FIDELITY SOUTHERN CORP
Form 10-K
March 11, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015
Commission File Number 001-34981
Fidelity Southern Corporation
(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No ý
The aggregate market value of the common equity held by non-affiliates of the registrant (assuming for these purposes, but without conceding, that all executive officers and directors are “affiliates” of the registrant) as of June 30,

2015 (based on the price the Common Stock was last sold on June 30, 2015 on the NASDAQ Global Select Market System), was $319,099,889.

At March 7, 2016, there were 25,429,990 shares of Common Stock outstanding, without stated par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2016 Annual Meeting of Shareholders are incorporated by reference into Part III.

FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
Report on Form 10-K
December 31, 2015

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[1] All or portions of this item are incorporated by reference to the Registrant's Definitive Proxy Statement for the 2016 Annual
Meeting of Shareholders.

PART I

Item 1. Business

General

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

FSC is a legal entity separate and distinct from the Bank. We coordinate the financial resources of the consolidated enterprise and thereby maintain financial, operational and administrative systems that allow centralized evaluation of subsidiary operations and coordination of selected policies and activities. FSC's operating revenues and net income are derived primarily from cash dividends received from the Bank. At December 31, 2015, we had total assets of $3.8 billion, total net loans of $3.3 billion, total deposits of $3.2 billion, and shareholders’ equity of $301.5 million. For more information about our business and recent material transactions, see Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

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

These trends and events include: (1) risks associated with our loan portfolio, including difficulties in maintaining quality loan growth, greater loan losses than historic levels, the risk of an insufficient allowance for loan losses, expenses associated with managing nonperforming assets, our ability to maintain and service relationships with automobile dealers and indirect automobile loan purchasers, and our ability to profitably manage changes in our indirect automobile lending operations; (2) risks associated with global, general, and local economic and business conditions, including economic recession or depression, the pace, consistency, and extent of recovery of values and activity in the residential housing and commercial real estate markets of the Atlanta metropolitan area as well as the Savannah, Georgia; Birmingham, Alabama and eastern, central, and northern Florida markets; (3) expectations of and actual timing and amount of interest rate movements, including the slope and shape of the yield curve, which can have a significant impact on a financial services institution; (4) market and monetary fluctuations, including fluctuations in mortgage markets; (5) inflation or deflation; (6) risks associated with government regulation and programs, uncertainty with respect to future governmental economic and regulatory measures, new regulatory requirements imposed by the Consumer Financial Protection Bureau (“CFPB”), new regulatory requirements for residential mortgage loan services, and numerous legislative proposals to further regulate the financial services industry, the impact of and adverse changes in the governmental regulatory requirements affecting us, and changes in political, legislative and economic conditions; (7) the ability to maintain adequate liquidity and sources of liquidity; (8) our ability to maintain sufficient capital and to raise additional capital; (9) the accuracy and completeness of information from customers and our counterparties; (10) the effectiveness of our controls and procedures; (11) our ability to attract and retain skilled people; (12) greater competitive pressures among financial institutions in our market areas; (13) failure to achieve the revenue increases expected to result from our investments in our growth strategies, including our branch additions and in our transaction deposit, trust and lending businesses; (14) the volatility and trading volume of our common stock, and our ability to pay dividends; (15) the impact of dilution on our common stock; (16) risks related to acquisitions; (17) compliance with certain requirements under our loss share agreements with the Federal Deposit Insurance Corporation (“FDIC”); (18) risks associated with technological changes and the possibility of cyberfraud; (19) risks associated with adverse weather events in the geographic markets in which we operate; (20) our reliance on financial models and the accuracy of such financial models; and (21) our reliance on third party vendors.

This list is intended to identify some of the principal factors that could cause actual results to differ materially from those described in the forward-looking statements included herein and are not intended to represent a complete list of all risks and uncertainties in our business. We assume no obligation to update or revise, whether as a result of new information, future events, or otherwise, any forward-looking statements that are made in our 2015 Annual Report or in any other statement, release, report, or filing from time to time. Investors are encouraged to read the risks discussed under “Item 1A.—Risk Factors.”

Market Area, Products and Services

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

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

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

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

Deposits

We offer a full range of deposit accounts and services to both individuals and businesses. We also utilize deposits from brokers as a funding source. As of December 31, 2015 and 2014, deposits consisted of:

	December 31, 2015		December 31, 2014	
(in thousands)	Amount	% of Total	Amount	% of Total
Noninterest-bearing demand deposits	$786,779	24.8 %	$558,018	22.7 %
Interest-bearing deposits:				
Demand and money market	1,040,281	32.7 %	788,373	32.1 %
Savings deposits	362,793	11.4 %	321,621	13.1 %
Time deposits	855,218	26.9 %	675,806	27.5 %
Brokered deposits	134,440	4.2 %	114,204	4.6 %
Total deposits	$3,179,511	100.0 %	$2,458,022	100.0 %

During 2015, we continued a marketing program to increase the number and volume of our personal and business demand deposit accounts with the goals of building relationships with existing customers, adding new customers, increasing transaction accounts, and helping manage our cost of funds. We believe the marketing program was a contributing factor to the growth in our core deposits in 2015 in addition to the $455.7 million in deposits acquired during 2015.

