We derive about half of our revenues from noninterest income sources such as service charges on loan and deposit accounts, fees on other products and services and income from mortgage banking, indirect automobile, and SBA activities. The majority of the noninterest income earned from these sources is generated from gains on sales of loans including recognition of loan servicing on the majority of loans sold. The retained servicing obligation generates servicing revenue over the life of the loans sold. The revenue generated from gains on sales of loans and related servicing is partially offset by amortization and possible impairment of the related servicing rights. Servicing rights are amortized in proportion to the estimated future servicing income on the underlying loans sold. Impairment on servicing rights is recorded based on changes in the estimated and actual prepayment speeds and default rates and losses on the underlying loans sold. During the first quarter of 2017, impairment recovery on mortgage servicing rights was recorded as part of noninterest income from mortgage banking activities. The impairment recovery occurred as estimated future prepayment speeds stabilized during the quarter, and subsequently, the estimated remaining life of the servicing income on the underlying loans serviced for others extended slightly.

A portion of our profitability, as with other financial institutions, is dependent upon net interest income, which is the difference between the interest we receive on interest-earning assets, such as loans and securities, and the interest we pay on interest-bearing liabilities, principally deposits and borrowings. Our net interest margin is affected by prevailing interest rates, nonperforming assets and competition among financial institutions for loans and deposits. We continue to attract new customer relationships, and talented and experienced bankers to support our growth.

Financial Performance

We recorded net income for the three months ended March 31, 2017 of $10.5 million compared to $4.5 million for the same period in 2016, an increase of $6.0 million, or 131.8%.

Basic and diluted earnings per common share for the three months ended March 31, 2017 were each $0.40, compared to $0.19 and $0.18, respectively, for the same period last year.

The primary driver of the increase in net income was an increase of $12.5 million, or 50.2%, in noninterest income, stemming from an additional $11.1 million of income from mortgage banking activities, due to MSR impairment in the previous period. In addition, the year over year increase in average earning assets of $430.9 million, or 11.8%, contributed an additional $2.9 million, in net interest income. These increases in net income were partially offset by an increase in the provision for loan losses of $1.6 million and an increase in noninterest expense of $4.0 million, due to increased salaries and employee benefits and commissions.

On a linked-quarter basis, net income decreased by $4.5 million, or 30.1%, as total revenue decreased by $10.4 million, or 12.2%, led by a $11.6 million, or 30.9%, decrease in noninterest income from mortgage banking activities, from less MSR impairment recovery and lower mortgage production, than the previous quarter. This decrease was partially offset primarily by a decrease of $3.6 million, or 6.6%, in noninterest expense. Decreases in net income, on a linked quarter basis, are expected due to seasonality of home mortgage production and automobile purchases, as well as higher payroll related taxes.

Results of Operations

Net Income

Net income for the quarter was $10.5 million, an increase of $6.0 million, or 131.8%, compared to the first quarter of 2016. The primary driver of the increase in net income was an increase of $12.5 million, or 50.2%, in noninterest income, stemming from an additional $11.1 million of income from mortgage banking activities, due to MSR impairment in the previous period. The

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increase in market interest rates resulted in a net recovery of MSR impairment of $2.0 million during the first quarter of 2017, as compared to net MSR impairment of $4.7 million for the same period in 2016. In addition, the year over year increase in average earning assets of $430.9 million, or 11.8%, contributed an additional $2.9 million, in net interest income. These increases in net income were partially offset by an increase in the provision for loan losses of $1.6 million and an increase in noninterest expense of $4.0 million, due to increased salaries and employee benefits and commissions.

On a linked-quarter basis, net income decreased by $4.5 million, or 30.1%, as total revenue decreased by $10.4 million, or 12.2%, led by a $11.6 million, or 30.9%, decrease in noninterest income from mortgage banking activities, from less MSR impairment recovery and lower mortgage production, than the previous quarter. This decrease was partially offset primarily by a decrease of $3.6 million, or 6.6%, in noninterest expense. A decrease in net income, on a linked-quarter basis, was expected due to seasonality of home mortgage production and automobile purchases, as well as higher payroll related taxes.

Interest Income

Interest income (taxable equivalent) was $37.8 million for the quarter ended March 31, 2017, an increase of $3.4 million, or 9.8%, compared to the same period in 2016. Year over year, average loans for the quarter increased by $347.6 million, or 10.3%, compared to the same period a year ago, with an increase in the yield on loans of 1 basis point to 3.94%, which was the primary reason for the increase in interest income.

On a linked-quarter basis, interest income (taxable equivalent) decreased by $649,000, or 1.7%, primarily due to the decrease in average loans during the quarter of $56.7 million, or 1.5%, mainly in the indirect automobile and residential mortgage loan portfolios. The decrease in interest income was driven by a mix of interest earning assets with an increase in cash held at March 31, 2017 resulting from the deposit campaigns as well as loan sales closed late in the first quarter of 2017.

