FIDELITY SOUTHERN CORP
Form 10-K
March 10, 2015

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, 2014
Commission File Number 001-34981

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

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

Registrant's telephone number, including area code: (404) 639-6500
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, without stated par value
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.   Yes ¨   No ý
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.   Yes ¨   No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.   Yes ý   No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).   Yes ý   No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
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, 2014 (based on the price the Common Stock was last sold on June 30, 2014 on the NASDAQ Global Select Market System), was $226,016,270.

At March 2, 2015, there were 21,381,332 shares of Common Stock outstanding, without stated par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive Proxy Statement for the 2015 Annual Meeting of Shareholders are incorporated by reference into Part III.

FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
Report on Form 10-K
December 31, 2014

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(1) All or portions of this item are incorporated by reference to the Registrant's Definitive Proxy Statement for the 2015 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 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 its bank subsidiary. 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 management fees and cash dividends received from the Bank. At December 31, 2014, we had total assets of $3.1 billion, total net loans of $2.6 billion, total deposits of $2.5 billion, and shareholders' equity of $265.0 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," and similar expressions are intended to identify 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, unique risks associated with our construction and land development loans, 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, Georgia metropolitan area and eastern 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, 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 and lending businesses; (14) the volatility and limited trading of our common stock; (15) the impact of dilution on our common stock; (16) risks related to acquisitions; compliance with certain requirements under our loss share agreements with the Federal Deposit Insurance Corporation ("FDIC"); changes in national and local economic conditions resulting in higher charge-offs not covered by the FDIC loss share agreements; and (17) risks associated with technological changes and the possibility of Cyberfraud.

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 2014 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 northern 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 in twelve Southern 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 originated and brokered 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 trust and wealth management services to individuals, as well as cash management services, remote deposit services and international trade business services for businesses. Through our marketing partners, we offer merchant services for businesses and credit cards for both individuals and businesses.

We have generally 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 completed both FDIC-assisted and non FDIC-assisted transactions and will continue to review opportunities for other acquisitions in the future.

Deposits

We offer a full range of deposit accounts and services to both individuals and businesses. As of December 31, 2014 and 2013, deposits consisted of:

	December 31, 2014			December 31, 2013		
(in thousands)	Amount	% of Total		Amount	% of Total	
Noninterest-bearing demand deposits	$558,018	22.7	%	$488,224	22.2	%
Interest-bearing deposits:						
Demand and money market	788,373	32.1	%	701,556	31.8	%
Savings deposits	321,621	13.1	%	325,133	14.8	%
Time deposits	675,806	27.5	%	620,172	28.1	%
Brokered deposits	114,204	4.6	%	67,367	3.1	%
Total deposits	$2,458,022	100.0	%	$2,202,452	100.0	%

During 2014, 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 2014 in addition to the $170.9 million in deposits acquired during September 2014.

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, Virginia, North Carolina, Tennessee, and Texas. Indirect loans are originated in Georgia, Florida, North Carolina, South Carolina, Alabama, Arkansas, Mississippi, Virginia, Texas, Tennessee, 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 and Jacksonville, FL metropolitan areas.

The following table summarizes our total net loans outstanding by category as of December 31, 2014:

(in thousands)	Loans	Loans Held-for-Sale	Total Loans
Commercial	$658,911	$12,511	$671,422

Construction	123,994	—	123,994
Consumer	1,232,604	175,000	1,407,604
Mortgage	237,797	181,424	419,221
Total loans	$2,253,306	$368,935	$2,622,241

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 may require personal guarantees on these loans.

Commercial Real Estate Lending

We engage in commercial real estate lending through direct originations. We do not generally purchase loan participations from other banks. 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 their credit. Loans where the sole source of repayment is derived from the project, or where the absence of the project's success would call into question 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. Approximately 64% of our commercial real estate loans are 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 growing portfolio of SBA loans and SBA loans held-for-sale as a result of increased SBA loan production. 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 the South. A portion of the originated indirect automobile loans is sold with servicing retained. During 2014, we produced approximately $1.5 billion of indirect automobile loans, while profitably selling $679.9 million to third parties with servicing retained. At December 31, 2014, we were servicing $902.8 million 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 area of Atlanta, GA, Savannah, GA, Birmingham, AL and Jacksonville, 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 21 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 brokered loans to investors, retaining servicing on a significant amount of the sales. The balances of mortgage loans held-for-sale fluctuate due to economic conditions, interest rates, the level of real estate activity, the amount of mortgage loans we retain, and seasonal factors. During 2014, we originated and sold to third parties approximately $1.6 billion in mortgage loans. At December 31, 2014, we were servicing $5.4 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.

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 $5 million. The Loan and Discount Committee must approve all credit for commercial and residential construction loan relationships exceeding $5 million. 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 South 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 or the Loan and Discount 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.

Residential mortgage loans are primarily originated to FNMA, FHLMC, GNMA, and other similar investor standards and guidelines.

Loan Review and Nonperforming Assets

The Credit Review Department reviews our loan portfolios to identify potential deficiencies and recommends appropriate corrective actions. The Credit Review Department reviews more than 30% of the commercial and construction loan portfolios and reviews 10% of the consumer loans originated annually. In 2014, the Credit Review Department reviewed more than 80% of the construction and commercial portfolios. 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 asset growth, liquidity, and capital in order to reduce interest rate risk and maximize income. ALCO directs our overall acquisition and allocation of funds 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 are 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 are 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 supervision and regulation of FSC and the Bank as financial institutions 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 particular 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 Treasury announced the Troubled Asset Relief Program (“TARP”) Capital Purchase Program (the “Program”) which was instituted pursuant to the Emergency Economic Stabilization Act of 2008 (“EESA”), to provide up to $700 billion to the Treasury to, among other things, take equity positions in financial institutions. 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 2,665,946 shares of our common stock at an exercise price of $2.71 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 August 30, 2013, we used a portion of the proceeds of our public offering that closed on June 10, 2013 to redeem all$48.2 million of the Preferred Shares originally issued to the Treasury. The Warrant remains outstanding under the terms of the original purchase, as adjusted for dividends.

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

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

Certain requirements of the Dodd-Frank Act have yet to be implemented. Therefore, the full extent of the impact of these new requirements on our business and financial condition is unclear.

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 2014.

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 2014, FSC paid $6.4 million in cash dividends. The Board of Directors for both the Bank and FSC 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.

Capital Adequacy

The Federal Reserve and the FDIC have implemented substantially identical risk-based rules for assessing bank and bank holding company capital adequacy. These regulations establish minimum capital standards in relation to assets and off-balance sheet exposures as adjusted for credit risk. Banks and bank holding companies are required to have (1) a minimum level of Total Capital (as defined) to risk-weighted assets of 8%; and (2) a minimum Tier 1 Capital (as defined) to risk-weighted assets of 4%. In addition, the Federal Reserve and the FDIC have established a minimum 3% leverage ratio of Tier 1 Capital to quarterly average total assets for the most highly-rated banks and bank holding companies. "Tier 1 Capital" generally consists of common equity excluding unrecognized gains and losses on investment securities available-for-sale, plus minority interests in equity accounts of consolidated subsidiaries and certain perpetual preferred stock, less certain intangibles. The Federal Reserve and the FDIC will require a bank holding company and a bank, respectively, to maintain a leverage ratio greater than four percent (4%) if either is experiencing or anticipating significant growth or is operating with less than well-diversified risks in the opinion of the Federal Reserve. The Federal Reserve and the FDIC use the leverage ratio in tandem with the risk-based capital ratio to assess the capital adequacy of banks and bank holding companies. The Federal Reserve and FDIC consider interest rate risk in the overall determination of a bank's capital ratio, requiring banks with greater interest rate risk to maintain adequate capital for the risk.

Section 38 of the Federal Deposit Insurance Act implemented the prompt corrective action provisions that Congress enacted as a part of the Federal Deposit Insurance Corporation Improvement Act of 1991 (the "1991 Act"). The FDIC has adopted regulations implementing the prompt corrective action provisions of the 1991 Act, which place financial institutions in the following five categories based upon capitalization ratios: (1) a "well capitalized" institution has a Total risk-based capital ratio of at least 10%, a Tier 1 risk-based ratio of at least 6% and a leverage ratio of at least 5%; (2) an "adequately capitalized" institution has a Total risk-based capital ratio of at least 8%, a Tier 1 risk-based ratio of at least 4% and a leverage ratio of at least 4%; (3) an "undercapitalized" institution has a Total risk-based capital ratio of under 8%, a Tier 1 risk-based ratio of under 4% or a leverage ratio of under 4%; (4) a "significantly undercapitalized" institution has a Total risk-based capital ratio of under 6%, a Tier 1 risk-based ratio of under 3% or a leverage ratio of under 3%; and (5) a "critically undercapitalized" institution has a leverage ratio of 2% or less. Institutions in any of the three undercapitalized categories are prohibited from declaring dividends or making capital distributions. The FDIC regulations also establish procedures for "downgrading" an institution to a lower capital category based on supervisory factors other than capital. Regulators are also empowered to place in receivership or require the sale of a financial institution to another depository institution when its capital leverage ratio declines to 2%. Better capitalized institutions are generally subject to less onerous regulation and supervision than institutions with lesser amounts of capital.

To continue to conduct our business as currently conducted, we must maintain capital levels well above the minimum regulatory requirements. At December 31, 2014 and 2013, 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, 2014	December 31, 2013	Adequately Capitalized	Well Capitalized
Total risk-based capital ratio	11.69%	13.39%	8.00%	10.00%
Tier 1 risk-based capital ratio	10.38%	11.68%	4.00%	6.00%
Leverage capital ratio	9.76%	10.14%	4.00%	5.00%

FSC is not subject to the provisions of prompt corrective action. 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. FSC's total risk-based capital ratio, tier 1 risk-based capital ratio, and leverage capital ratio were 13.96%, 12.71%, and 11.02%, respectively at December 31, 2013.

