FIDELITY SOUTHERN CORP
Form 10-Q
May 09, 2013
Table of Contents

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the quarter ended March 31, 2013
Commission file number 001-34981

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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 o (Do not check if smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of April 30, 2013 (the most recent practicable date), the Registrant had outstanding approximately 14,861,960 shares of Common Stock.

Table of Contents

FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
Report on Form 10-Q
March 31, 2013

TABLE OF CONTENTS

			Page
Part I.		Financial Information	
	Item l.	Consolidated Financial Statements (unaudited)	
		Consolidated Balance Sheets as of March 31, 2013 (unaudited) and December 31, 2012	3
		Consolidated Statements of Comprehensive Income (unaudited) for the Three Months Ended March 31, 2013 and 2012	4
		Consolidated Statements of Cash Flows (unaudited) for the Three Months Ended March 31, 2013 and 2012	5
		Notes to Consolidated Financial Statements (unaudited)	6
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	33
	Item 3.	Quantitative and Qualitative Disclosures about Market Risk	45
	Item 4.	Controls and Procedures	46
Part II.		Other Information	
	Item 1.	Legal Proceedings	47
	Item 1A.	Risk Factors	47
	Item 2.	Unregistered Sales of Equity Securities and Repurchases	47
	Item 3.	Default Upon Senior Securities	47
	Item 4.	Mine Safety Disclosures	47
	Item 5.	Other Information	47
	Item 6.	Exhibits	47
		Signatures	48

Table of Contents

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

	(Unaudited) March 31, 2013 ($ in thousands)	December 31, 2012
Assets		
Cash and due from banks	$35,534	$45,507
Interest-bearing deposits with banks	3,910	2,331
Federal funds sold	818	1,182
Cash and cash equivalents	40,262	49,020
Investment securities available-for-sale (amortized cost of $147,839 and $148,648 at March 31, 2013 and December 31, 2012, respectively)	153,285	154,367
Investment securities held-to-maturity (fair value of $6,039 and $6,723 at March 31, 2013 and December 31, 2012, respectively)	5,523	6,162
Investment in FHLB stock	7,919	7,330
Loans held-for-sale (loans at fair value: $281,839 at March 31, 2013; $253,108 at December 31, 2012)	325,941	304,094
Loans (non-covered: $1,743,092 and $1,700,143; covered: $74,171 and $76,888, at March 31, 2013 and December 31, 2012, respectively)	1,817,263	1,777,031
Allowance for loan losses	(33,910)	(33,982)
Loans, net of allowance for loan losses	1,783,353	1,743,049
FDIC indemnification asset	16,535	20,074
Premises and equipment, net	38,508	37,669
Other real estate, net (non-covered: $24,048 and $22,159; covered: $14,903 and $17,597, at March 31, 2013 and December 31, 2012, respectively)	38,951	39,756
Accrued interest receivable	8,340	7,995
Bank owned life insurance	32,978	32,693
Deferred tax asset, net	21,248	21,145
Servicing rights	36,529	30,244
Other assets	22,877	23,693
Total Assets	$2,532,249	$2,477,291
Liabilities		
Deposits:		
Noninterest-bearing demand deposits	$385,019	$381,846
Interest-bearing deposits:		
Demand and money market	632,542	638,582
Savings	331,505	329,223
Time deposits, $100,000 and over	356,661	346,743
Other time deposits	310,581	314,675
Brokered deposits	41,843	56,942
Total deposits	2,058,151	2,068,011
FHLB short-term borrowings	100,000	88,500
Other short-term borrowings	76,051	37,160
Subordinated debt	67,527	67,527
Other long-term debt	10,000	—
Accrued interest payable	1,375	2,093

Other liabilities	19,844	21,112
Total Liabilities	2,332,948	2,284,403
Shareholders' Equity		
Preferred stock, no par value. Authorized 10,000,000; 48,200 shares issued and outstanding, net of discount.	47,564	47,344
Common stock, no par value. Authorized 50,000,000; issued and outstanding 14,971,580 and 14,780,175 at March 31, 2013 and December 31, 2012.	84,777	82,499
Accumulated other comprehensive gain, net of tax	3,376	3,545
Retained earnings	63,584	59,500
Total shareholders' equity	199,301	192,888
Total Liabilities and Shareholders' Equity	$2,532,249	$2,477,291