Interest Expense

Interest expense was $5.4 million for the quarter, an increase of $410,000, or 8.2%, as compared to the same period in 2016, as a combination of organic growth and deposits added through the March 2016 AEB acquisition resulted in a year over year increase of $257.2 million in average interest-bearing deposits. The increase in interest expense due to larger average deposit balances was partially offset by a decrease in the rate paid on interest-bearing accounts, primarily time deposits, of 7 basis points as compared to the same quarter a year ago.

On a linked-quarter basis, interest expense was relatively flat, increasing by $56,000, or 1.0%, due to an increase in average interest-bearing deposits of $100.1 million, or 3.7%.

Net Interest Margin

The net interest margin was 3.21% for the quarter, a decrease of 3 basis points as compared to the same period in 2016. Net interest income (tax equivalent) increased to $32.4 million, or 10.1%, as compared to the same period in 2016.

The decrease in the net interest margin of 3 basis points as compared to the same period in 2016, occurred primarily due to a mix in interest-earning assets with lower yields, with the increase in interest-earning assets of $121.9 million, or 172.7%, as compared to the same period in 2016. The yield on total interest-bearing liabilities remained flat at 0.72%, as compared to the same period in 2016.

On a linked-quarter basis, the net interest margin decreased by 4 basis points, due to a change in mix of interest-earning assets with lower yields, which increased by $96.0 million, or 99.6%. The yield on total interest-bearing liabilities increased slightly by 1 basis point to 0.72%, on a linked-quarter basis. See further discussion in “Interest Income” and “Interest Expense” sections above.

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Average Balances, Interest and Yields (Unaudited)

($ in thousands)	For the Three Months Ended March 31, 2017 Average Balance	Income/ Expense	Yield/ Rate	March 31, 2016 Average Balance	Income/ Expense	Yield/ Rate
Assets						
Interest-earning assets:						
Loans, net of unearned income[1]	$3,718,260	$36,130	3.94%	$3,370,645	$32,976	3.93%
Investment securities[1]	171,853	1,279	3.02%	210,428	1,337	2.56%
Other earning assets	192,431	351	0.74%	70,562	67	0.38%
Total interest-earning assets	4,082,544	37,760	3.75%	3,651,635	34,380	3.79%
Noninterest-earning assets:						
Cash and due from banks	38,578			28,530		
Allowance for loan losses	(29,788)			(27,052)		
Premises and equipment, net	87,792			82,559		
Other real estate	14,147			19,894		
Other assets	216,219			187,117		
Total assets	$4,409,492			$3,942,683		
Liabilities and shareholders' equity						
Interest-bearing liabilities:						
Demand and money market	$1,244,955	$944	0.31%	$1,051,221	$694	0.27%
Savings deposits	387,007	344	0.36%	358,481	304	0.34%
Time deposits	1,050,897	2,161	0.83%	1,015,996	2,267	0.90%
Total interest-bearing deposits	2,682,859	3,449	0.52%	2,425,698	3,265	0.54%
Short-term borrowings	245,262	392	0.65%	251,359	294	0.47%
Subordinated debt	120,472	1,567	5.28%	120,337	1,439	4.81%
Total interest-bearing liabilities	3,048,593	5,408	0.72%	2,797,394	4,998	0.72%
Noninterest-bearing liabilities and shareholders' equity:						
Demand deposits	961,188			786,993		
Other liabilities	37,390			49,344		
Shareholders' equity	362,321			308,952		
Total liabilities and shareholders' equity	$4,409,492			$3,942,683		
Net interest income/spread		$32,352	3.03%		$29,382	3.07%
Net interest margin			3.21%			3.24%

[1]Interest income includes the effect of taxable equivalent adjustment using a 35% tax rate

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Provision for Loan Losses

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

The provision for loan losses was $2.1 million for the three months ended March 31, 2017, an increase of $1.6 million compared to $500,000 for the same period in 2016. The primary reason for the increase in the provision was the increase in net charge-offs for the quarter, primarily in the indirect auto loan portfolio, as compared to the same period in 2016.

On a linked-quarter basis, the provision for loan losses decreased by $385,000, as net charge-offs decreased compared to the previous quarter, mainly in the level of net-charge-offs/recoveries of commercial and HELOC loans, which had net recoveries in the first quarter of 2017 compared to charge-offs in the fourth quarter of 2016. Commercial loans had net recoveries due to a large settlement with one customer.