Public Offering

On June 10, 2013, we closed a $60.0 million public offering of our common stock at $12.00 per share and on June 18, 2013, the underwriters exercised their option of the allotment shares for an additional $9.0 million in capital. We used the net proceeds from this offering as follows: (i) on August 30, 2013, we redeemed the $48.2 million in shares of our Fixed Rate Cumulative Perpetual Preferred Stock, Series A, originally issued to the U.S. Department of the Treasury under TARP; and (ii) on September 8, 2013, we redeemed two series of our trust preferred securities with an aggregate outstanding principal amount of $20.5 million.

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 I” (“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 FRB approved the final rules implementing the BCBS's Basel III capital guidelines for U.S. banks. Under the final rules, minimum requirements will increase for both the quantity and quality of capital we maintain. The rules include a new common equity Tier 1 capital to risk-weighted assets ratio of 4.5% and a common equity Tier 1 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 phase-in period for the 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. Management expects the impact on the March 31, 2015 Tier 1 capital to risk-weighted assets and total capital to risk-weighted assets will be a reduction of approximately 40 - 60 basis points. The decrease is primarily attributable to limitations on our mortgage servicing rights and inclusion of commitments with an original maturity of less than one year.

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 A&D loans to total risk-based capital was 40% at both December 31, 2013 and December 31, 2014. The regulatory guideline for all real estate loans, except owner-occupied property, as a percentage of capital is a maximum of 300%. Our ratio of all real estate loans, except owner-occupied property, as a percentage of capital, decreased slightly from 111% at December 31, 2013, to 104% at December 31, 2014.

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. While 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 could effectively limit increases in the 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 Consumer Financial Protection Bureau, 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 commercial banks and thrift institutions in our primary market area in Georgia for residential construction and development 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 and wealth management 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, 2014, we had 1,038 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 the Company at March 2, 2015, and the period during which they have served as executive officers, are as follows:

Name	Age	Since	Position
James B. Miller, Jr.	74	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.	47	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	52	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	57	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.

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, Georgia, metropolitan area and eastern 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, Georgia, metropolitan area and eastern and northern Florida. As of December 31, 2014, commercial real estate, real estate mortgage, and construction loans, accounted for approximately 46.3% of our total loan portfolio. Unlike larger national or regional banks that are more geographically diversified, our success depends primarily on the general economic conditions of the specific local markets in which we operate. Conditions in these markets strongly affect our results of operations and financial condition. Real estate values and the demand for commercial and residential mortgages and construction loans are affected by, among other things, general and local economic conditions, changes in governmental regulation, monetary and fiscal policies, interest rates and weather. Declines in our markets could adversely affect the demand for new real estate loans, and the value and liquidity of the collateral securing our existing loans. Adverse conditions in our markets could also reduce our growth rate, impair our ability to collect loans, and generally unfavorably impact our financial condition and results of operations.

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

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

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

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

The allowance for loan losses may be insufficient.

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

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

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.
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 United States 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, in response to the recession in 2008 and the following uneven recovery, the Federal Reserve has implemented a series of domestic monetary initiatives. Several of these have emphasized so-called quantitative easing strategies, the most recent of which ended during 2014. Other significant monetary strategies could be implemented in the future including, in particular, so-called tightening strategies. 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. An example of the former is the substantial drop in oil prices experienced in late 2014 and early 2015. Two examples of the latter are the rise in 2014 and 2015 (to date) in the value of the U.S. dollar relative to many other currencies, and decisions in the EU in late 2014 and 2015 (to date) to pursue or enhance easing strategies. 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.

Recent events in the financial services industry and, more generally, in the financial markets and the economy, have led to various changes in the regulation of the financial services industry. 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 Dodd-Frank and any other new legislation may impact the profitability of our business activities, require 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 and operations.

Increases in FDIC premiums could have a material adverse effect on our future earnings.

The FDIC insures deposits at FDIC insured financial institutions, including the Bank. The FDIC charges the insured financial institutions premiums to maintain the Deposit Insurance Fund at an adequate level. During the prior economic recession, the FDIC increased its assessment rates and imposed special assessments. The FDIC may further increase these rates and impose additional special assessments in the future, which could have a material adverse effect on future earnings.

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 substantially affected in a negative fashion 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 and financial condition.

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. A sizable portion 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 it 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 more 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. 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.

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.

In early July 2013, the Federal Reserve approved revisions to its capital adequacy guidelines and prompt corrective action rules that implement the Basel III regulatory capital reforms in the United States. 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. Most banking organizations, including the Bank, were required to apply the new capital rules beginning on January 1, 2015. 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.

Potential 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 acquisitions will occur in the future. However, if we do acquire other banks, businesses, or branches, such 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;
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- 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.

Our ability to continue to receive the benefits of our loss share agreements with the FDIC is conditioned upon our compliance with certain requirements under the agreements.

We are the beneficiary of loss share agreements with the FDIC that call for the FDIC to fund a portion of our losses on certain assets we acquired in connection with our FDIC-assisted transactions. To recover a portion of our losses and retain the loss share protection, we must comply with certain requirements imposed by the agreements. The requirements of the agreements relate primarily to our administration of the assets covered by the agreements, as well as our obtaining the consent of the FDIC to engage in certain corporate transactions that may be deemed under the agreements to constitute a transfer of the loss share benefits. When the consent of the FDIC is required under the loss share agreements, the FDIC may withhold its consent or may condition its consent on terms that we do not find acceptable. If the FDIC does not grant its consent to a transaction we would like to pursue, or conditions its consent on terms that we do not find acceptable, we may be unable to engage in a corporate transaction that might otherwise benefit our shareholders or we may elect to pursue such a transaction without obtaining the FDIC's consent, which could result in termination of our loss share agreements with the FDIC.

Changes in national and local economic conditions could lead to higher losses in connection with assets acquired in our past FDIC-assisted transactions and the 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 our operations and financial condition even if other favorable events occur.

Our loss sharing agreements with the FDIC will not cover all of our losses on loans and ORE we acquired.

Although we have entered into loss share agreements with the FDIC that provide that the FDIC will bear a significant portion of losses related to specified loan portfolios and ORE that we acquired, we are not protected for all losses with respect to those specified loan portfolios and ORE. Additionally, the loss sharing agreements have limited terms. Therefore, the FDIC will not reimburse us for any charge-offs or related losses that we experience after the term of the loss share agreements expire, and any such charge-offs would negatively impact our net income. Moreover, the loss share provisions in the loss share agreements may be administered improperly, or the FDIC may interpret those provisions in a way differently than we do. In any of those events, our losses could increase.

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 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.
Our 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.
In 2013 and 2014, a number of major U.S. corporations, particularly retailers, experienced data systems incursions, mainly perpetrated at point of sale devices and reportedly resulting in the thefts of sensitive financial data of tens of millions of individuals. These incursions affected cards issued and deposit accounts maintained by many banks, including the Bank. Although our systems were not breached in these incursions, 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 incursion 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 earnings and financial condition.
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 pertaining to our performance of our responsibilities. Whether customer claims and legal action related to our performance of our responsibilities 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 the clients' 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 the business lines may result in negative public opinion about the other business lines. Negative public opinion may adversely affect our ability to keep and attract clients and employees and may expose us to litigation and regulatory action. Although we take steps to minimize reputation risk in dealing with our clients and communities, this risk will always be present given the nature of our business.

Risks Related to our Common Stock

Our stock price can be volatile.

Stock price volatility may make it more difficult for shareholders to resell common stock when they want and at prices they find attractive. Our stock price can fluctuate significantly in response to a variety of factors 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.

General market fluctuations, 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.

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 is 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.

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The exercise of the Warrant by the Treasury would dilute existing shareholders' ownership interest and may make it more difficult for us to take certain actions that may be in the best interest of shareholders.
On December 19, 2008, we granted the U.S. Treasury a ten-year Warrant to purchase up to 2,665,946 shares of our common stock at a price of $2.71 per share, adjusted for dividends. While the Treasury auctioned the Preferred Shares in 2012, it did not sell the Warrant, and while we redeemed the Preferred Shares in 2013, the Treasury continues to hold the Warrant. If the Treasury exercises the entire Warrant, it would result in a significant dilution to the ownership interest of our existing shareholders. Further, if the Treasury exercises the entire Warrant, it will become our second largest shareholder. The Treasury has agreed that it will not exercise voting power with regard to the shares that it acquires by exercising the Warrant. However, Treasury's abstention from voting may make it more difficult for us to obtain shareholder approval for those matters that require a majority of total shares outstanding, such as a business combination.
Provisions in our Bylaws and our Tax Benefits Preservation Plan 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. We have also adopted a Tax Benefits Preservation Plan. Our bylaws and Tax Benefits Preservation Plan 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. Although our recent dividends have 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. 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. 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 consisting of 45 retail bank branches and 25 loan production offices. At December 31, 2014, we owned 36 of these retail bank branches and we leased all 25 loan production offices. The remaining retail branch locations are leased.

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, 2014 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.

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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 2, 2015, there were approximately 1,000 shareholders of record. In addition, shares of approximately 2,300 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
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
2013			
First quarter	$11.54	$9.35	$—
Second quarter	12.96	10.65	—
Third quarter	15.84	12.47	0.02
Fourth quarter	17.80	13.32	0.03

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

A cash dividend of 9 cents per share was declared by the Board of Directors on January 16, 2015, payable on February 13, 2015, to holders of record as of February 2, 2015.