Lending

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

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The following table summarizes the carrying value of our total net loans outstanding by category as of December 31, 2015:

(in thousands)	Loans	Loans Held-for-Sale	Total Loans
Commercial (including SBA)	$839,284	$14,309	$853,593
Construction	177,033	—	177,033
Consumer	1,463,536	150,000	1,613,536
Mortgage	417,095	233,525	650,620
Total loans	$2,896,948	$397,834	$3,294,782

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

Commercial and Industrial Lending

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

Commercial Real Estate Lending

We engage in commercial real estate lending through direct originations. Our primary focus is on originating owner-occupied loans to finance real estate out of which an individual or company will operate their business. Non-owner occupied real estate loans for investment purposes are made on a selective basis and only where the borrowers or guarantors add substantial support to the credit. Loans where the sole source of repayment is derived from the project, or where the absence of the project’s success would significantly impact the ability of the borrower to service the debt, are avoided. We make commercial real estate loans to individuals and to small and medium sized businesses to provide loan diversification, to generate assets that are sensitive to fluctuations in interest rates, and to generate deposit and other relationships. Commercial real estate loans are generally prime-based floating-rate loans or shorter-term (one to five year) fixed-rate loans. At December 31, 2015, approximately 52% of our commercial real estate loans were owner occupied real estate loans. The remaining non-owner occupied loans were generally made to established commercial customers for purposes other than retail development.

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

Indirect Automobile Lending

We purchase, on a nonrecourse basis, consumer installment contracts secured by new and used vehicles purchased by consumers from franchised motor vehicle dealers and selected independent dealers located throughout our lending footprint. A portion of our originated indirect automobile loans is sold with servicing retained. During 2015, we produced approximately $1.5 billion of indirect automobile loans, while profitably selling $651.4 million to third parties with servicing retained. At December 31, 2015, we were servicing $1.1 billion in indirect automobile loans we had sold, primarily to other financial institutions.

Consumer Lending

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

Real Estate Construction Lending

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

Real Estate Mortgage Lending

Our residential mortgage lending focuses on one-to-four family properties. We offer Federal Housing Authority (“FHA”), Veterans Administration (“VA”), and conventional and non-conforming residential mortgage loans. We originate our residential mortgage banking loans primarily in the Southeast and Mid-Atlantic regions through 29 retail loan production offices. We also operate a wholesale lending office to support our purchase of loans from qualified brokers and correspondents. We are an approved originator and servicer for the Federal Home Loan Mortgage Corporation (“FHLMC”) and the Federal National Mortgage Association (“FNMA”), and an approved originator for loans insured by the Department of Housing and Urban Development (“HUD”) and the Government National Mortgage Association (“GNMA”).

We primarily sell originated residential mortgage loans and wholesale loans to investors, retaining servicing on a significant amount of the loans sold. The balance of mortgage loans held-for-sale fluctuates due to economic conditions, interest rates, the level of real estate activity, the amount of mortgage loans we retain, and seasonal factors. During 2015, we originated and sold to third parties approximately $2.5 billion in residential mortgage loans. At December 31, 2015, we were servicing $6.7 billion in residential mortgage loans we had sold to FNMA, FHLMC and GNMA. As a seller, we make certain standard representations and warranties with respect to the loans being transferred. To date, our repurchases of mortgage loans previously sold have been immaterial.

Trust and Asset Management

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

Significant Operating Policies

Lending Policy

The Board of Directors of the Bank has delegated lending authority to our management, which in turn delegates lending authority to our loan officers, each of whom is limited as to the amount of secured and unsecured loans he or she can make to a single borrower or related group of borrowers. As our lending relationships are important to our success, the Board of Directors of our Bank has established loan approval committees and written guidelines for lending activities. In particular, the Officers’ Credit Committee reviews all lending relationships with aggregate exposure exceeding $250,000. In addition, the Officers’ Credit Committee approves credit for commercial and residential construction loan relationships up to the lending limit of the Bank. Our policy on calculating total exposure to an entity or individual, or related group of entities or individuals is more encompassing than the method required under law and calls for the combining of all debt to all related entities, regardless of the presence of independent sources of repayment or other conditions that might otherwise allow a portion of debt to be excluded.

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

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

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

Loan Review and Nonperforming Assets

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

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

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

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

Asset Liability Management

The Asset Liability Committee (“ALCO”) manages the mix of and terms related to our assets and liabilities. ALCO monitors balance sheet growth, liquidity, and capital in order to reduce interest rate risk and maximize income. ALCO directs our overall acquisition and allocation of funds, loan sales, and reviews and sets rates on deposits, loans, and fees.

Investment Portfolio Policy

Our investment portfolio policy is designed to maximize income consistent with liquidity, risk tolerance, collateral needs, asset quality, regulatory constraints, and asset liability objectives. The policy is reviewed at least annually by the Board of Directors. The Board of Directors is provided information on a regular basis concerning significant purchases and sales of investment securities, including resulting gains or losses. They are also provided information related to average maturity, Federal taxable equivalent yield, and appreciation or depreciation by investment categories. The Board of Directors is responsible for the establishment, approval, implementation, and annual review of interest rate risk management strategies, comprehensive policies, procedures, and limits. Senior management is responsible for ensuring that board-approved strategies, policies, and procedures are appropriately executed through a robust interest rate risk measurement process and systems to assess exposures.

Supervision and Regulation

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

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

General

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

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

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

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

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

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

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

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

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

TARP Capital Purchase Program

On October 14, 2008, the U.S. Department of the Treasury ("Treasury") announced the Troubled Asset Relief Program ("TARP") Capital Purchase Program (the "Program"). The Program was intended to encourage U.S. financial institutions to build capital and thereby increase the flow of financing to businesses and consumers.

On December 19, 2008, as part of the Program, we entered into a Letter Agreement ("Letter Agreement") and a Securities Purchase Agreement – Standard Terms with the Treasury, pursuant to which we agreed to issue and sell, and the Treasury agreed to purchase (1) 48,200 shares (the "Preferred Shares") of our Fixed Rate Cumulative Perpetual Preferred Stock, Series A, having a liquidation preference of $1,000 per share, and (2) a ten-year warrant (the "Warrant") to purchase up to 2,693,747 shares of our common stock at an exercise price of approximately $2.69 per share, adjusted for dividends, for an aggregate purchase price of $48.2 million in cash.