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

	As of or for the Three Months Ended March 31,		Year Ended December 31,
($ in thousands)	2017	2016	2016
Balance at beginning of period	$29,831	$26,465	$26,464
Net (charge-offs)/recoveries:			
Commercial	28	718	(1,426)
SBA	(41)	(265)	(305)
Construction	207	534	2,157
Consumer	(1,544)	(805)	(3,747)
Mortgage	(16)	(43)	(846)
Total net (charge-offs)/recoveries	(1,366)	139	(4,167)
Decrease in FDIC indemnification asset	(110)	(377)	(697)
Provision for loan losses[1]	2,100	499	8,231
Balance at end of period	$30,455	$26,726	$29,831
Annualized ratio of net charge-offs to average loans outstanding, net	0.17%	(0.20)%	0.13%
Allowance for loan losses as a percentage of loans	0.91%	0.86%	0.90%
Allowance for loan losses as a percentage of loans, excluding acquired loans [2]	0.98%	0.96%	0.99%

[1] Net of benefit attributable to FDIC indemnification asset

[2] Excludes the recorded investment of acquired loans, due to valuation calculated at acquisition

Management believes the allowance for loan losses is adequate to provide for losses inherent in the loan portfolio at March 31, 2017. The allowance for loan losses as a percentage of loans outstanding at the end of the current quarter and the end of the first quarter of 2016 was 0.91% and 0.86%, respectively. The allowance for loan losses as a percentage of loans outstanding, excluding acquired loans, at the end of the first quarter of 2017 and the first quarter of 2016 was 0.98% and 0.96%, respectively.

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Noninterest Income

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

($ in thousands)	Three Months Ended March 31, 2017	2016	$ Change	% Change
Service charges on deposit accounts	$1,455	$1,370	$85	6.2 %
Other fees and charges	1,871	1,666	205	12.3
Mortgage banking activities	25,869	14,735	11,134	75.6
Indirect lending activities	4,426	4,264	162	3.8
SBA lending activities	1,818	1,234	584	47.3
Bank owned life insurance	439	454	(15)	(3.3)
Securities gains	—	82	(82)	(100.0)
Other	1,492	1,081	411	38.0
Total noninterest income	$37,370	$24,886	$12,484	50.2

Noninterest income was $37.4 million for the three months ended March 31, 2017, an increase of $12.5 million, or 50.2%, as compared to the same period in 2016. The increase is primarily due to a net increase in noninterest income from mortgage banking activities of $11.1 million, or 75.6%, as compared to the same period in 2016 as well as an increase in SBA lending activities of $584,000, or 47.3%, and an increase in other noninterest income of $411,000, or 38.0%.

Mortgage production income, a component of noninterest income from mortgage banking activities, was $21.7 million in the first quarter of 2017, a $3.5 million, or 19.4%, increase over the same period in 2016, due to increased loan originations on new retail loans and sales.

Mortgage servicing revenue, also a component of noninterest income from mortgage banking activities, increased by $849,000, or 18.9%, for the quarter, as compared to the same period in 2016, due to continued loan originations and sales, as the portfolio of mortgage loans serviced for others increased from $6.9 billion to $8.1 billion, or 17.0%, year over year. The increase in market interest rates resulted in a net recovery of MSR impairment of $2.0 million during the first quarter of 2017, as compared to net MSR impairment of $4.7 million for the same period in 2016, driving $6.7 million of the increase of $11.1 million in noninterest income from mortgage banking activities.

Noninterest income from SBA lending activities for the quarter increased by $584,000, or 47.3%, primarily due to an increase in gains on sales of SBA loans of $659,000, as compared to the same period in 2016.

On a linked quarter basis, noninterest income decreased by $9.8 million, or 20.7%, largely due to a net decrease in income from mortgage banking activities of $11.6 million, or 30.9%. The decrease was largely driven by an $11.2 million swing in MSR impairment recovery as a larger net recovery of MSR impairment was recorded during the previous quarter due to an increase in interest rates, partially offset by higher noninterest income in the first quarter from indirect and SBA lending activities.

Noninterest Expense

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

($ in thousands)	Three Months Ended March 31, 2017	2016	$ Change	% Change
Salaries and employee benefits	$25,438	$23,055	$2,383	10.3 %
Commissions	7,498	6,598	900	13.6
Occupancy, net	4,163	4,384	(221)	(5.0)
Professional and other services	4,067	4,032	35	0.9
Other	9,406	8,489	917	10.8
Total noninterest expense	$50,572	$46,558	$4,014	8.6

Noninterest expense was $50.6 million for the three months ended March 31, 2017, an increase of $4.0 million, or 8.6% as compared to the same period in 2016, mostly due to increased expenses associated with organic growth as well as the AEB acquisition.

Salaries and benefits increased by $2.4 million, or 10.3%, for the quarter, as compared to the same period in 2016. The approximate growth in the number of full-time equivalent employees of 51, or 4.0%, at March 31, 2017, as compared to March 31, 2016, drove the majority of the increase in salaries. Also included in the increases is $683,000 of employer taxes and employee benefits, primarily resulting from the increase in both number of employees and the increases cost of employer-paid benefits, primarily medical premiums.