Stock dividends declared, by quarter, for the years ended December 31, 2014 and 2013 were as follows:

	For the Years Ended December 31,	
	2014	2013
First quarter	None	1 for 100
Second quarter	None	1 for 120
Third quarter	None	1 for 170
Fourth quarter	None	1 for 210

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

See Note 3 to the consolidated financial statements in Item 8 for a further discussion of the restrictions on our ability to pay dividends.

Issuer Purchases of Equity Securities

The following table presents information relating to our purchase of shares of common stock in the fourth quarter of 2014.

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) Shares (or Units) That May Yet Be Purchased Under the Plans or Programs
October 1 - 31, 2014	—	—	—	$10,000,000
November 1 - 30, 2014	—	—	—	10,000,000
December 1 - 31, 2014	—	—	—	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, 2014, with respect to shares of our common stock that may be issued under 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	Number of Securities to be Issued upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	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]	554,998	$ 12.12	3,410,360
Equity Compensation Plans Not Approved by Shareholders[2]	—	—	—
Total	554,998	$ 12.12	3,410,360

[1] 2006 Equity Incentive Plan.

[2] Excludes shares issued under the 401(k) Plan.

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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 on December 31, 2009, and all dividends were reinvested.

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	Period Ended December 31,					
Index	2009	2010	2011	2012	2013	2014
Fidelity Southern Corporation	$100.00	$197.80	$174.54	$290.97	$522.57	$519.67
NASDAQ Composite	100.00	118.15	117.22	138.02	193.47	222.16
SNL Bank NASDAQ	100.00	117.98	104.68	124.77	179.33	185.73

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 report and the consolidated financial statements and notes included in Item 8 of this report.

	Years Ended December 31,				
($ in thousands, except per share data)	2014	2013	2012	2011	2010
INCOME STATEMENT DATA:					
Interest income	$101,667	$97,563	$97,570	$93,710	$95,338
Interest expense	11,226	13,961	17,078	22,849	30,563
Net interest income	90,441	83,602	80,492	70,861	64,775
Provision for loan losses	531	5,440	13,420	20,325	17,125
Noninterest income, including securities gains	95,320	96,878	87,961	51,429	42,855
Securities gains, net	—	189	307	1,078	2,291
Noninterest expense	138,754	132,325	115,397	85,422	75,973
Net income	30,036	27,638	25,327	11,398	10,133
PERFORMANCE:					
Earnings per common share - basic (1)	$1.41	$1.35	$1.47	$0.60	$0.56
Earnings per common share - diluted (1)	$1.28	$1.21	$1.32	$0.54	$0.51
Book value per common share (1)	$12.40	$11.07	$9.57	$8.33	$7.76
Cash dividends paid per common share	$0.30	$0.05	$—	$0.02	$—
Dividend payout ratio	21.28 %	3.70 %	— %	3.33 %	— %
Return on average assets	1.11 %	1.09 %	1.08 %	0.55 %	0.54 %
Return on average shareholders' equity	12.07 %	12.20 %	14.19 %	7.43 %	7.50 %
Net interest margin	3.62 %	3.58 %	3.74 %	3.67 %	3.66 %
END OF PERIOD BALANCE SHEET SUMMARY:					
Total Assets	$3,085,225	$2,564,168	$2,477,291	$2,234,795	$1,945,300
Earning assets	2,848,618	2,357,273	2,285,460	2,073,969	1,830,803
Loans, excluding Loans Held-for-Sale	2,253,306	1,893,037	1,777,031	1,623,871	1,403,372
Total loans	2,622,241	2,080,403	2,081,125	1,757,720	1,613,270
Total deposits	2,458,022	2,202,452	2,068,011	1,871,516	1,613,248
Long term borrowings	46,393	56,393	67,527	120,027	142,257
Shareholders' equity	264,951	236,230	192,888	167,280	140,511
DAILY AVERAGE BALANCE SHEET SUMMARY:					
Total Assets	$2,715,759	$2,543,145	$2,345,176	$2,063,169	$1,879,657
Earning assets	2,510,247	2,345,492	2,161,438	1,944,385	1,778,811
Total loans	2,284,245	2,109,575	1,931,714	1,611,825	1,480,618
Total deposits	2,259,825	2,103,465	1,933,473	1,499,451	1,562,617
Long-term debt	48,366	69,008	86,256	125,828	129,102
Shareholders' equity	248,783	226,457	178,517	153,312	135,132
ASSET QUALITY RATIOS:					
Net charge-offs to average loans	0.33 %	0.38 %	0.60 %	1.38 %	1.44 %
Net charge-offs to average loans excluding covered loans	0.33 %	0.39 %	0.47 %	1.39 %	1.44 %
Allowance to period-end loans	1.13 %	1.78 %	1.92 %	1.72 %	2.00 %
Nonperforming assets to total loans, ORE and repossessions	2.61 %	3.78 %	4.56 %	5.59 %	6.89 %
	0.43x	0.46x	0.41x	0.30x	0.29x

Allowance to nonperforming loans, ORE and repossessions										
SELECTED RATIOS:										
Loans to total deposits	91.67	%	85.95	%	85.93	%	86.77	%	86.99	%
Average total loans to average earning assets	91.00	%	90.00	%	89.91	%	83.35	%	83.34	%
Non-Interest Income to Revenue	48.39	%	49.83	%	47.41	%	35.43	%	31.01	%
Leverage Ratio	10.40	%	11.02	%	10.18	%	9.83	%	9.36	%
Tier 1 Risk-Based Capital	11.07	%	12.71	%	12.06	%	11.85	%	10.87	%
Total Risk-Based Capital	12.01	%	13.96	%	13.43	%	13.70	%	13.28	%
Average equity to average assets	9.16	%	8.90	%	7.61	%	7.43	%	7.19	%

(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 1974, 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 spans the metropolitan Atlanta market and northern Florida. We also conduct indirect automobile lending, residential mortgage lending and SBA lending activities in twelve Southern states. During 2014, we continued to expand our footprint 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 Louisiana, expansion of mortgage lending activities into Alabama and the acquisition of a group of retail branches in northern Florida.

Our lending activities are significantly influenced by the local economic environments in the markets we serve. We have organically grown our consumer installment, mortgage, construction and commercial loan portfolios as the economic recession of 2007 to 2009 began to recede in 2012 and 2013. Our loan portfolio is well diversified among consumer, business, and real estate lending. The credit quality of our loan portfolio has continued to improve.

Financial Performance

We recorded net income for 2014 of $30.0 million compared to $27.6 million in 2013, an increase of $2.4 million, or 8.7%. Net income per basic and diluted common share were $1.41 and $1.28, respectively for 2014 and $1.35 and $1.21, respectively, in 2013. The increase of $6.8 million, or 8.2%, in net interest income and decrease in provision expense of $4.9 million, or 90.2%, were the main factors impacting the growth in our earnings for 2014.

We derive approximately half of our revenues from noninterest income sources such as service charges on loan and deposit accounts and fees on other services; income from mortgage banking, indirect automobile, and SBA activities; and gains on ORE sales. The majority of this revenue is earned from gains on sales of originated and brokered loans. We retain servicing on the majority of loans sold which generates servicing revenue over the life of the 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 2015 will continue to be on credit quality, revenue growth, expense controls, deposit growth and quality loan growth.

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 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 at least monthly 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 the 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 account for acquisitions under the acquisition method of accounting. 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 fair value of a loan portfolio and foreclosed property acquired in a business combination requires greater levels of management estimates and judgment than the remainder of assets or assumed liabilities.

The credit risks inherent and evidenced in our FDIC-assisted transactions resulted in substantially all loans purchased in the transactions having a credit discount. On the date of acquisition, when the loans have evidence of credit deterioration since their origination and we believe it is probable that we will 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 must 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 will have a positive effect on interest income.

Because we recorded 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. We recorded acquired covered loans at fair value, exclusive of the loss share agreements with the FDIC. The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of expected principal, interest and other cash flows.

FDIC Receivable for Loss Share Agreements

We entered into loss share agreements with the FDIC in conjunction with our FDIC-assisted transactions in which the FDIC has agreed to reimburse us for 80% of all losses incurred in connection with the portion of our loan and ORE assets covered under the loss share agreements. We estimated the amount that will be received from the FDIC under the loss share agreements that will result from losses incurred on the covered loans and ORE assets, and we recorded the estimated fair value as a receivable from the FDIC. The FDIC receivable for loss share agreements is measured separately from the related covered assets because it is not contractually embedded in the assets and is not transferable if we sell the assets. We estimated the fair value of the FDIC receivable using the present value of cash flows related to the loss share agreements based on the expected reimbursements for losses and the applicable loss share percentages.

We review and update the fair value of the FDIC receivable prospectively as loss estimates related to covered loans and ORE change. Subsequent decreases in the amount expected to be collected from the covered assets result in a provision for loan losses, an increase in the allowance for loan losses, and a proportional adjustment to the FDIC receivable for the estimated amount to be reimbursed. Subsequent increases in the amount expected to be collected from the covered assets result in the reversal of any previously recorded provision for loan losses and related allowance for loan losses and adjustments to the FDIC receivable, or prospective adjustments to the accretable discount if no provision for loan losses had previously been recorded. We discounted the receivable for the expected timing and receipt of these cash flows using a risk-free rate plus a premium for risk. Fair value accounting incorporates into the fair value of the FDIC receivable an element of the time value of money, which is accreted back into income over the life of the loss share agreements.