On June 27, 2012, the Treasury sold all of the Preferred Shares in a public offering as part of a modified Dutch auction process. We did not receive any proceeds from this auction; however, our operations are no longer limited by the TARP restrictions or regulations regarding executive compensation. In addition, certain terms set forth in the Letter Agreement only applied so long as Treasury held preferred shares and are no longer applicable.

On June 10, 2013, we closed a $69.0 million public offering of our common stock. We used the net proceeds from this offering to redeem the $48.2 million in shares of Preferred Stock originally issued to the Treasury under TARP; and we redeemed two series of our trust preferred securities with an aggregate outstanding principal amount of $20.5 million.

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

During 2015, we received Warrant exercise notices for cash and cashless exercises, resulting in the issuance of 1,487,487 shares of common stock. 1,346,873.41 equivalent shares exercised during 2015 were cashless, resulting in the issuance of 1,140,614 shares of common stock. The cash exercise aggregated $931,354, resulting in the issuance of 346,873 shares of common stock. At December 31, 2015, one investor had a warrant to purchase 1,000,000 shares of our common stock. This warrant expires on December 18, 2018.

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

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

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

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

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

Recently, banking regulatory agencies have increasingly used a general consumer protection statute to address unethical or otherwise bad business practices that may not necessarily fall directly under the purview of a specific banking or consumer finance law. Prior to the Dodd-Frank Act, there was little formal guidance to provide insight to the parameters for compliance with the "unfair or deceptive acts or practices" ("UDAP") law. However, the UDAP provisions were expanded under the Dodd-Frank Act to apply to "unfair, deceptive or abusive acts or practices," supervision over which has been delegated to the CFPB.

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

FDIC Insurance Assessments

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

On February 7, 2011, the FDIC approved a final rule implementing changes to the deposit insurance assessment system mandated by the Dodd-Frank Act. The base on which deposit insurance assessments are charged was revised from one based on domestic deposits to one based on assets. The assessment rate schedule was also revised to a range of 5 to 35 basis points annually, and fully adjusted rates will range from 2.5 to 45 basis points annually. There were no changes to the FDIC assessment formula or rates during 2015.

Payment of Dividends

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

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

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

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

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

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

In addition to the formal statutes and regulations, regulatory authorities consider the adequacy of the Bank's total capital in relation to its assets, deposits and other such items. Capital adequacy considerations could further limit the availability of dividends to the Bank.

In 2015 and 2014, FSC paid $8.6 million and $6.4 million in cash dividends, respectively, on its common stock which were primarily funded by excess cash at the holding company. In 2015, the Bank paid dividends of $2.0 million to FSC. FSC also received dividends of $1.5 million in 2015 from its wholly-owned insurance subsidiary, LionMark.

The Boards of Directors for the Bank, LionMark and FSC review whether to declare and pay dividends on a quarterly basis, in light of current regulatory limitations, earnings, capital requirements, and forecasts of future earnings.

Capital Adequacy

Basel III

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

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

The Basel III final capital framework, among other things, (i) introduces as a new capital measure "Common Equity Tier 1" ("CET1"), (ii) specifies that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting specified requirements, (iii) defines CET1 narrowly by requiring that most adjustments to regulatory capital measures

be made to CET1 and not to the other components of capital and (iv) expands the scope of the adjustments as compared to existing regulations.
On July 2, 2013, the Federal Reserve Bank of Atlanta (“FRB”) approved the final rules implementing the BCBS's Basel III capital guidelines (“final rules”) for U.S. banking organizations. Under the final rules, minimum requirements will increase for both the quantity and quality of capital we maintain. The rules include a new CET1 capital to risk-weighted assets ratio of 4.5% and a CET1 capital conservation buffer of 2.5% of risk-weighted assets. The final rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% 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, with full compliance with all of the final rule's requirements phased in over a multi-year schedule.

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 4.5%, 6.0%, and 8.0%, 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.

To continue to conduct our business as currently conducted, we must maintain capital levels well above the minimum regulatory requirements. At December 31, 2015 and 2014, the Bank's capital ratios exceeded the well captialized and regulatory minimum ratios discussed above. The following table presents the Bank's capital ratios and the minimum regulatory requirements:

	Fidelity Bank		Minimum Regulatory Requirement	
	December 31, 2015	December 31, 2014	Adequately Capitalized	Well Capitalized
Leverage capital ratio	8.35%	9.76%	4.00%	5.00%
Risk-Based capital:				
Common Equity Tier 1	8.53%	N/A	4.50%	6.50%
Tier 1	8.99%	10.38%	6.00%	8.00%
Total	12.23%	11.69%	8.00%	10.00%

FSC's total risk-based capital ratio, CET1 risk-based capital ratio, Tier 1 risk-based capital ratio, and leverage capital ratio were 12.40%, 8.20%, 9.50%, and 8.80% respectively at December 31, 2015. FSC's total risk-based capital ratio, Tier 1 risk-based capital ratio, and leverage capital ratio were 12.01%, 11.07%, and 10.40%, respectively at December 31, 2014.

Commercial Real Estate

In December 2006, the federal banking agencies, including the FDIC, issued final guidance on concentrations in commercial real estate lending (the “Guidance”), noting that increases in banks’ commercial real estate concentrations could create safety and soundness concerns in the event of a significant economic downturn. The Guidance mandated certain minimal risk management practices and categorized banks with defined levels of such concentrations as banks that may warrant elevated examiner scrutiny. The regulatory guideline defined a bank as having a concentration in commercial real estate if its portfolio of land, construction (both commercial and residential) and Acquisition and Development loans (“A&D loans”) exceeds 100% of the Bank’s total risk based capital. Our ratio of total Land, Construction A&D loans to total risk-based capital was 40% at December 31, 2014 and 50% at December 31, 2015. The regulatory guideline for all commercial real estate loans, except owner-occupied property, as a percentage of capital is a maximum of 300%. Our ratio of all commercial real estate loans, except owner-occupied property, as a percentage of capital, increased from 104% at December 31, 2014, to 130% at December 31, 2015, primarily due to

The Bank of Georgia acquisition.