Commissions increased by $900,000, or 13.6%, for the quarter as compared to the same period in 2016, due to an increased

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tiered commission rates program, an increase in retail mortgage production, and an increase in guaranteed commissions paid to new mortgage loan originators. New hires were added in new markets to expand the Bank's mortgage footprint.

The decrease in occupancy expense of $221,000, or 5.0%, for the quarter as compared to the same period in 2016, was primarily due to decreases in software costs and lower repairs and maintenance costs as the conversion and integration activities occurring during the first quarter of 2016 were completed during 2016.

Other noninterest expense increased by $917,000, or 10.8% for the quarter as compared to the same period in 2016. The majority of this increase occurred primarily due to increases in normal operating costs, and communication costs as the Bank continues to expand its footprint through new offices and branches.

On a linked-quarter basis, total noninterest expense decreased by $3.6 million, or 6.6% for the quarter. Decreases in commissions of $2.0 million, or 21.2%, were due to lower mortgage loan production. Occupancy expense decreased by $733,000, or 15.0%, as lower amounts for hardware and software costs were incurred in the first quarter of 2017 as upgrades to the new accounts platform were implemented in the prior quarter. Other noninterest expense decreased by $1.0 million, or 9.7%, primarily as a result of FDIC indemnification asset adjustments due to improvements in expected cash flows on acquired PCI loans covered under loss-sharing agreements.

Income Tax Expense

Income tax expense was $6.4 million, for the three months ended March 31, 2017, an increase of $3.8 million, or 148.2%, as compared to the same period in 2016. The primary driver of these changes was the level of pre-tax income reported for each period. The effective tax rate for the three months ended March 31, 2017 was 37.8%, as compared to 36.2% for the same period in the prior year. The increase in the effective tax rate in 2017 is primarily driven by an increase in permanent unfavorable book/tax differences as a percentage of pretax book income, mainly related to vesting of restricted stock grants in the first quarter of 2017.

Financial Condition

Total assets grew to $4.5 billion at March 31, 2017, an increase of $141.4 million, or 3.2%, compared to December 31, 2016, primarily driven by an increase in cash and cash equivalents which grew $200.8 million, or 134.1%, as a result of an increase in total deposits of $124.5 million, or 3.4%, due to successful campaigns in 2017. In addition, total assets were impacted by a decrease of $104.2 million, or 22.4%, in loans held-for-sale due to fluctuations in the pipeline. Loans held-for-investment increased by $52.7 million, or 1.6%, due to new loan production.

Loans

Total loans held for investment grew to $3.4 billion at March 31, 2017, represented an increase of $52.7 million, or 1.6%, compared to December 31, 2016, primarily in residential mortgage and commercial portfolios, resulting in increases of $32.4 million, or 8.4%, and $18.2 million, or 2.3%. The Bank continues to generate organic new business as well as leverage its expansion through past acquisitions. In 2017, the Bank has invested in the expansion of residential mortgage lending, particularly in Florida, to strengthen our presence in new and existing markets.

Loan Servicing Rights

Gross servicing rights increased by $5.7 million, or 5.8%, to $105.0 million at March 31, 2017, compared to December 31, 2016. Cumulative production and sales of residential mortgage, SBA, and indirect auto loans continued to grow and generate a net increase in servicing rights.

For the three months ended March 31, 2017 and 2016, mortgage servicing rights impairment fluctuated, resulting in an impairment recovery of $2.0 million and impairment charge of $4.7 million, respectively, a change of $6.7 million. The impairment recovery occurred as estimated future prepayment speeds stabilized during the quarter, and subsequently, the estimated remaining life of the servicing income on the underlying loans serviced for others extended slightly.

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Asset Quality

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

($ in thousands)	March 31, 2017	December 31, 2016	March 31, 2016
NONPERFORMING ASSETS			
Nonaccrual loans (2) (6)	$38,377	$ 35,358	$29,611
Loans past due 90 days or more and still accruing	8,414	6,189	3,213
Repossessions	1,654	2,274	1,751
Other real estate (ORE)	11,284	14,814	19,482
Nonperforming assets	$59,729	$ 58,635	$54,057
NONPERFORMING ASSET RATIOS			
Loans 30-89 days past due	$10,734	$ 7,090	$8,180
Loans 30-89 days past due to loans	0.32 %	0.21 %	0.26 %
Loans past due 90 days or more and still accruing to loans	0.25 %	0.19 %	0.10 %
Nonperforming assets to loans, ORE, and repossessions	1.60 %	1.55 %	1.54 %
ASSET QUALITY RATIOS			
Classified Asset Ratio (4)	20.97 %	21.22 %	26.27 %
Nonperforming loans as a % of loans	1.39 %	1.26 %	1.41 %
ALL to nonperforming loans	65.09 %	71.81 %	81.42 %
Net charge-offs, annualized to average loans	0.16 %	0.28 %	(0.02)%
ALL as a % of loans	0.91 %	0.90 %	0.86 %
ALL as a % of loans, excluding acquired loans(5)	0.98 %	0.99 %	0.96 %
CLASSIFIED ASSETS			
Classified loans (1)	$71,082	$ 68,128	$81,444
ORE and repossessions	12,938	17,088	17,009
Total classified assets (3)	$84,020	$ 85,216	$98,453
(1)Amount of SBA guarantee included	$5,213	$ 7,735	$5,226
(2)Amount of repurchased government-guaranteed loans, primarily residential mortgage loans, included in nonaccrual loans	$12,287	$ 7,771	$—