Amortization of the FDIC receivable is recorded as an expense over the estimated life of the receivable or the remaining life of the underlying assets, whichever is shorter. The ultimate realization of the FDIC receivable depends on the performance of the underlying covered assets, the passage of time and claims paid by the FDIC.

Other Real Estate ("ORE")

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 and a corresponding increase in operating expenses.

Loan-Related Revenue Recognition

Loans held for investment (excluding acquired loans) are reported at principal amounts outstanding, net of deferred fees and costs. Interest income and ancillary fees from loans are a primary source of revenue. Interest income is recognized in a manner that results in a level yield on principal amounts outstanding. Rate-related loan fee income, loan origination, and commitment fees, and certain direct origination costs are deferred and amortized as an adjustment of the yield over the contractual lives of the related loans, taking into consideration assumed prepayments. The accrual of interest is discontinued when, in management's judgment, it is determined that the collectability of interest or principal is doubtful.

For business loans, the accrual of interest is discontinued and the loan categorized as nonaccrual when, in management's opinion, due to deterioration in the financial position or operations of the borrower, the full repayment of principal and interest is not expected, or principal or interest has been in default for a period of 90 days or more, unless the obligation is both well secured and in the process of collection. Business loans may be returned to accrual status when management expects to collect all principal and interest and the loan has been brought current. Interest received on well collateralized nonaccrual loans is recognized on the cash basis. If the business loan is not well collateralized, payments are applied to reduce principal.

Consumer loans are placed on nonaccrual upon becoming 90 days past due or sooner if, in the opinion of management, the full repayment of principal and interest is not expected. On consumer loans, any payment received on a loan on which the accrual of interest has been suspended is applied to reduce principal.

When a loan is placed on nonaccrual, interest accrued during the current accounting period is reversed and interest accrued in prior periods, if significant, is charged off. Adjustments to principal are made if the collateral related to the loan is deficient.

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 the net deferred tax asset is not needed at December 31, 2014. 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 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.

Results of Operations - 2014 Compared to 2013

Net Income

Our net income for the year ended December 31, 2014, was $30.0 million or $1.41 and $1.28 basic and fully diluted earnings per share, respectively. Net income for the year ended December 31, 2013, was $27.6 million or $1.35 and $1.21 basic and fully diluted earnings per share, respectively. The $2.4 million increase in net income in 2014 compared to 2013 was due primarily to an increase in interest income of $4.1 million, a decrease in provision expense of $4.9 million, and a decrease in interest expense of $2.7 million. Partially offsetting these items was an increase in noninterest expense of $6.4 million. Details of the changes in the various components of net income are discussed below.

Net Interest Income/Margin

Taxable-equivalent net interest income was $90.8 million in 2014 compared to $84.0 million in 2013, an increase of $6.9 million, or 8.2%. Average interest-earning assets in 2014 increased $164.8 million to $2.5 billion, a 7.0% increase when compared to 2013. Average interest-bearing liabilities increased $25.9 million to $1.9 billion, a 1.4% increase. The net interest margin increased by 4 basis points to 3.62% in 2014 when compared to 2013. The primary components of the net interest margin are described below.

Taxable-equivalent interest income had an increase of $4.1 million for 2014 as compared to 2013. Although the yield on interest-earning assets in 2014 reflected an 11 basis point decrease as compared to 2013, the resulting decrease in interest income was offset by the additional interest income earned during 2014 on the net growth of $164.8 million, or 7.0%, in average interest-earning assets, primarily in our loan portfolio. The average balance of loans outstanding in 2014 increased $174.7 million, or 8.3%, to $2.3 billion when compared to 2013 due to the increased number of loan originations and market expansion, net of loan payoffs and problem loan resolutions. However, consistent with changes in market interest rates, the yield on average loans outstanding for 2014 decreased 20 basis points to 4.24% when compared to 2013, primarily in the indirect automobile component of the consumer loan portfolio. Average interest-bearing deposits held at correspondent banks decreased $14.9 million to $49.2 million to fund loan growth throughout 2014.

Interest expense in 2014 decreased $2.7 million, or 19.6%, to $11.2 million, primarily as the result of a 15 basis point decrease in the cost of interest-bearing liabilities, net of a $25.9 million, or 1.4%, increase in average interest-bearing liability balances. The increase in average interest-bearing liabilities for 2014 was primarily used to fund growth in the indirect automobile loan portfolio at various times throughout the year. The reduction in the cost of interest bearing deposits is due to management's strategy of focusing on lower cost core deposits. Average total interest-bearing deposits increased $35.0 million, or 2.1%, to $1.7 billion during 2014 compared to 2013, while average borrowings decreased $9.1 million, or 4.8%, to $180.9 million. The increase in average total interest-bearing deposits was primarily due to an increase of $73.7 million in interest-bearing money market and NOW deposits. The decrease in interest expense in 2014 was primarily attributable to the $1.6 million decrease in subordinated debt expense, as a result of the Company repaying $21 million of subordinated debt during the third quarter of 2013. In addition to this, interest expense on short-term borrowings had a decrease of $323,000, as rates have declined year over year.

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 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,								
	2014			2013			2012		
	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 [(1)]	$2,284,245	$96,830	4.24 %	$2,109,575	$93,573	4.44 %	$1,931,714	$92,566	4.79 %
Investment securities [(1)]	175,174	5,141	2.93	170,265	4,249	2.50	201,048	5,351	2.66
Interest-bearing deposits	49,156	84	0.17	64,032	113	0.18	27,753	33	0.12
Federal funds sold	1,672	1	0.06	1,620	1	0.06	923	1	0.11
Total interest-earning assets	2,510,247	102,056	4.07 %	2,345,492	97,936	4.18 %	2,161,438	97,951	4.53 %
Noninterest-earning assets:									
Cash and due from banks	13,605			13,884			12,692		
Allowance for loan losses	(30,363)			(33,512)			(28,699)		
Premises and equipment	52,666			40,830			33,982		
Other real estate	26,327			37,469			37,172		
Other assets	143,277			138,982			128,591		
Total assets	$2,715,759			$2,543,145			$2,345,176		
Liabilities and shareholders' equity									
Interest-bearing liabilities:									
Demand and money market	$722,448	$1,889	0.26 %	$648,734	$1,806	0.28 %	$581,577	$1,610	0.28 %
Savings	316,439	1,147	0.36	317,845	1,319	0.41	342,806	1,169	0.34
Time	681,915	6,671	0.98	719,205	7,293	1.01	679,940	8,294	1.22
Total interest-bearing deposits	1,720,802	9,707	0.56	1,685,784	10,418	0.62	1,604,323	11,073	0.69
Federal funds purchased	16,947	116	0.68	23,071	174	0.75	29,003	228	0.79
Securities sold under agreements to repurchase	15,064	23	0.15	15,470	21	0.14	13,007	28	0.22
Other short-term borrowings	100,529	259	0.26	82,446	582	0.71	78,769	1,050	1.33
Subordinated debt	46,393	1,113	2.40	60,926	2,733	4.49	67,527	4,242	6.28
Long-term debt	1,973	8	0.41	8,082	33	0.41	18,729	457	2.44
Total interest-bearing liabilities	1,901,708	11,226	0.59 %	1,875,779	13,961	0.74 %	1,811,358	17,078	0.94 %

Noninterest-bearing liabilities and shareholders' equity:									
Demand deposits	539,023			417,681			329,150		
Other liabilities	26,245			23,228			26,151		
Shareholders’ equity	248,783			226,457			178,517		
Total liabilities and shareholders' equity	$2,715,759			$2,543,145			$2,345,176		
Net interest income/spread		$90,830	3.48 %		$83,975	3.44 %		$80,873	3.59 %
Net interest rate margin			3.62 %			3.58 %			3.74 %

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

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Rate/Volume Analysis

(in thousands)	2014 Compared to 2013 Variance Attributed to[1] Volume	Rate	Net Change	2013 Compared to 2012 Variance Attributed to[1] Volume	Rate	Net Change
Loans[2]	$7,532	$(4,275)	$3,257	$8,183	$(7,176)	$1,007
Investment securities[2]	72	820	892	(775)	(327)	(1,102)
Interest-bearing deposits	(25)	(4)	(29)	58	22	80
Federal funds sold	—	—	—	—	—	—
Total interest-earning assets	$7,579	$(3,459)	$4,120	$7,466	$(7,481)	$(15)
Interest-Bearing Deposits:						
Demand and money market	$197	$(114)	$83	$187	$9	$196
Savings	(6)	(166)	(172)	(90)	240	150
Time	(391)	(231)	(622)	458	(1,459)	(1,001)
Total interest-bearing deposits	(200)	(511)	(711)	555	(1,210)	(655)
Federal funds purchased	(43)	(15)	(58)	(45)	(9)	(54)
Securities sold under agreements to repurchase	(1)	3	2	5	(12)	(7)
Other short-term borrowings	110	(433)	(323)	48	(516)	(468)
Subordinated debt	(549)	(1,071)	(1,620)	(384)	(1,125)	(1,509)
Long-term debt	(25)	—	(25)	(172)	(252)	(424)
Total interest-bearing liabilities	$(708)	$(2,027)	$(2,735)	$7	$(3,124)	$(3,117)

[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 FDIC-assisted transactions.

The provision for loan losses was $531,000 in 2014, $5.4 million in 2013, and $13.4 million in 2012. Net charge-offs were $6.7 million in 2014, compared to $6.9 million in 2013, and $10.4 million in 2012. The decrease in the provision in 2014, compared to 2013 was primarily due to improved credit quality in the loan portfolio and a decrease in net charge-offs. Average nonperforming assets were $62.0 million for the year ended December 31, 2014, compared to $75.9 million for the same period in 2013, a decrease of $13.9 million or 18.3%.