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

Regulatory authorities continue to emphasize the risks associated with CRE lending and focus on our implementation of the Guidance which could effectively limit future increases in the commercial real estate concentrations in our loan portfolios or require additional credit administration and management costs.

Loans

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

Transactions with Affiliates

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

Financial Privacy

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

Anti-Money Laundering Initiatives and the USA Patriot Act

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

Future Legislation

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

Competition

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

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

Employees and Executive Officers

As of December 31, 2015, we had 1,242 full-time equivalent employees. We are not a party to any collective bargaining agreement and we believe that our employee relations are good. We offer our employees a variety of competitive benefit programs including a retirement plan and group health, life and other insurance programs. We also support training and educational programs designed to ensure that employees have the types and levels of skills needed to perform at their best in their current positions and to help them prepare for positions of increased responsibility.

Executive Officers of the Registrant

Our executive officers, their ages, their positions with FSC and the Bank at March 7, 2016, and the period during which they have served as executive officers, are as follows:

Name	Age	Since	Position
James B. Miller, Jr.	75	1979	Principal Executive Officer, Chairman of the Board and Chief Executive Officer of Fidelity since 1979; President of Fidelity from 1979 to April 2006; Chairman of Fidelity Bank since 1998; President of Fidelity Bank from 1977 to 1997, and from December 2003 through September 2004; and Chief Executive Officer of Fidelity Bank from 1977 to 1997 and from December 2003 until present. A director of Fidelity Bank since 1976. Chairman of LionMark Insurance Company, a wholly-owned subsidiary, since November 2004.
H. Palmer Proctor, Jr.	48	1996	President of Fidelity since April 2006; Senior Vice President of Fidelity from January 2006 through April 2006; Vice President of Fidelity from April 1996 through January 2006; Director and President of Fidelity Bank since October 2004 and Senior Vice President of Fidelity Bank from October 2000 through September 2004. Director and Secretary/Treasurer of LionMark Insurance Company since November 2004.
Stephen H. Brolly	53	2008	Principal Financial and Accounting Officer of Fidelity and Chief Financial Officer of Fidelity and Fidelity Bank since August 2008; Treasurer of Fidelity and Fidelity Bank from May 2006 through August 2008. Chief Financial Officer of LionMark Insurance Company since August 2008.
David Buchanan	58	1995	Vice President of Fidelity since 1999; Executive Vice President of Fidelity Bank since October 2004; and Senior Vice President of Fidelity Bank from 1995 through September 2004. President of LionMark Insurance Company since November 2004.

Available Information

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

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

Item 1A. Risk Factors

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

Risks Related to our Business

A sizable portion of our loan portfolio is secured by real estate loans in the Atlanta metropolitan area and eastern, central, and northern Florida markets, and adverse changes in real estate market values in those areas may adversely affect our business.

Currently, our lending and other businesses are concentrated in the Atlanta metropolitan area and eastern, central, and northern Florida. As of December 31, 2015, commercial real estate, real estate mortgage, and construction loans, accounted for approximately 51.0% of our total loan portfolio. Unlike larger national or regional banks that are more geographically diversified, our success depends primarily on the general economic conditions of the specific local markets in which we operate. Conditions in these markets strongly affect our results of operations and financial condition. Real estate values and the demand for commercial and residential mortgages and construction loans are affected by, among other things, general and local economic conditions, changes in governmental regulation, monetary and fiscal policies, interest rates and weather. Declines in our markets could adversely affect the demand for new real estate loans, and the value and liquidity of the collateral securing our existing loans. Adverse conditions in our markets could also reduce our growth rate, impair our ability to collect loans, and generally unfavorably impact our financial condition and results of operations.

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

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

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

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

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

In recent years, the Federal Reserve has implemented a series of domestic monetary initiatives. In October 2014, the Federal Reserve announced that it was concluding its bond-buying program, or quantitative easing, which was designed to stimulate the economy and expand the Federal Reserve's holdings of long-term securities, suggesting that key economic indicators, such as the unemployment rate, had showed signs of improvement since the inception of the program. It is unclear what effect, if any, the conclusion of the Federal Reserve's bond-buying program will have on the value of our investments. Additionally, in December 2015, the Federal Reserve raised the target federal funds rate after a prolonged period of no change. These developments, along with the U. S. government's credit and deficit concerns, the European sovereign debt crisis and the economic slowdown in China, could cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms. Other significant governmental monetary strategies could be implemented in the future which might impact interest rates.

Federal Reserve strategies can, and often are intended to, affect the domestic money supply, inflation, interest rates, and the shape of the yield curve. Effects on the yield curve often are most pronounced at the short end of the curve, which is of particular importance to us and other banks. Among other things, easing strategies are intended to lower interest rates, flatten the yield curve, expand the money supply, and stimulate economic activity, while tightening strategies are intended to increase interest rates, steepen the yield curve, tighten the money supply, and restrain economic activity. Other things being equal, the current transition from easing to possible tightening should tend to diminish or reverse downward pressure on rates, and to diminish or eventually end the stimulus effect that low rates tend to have on the economy. Many external factors may interfere with the effects of these plans or cause them to be changed unexpectedly. Such factors include significant economic trends or events as well as significant international monetary policies and events. Risks associated with interest rates and the yield curve are discussed in this Item 1A under the caption "Fluctuations in interest rates could reduce our profitability and affect the value of our assets." Such strategies also can affect the U.S. and world-wide financial systems in ways that may be difficult to predict.