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

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

(5)Allowance calculation excludes the recorded investment of acquired loans, due to valuation calculated at acquisition

(6)Excludes purchased credit impaired (PCI) loans which are not removed from their accounting pool

The Bank had $18.2 million in troubled debt restructured loans at March 31, 2017, of which $14.6 million were accruing loans and $3.6 million were on nonaccrual and included in nonperforming assets in the table above.

The increase in nonperforming assets of $1.1 million from December 31, 2016 to March 31, 2017 was primarily due to an increase of $3.0 million in nonaccrual loans and an increase in loans past due 90 days or more and still accruing of $2.2 million, offset by decreases in ORE property and repossessions of $3.5 million and $620,000, respectively. Included in nonaccrual loans are certain repurchased government-guaranteed loans. Our 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 these nonperforming assets as appropriate. Management's assessment of the overall loan portfolio is that loan quality and performance have improved in recent years. Management believes it is being aggressive in evaluating credit relationships and proactive in addressing problems.

When a loan is classified as nonaccrual, to the extent collection is in question, previously accrued interest is reversed 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 reversed. If such nonaccrual loans had been on a full accrual basis, interest income on these loans for the three months ended March 31, 2017 would have been $531,000.

Qualifying residential mortgage loans guaranteed by U.S. governmental agencies have been sold into GNMA pools since 2012. Under certain performance conditions specified in government programs, the Company may have the right, but not the obligation to repurchase certain loans from the GNMA pools. These loans are recognized as residential mortgage loans in the Consolidated Balance Sheets at the time of repurchase and are classified according to delinquency status. The principal balance of guaranteed loans is guaranteed in whole or in part. As the average age of GNMA servicing increases, normal activity includes buying out delinquent loans which are covered by applicable government guarantees and reimbursements.

Mortgage Recourse Liability

During the last five years ended March 31, 2017, the Company has sold almost 50,000 loans with a principal balance of approximately $12.0 billion. As seller, the Company has made various representations and warranties related to, among other things, the ownership of the loans, the validity of the liens, the loan selection and origination process, and the compliance with origination criteria established by the purchasers. In the event of a breach of these representations and warranties, the Company is obligated to repurchase loans with identified defects and/or to indemnify the purchasers. Some of these conditions include underwriting errors or omissions, fraud or material misstatements, and invalid collateral values. The contractual obligation arises only when the breach of representations and warranties is discovered and repurchase/indemnification is demanded. Generally, the maximum amount the Company would be required to pay would be equal to the unpaid principal balance of such loans that are deemed to have defects that were sold to purchasers, plus accrued interest, return of the premium received at the time of the loan sale, and reimbursement of certain expenses. To date, the claims to the Company from the purchasers to be paid upon repurchase or paid because of indemnification have been insignificant. In addition, the Company's loan sale contracts define a condition in which the borrower defaults during a short period of time as an early payment default ("EPD"). In the event of an EPD, the Company may be required to return the premium paid for the loan, pay certain administrative fees, and may be required to repurchase the loan or indemnify the purchaser unless an EPD waiver is obtained.

Management recognizes the potential risk from costs related to breaches of representations and warranties made in connection with residential loan sales and subsequent required repurchases, indemnifications, and EPD claims. As a result, the Company has established a liability to cover potential costs related to these events based on historical experience, adjusted for any risk factors not captured in the historical losses, current business volume, and known claims outstanding. The recourse liability totaled $1.4 million at March 31, 2017, and December 31, 2016. Management believes this amount is adequate for potential exposure related to loan sale indemnification, repurchase loans, and EPD claims. Management will continue to monitor the adequacy of the reserve level and may decide that further additions to the reserve are appropriate. However, there can be no assurance that the current balance of this reserve will prove sufficient to cover actual future losses.

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

Deposits

Total deposits at March 31, 2017 were $3.8 billion, an increase of $124.5 million, or 3.4%, compared to December 31, 2016, primarily due to growth in the interest-bearing demand and money market category of $107.6 million, or 8.9%, and in non-interest bearing demand deposits of $40.5 million or 4.2%; partially offset by decreases of $18.0 million in savings deposits, and $5.5 million in time deposits, respectively. Deposit balances continues to grow with successful marketing efforts and expansion of our geographical footprint.