The allowance for loan losses as a percentage of loans outstanding at the end of 2014, 2013, and 2012 was 1.13%, 1.78% and 1.91%, respectively.

For additional information on asset quality, refer to the following discussions regarding loans, credit quality, nonperforming assets, and the allowance for loan losses.

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, 2014.

	December 31,				
($ in thousands)	2014	2013	2012	2011	2010
Balance at beginning of year	$33,684	$33,982	$27,956	$28,082	$30,072
Charge-offs:					
Commercial	5,440	3,820	1,080	2,090	1,264
Construction	361	303	3,476	13,494	11,274
Mortgage	180	634	653	804	656
Consumer	4,303	4,993	4,410	5,638	7,086
Covered	766	300	2,630	—	—
Acquired Non-covered	94	30	77	—	—
Total charge-offs	11,144	10,080	12,326	22,026	20,280
Recoveries:					
Commercial	33	425	61	86	28
Construction	2,219	682	678	596	361
Mortgage	76	106	21	44	8
Consumer	1,424	1,757	1,193	849	768
Covered	627	195	—	—	—
Acquired non-covered	59	—	—	—	—
Total recoveries	4,438	3,165	1,953	1,575	1,165
Net charge-offs	6,706	6,915	10,373	20,451	19,115
Provision for loan losses(1)	531	5,440	13,420	20,325	17,125
(Decrease) Increase in FDIC Indemnification Asset	(2,059)	1,177	2,979	—	—
Balance at end of year	$25,450	$33,684	$33,982	$27,956	$28,082
Allowance for loan losses as a percentage of loans	1.13%	1.78%	1.91%	1.72%	2.00%
Allowance for loan losses as a percentage of loans, excluding covered loans and related allowance	1.12%	1.65%	1.88%	1.81%	—%
Ratio of net charge-offs during period to average loans outstanding, net	0.33%	0.38%	0.60%	1.38%	1.44%

(1) Net of benefit attributable to FDIC indemnification asset

Net recoveries on construction loans increased by $1.5 million during the year ended December 31, 2014 to a net recovery in 2014 of $1.9 million, compared to net recovery of $379,000 in 2013. Net recoveries on construction loans improved during 2014 primarily due to a recovery of $1.5 million on one relationship during 2014.
Commercial net charge-offs increased $2.0 million during the year ended December 31, 2014 from $3.4 million in 2013 compared to $5.4 million in 2014. This increase was primarily the result of a few large loan charge-offs in 2014.

Noninterest Income

The categories of noninterest income, and the dollar and percentage change between the years ended December 31, 2014 and 2013, are as follows:

	For the Year Ended December 31,		$	%
($ in thousands)	2014	2013	Change	Change
Service charges on deposit accounts	$4,438	$4,156	$282	6.8%

Other fees and charges	4,349	3,871	478	12.3
Mortgage banking activities	55,781	66,560	(10,779)	(16.2)
Indirect lending activities	18,457	9,040	9,417	104.2
SBA lending activities	4,987	3,640	1,347	37.0
Bank owned life insurance	1,673	1,273	400	31.4
Securities gains	—	189	(189)	(100.0)
Other	5,635	8,149	(2,514)	(30.9)
Total noninterest income	$95,320	$96,878	$(1,558)	(1.6)%

Noninterest income for 2014 was $95.3 million compared to $96.9 million in 2013, a 1.6% decrease. This decrease was primarily due to a decreases in revenues from mortgage banking and other noninterest income, partially offset by increases in indirect lending activities and SBA lending activities, as described below.

Noninterest income from indirect lending activities increased to $18.5 million in 2014, compared to $9.0 million in 2013, an increase of 104.2%, primarily due to the increased production from an overall increase in auto sales and expansion into new markets and gain on sale of indirect loans sold with servicing retained. Total indirect loans grew from $1.0 billion in 2013 to $1.4 billion in 2014. In addition to this Indirect loan sales grew from $392.2 million for the year ended December 31, 2013 to $679.9 million for the year ended December 31, 2014. As a result, the associated servicing fee income from the indirect servicing portfolio increased $1.6 million year over year. Also, gain on sales of indirect loans increased by $8.0 million during 2014 to $13.4 million for the year ended December 31, 2014.

Income from SBA lending activities, including gains from the sale of SBA loans and ancillary fees on SBA loans sold with servicing retained, totaled $5.0 million for the year ended December 31, 2014 as compared to $3.6 million for the year ended December 31, 2013, an increase of 37.0% or $1.3 million. This increase occurred primarily due to an increase in production of SBA loans in 2014. Production of SBA loans increased $23.2 million with sales also increasing $15.4 million year over year. Increase in production is attributable to increased focus on lending to franchises and professional practice companies.

Mortgage banking revenues decreased $10.8 million to $55.8 million in 2014, compared to $66.6 million in 2013, a decrease of 16.2%. The decrease was mostly due to a decrease in mortgage loan volume consistent with national trend of declining refinance volume. Mortgage production for the year decreased $551.4 million, or 22% year over year. This resulted in a decrease in the amount of residential mortgage loans sold of $665.8 million, or 29.8% year over year. However, the gain on sale of mortgage loans compared to 2013 decreased only 10.1%, or $4.8 million year over year.

Other noninterest income decreased by $2.5 million during 2014 to $5.6 million, primarily due to a reduction in gain on sale of OREO of $1.6 million, as the OREO portfolio continues to decline through the disposition of problem assets. In addition to this, the decrease in noninterest income was also partially due to an increase of $910,000 in the amortization of the FDIC Indemnification Asset, as expected cash flows on acquired assets continue to improve.

Noninterest Expense

The categories of noninterest expense, and the dollar and percentage change between the years ended December 31, 2014 and 2013 are as follows:

	For the Year Ended December 31,		$	%
($ in thousands)	2014	2013	Change	Change
Salaries and employee benefits	$67,006	$57,645	$9,361	16.2 %
Commissions	19,988	24,676	(4,688)	(19.0)
Net occupancy	12,985	10,342	2,643	25.6
Communication	3,897	3,031	866	28.6
Other	34,878	36,631	(1,753)	(4.8)
Total noninterest expense	$138,754	$132,325	$6,429	4.9 %

Noninterest expense during 2014 increased $6.4 million, or 4.9%, to $138.8 million when compared to 2013, primarily due to increases in salaries and employee benefits, and increases in net occupancy expenses, as the number of branches continued to grow in 2014, partially offset by a decline in commissions and other expenses.

Salaries and benefits expense increased $9.4 million, or 16.2%, in 2014, compared to 2013. The increase was primarily due to the higher salaries associated with the net addition of 148 full-time equivalent employees during 2014, primarily as a result of opening or acquiring the twelve new branches during the year as well as additional mortgage and SBA locations in 2014 and the associated administrative support functions.

Commissions decreased by $4.7 million, or 19.0% for the year ended December 31, 2014 to $20.0 million as compared to $24.7 million for the year ended December 31, 2013. This decrease occurred primarily as a result of the decrease in production in the mortgage division during 2014 as the commissions are a variable expense that is calculated as a percentage of the loan production in the division.

Communication and net occupancy expenses increased by $3.5 million for the year ended December 31, 2014 to $16.9 million as compared to $13.4 million for the year ended December 31, 2013. The increase in net occupancy expense is primarily due to increases in rental expense and depreciation expense year over year. The increase in communication expense is primarily attributable to increases in telephone and postage expenses over the course of the year. Both of these increases are in relation to increase in number of locations.

Other operating expenses were $34.9 million for the year ended December 31, 2014, a $1.8 million, or 4.8%, decrease compared to $36.6 million for the year ended December 31, 2013 as a result of an overall decrease in ORE expenses, including a reduction of $1.9 million in writedowns of ORE during 2014, as asset quality continues to improve.

Income Tax Expense
The provision for income taxes expense for 2014 and 2013 was $16.4 million and $15.1 million, respectively, with effective tax rates of 35.4% and 35.3%, respectively.