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

Numerous changes have occurred in recent years in the regulation of the financial services industry as a result of specific developments in the industry and more generally, in the financial markets and the economy. The Dodd-Frank Act made a number of material changes in banking regulations. The full impact of these changes remains to be seen, which includes the impact of rulemaking and oversight by the CFPB. Our compliance costs have increased as a result of the various new regulations and we anticipate our compliance costs will continue to increase as a result of new regulations. Changes arising from implementation of the Dodd-Frank Act and any other new legislation may impact the profitability of our business activities, require that we raise additional capital or change certain of our business practices, require us to divest certain business lines, materially affect our business model or affect retention of key personnel, and could expose us to additional costs, including increased compliance costs. These changes may also require us to invest significant management attention and resources to make any necessary changes, and could therefore also adversely affect our business, financial condition, and results of operations.

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

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

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

Certain expenses associated with the ownership of real estate, principally real estate taxes, insurance, and maintenance costs, may adversely affect the net proceeds received from the real estate, if any. The ability to mitigate the losses on defaulted loans depends upon the ability to promptly foreclose upon the collateral after an appropriate cure period. In some states, the large number of mortgage foreclosures that have occurred has resulted in significant delays in foreclosing. Any delay in the foreclosure process adversely affects us by increasing the expenses related to carrying such real estate and exposes us to losses as a result of potential additional declines in the value of such collateral. As a result, the increased cost of owning and operating such real estate may exceed the rental income earned from the real estate (if any), we may have to advance additional funds to protect our investment or we may be required to dispose of the real estate at a loss.

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

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

The allowance for loan losses may be insufficient.

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

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

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

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

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

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

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

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

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

We operate in a highly competitive industry and market areas.

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

- our ability to build and maintain long-term customer relationships while ensuring high ethical standards and safe and sound banking practices;

- the scope, relevance and pricing of products and services that we offer;
- customer satisfaction with our products and services;
- industry and general economic trends; and
- our ability to keep pace with technological advances and to invest in new technology.

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

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

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

We are subject to extensive governmental regulation.

We are subject to extensive supervision and regulation by Federal and state governmental agencies, including the FRB, the GDBF and the FDIC. Current and future legislation, regulations, and government policy could adversely affect us and the financial institution industry as a whole, including the cost of doing business. Although the impact of such legislation, regulations, and policies cannot be predicted, future changes may alter the structure of, and competitive relationships among, financial institutions and the cost of doing business, which could have a material adverse effect on our financial condition and results of operations.

Changes in laws and regulations or failures to comply with such laws and regulations may adversely affect our financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

Acquisitions may disrupt our business and dilute shareholder value.

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

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

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

We are subject to risks related to our acquisitions.

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

- fully integrate the branches acquired into our operations;
- limit the outflow of deposits held by our new customers in the acquired branches and to retain and manage interest-earning assets acquired;
- generate new interest-earning assets in the geographic areas previously served by the acquired branches;
- effectively compete in new markets in which we did not previously have a presence;
- control the incremental noninterest expense from the acquired branches in a manner that enables us to maintain a favorable overall efficiency ratio;
- retain and attract the appropriate personnel to staff the acquired branches;

- earn acceptable levels of interest and noninterest income, including fee income, from the acquired branches; and
- reasonably estimate cash flows for acquired loans to mitigate exposure greater than estimated losses at the acquisition date.

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

Additionally, we may be unable to achieve results in the future similar to those achieved by our existing banking business, to compete effectively in the market areas previously served by the acquired branches or to manage effectively any growth following the acquisitions.

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

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

Our controls and procedures may fail or be circumvented.

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

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

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

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

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

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

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

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

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

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

We provide our customers with the ability to bank online. The secure transmission of confidential information over the Internet is a critical element of online banking. We also deploy part or all of a number of our other core business applications and services under cloud computing arrangements using the Internet. While we use qualified third party vendors to test and audit our network and maintain an enterprise-wide information security program, our network could become vulnerable to unauthorized access, computer viruses, phishing schemes and other security problems. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. To the extent that our activities or the activities of our customers involve the storage and transmission of confidential information, security breaches and viruses could expose us to claims, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in our systems and could adversely affect our reputation and our ability to generate deposits. Any failures, interruptions or security breaches could result in damage to our reputation, a loss of customer business, increased regulatory scrutiny, or possible exposure to financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

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

Since 2013, a number of major U.S. corporations, particularly retailers, experienced data systems intrusions, mainly perpetrated at point of sale devices and reportedly resulting in the thefts of sensitive financial data of tens of millions of individuals. These intrusions affected cards issued and deposit accounts maintained by many banks, including the Bank. Although our systems were not breached in these intrusions, these events can cause us to take costly steps such as reissuing debit cards to avoid significant theft loss to the Bank and our customers. Other possible points of intrusion or disruption not within our control include Internet service providers, electronic mail portal providers, social media portals, distant-server (“cloud”) service providers, electronic data security providers, telecommunications companies, and smart phone manufacturers.

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

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

We are subject to claims and litigation.

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

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

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

Risks Related to our Common Stock

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

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

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

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

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

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

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

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

Our ability to declare and pay dividends is limited.

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

Federal and state banking laws and regulations and state corporate laws restrict the amount of dividends Fidelity or the Bank may declare and pay. For example, under the regulations of the GDBF, dividends may not be declared out of the retained earnings of a state bank without first obtaining the written permission of the GDBF, unless such bank meets certain classified assets ratio, dividend payout and equity ratio.

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

In addition to the formal statutes and regulations, regulatory authorities consider the adequacy of the Bank's total capital in relation to its assets, deposits and other such items. Capital adequacy considerations could further limit the availability of dividends to the Bank.

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

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

We deliver our products and services through a network of offices located in Southern states. At December 31, 2015, we owned 53 and leased 10 retail bank branches and we leased 31 loan production offices.