The majority of the $107.6 million increase in interest-bearing demand and money market deposits occurred primarily due to increased volume in money market accounts as a result of the aforementioned successful deposit marketing efforts and geographical footprint expansion. During 2017, the Bank continued its deposit marketing program, increasing the number of demand deposit accounts.

For the noninterest-bearing demand deposits category, the majority of the $40.5 million increase occurred in escrow deposits due to normal growth compared to December 31, 2016, as escrow deposits are typically drawn in the third and fourth quarters to pay insurance and property taxes.

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

	For the Three Months Ended		
	March 31, 2017	December 31, 2016	March 31, 2016

($ in millions)	Average Amount	Rate	Percent of Total Deposits	Average Amount	Rate	Percent of Total Deposits	Average Amount	Rate	Percent of Total Deposits
Noninterest-bearing demand deposits	$961.2	— %	26.4 %	$978.9	— %	27.5 %	$787.0	— %	24.5 %
Interest-bearing deposits:									
Demand and money market	1,245.0	0.31%	34.2 %	1,179.8	0.25%	33.1 %	1,051.2	0.27%	32.7 %
Savings deposits	387.0	0.36%	10.6 %	350.9	0.33%	9.9 %	358.5	0.34%	11.2 %
Time deposits	1,050.9	0.83%	28.8 %	1,052.1	0.89%	29.5 %	1,016.0	0.90%	31.6 %
Total average deposits	$3,644.1	0.38%	100.0 %	$3,561.7	0.38%	100.0 %	$3,212.7	0.41%	100.0 %

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Average core deposits, including noninterest-bearing demand deposits, grew by $396.5 million, and $83.6 million, or 18.0% and 3.3%, compared to the same quarter in 2016, and the previous quarter, respectively, mainly due to growth in the number and volume of commercial accounts as well as through the acquisition of branch deposits.

Time deposits that met or exceeded the FDIC insurance limit of $250,000 were $184.0 million, and $181.4 million at March 31, 2017, and December 31, 2016, respectively.

Borrowings

Short-term borrowings decreased by $3.9 million, or 1.6%, compared to December 31, 2016, primarily as a result of fluctuations in short-term liquidity needs which the Bank manages through short-term FHLB advances and Fed funds purchased.

Liquidity and Capital Resources

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

We define liquidity as the ability to generate sufficient cash flows to support our operations and to meet our 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. 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.

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; deposits and certain interest-sensitive deposits; brokered deposits; a collateralized line of credit at the Federal Reserve Bank of Atlanta (“FRB”) Discount Window; a collateralized line of credit from the Federal Home Loan Bank of Atlanta (“FHLB”); and, to a lesser extent, borrowings under unsecured overnight Federal funds lines available from correspondent banks. The principal demands for liquidity are new loans, anticipated fundings under credit commitments to customers and deposit withdrawals. Substantially all of FSC’s liquidity is obtained from capital raises and dividends from its wholly-owned subsidiaries, LionMark Insurance Company and the Bank, which are limited by applicable law.

Management seeks to maintain a stable net liquidity position while optimizing operating results, as reflected in net interest income, the net yield on interest-earning assets and the cost of interest-bearing liabilities in particular. Our Asset Liability Management Committee (“ALCO”), which includes the CEO and senior management representatives, manages our liquidity risk. ALCO meets monthly to review the current and projected net liquidity positions and to review actions taken by management to achieve this liquidity objective. 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.

Our loans held for sale are considered highly liquid. The majority of commitments to purchase mortgage loans held-for-sale will be funded within one month of the loan closing. The majority of these loans are conforming residential mortgage loans sold to GNMA, FNMA, and FHLMC. Other categories of loans held for sale include indirect automobile loans purchased from motor vehicle dealers and the government-guaranteed portion of SBA loans.

Shareholders’ Equity

Shareholders’ equity was $371.3 million at March 31, 2017, and $362.6 million at December 31, 2016. The increase of $8.7 million in shareholders’ equity during the three months ended March 31, 2017 was attributable to net income earned during the three months of 2017 of $10.5 million, partially offset by cash dividends declared on common shares during 2017 of $3.2 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 U.S. 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, we received Warrant exercise notices for cash exercises for aggregate proceeds of $2.7 million, resulting in the issuance of 1,000,000 shares of common stock. At December 31, 2016, the warrant to purchase shares of our common stock, had been fully exercised.

On April 3, 2014, we filed a shelf registration with the SEC for up to $100.0 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 March 31, 2017, the Company had not utilized the shelf registration. On April 22, 2017, the $100.0 million shelf registration expired.

On May 5, 2017, we filed a shelf registration with the SEC for up to $100.0 million of common stock, preferred stock, warrants, or debt securities, to be issued from time to time for general corporate purposes which may include funding bank and non-bank subsidiaries, financing business expansion, or refinancing or extending the maturity of debt obligations and investments at the holding company level. The amount will be available to be issued upon our receipt of the Notice of Effectiveness from the SEC.