Results of Operations - 2013 Compared to 2012
Net Income
Our net income for the year ended December 31, 2013, was $27.6 million or $1.35 and $1.21 basic and fully diluted earnings per share, respectively. Net income for the year ended December 31, 2012, was $25.3 million or $1.47 and $1.32 basic and fully diluted earnings per share, respectively. The $2.3 million increase in net income in 2013 compared to 2012 was due primarily to an increase in noninterest income of $8.9 million, a decrease in provision expense of $8.0 million, and a decrease in interest expense of $3.1 million. Partially offsetting these items was an increase in noninterest expense of $16.9 million. Details of the changes in the various components of net income are discussed below.
Net Interest Income/Margin
Taxable-equivalent net interest income was $84.0 million in 2013 compared to $80.9 million in 2012, an increase of $3.1 million, or 3.8%. Average interest-earning assets in 2013 increased $184.1 million to $2.3 billion, an 8.5% increase when compared to 2012. Average interest-bearing liabilities increased $64.4 million to $1.9 billion, a 3.6% increase. The net interest margin decreased by 16 basis points to 3.58% in 2013 when compared to 2012. The primary components of the net interest margin are described below.
Taxable-equivalent interest income was relatively flat for 2013 at $97.9 million as compared to $98.0 million for 2012. Although the yield on interest-earning assets in 2013 reflected a 35 basis point decrease as compared to 2012, the resulting decrease in interest income was offset by the additional interest income earned during 2013 on the net growth of $184.1 million, or 8.5%, in average interest-earning assets, primarily in our loan portfolio. The average balance of loans outstanding in 2013 increased $177.9 million, or 9.2%, to $2.1 billion when compared to 2012 due to the increased number of loan originations and market expansion, net of loan payoffs and problem loan resolutions. However, consistent with changes in market interest rates, the yield on average loans outstanding for 2013 decreased 35 basis points to 4.4% when compared to 2012, primarily in the indirect automobile component of the consumer loan portfolio. During 2013, the average balance of investment securities decreased $30.8 million as investments that were called or matured and principal cash flows from existing investments were largely invested into loans or used to pay off borrowings and not reinvested into investments. Average interest-bearing deposits held at correspondent banks increased $36.3 million to $64.0 million to fund loan growth throughout 2013.
Interest expense in 2013 decreased $3.1 million, or 18.3%, to $14.0 million, primarily as the result of a 20 basis point decrease in the cost of interest-bearing liabilities, net of a $64.4 million, or 3.6%, increase in average interest-bearing liability balances. The increase in average interest-bearing liabilities for 2013 was primarily used to fund growth in the residential mortgage loans held-for-sale portfolio at various times throughout the year. The reduction in the cost of interest bearing deposits is due to management's strategy of focusing on lower cost core deposits. Average total interest-bearing deposits increased $81.5 million, or 5.1%, to $1.7 billion during 2013 compared to 2012, while average borrowings decreased $17.0 million, or 8.2%, to $190.0 million. The increase in average total interest-bearing deposits was primarily due to an increase of $67.2 million in interest-bearing money market and NOW deposits.
Provision for Loan Losses
The provision for loan losses was $5.4 million in 2013, $13.4 million in 2012, and $20.3 million in 2011. Net charge-offs were $6.9 million in 2013, compared to $10.4 million in 2012, and $20.5 million in 2011. The decrease in the provision in 2013, compared to 2012 was primarily due to improved credit quality in the loan portfolio and a decrease in net charge-offs. Average nonperforming assets were $75.9 million for the year ended December 31, 2013, compared to $88.8 million for the same period in 2012, a decrease of $12.9 million or 14.6%.
Noninterest Income
The categories of noninterest income, and the dollar and percentage change between the years ended December 31, 2013 and 2012, are as follows:

($ in thousands)	For the Year Ended December 31, 2013	2012	$ Change	% Change
Service charges on deposit accounts	$4,156	$4,686	$(530)	(11.3)%
Other fees and charges	3,871	3,360	511	15.2
Mortgage banking activities	66,560	56,332	10,228	18.2
Indirect lending activities	9,040	6,414	2,626	40.9
SBA lending activities	3,640	4,944	(1,304)	(26.4)
Bank owned life insurance	1,273	1,307	(34)	(2.6)
Securities gains	189	307	(118)	(38.4)
Other	8,149	10,611	(2,462)	(23.2)
Total noninterest income	$96,878	$87,961	$8,917	10.1 %

Noninterest income for 2013 was $96.9 million compared to $88.0 million in 2012, a 10.1% increase. This increase was primarily due to an increase in revenues from mortgage banking and indirect lending activities, partially offset by decreases in SBA lending and other noninterest income, as described below.

Mortgage banking revenues increased $10.2 million to $66.6 million in 2013, compared to $56.3 million in 2012, an increase of 18.2%. The increase was due to an increase of $219.4 million in funded loan volume over 2012 as well as we expanded our residential mortgage lending activities into the state of Maryland and the opening of additional offices in Alabama and Georgia.

Noninterest income from indirect lending activities increased to $9.0 million in 2013, compared to $6.4 million in 2012, an increase of 40.9%, primarily due to the increased production and indirect loans sold with servicing retained. As a result, the associated servicing fee income from the indirect servicing portfolio increased $910,000 to $2.3 million for the year ended December 31, 2013. Also, gain on sales of indirect loans increased by $2.1 million during 2013 to $5.4 million for the year ended December 31, 2013.

Income from SBA lending activities, including gains from the sale of SBA loans and ancillary fees on SBA loans sold with servicing retained, totaled $3.6 million for the year ended December 31, 2013 as compared to $4.9 million for the year ended December 31, 2012, a decrease of 26.4% or $1.3 million. The decrease occurred primarily due to the impairment to SBA loans servicing rights assets of $1.9 million recorded during 2013 as compared to $126,000 in 2012. The impairment was recorded due to changes in the assumptions used to measure the fair value of SBA servicing rights as of December 31, 2013 including an increase in the prepayment speed for 2013 as compared to 2012, an increase in the rate used to discount the future cash flows from the underlying loans serviced and a decrease in the approximate weighted average servicing fee of 5 basis points for 2013 compared to 2012.

Other noninterest income decreased by $2.5 million during 2013 to $8.1 million for the year ended December 31, 2013, primarily due to a $4.2 million gain recorded during 2012 on the FDIC-assisted acquisition which did not recur during 2013. This decrease was partially offset by an increase in the gain on sale of ORE of $1.4 million during 2013 to $4.9 million for the year ended December 31, 2013 as compared to $3.5 million recorded for the year ended December 31, 2012.

Noninterest Expense

The categories of noninterest expense, and the dollar and percentage change between the years ended December 31, 2013 and 2012 are as follows:

($ in thousands)	For the Year Ended December 31, 2013	2012	$ Change	% Change
Salaries and employee benefits	$57,645	$47,832	$9,813	20.5 %
Commissions	24,676	21,817	2,859	13.1
Net occupancy	10,342	9,253	1,089	11.8
Communication	3,031	2,502	529	21.1
Other	36,631	33,993	2,638	7.8
Total noninterest expense	$132,325	$115,397	$16,928	14.7 %

Noninterest expense during 2013 increased $16.9 million, or 14.7%, to $132.3 million when compared to 2012, primarily due to increases in salaries and employee benefits and commissions related to growth in the mortgage division, increases in communication expenses and other operating expenses, including increases in professional and other services.

Salaries and benefits expense increased $9.8 million, or 20.5%, in 2013, compared to 2012. The increase was primarily due to the higher salaries associated with the net addition of 116 full-time equivalent employees during 2013, primarily in the mortgage division and associated administrative support functions.

Commissions increased by $2.9 million, or 13.1% for the year ended December 31, 2013 to $24.7 million as compared to $21.8 million for the year ended December 31, 2012. This increase occurred primarily as a result of the increase in production in the mortgage division during 2013 as the commissions are a variable expense that is calculated as a percentage of the loan production in the division.

Communication and net occupancy expenses increased by $1.6 million for the year ended December 31, 2013 to $13.4 million as compared to $11.8 million for the year ended December 31, 2012. The increases in these expense categories occurred due to the opening of additional offices in the retail banking and mortgage lending divisions during 2013.

Other operating expenses were $36.6 million for the year ended December 31, 2013, a $2.6 million, or 7.8%, increase compared to $34.0 million for the year ended December 31, 2012 as a result of higher loan-related expenses due to increases during 2013 in mortgage lending activity and in the balance of the portfolio of loans serviced sold with servicing retained.

Income Tax Expense

The provision for income taxes expense for 2013 and 2012 was $15.1 million and $14.3 million, respectively, with effective tax rates of 35.3% and 36.1%, respectively.

Financial Condition

We manage our assets and liabilities to maximize long-term earnings opportunities while maintaining the integrity of our financial position and the quality of earnings. To accomplish this objective, management strives for efficient management of interest rate risk and liquidity needs. The primary objectives of interest-sensitivity management are to minimize the effect of interest rate changes on the net interest margin and to manage the exposure to risk while maintaining net interest income at acceptable levels. Liquidity is provided by our attempt to carefully structure our balance sheet as well as through both unsecured and secured lines of credit with other financial institutions, the Federal Home Loan Bank of Atlanta (the “FHLB”), and the Federal Reserve Bank of Atlanta (the “FRB”).

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

Market Risk and Interest Rate Sensitivity

Our primary market risk exposures are interest rate risk, credit risk and liquidity risk. We have little or no risk related to trading accounts, commodities, or foreign exchange.

Interest rate risk, which encompasses price risk, is the exposure of our financial condition and earnings ability to withstand adverse movements in interest rates. Accepting this risk can be an important source of profitability and shareholder value; however, excessive levels of interest rate risk can pose a significant threat to assets, earnings, and capital. Accordingly, effective risk management that maintains interest rate risk at prudent levels is essential to our success.

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

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

We utilize a statistical research firm specializing in the banking industry to provide various quarterly reports, as well as other special requests, related to our current and projected financial performance, including rate shock analyses.

Data sources include quarterly FDIC Call Reports and the Federal Reserve Y-9C, management assumptions, statistical loan portfolio information, industry norms and financial markets data. For purposes of evaluating rate shock, rate change induced sensitivity tables are used in determining the timing and volume of repayment, prepayment, and early withdrawals. Additionally, we run interest rate risk simulations using an in-house model developed specifically to meet both management's needs for effective interest rate risk monitoring, as well as reporting for all regulatory guidance. Data sources for this model primarily comes from the Bank's databases and assumptions are primarily derived from current and historical Bank data.

The Company regularly reviews interest sensitivity and the economic value of equity under various interest rate scenarios. Interest rate sensitivity analyses quantify the effects of various interest rate scenarios on projected net interest income and net income over the next 12 month and 24 month periods. The model measures the impact on net interest income relative to a base case scenario of hypothetical fluctuations in interest rates over the next 12 months. These simulations incorporate assumptions regarding balance sheet growth and mix, pricing and the repricing and the maturity characteristics of the existing and projected balance sheet. In addition, management reviews the impact of various yield curve scenarios on earnings and cash flows. Our policy states that an immediate and sustained 200 basis point increase or decrease in interest rates should not negatively impact net interest income by more than 10%. Economic value of equity analyses measure the risk of a change in earnings due to changes in interest rates.