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

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

Item 3. Legal Proceedings

We are a party to claims and lawsuits arising in the course of normal business activities. Although the ultimate outcome of all claims and lawsuits outstanding as of December 31, 2015 cannot be ascertained at this time, it is the opinion of management that these matters, when resolved, will not have a material adverse effect on our results of operations or financial condition.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Our common stock trades on the NASDAQ Global Select Market under the symbol "LION." As of March 7, 2016, there were approximately 1,300 shareholders of record. In addition, shares of approximately 3,500 beneficial owners of our common stock were held by brokers, dealers, and their nominees.

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

	High	Low	Cash Dividends Declared
2015			
First quarter	$17.15	$14.80	$0.09
Second quarter	17.49	15.33	0.10
Third quarter	21.98	16.94	0.10
Fourth quarter	23.05	19.73	0.10
2014			
First quarter	$16.57	$13.63	$0.04
Second quarter	14.44	12.80	0.08
Third quarter	14.88	12.98	0.09
Fourth quarter	16.36	13.55	0.09

A cash dividend of 12 cents per share was declared by the Board of Directors on January 21, 2016, paid on February 15, 2016, to holders of record as of February 4, 2016.

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

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

Issuer Purchases of Equity Securities

The following table presents information relating to our repurchase of shares of common stock in the fourth quarter of 2015.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) Shares (or Units) That May Yet Be Purchased Under the Plans or Programs
October 1 - 31, 2015	—	—	—	$10,000,000
November 1 - 30, 2015	—	—	—	10,000,000
December 1 - 31, 2015	—	—	—	10,000,000
Total	—	—	—	$10,000,000

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

Sale of Unregistered Securities

We have not sold any unregistered securities during the period.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table presents information as of December 31, 2015, with respect to shares of our common stock that may be issued under our equity compensation plans. Our equity compensation plans consist of the stock options, restricted stock grants, and other awards as defined in the 2006 Equity Incentive Plan and the 401(k) tax qualified savings plan.

Plan Category	(a) Number of Securities to be Issued upon Exercise of Outstanding Options	(b) Weighted Average Exercise Price of Outstanding Options	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))
Equity Compensation Plans Approved by Shareholders[1]	451,999	$ 13.41	3,357,761
Equity Compensation Plans Not Approved by Shareholders[2]	—	—	—
Total	451,999	$ 13.41	3,357,761

(1) 2006 Equity Incentive Plan

(2) Excludes shares issued under the 401(k) Plan

Shareholder Return Performance Graph

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

Fidelity Southern Corporation

The graph assumes that the value invested in our common stock and in each of the two indices was $100.00 on December 31, 2010, and all dividends were reinvested.

	Period Ended December 31,					
Index	2010	2011	2012	2013	2014	2015
Fidelity Southern Corporation	$100.00	$88.24	$147.11	$264.20	$262.73	$371.70
NASDAQ Composite	100.00	99.21	116.82	163.75	188.03	201.40
SNL Bank NASDAQ	100.00	88.73	105.75	152.00	157.42	169.94

Item 6. Selected Financial Data

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

	Years Ended December 31,				
($ in thousands, except per share data)	2015	2014	2013	2012	2011
INCOME STATEMENT DATA:					
Interest income	$116,642	$101,667	$97,563	$97,570	$93,710
Interest expense	15,804	11,226	13,961	17,078	22,849
Net interest income	100,838	90,441	83,602	80,492	70,861
Provision for loan losses	4,351	531	5,440	13,420	20,325
Noninterest income	127,888	95,320	96,878	88,268	52,507
Securities (losses) gains, net	(329)	—	189	307	1,078
Noninterest expense	162,946	138,754	132,325	115,397	85,422
Net income	39,135	30,036	27,638	25,327	11,398
PERFORMANCE:					
Earnings per common share - basic (1)	$1.77	$1.41	$1.35	$1.47	$0.60
Earnings per common share - diluted (1)	$1.64	$1.28	$1.21	$1.32	$0.54
Book value per common share (1)	$13.03	$12.40	$11.07	$9.57	$8.33
Tangible book value per common share	$12.66	$12.22	$10.96	$9.40	$8.17
Cash dividends paid per common share	$0.39	$0.30	$0.05	$—	$0.02
Return on average assets	1.16 %	1.11 %	1.09 %	1.08 %	0.55 %
Return on average shareholders' equity	13.85 %	12.07 %	12.20 %	14.19 %	7.43 %
Net interest margin	3.24 %	3.62 %	3.58 %	3.74 %	3.67 %
END OF PERIOD BALANCE SHEET SUMMARY:					
Total assets	$3,849,063	$3,085,135	$2,564,053	$2,476,745	$2,234,200
Earning assets	3,491,642	2,848,618	2,357,273	2,285,460	2,073,969
Loans, excluding loans held-for-sale	2,896,948	2,253,306	1,893,037	1,777,031	1,623,871
Total loans	3,294,782	2,622,241	2,080,403	2,081,125	1,757,720
Total deposits	3,179,511	2,458,022	2,202,452	2,068,011	1,871,516
Shareholders' equity	301,459	264,951	236,230	192,888	167,280
Assets serviced for others	8,033,478	6,562,506	5,108,684	3,150,846	1,706,279
DAILY AVERAGE BALANCE SHEET SUMMARY:					
Total assets	$3,377,129	$2,715,657	$2,543,145	$2,344,605	$2,062,549
Earning assets	3,119,335	2,510,247	2,345,492	2,161,438	1,944,385
Loans, excluding loans held-for-sale	2,514,130	2,015,068	1,818,575	1,723,966	1,486,216
Total loans	2,895,847	2,284,245	2,109,575	1,931,714	1,611,825
Total deposits	2,759,836	2,259,825	2,103,465	1,933,473	1,499,451
Shareholders' equity	282,581	248,783	226,457	178,517	153,312
ASSET QUALITY RATIOS:					
Net charge-offs to average loans	0.12 %	0.33 %	0.38 %	0.60 %	1.38 %
Allowance to period-end loans	0.91 %	1.13 %	1.78 %	1.91 %	1.72 %
Allowance to period-end loans, excluding acquired loans	0.97 %	1.15 %	1.84 %	2.00 %	1.80 %
Nonperforming assets to total loans, ORE and repossessions	1.67 %	2.61 %	3.78 %	4.56 %	5.59 %
	0.52x	0.43x	0.46x	0.41x	0.30x