Capital Ratios

FSC is regulated by the Board of Governors of the Federal Reserve Board and is subject to the securities registration and public reporting regulations of the SEC. The Bank is regulated by the Federal Deposit Insurance Corporation (“FDIC”) and the Georgia Department of Banking and Finance.

The Bank must comply with regulatory capital requirements established by its regulators. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. These capital standards require us to maintain minimum ratios of “Tier 1” capital to total risk-weighted assets and total capital to risk-weighted assets of 6.00% and 8.00%, respectively. Tier 1 capital is comprised of total shareholders’ equity calculated in accordance with generally accepted accounting principles, excluding accumulated other comprehensive income, less intangible assets and disallowed portions of our loan servicing rights, and total capital is comprised of Tier 1 capital plus certain adjustments, the largest of which is our qualifying subordinated debt, as well as the allowable portion of the allowance for loan losses. Risk-weighted assets refer to our on- and off-balance sheet exposures, adjusted for their related risk levels using formulas set forth in FDIC regulations.

In addition to the risk-based capital requirements described above, we are subject to a leverage capital requirement, which calls for a minimum ratio of Tier 1 capital to quarterly average total assets of 4.00%. The Bank is also subject to a Common Equity Tier 1 capital to total risk-weighted assets ratio of 4.50%. Common Equity Tier 1 Capital is comprised of Tier 1 capital less amounts attributable to qualifying non-cumulative perpetual preferred stock and minority interests in consolidated subsidiaries.

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, requires 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 capital” (“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, such as deducting a much larger portion of the value of mortgage servicing rights from Tier 1 capital.
On July 2, 2013, the 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 2.5% of risk-weighted assets. This capital conservation buffer began phasing in on January 1, 2016 at 0.625% of risk-weighted assets and continues to increase at the same rate each subsequent year until reaching its final level of 2.5% on January 1, 2019. As of January 1, 2017, the capital conservation buffer was 1.25%. An institution that does not meet the conservation buffer will be subject to restrictions on certain activities including payment of dividends, stock repurchases and discretionary bonuses to executive officers. The 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 4.0%. 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, in which we began calculating our capital ratios in accordance with the final risk-based capital rules implementing the BSBC capital guidelines for U.S. banks. Capital ratios for FSC and the Bank are being calculated using the current phase-in applicable for 2017. Full compliance with all requirements of the new capital guidelines will be phased in by 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% and 6%, 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 not bank holding companies, the FRB is authorized to take actions at the holding company level. Failure to meet applicable capital standards could subject the bank holding company or financial institution to a variety of enforcement remedies available to the federal regulatory authorities. These include limitations on the ability to pay dividends, the issuance by the regulatory authorities of a capital directive to increase capital, and the termination of deposit insurance by the FDIC. FSC is not subject to the provisions of prompt corrective action.

To continue to conduct our business as currently conducted, we must maintain capital levels well above the minimum regulatory requirements. At March 31, 2017, the Bank’s capital ratios exceeded the well capitalized and regulatory minimum ratios discussed above.

The following tables sets forth the capital requirements for the Bank under FDIC regulations and the Bank’s capital ratios at March 31, 2017, and December 31, 2016:

Fidelity Bank	March 31, 2017		December 31, 2016	
($ in thousands)	Amount	Percent	Amount	Percent
Common Equity Tier 1 Capital:				
Actual	$337,189	8.660 %	$337,337	8.580 %
Minimum	175,214	4.500 %	176,925	4.500 %
Tier 1 Capital:				
Actual	$352,959	9.070 %	$352,601	8.970 %
Minimum	233,490	6.000 %	235,854	6.000 %
Total Risk-Based Capital:				
Actual	$469,182	12.050%	$468,234	11.910%
Minimum	311,490	8.000 %	314,515	8.000 %
Tier 1 Capital Leverage Ratio:				
Actual		8.080 %		8.140 %
Minimum		4.000 %		4.000 %

The FRB, as the primary regulator of FSC, has established minimum capital requirements as a function of its oversight of bank holding companies. The following tables depict FSC's capital ratios at March 31, 2017, and December 31, 2016, in relation to the minimum capital ratios established by the regulations of the FRB:

Fidelity Southern Corporation	March 31, 2017		December 31, 2016	
($ in thousands)	Amount	Percent	Amount	Percent
Common Equity Tier 1 Capital:				
Actual	$325,752	8.370 %	$328,193	8.350 %
Minimum	175,135	4.500 %	176,870	4.500 %
Tier 1 Capital:				
Actual	$370,293	9.510 %	$371,841	9.460 %
Minimum	233,623	6.000 %	235,840	6.000 %
Total Risk-Based Capital:				
Actual	$475,122	12.200%	$476,081	12.110%
Minimum	311,555	8.000 %	314,504	8.000 %
Tier 1 Capital Leverage Ratio:				
Actual		8.480 %		8.580 %
Minimum		4.000 %		4.000 %

Dividends

On April 20, 2017, we declared a cash dividend of $0.12 per share, payable on May 15, 2017, to common shareholders of record as of May 2, 2017.