The following table summarizes the results of a 12-month forecasting period of an immediate and sustained increase or decrease of 100 and 200 basis points for market interest rates as of December 31, 2014.

Basis Point Change in Interest Rates	% Change in Projected Net Interest Income	
+200	6.50	%
+100	3.54	
-100	-9.80	
-200	-23.31	

The rate shock analysis at December 31, 2014, indicated that all of the scenarios except the 200 basis point decrease would fall within policy parameters and approved tolerances for net interest income. Given the current relatively low level of market interest rates, an immediate and sustained decrease of 200 basis points is highly doubtful.

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

The major elements used to manage interest rate risk include the mix of fixed and variable rate assets and liabilities and the maturity and repricing patterns of these assets and liabilities. It is our policy not to invest in derivatives outside of our mortgage hedging process. We perform a quarterly review of assets and liabilities that reprice and the time bands within which the repricing occurs. Balances generally are reported in the time band that corresponds to the instrument’s next repricing date or contractual maturity, whichever occurs first. However, fixed rate indirect automobile loans, mortgage backed securities, and residential mortgage loans are primarily included based on scheduled payments with a prepayment factor incorporated. Through such analyses, we monitor and manage our interest sensitivity to minimize the negative effects of changing interest rates.

Liquidity

Liquidity refers to our ability to generate sufficient cash to meet our financial obligations, which arise primarily from the withdrawal of deposits, extension of credit, and payment of operating expenses. The principal demands for liquidity are new loans, anticipated fundings under credit commitments to customers, and deposit withdrawals. Our liabilities provide liquidity on a day-to-day basis. Daily liquidity needs are met from deposit levels or from our use of federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings. We engage in routine activities to retain deposits intended to enhance our liquidity position. These routine activities include various measures, such as the following:

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

In addition to monitoring our interest rate sensitivity, ALCO also manages our liquidity risk. We employ our funds in a manner to provide liquidity from both assets and liabilities sufficient to meet our cash needs. Management seeks to maintain a stable net liquidity position while optimizing operating results, as reflected in net interest income, the net yield on earning assets, and the cost of interest-bearing liabilities. ALCO meets regularly to review the current and projected net liquidity positions and to review actions taken by management to achieve this liquidity objective. While the desired level of liquidity will vary depending on a number of factors, one of the primary goals of ALCO is to maintain a sufficient level of liquidity in both normal operating conditions and in periods of market or industry stress. Our ongoing philosophy is to remain in a liquid position as reflected by such indicators as the composition of our earning assets, which typically includes some level of federal funds sold, balances at the FRB, repurchase agreements, and/or other short-term investments; asset quality; being in a well-capitalized position; and having profitable operating results. Cyclical and other

economic trends and conditions can disrupt the Bank's desired liquidity position at any time. Under such circumstances, our federal funds sold position, or balances at the FRB, if any, serve as the primary sources of immediate liquidity.
In addition to cash and cash equivalents, our investment securities available-for-sale, and the availability of brokered deposits, as of December 31, 2014, we had the following sources of available unused liquidity:

(in thousands)	December 31, 2014
FRB lines	$240,411
FHLB advances	104,276
Unpledged securities	49,267
Unsecured federal funds lines	45,002
Total sources of available unused liquidity	$438,956

We believe that our liquidity position continues to be adequate and readily available. Our contingency funding plan describes several potential stages based on liquidity levels. Our board of directors reviews liquidity benchmarks quarterly. Also, we review on at least an annual basis our liquidity position and our contingency funding plans with our principal banking regulator. We also maintain various wholesale sources of funding and our interest cost would vary based on the range of interest rates charged.
The Company has limited liquidity, and it relies primarily on interest and dividends from our subsidiaries equity, the debt and equity markets, interest income, management fees, and dividends from the Bank as sources of liquidity. Interest and dividends from subsidiaries ordinarily provide a source of liquidity to a bank holding company. The Bank pays interest to the Company on the Bank's subordinated debt and, when declared, cash dividends on its preferred stock and common stock. Under the regulations of the GDBF, bank dividends may not exceed 50% of the prior year's net earnings without approval from the GDBF. If dividends received from the Bank were reduced or eliminated, our liquidity could be adversely affected.

Contractual Obligations and Other Commitments
The following schedule provides a summary of our financial commitments to make future payments, primarily to fund loan and other credit obligations, long-term debt, and rental commitments primarily for the lease of various facilities housing our business development, executive administration and operational support functions as of December 31, 2014. Loan commitments, lines of credit, and letters of credit are presented at contractual amounts; however, since many of these commitments are "revolving" commitments as discussed below and many are expected to expire unused or partially used, the total amount of these commitments does not necessarily reflect future cash requirements. Payments for borrowings do not include interest. Payments related to leases are based on actual payments specified in the underlying contracts.

	Commitment Maturity or Payment Due by Period				
(in thousands)	1 Year or Less	More Than 1 Year but Less Than 3 Years	3 Years or More but Less Than 5 Years	5 Years or More	Total
Commercial real estate, construction and land development	$65,269	$5,188	$—	$—	$70,457
Commercial	73,644	22,692	18,131	10,338	124,805
SBA	6,430	—	—	—	6,430
Home equity	6,070	10,093	9,168	31,374	56,705
Residential mortgage loans	147,068	837	308	741	148,954
Lines of credit	609	3,214	488	1,016	5,327
Standby letters of credit and bankers acceptances	1,586	—	—	—	1,586
Total loan commitments(1)	300,676	42,024	28,095	43,469	414,264
Other borrowings(2)	291,087	—	—	—	291,087
Subordinated debt(3)	—	—	—	46,393	46,393

Rental commitments(4)	4,442	8,290	6,018	6,661	25,411
Purchase obligations(5)	4,766	4,720	3,181	690	13,357
Total commitments and long-term borrowings	$600,971	$55,034	$37,294	$97,213	$790,512

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

(2) All borrowings are collateralized with investment grade securities or with pledged real estate loans.

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

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

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

On December 23, 2014, the Company entered into Salary Continuation Agreements with certain of its Executives. The agreements are effective January 1, 2015 and provide for either monthly payments or a lump sum benefit payable upon retirement of the Executive. The agreements are subject to vesting and forfeiture provisions. On the same date, the Company revised split-dollar agreements with certain of its Executives. The agreements were filed as an exhibit to Form 8-K on December 24, 2014.

Off-Balance Sheet Arrangements

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

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

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

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

Loans

Total loans, which includes loans held for investment and loans held-for-sale, at December 31, 2014 increased by $541.8 million or 26.0% over December 31, 2013. The following table summarizes total loans by loan type.

(in thousands)	December 31, 2014	2013	2012	2011	2010
Loans held for investment:					
Commercial	$524,145	$530,978	$509,243	$442,959	$384,220
SBA	134,766	134,824	121,428	106,381	94,282
Construction	123,994	101,698	89,924	97,710	115,224
Indirect automobile	1,219,232	975,223	930,232	836,845	695,754
Installment	13,372	15,362	18,774	20,330	20,431
Residential mortgage	158,348	60,928	37,785	50,312	34,367
Home equity lines of credit	79,449	74,024	69,645	69,334	59,094
Loans	2,253,306	1,893,037	1,777,031	1,623,871	1,403,372
Allowance for loan losses	(25,450)	(33,684)	(33,982)	(27,956)	(28,082)
Loans, net of allowance for loan losses	$2,227,856	$1,859,353	$1,743,049	$1,595,915	$1,375,290
Total loans:					
Loans	$2,253,306	$1,893,037	$1,777,031	$1,623,871	$1,403,372
Loans held-for-sale:					
Residential mortgage	181,424	127,850	253,108	90,907	155,029
SBA	12,511	9,516	20,986	12,942	24,869
Indirect automobile	175,000	50,000	30,000	30,000	30,000
Total loans held-for-sale	368,935	187,366	304,094	133,849	209,898
Total loans	$2,622,241	$2,080,403	$2,081,125	$1,757,720	$1,613,270

Loans held for investment at December 31, 2014 grew to $2.3 billion, an increase of $360.3 million or 19.0% over December 31, 2013. New product offerings within residential mortgage, new loan production offices, expansion into new markets, and an overall increase in automobile sales over the prior year were the main drivers of the growth in indirect and residential mortgage loans. Indirect automobile loans increased by $244.0 million or 25.0% and residential mortgage loans increased by $97.4 million or 159.9% over December 31, 2013. Construction loans increased by $22.3 million or 21.9% over December 31, 2013 as single family housing permits continued to grow in our market areas. Growth in commercial loans was offset by continued resolution of acquired loans.

Loans held-for-sale at December 31, 2014 increased by $181.6 million, or 96.9% over December 31, 2013. This increase was primarily attributable to growth in the indirect automobile portfolio of $125.0 million or 250.0% due to an increase in production primarily as a result of an overall increase in auto sales and expanding into new markets. The residential mortgage portfolio increased by $53.6 million or 41.9% as a result of timing of loan sales.

The following table summarizes the scheduled contractual maturity of loans held for investment at December 31, 2014. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due within one year.