Allowance to nonperforming loans, ORE and repossessions										
SELECTED RATIOS:										
Loans to total deposits	91.11	%	91.67	%	85.95	%	85.93	%	86.77	%
Average total loans to average earning assets	92.84	%	91.00	%	90.00	%	89.91	%	83.35	%
Noninterest income to revenue	52.30	%	48.39	%	49.83	%	47.50	%	35.91	%
Leverage ratio	8.80	%	10.40	%	11.02	%	10.18	%	9.83	%
Common equity Tier 1 capital	8.20	%	N/A		N/A		N/A		N/A	
Tier 1 risk-based capital	9.50	%	11.07	%	12.71	%	12.06	%	11.85	%
Total risk-based capital	12.40	%	12.01	%	13.96	%	13.43	%	13.70	%

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

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

CONSOLIDATED FINANCIAL REVIEW

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

Overview

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

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

During 2015, we continued to expand our footprint and customer base with the opening of additional offices in our retail banking, mortgage lending, and indirect automobile lending divisions including the commencement of indirect automobile lending activities in Oklahoma, expansion of mortgage lending activities into North and South Carolina, the expansion of our retail branch network in Georgia and northern and central Florida through acquisitions, and de novo branch openings. Trust and wealth management began operations in July 2014 and continues to grow.

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

Financial Performance

We recorded net income of $39.1 million in 2015 compared to $30.0 million in 2014, an increase of $9.1 million, or 30.3%. Net income per basic and diluted common share were $1.77 and $1.64, respectively, for 2015 and $1.41 and $1.28, respectively, for 2014. The increases of $32.6 million or 34.2% in noninterest income and $10.4 million, or 11.5%, in net interest income were the main factors impacting our earnings growth in 2015. These increases in income were partially offset by increases in noninterest expense in 2015 of $24.2 million or 17.4% and provision expense of $3.8 million.

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

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

We continue to attract new customer relationships, and talented and experienced bankers to support our growth. The focus in 2016 will be to successfully integrate our recent acquisitions, and on credit quality, revenue growth, expense controls, deposit growth and quality loan growth either organically or through acquisition.

Critical Accounting Policies

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

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

Allowance for Loan Losses

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

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

Acquisition Accounting

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

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

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

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

The credit risks inherent and evidenced in our past FDIC-assisted transactions resulted in a portion of the loans purchased in those transactions having a credit discount. On the date of acquisition, when the loans had evidence of credit deterioration since their origination and we believed it was probable that we would not collect all contractually required principal and interest payments, we refer to the difference between contractually required payments and the cash flows expected to be collected as the non-accretable discount. We estimate expected cash flows at each future reporting date. Subsequent decreases to the expected cash flows generally result in a provision for loan losses, net of the amount due from the FDIC under the applicable loss share agreement. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges and adjusted accretable discount, which has a positive effect on interest income. We have recorded acquired covered loans at fair value, exclusive of the loss share agreements with the FDIC.

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

Other Real Estate

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

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

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

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

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

Capitalized Servicing Assets and Liabilities

We sell indirect automobile loan pools, residential mortgages and SBA loans with servicing retained. When the contractual servicing fees on loans sold with servicing retained are expected to be more than adequate compensation to a servicer for performing the servicing, a capitalized servicing asset is recognized. When the expected costs to a servicer for performing loan servicing are not expected to adequately compensate a servicer, a capitalized servicing liability is recognized. Servicing assets and servicing liabilities are amortized over the expected lives of the serviced loans utilizing the interest method. Management makes certain estimates and assumptions related to costs to service varying types of loans and pools of loans, the projected lives of loans and pools of loans sold, and discount factors used in calculating the present values of servicing fees projected to be received.

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

Income Taxes

We file a consolidated federal income tax return, as well as tax returns in several states. Under the liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are recovered or settled. The net deferred tax asset is reviewed at each reporting period to assess the probability of realization of benefits in future periods and whether valuation allowances are appropriate. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded in situations where it is “more likely than not” that a deferred tax asset is not realizable. Management has reviewed all evidence, both positive and negative, and concluded

that a valuation allowance against any deferred tax asset is not needed at December 31, 2015. The calculation of the income tax provision is complex and requires the use of judgments and estimates in its determination.
Fair Value
Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3

measurements). A financial instrument's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement.

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

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

We classify IRLCs on a gross basis within other liabilities or other assets. The fair value of these commitments, while based on interest rates observable in the market, is highly dependent on the ultimate closing of the loans. These "pull-through" rates are based on both our historical data and the current interest rate environment and reflect our best estimate of the likelihood that a commitment will ultimately result in a closed loan. The loan servicing value is also included in the fair value of the IRLCs.

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

The credit risk associated with the underlying cash flows of instruments carried at fair value was a consideration in estimating the fair value of certain financial instruments. Credit risk was considered in the valuation through a variety of inputs, as applicable, including, the actual default and loss severity of the collateral, and level of subordination. The assumptions used to estimate credit risk incorporated relevant information that a market participant would likely use in valuing an instrument.

The fair value of residential mortgage loans held-for-sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, we classify these loans as Level 2.

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

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans and is classified as a Level 3 in the fair value hierarchy. Collateral may include real estate or business assets, including equipment, inventory and accounts receivable. The value of real estate collateral is determined based on an appraisal by qualified licensed appraisers. If significant, the value of business equipment is based on an appraisal by qualified licensed appraisers; otherwise, the equipment's net book value on the business' 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 upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value less estimated selling costs. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, we record the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, we record the foreclosed asset as nonrecurring Level 3. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business.