Future dividends require a quarterly review of current and projected earnings for the remainder of 2017 in relation to capital requirements prior to the determination of the dividend, and be subject to regulatory restrictions under applicable law. The Board of Directors for both the Bank and the Company will review on a quarterly basis whether to declare and pay dividends for the remainder of 2017, with the declared and paid dividend consistent with current regulatory limitations, earnings, capital requirements, and forecasts of future earnings.

Market Risk

Market risk is defined as the sensitivity of income, fair value measurements and capital to changes in market rates or prices. Our primary market risk exposure is credit risk and, to a lesser extent, interest rate risk and liquidity risk. We have little or no risk related to trading accounts, commodities, or foreign exchange. Our real estate loan portfolio is subject to risks associated with the local economies of our various markets and, in particular, the regional economy of the South.

Interest rate risk, which encompasses price risk, is the exposure of a banking organization's 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, unfunded postretirement benefit obligations 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, which includes senior management representatives, 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 interest rate risk consistent with earnings and liquidity, to effectively invest our capital, and to preserve the value created by our core business operations. Our exposure to interest rate risk compared to established tolerances is reviewed 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 management process used to control interest rate risk and the organization's 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
A form of interest rate sensitivity analysis referred to as equity at risk is used to measure our interest rate risk by computing estimated changes in earnings and the net present value of our cash flows from assets, liabilities, and off-balance sheet items in the event of a range of assumed changes in market interest rates. Net present value represents the market value of portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. This analysis assesses the risk of loss in the market risk sensitive instruments in the event of a sudden and sustained 100, 200, 300,

and 400 basis point increase or decrease in market interest rates. In addition, management reviews the impact of various yield curve scenarios on earnings and cash flows.

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

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

Off-Balance Sheet Arrangements

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

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There has been no change in the Company’s internal control over financial reporting during the three months ended March 31, 2017, that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are a party to various legal proceedings such as claims and lawsuits arising in the course of our normal business activities. Although the ultimate outcome of all claims and lawsuits outstanding as of March 31, 2017 cannot be ascertained at this time, it is the opinion of management that these matters, when resolved, will not have a material adverse effect on our business, results of operations or financial condition.

Item 1A. Risk Factors

While the Company attempts to identify, manage, and mitigate risks and uncertainties associated with its business to the extent practical under the circumstances, some level of risk and uncertainty will always be present. Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016 describes some of the risks and uncertainties associated with our business. These risks and uncertainties have the potential to materially affect our cash flows, results of operations, and financial condition. We do not believe that there have been any material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

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

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs
January 2017	71,350	* $ 23.45	—	$ 10,000,000
February 2017	—	——	—	10,000,000
March 2017	—	—	—	10,000,000
Total	71,350	$ 23.45	—	$ 10,000,000

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

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

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

Not Applicable

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Item 6. Exhibits

(a)Exhibits. The following exhibits are filed as part of this Report:

3(a)	Amended and Restated Articles of Incorporation of Fidelity Southern Corporation, as amended effective December 16, 2008 (incorporated by reference from Exhibit 3(a) to Fidelity Southern Corporation’s Annual Report on Form 10-K filed March 17, 2009)
3(b)	Articles of Amendment to the Articles of Incorporation of Fidelity Southern Corporation (incorporated by reference from Exhibit 3.1 to Fidelity Southern Corporation’s Form 8-K filed November 23, 2010)
3(c)	By-Laws of Fidelity Southern Corporation, as amended (incorporated by reference from Exhibit 3(b) to Fidelity Southern Corporation’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2007)
3(d)	Amendment to By-Laws of Fidelity Southern Corporation (incorporated by reference from Exhibit 3.2 to Fidelity Southern Corporation’s Form 8-K filed November 23, 2010)
4(a)	See Exhibits 3(a), 3(b), and 3(c) for provisions of the Amended and Restated Articles of Incorporation, as amended, and Bylaws, which define the rights of the shareholders.
4(b)	Form of Global Note representing the Fixed/Floating Rate Subordinated Notes due 2030 of Fidelity Bank (incorporated by reference from Exhibit 4.1 to Fidelity Southern Corporation's Form 8-K filed June 3, 2015)
31.1	Certification of Principal Executive Officer pursuant to Securities Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Securities Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Financial Statements submitted in XBRL format

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SIGNATURES

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

FIDELITY SOUTHERN CORPORATION
(Registrant)

Date:	May 10, 2017	BY:	/s/ JAMES B. MILLER, JR. James B. Miller, Jr. Chief Executive Officer
Date:	May 10, 2017	BY:	/s/ STEPHEN H. BROLLY Stephen H. Brolly Chief Financial Officer