	December 31, 2014			
(in thousands)	One Year or Less	After One Year Through Five Years	Over Five Years	Total
Commercial	$200,989	$240,822	$82,334	$524,145
SBA	14	2,766	131,986	134,766
Construction	118,787	5,207	—	123,994
Indirect automobile	36,451	569,172	613,609	1,219,232
Installment	5,469	7,448	455	13,372
Residential mortgage	15,787	1,038	141,523	158,348
Home equity lines of credit	21,104	21,516	36,829	79,449
Total loans	$398,601	$847,969	$1,006,736	$2,253,306

The following table summarizes loans held for investment at December 31, 2014 with maturity dates after one year and their sensitivity to interest rate changes.

(in thousands)	December 31, 2014
Fixed interest rates	$1,471,887
Floating or adjustable interest rates	382,818
Total	$1,854,705

Credit Quality

Credit quality risk in the loan portfolio provides our highest degree of risk. We manage and control risk in the loan portfolio through adherence to standards established by the Board of Directors and senior management, combined with a commitment to producing quality assets, monitoring loan performance, developing profitable relationships, and meeting the strategic loan quality and growth targets. Our credit policies establish underwriting standards, place limits on exposures, which include concentrations and commitments, and set other limits or standards as deemed necessary and prudent. Also included in the policy, primarily determined by the amount and type of loan, are various approval levels, ranging from the branch or department level to those that are more centralized.

We maintain a diversified portfolio intended to spread risk and reduce exposure to economic downturns, which may occur in different segments of the economy or in particular industries. Industry and loan type diversification is reviewed at least quarterly. Management has taken numerous steps to reduce credit risk in the loan portfolio and to strengthen the credit risk management team and processes. In addition, credit policies are continually reviewed and revised as necessary. Experienced managers are in place, strengthening lending areas and Credit Administration.

The provision for loan losses for the year ended December 31, 2014, decreased to $531,000 compared to $5.4 million for the year ended December 31, 2013, primarily due to a decrease in net charge-offs and improvements in expected cash flows on acquired loans. Net charge-offs in 2014 decreased slightly to $6.7 million compared to $6.9 million during 2013, largely due to an increase in net construction recoveries. This increase was primarily a result of a $1.5 million recovery on one relationship in 2014. In addition, charge-offs for 2014 included $1.2 million relating to one commercial relationship which was carried as a specific reserve at December 31, 2013. The provision for acquired loans decreased $1.1 million in 2014 compared to 2013. This decrease is a function of the continued improvement in market conditions as well as improved cash flows on acquired loans and favorable resolution of acquired assets.

The Credit Review Department ("Credit Review") regularly reports to senior management and the Loan and Discount Committee of the Board regarding the credit quality of the loan portfolio, as well as trends in the portfolio and the adequacy of the allowance for loan losses. Credit Review monitors loan concentrations, production, loan growth, as well as loan quality, and independent from the lending departments, reviews risk ratings and tests credits approved for adherence to our lending standards. Finally, Credit Review also performs ongoing, independent reviews of the risk management process and adequacy of loan documentation. The results of its reviews are reported to the Loan and Discount Committee of the Board. The consumer collection function is centralized and automated to ensure timely collection of accounts and consistent management of risks associated with delinquent accounts.

Nonperforming Assets

Nonperforming assets consist of nonaccrual loans, troubled debt restructured loans, repossessions, and other real estate. Nonaccrual loans are loans on which the interest accruals have been discontinued when it appears that future collection of principal or interest according to the contractual terms may be doubtful. Troubled debt restructured loans are those loans whose terms have been modified, because of economic or legal reasons related to the debtors' financial difficulties and provide a concession to the borrower such as, a reduction in principal, change in terms, or modification of interest rates to below market levels. The Bank had $21.0 million in troubled debt restructured loans at December 31, 2014, of which $16.6 million were accruing loans and $4.4 million are on nonaccrual and included in nonperforming assets in the table below. Repossessions include vehicles and other personal property that have been repossessed as a result of payment defaults.

	December 31,				
($ in thousands)	2014	2013	2012	2011	2010
Nonaccrual loans	$34,856	$40,531	$41,487	$60,413	$76,545
Loans past due 90 days or more and still accruing	827	—	—	116	—
Repossessions	1,183	1,219	1,625	1,423	1,119
Other real estate - non-covered	14,983	24,791	28,975	21,058	20,525
Other real estate - covered	7,581	6,191	10,781	9,468	—
Total nonperforming assets	$59,430	$72,732	$82,868	$92,478	$98,189
Ratio of loans past due 90 days or more and					

still accruing to total loans	0.04	%	—	%	—	%	0.01	%	—	%
Ratio of nonperforming assets to total loans, repossessions and ORE	2.61	%	3.78	%	4.56	%	5.59	%	6.89	%

The decrease in nonperforming assets from December 31, 2013, to December 31, 2014, primarily resulted from a decrease in nonaccrual loans and non-covered ORE. Our noncovered nonperforming assets decreased $13.3 million or 18.3%.

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

When a loan is classified as nonaccrual, to the extent collection is in question, previously accrued interest is reversed and interest income is reduced by the interest accrued in the current year. If any portion of the accrued interest was accrued in a previous period, accrued interest is reduced and a charge for that amount is made to the allowance for loan losses. For 2014, the gross amount of interest income that would have been recorded on nonaccrual loans, if all such loans had been accruing interest at the original contract rate, was approximately $1.5 million compared to $1.9 million and $2.1 million during 2013 and 2012, respectively. For additional information on nonaccrual loans see "Critical Accounting Policies—Allowance for Loan Losses."

Allowance for Loan Losses

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

For all loan categories, historical loan loss experience, adjusted for changes in the risk characteristics of each loan category, current trends, and other factors, is used to determine the level of allowance required. Additional amounts are based on the probable losses of individual impaired loans and the effect of economic conditions on both individual loans and loan categories. Since the provision is based on estimates and subjective judgment, it is not necessarily indicative of the specific amounts of losses that may ultimately occur.

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

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

At December 31, 2014, the allowance for loan losses was $25.5 million, or 1.13% of loans, compared to $33.7 million, or 1.78% of loans, at December 31, 2013. Net charge-offs as a percent of average loans outstanding improved slightly from 0.33% in 2014 compared to 0.38% for 2013.

The table below presents the allocated loan loss reserves by loan type as of December 31, 2014 and 2013.

	December 31,		
(in thousands)	2014	2013	Decrease
Commercial	$12,967	$17,348	$(4,381)
Construction	1,486	2,044	(558)
Consumer	6,300	6,410	(110)
Mortgage	3,251	3,376	(125)
Covered	555	3,331	(2,776)
Acquired, Non-covered	160	278	(118)
Unallocated	731	897	(166)
Total allocated loan loss reserve by loan type	$25,450	$33,684	$(8,234)

Our allowance allocated to commercial loans decreased by $4.4 million during 2014, to $13.0 million compared to $17.3 million at the end of 2013. The decrease is related to improvement in qualitative factors which directly impact this portfolio and a decrease in specific reserves required on impaired loans, partially offset by an increase in charge-offs which increased the loss factor. There was also a decrease of $2.8 million in the allowance on our acquired loan portfolio as expected cash flows continue to improve and we continue to resolve the problem loans in this portfolio.

Allocation of the Allowance for Loan Losses

	December 31, 2014			December 31, 2013			December 31, 2012		
($ in thousands)	Allowance	%[1]		Allowance	%[1]		Allowance	%[1]	
Commercial [2]	$12,967	28.2	%	$17,348	33.1	%	$13,965	32.5	%
Construction	1,486	5.3		2,044	4.9		7,578	4.3	
Mortgage	3,251	10.2		3,376	6.6		3,122	5.3	
Consumer	6,300	54.6		6,410	52.2		6,135	53.2	
Covered	555	1.5		3,331	3.1		1,964	4.3	
Acquired, Non-covered	160	0.1		278	0.2		188	0.3	
Unallocated	731	—		897	—		1,030	—	
Total	$25,450	100.0	%	$33,684	100.0	%	$33,982	100.0	%

	December 31, 2011			December 31, 2010		
($ in thousands)	Allowance	%[1]		Allowance	%[1]	
Commercial [2]	$9,183	31.4	%	$7,532	34.1	%
Construction	8,262	5.5		9,286	8.2	
Mortgage	2,535	5.7		2,570	6.7	
Consumer	6,040	52.6		7,598	51.0	
Covered	—	4.6		—	—	
Acquired, Non-covered	—	0.1		—	—	
Unallocated	1,936	—		1,096	—	
Total	$27,956	100.0	%	$28,082	100.0	%

[1] Percentage of respective loan type to loans.
[2] Includes allowance allocated for commercial loans and SBA loans.

Investment Securities

The primary objectives in managing the investment securities portfolio include maintaining a portfolio of high quality investments with competitive returns while providing for pledging and liquidity needs within overall asset and liability management parameters. We maintain a relatively high percentage of the investment securities portfolio as available-for-sale to meet possible liquidity needs related to cash flows, the level of loan production, current interest rate risk strategies and the potential future direction of market interest rate changes. The held-to-maturity investment securities are primarily utilized for pledging as collateral for public deposits.

	December 31,					
	2014		2013		2012	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Investment securities available-for-sale:						
Obligations of U.S. Government sponsored enterprises	$25,717	$26,284	$21,123	$21,039	$10,120	$10,480
Municipal securities	14,170	14,860	14,699	14,769	18,316	19,249
Residential mortgage-backed securities	105,165	108,446	131,481	133,057	120,212	124,638
Total available-for sale	$145,052	$149,590	$167,303	$168,865	$148,648	$154,367
Investment securities held-to-maturity:						
Residential mortgage-backed securities	$3,072	$3,414	$4,051	$4,437	$6,162	$6,723
Commercial mortgage-backed securities	4,277	4,277	—			