Capitalized servicing rights on indirect auto, SBA, and residential mortgage loans are initially recorded at fair value when the underlying loans are sold with servicing retained. These assets are then amortized in proportion to and over the period of estimated net servicing income. On a monthly basis, these servicing assets are assessed for impairment based on fair value. Management determines fair value by stratifying the servicing portfolio into homogeneous subsets with unique behavior characteristics, converting those characteristics into income and expense streams, adjusting those streams for prepayments, present valuing the adjusted streams, and combining 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 through a valuation allowance.

Results of Operations - 2015 Compared to 2014

Net Income

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

Net Interest Income/Margin

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

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

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

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

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

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

Average Balances, Interest and Yields

	For the Years Ended December 31,								
	2015			2014			2013		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
($ in thousands)									
Assets									
Interest-earning assets:									
Loans, net of unearned income (1)	$2,895,847	$111,828	3.86 %	$2,284,245	$96,830	4.24 %	$2,109,575	$93,573	4.44 %
Investment securities (1)	176,382	5,117	2.90	175,174	5,141	2.93	170,265	4,249	2.50
Federal funds sold and interest-bearing deposits	47,106	80	0.17	50,828	85	0.17	65,652	114	0.17
Total interest-earning assets	3,119,335	117,025	3.75 %	2,510,247	102,056	4.07 %	2,345,492	97,936	4.18 %
Noninterest-earning assets:									
Cash and due from banks	16,092			13,605			13,884		
Allowance for loan losses	(24,443)			(30,363)			(33,512)		
Premises and equipment	67,192			52,666			40,830		
Other real estate	18,375			26,327			37,469		
Other assets	180,578			143,175			138,982		
Total assets	$3,377,129			$2,715,657			$2,543,145		
Liabilities and shareholders' equity									
Interest-bearing liabilities:									
Demand and money market	$889,985	$2,164	0.24 %	$722,448	$1,889	0.26 %	$648,734	$1,806	0.28 %
Savings	322,385	1,096	0.34	316,439	1,147	0.36	317,845	1,319	0.41
Time	873,352	8,089	0.93	681,915	6,671	0.98	719,205	7,293	1.01
Total interest-bearing deposits	2,085,722	11,349	0.54	1,720,802	9,707	0.56	1,685,784	10,418	0.62
Federal funds purchased	21,733	133	0.61	16,947	116	0.68	23,071	174	0.75
Securities sold under agreements to repurchase	17,230	26	0.15	15,064	23	0.15	15,470	21	0.14
Other short-term borrowings	176,722	491	0.28	100,529	259	0.26	82,446	582	0.71
Subordinated debt	90,303	3,805	4.21	46,291	1,113	2.40	60,926	2,733	4.49
Long-term debt	—	—	—	1,973	8	0.41	8,082	33	0.41
Total interest-bearing liabilities	2,391,710	15,804	0.66 %	1,901,606	11,226	0.59 %	1,875,779	13,961	0.74 %

Noninterest-bearing liabilities and shareholders' equity:								
Demand deposits	674,114			539,023			417,681		
Other liabilities	28,724			26,245			23,228		
Shareholders’ equity	282,581			248,783			226,457		
Total liabilities and shareholders' equity	$3,377,129			$2,715,657			$2,543,145		
Net interest income/spread		$101,221	3.09 %		$90,830	3.48 %		$83,975	3.44 %
Net interest rate margin			3.24 %			3.62 %			3.58 %

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

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Rate/Volume Analysis

	2015 Compared to 2014 Variance Attributed to[1]			2014 Compared to 2013 Variance Attributed to[1]		
(in thousands)	Volume	Rate	Net Change	Volume	Rate	Net Change
Loans[2]	$24,178	$(9,180)	$14,998	$7,532	$(4,275)	$3,257
Investment securities[2]	(128)	104	(24)	72	820	892
Interest-bearing deposits	(4)	(3)	(7)	(25)	(4)	(29)
Federal funds sold	1	1	2	—	—	—
Total interest-earning assets	$24,047	$(9,078)	$14,969	$7,579	$(3,459)	$4,120
Interest-Bearing Deposits:						
Demand	$415	$(140)	$275	$197	$(114)	$83
Savings	21	(72)	(51)	(6)	(166)	(172)
Time	1,820	(402)	1,418	(391)	(231)	(622)
Total interest-bearing deposits	2,256	(614)	1,642	(200)	(511)	(711)
Federal funds purchased	30	(13)	17	(43)	(15)	(58)
Securities sold under agreements to repurchase	3	—	3	(1)	3	2
Other short-term borrowings	210	22	232	110	(433)	(323)
Subordinated debt	1,502	1,190	2,692	(549)	(1,071)	(1,620)
Long-term debt	(4)	(4)	(8)	(25)	—	(25)
Total interest-bearing liabilities	$3,997	$581	$4,578	$(708)	$(2,027)	$(2,735)

[1] The change in interest due to both rate and volume has been allocated to the components in proportion to the relationship of the dollar amounts of the change.

[2] Reflects fully taxable equivalent adjustments using a Federal tax rate of 35%.

Provision for Loan Losses

Management's policy is to maintain the allowance for loan losses at a level sufficient to absorb probable incurred losses inherent in the loan portfolio as of the balance sheet date. The allowance is increased by the provision for loan losses and decreased by charge-offs, net of recoveries, net of amounts due from the FDIC under the loss sharing agreements for our past FDIC-assisted transactions.

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

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

Analysis of the Allowance for Loan Losses

The following table outlines the changes in our allowance for losses during the five-year period ended December 31, 2015.

	December 31,				
($ in thousands)	2015	2014	2013	2012	2011
Balance at beginning of year	$25,450	$33,684	$33,982	$27,956	$28,082
Charge-offs:					
Commercial	1,530	5,440	3,820		