See accompanying notes to consolidated financial statements

Table of Contents

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

	Three Months Ended March 31,	
	2013	2012
	($ in thousands, except per share data)	
Interest income		
Loans, including fees	$23,944	$22,738
Investment securities	1,028	1,506
Federal funds sold and bank deposits	3	18
Total interest income	24,975	24,262
Interest expense		
Deposits	2,627	3,007
Short-term borrowings	404	174
Subordinated debt	867	1,139
Other long-term debt	2	287
Total interest expense	3,900	4,607
Net interest income	21,075	19,655
Provision for loan losses	3,476	3,750
Net interest income after provision for loan losses	17,599	15,905
Noninterest income		
Service charges on deposit accounts	949	1,133
Other fees and charges	887	784
Mortgage banking activities	17,795	12,084
Indirect lending activities	1,646	1,163
SBA lending activities	1,084	853
Bank owned life insurance	313	322
Securities gains	—	303
Other	2,373	1,013
Total noninterest income	25,047	17,655
Noninterest expense		
Salaries and employee benefits	20,672	14,849
Furniture and equipment	998	977
Net occupancy	1,409	1,210
Communication	760	619
Professional and other services	2,246	2,141
Cost of operation of other real estate	2,203	1,737
FDIC insurance premiums	526	471
Other	3,710	3,346
Total noninterest expense	32,524	25,350
Income before income tax expense	10,122	8,210
Income tax expense	3,631	2,894
Net income	6,491	5,316
Preferred stock dividends and discount accretion	(823)	(823)
Net income available to common equity	$5,668	$4,493

Earnings per share:

Basic earnings per share	$0.38	$0.31
Diluted earnings per share	$0.33	$0.28
Net income	$6,491	$5,316
Other comprehensive loss, net of tax	(169)	(409)
Comprehensive income	$6,322	$4,907
Weighted average common shares outstanding-basic	14,951,008	14,527,631
Weighted average common shares outstanding-diluted	16,944,361	16,002,923

See accompanying notes to consolidated financial statements

Table of Contents

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

	Three Months Ended March 31,	
	2013	2012
	(in thousands)	
Operating Activities		
Net income	$6,491	$5,316
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	3,476	3,750
Depreciation and amortization of premises and equipment	698	564
Other amortization	2,035	983
Impairment of other real estate	1,294	947
Share-based compensation	288	136
Gain on loan sales	(9,706)	(5,469)
Net gain on sale of other real estate	(1,549)	(250)
Net increase in cash value of bank owned life insurance	(285)	(296)
Gain on investment security sales	—	(303)
Net increase in deferred income taxes	(103)	(174)
Change in assets and liabilities which provided (used) cash:		
Net increase from loans originated for resell	(4,274)	(29,835)
Net decrease (increase) in FDIC indemnification asset	3,539	(987)
Accrued interest receivable	(345)	777
Other assets	(7,504)	(6,564)
Accrued interest payable	(718)	(868)
Other liabilities	(1,164)	2,071
Net cash used in operating activities	(7,827)	(30,202)
Investing Activities		
Purchases of investment securities available-for-sale	(10,357)	—
Proceeds from sales of investment securities available-for-sale	—	25,688
Maturities and calls of investment securities held-to-maturity	639	691
Maturities and calls of investment securities available-for-sale	11,166	51,764
Purchase of investment in FHLB stock	(1,732)	(41)
Redemption of investment in FHLB stock	1,143	—
Net increase in loans	(50,587)	(39,008)
Purchases of premises and equipment	(1,537)	(2,006)
Net cash (used in) provided by investing activities	(51,265)	37,088
Financing Activities		
Net (decrease) increase in demand deposits, money market accounts, and savings accounts	(585)	40,171
Net decrease in time deposits	(9,275)	(43,310)
Net increase (decrease) in borrowings	60,391	(22,026)
Common stock dividends paid, in lieu of fractional shares	(3)	(3)
Proceeds from the issuance of common stock	409	205
Preferred stock dividends paid	(603)	(603)
Net cash provided by (used in) financing activities	50,334	(25,566)
Net decrease in cash and cash equivalents	(8,758)	(18,680)
Cash and cash equivalents, beginning of period	49,020	57,284
Cash and cash equivalents, end of period	$40,262	$38,604

Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$4,618	$5,475
Income taxes	$4,250	$660
Non-cash transfers to other real estate	$6,807	$2,483
Accretion on preferred stock	$220	$221

See accompanying notes to consolidated financial statements.

Table of Contents

FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
March 31, 2013

1. BASIS OF PRESENTATION

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

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

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

In the opinion of management, all adjustments considered necessary for a fair presentation of the financial position and results of operations for the interim periods have been included. All such adjustments are normal recurring accruals. Certain previously reported amounts have been reclassified to conform to current presentation. These reclassifications had no impact on previously reported net income, or shareholders' equity or cash flows. The Company's significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in our 2012 Annual Report on Form 10-K filed with the Securities and Exchange Commission. There were no new accounting policies or changes to existing policies adopted in the first three months of 2013, which had a significant effect on the results of operations or statement of financial condition. For interim reporting purposes, the Company follows the same basic accounting policies and considers each interim period as an integral part of an annual period.

Operating results for the three month period ended March 31, 2013, are not necessarily indicative of the results that may be expected for the year ended December 31, 2013. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K and Annual Report to Shareholders for the year ended December 31, 2012.

2. FDIC INDEMNIFICATION ASSET

Certain loans and other real estate acquired in the FDIC-assisted transactions of Decatur First Bank ("Decatur First") and Security Exchange Bank ("Security Exchange") (collectively referred to as covered assets) are covered by Loss Share Agreements ("Loss Share Agreements") between the Bank and the FDIC which affords the Bank significant protection against future losses. Under the Loss Share Agreements, the FDIC has agreed to reimburse us for 80% of all losses incurred in connection with those covered assets for a period of five years for commercial loans and with the Loss Share Agreements for Decatur First, the FDIC has agreed to reimburse us for 80% of all losses incurred in connection with those covered assets for a period of 10 years for residential mortgage loans. There were no residential mortgage loans included in the Loss Share Agreement for Security Exchange.

The reimbursable losses from the FDIC are based on the acquisition book value of the covered assets, the contractual balance of acquired unfunded commitments, and certain future net direct costs incurred in the collection and

settlement process. The amount that the Bank realizes on these assets could differ materially from the carrying value that will be reflected in any financial statements, based upon the timing and amount of collections and recoveries on the covered assets in future periods. Because the FDIC will reimburse the Bank for 80% of losses incurred on the covered assets, an indemnification asset (FDIC indemnification asset) was recorded at fair value at the acquisition date. The Loss Share Agreements on the acquisition date reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties. This asset is adjusted quarterly based on improvements in cash flow projections, additional expected losses and remittances received. The carrying value of the indemnification asset at March 31, 2013 was $16.5 million compared to $20.1 million at December 31, 2012.

Table of Contents

The Loss Share Agreements continue to be measured on the same basis as the related indemnified loans. Deterioration in credit quality of the loans (recorded as an adjustment to the Allowance for Loan Losses) or declines in the fair value of other real estate owned would immediately increase the basis of the indemnification asset, with the offset recorded through the Consolidated Statements of Comprehensive Income. Improvements in the credit quality or expected loan cash flows (reflected as an adjustment to yield and accreted into income over the remaining life of the loan) result in a decrease in the fair value of the FDIC indemnification asset, with the decrease being amortized into income over the same period or the life of the loss share agreements, whichever is shorter. Initial fair value accounting incorporates into the fair value of the indemnification asset an element of the time value of money, which is accreted back into income over the life of the loss share agreements. A summary of activity for the FDIC indemnification asset for the three-months ended March 31, 2013 is presented below:

	March 31, 2013 (in thousands)
Indemnification Asset	
Balance at January 1, 2013	$20,074
Adjustments:	
Accretion income, FDIC indemnification asset	138
Additional estimated covered losses	41
Loss share remittances	(3,718)
Balance at March 31, 2013	$16,535

3. EARNINGS PER SHARE

Basic earnings per share ("EPS"), is computed by dividing net income to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if our potential common stock, which consists of dilutive stock options and a common stock warrant, were issued. As required for entities with complex capital structures, a dual presentation of basic and diluted EPS is included on the face of the Consolidated Statements of Comprehensive Income, and a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation is provided in this note. Earnings per share were calculated as follows:

	Three Months Ended March 31,	
	2013	2012
	($ in thousands, except per share data)	
Net income	$ 6,491	$ 5,316
Less dividends on preferred stock and accretion of discount	(823)	(823)
Net income available to common equity	$ 5,668	$ 4,493
Average common shares outstanding	14,827,446	13,664,406
Effect of stock dividends	123,562	863,225
Average common shares outstanding – basic	14,951,008	14,527,631
Dilutive stock options and warrants	1,976,879	1,387,631
Effect of stock dividends	16,474	87,661
Average common shares outstanding – dilutive	16,944,361	16,002,923
Earnings per share – basic	$ 0.38	$ 0.31
Earnings per share – dilutive	$ 0.33	$ 0.28

Average number of shares for the three month periods ended March 31, 2013 and 2012 includes participating securities related to unvested restricted stock awards. For the three months ended March 31, 2013, there were 200,000 in common stock options with an average exercise price of $9.00 and 116,905 in common stock options with an average exercise price of $8.08 for the three months ended March 31, 2012. These shares would have been included in the calculation of dilutive earnings per share except that to do so would have an anti-dilutive impact on earnings per share. The 200,000 in common stock options were issued in December, 2012 and still have a large unrecognized compensation cost associated with these options which results in these options being treated as anti-dilutive for the

first quarter of 2013.

4. CONTINGENCIES

Due to the nature of their activities, the Company and its subsidiaries are at times engaged in various legal proceedings that arise in the course of normal business, some of which were outstanding as of March 31, 2013. While it is difficult to predict or determine the outcome of these proceedings, it is the opinion of management, after consultation with its legal counsel, that the ultimate liabilities, if any, will not have a material adverse impact on the Company’s consolidated results of operations, financial position, or cash flows.

Table of Contents

5. SHARE-BASED COMPENSATION

The Fidelity Southern Corporation Equity Incentive Plan (the "2006 Incentive Plan"), as amended, permits the grant of stock options, stock appreciation rights, restricted stock and other incentive awards ("Incentive Awards"). Pursuant to an amendment to the Plan adopted by the shareholders on April 26, 2012, the maximum number of shares of the Company's common stock that may be issued under the 2006 Incentive Plan is 5,000,000 shares, all of which may be stock options. Generally, no award shall be exercisable or become vested or payable more than 10 years after the date of grant. Options granted under the 2006 Incentive Plan have four year terms and become fully exercisable at the end of three years of continued employment. Incentive awards available under the 2006 Incentive Plan totaled 3,752,747 shares at March 31, 2013.

A summary of option activity as of March 31, 2013, and changes during the three month period then ended is presented below:

	Number of share options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Terms	Aggregate Intrinsic Value
Outstanding at January 1, 2013	477,838	$6.75		
Granted	—	—		
Exercised	76,840	4.80		
Forfeited	—	—		
Outstanding at March 31, 2013	400,998	$7.12	3.5	$1,755,139
Exercisable at March 31, 2013	137,670	$4.84	1.1	$916,335

At March 31, 2013, there was $2.1 million in remaining unrecognized compensation cost related to the restricted stock. A summary of restricted stock activity as of March 31, 2013, and changes during the three month period then ended is presented below:

	Number of shares of Restricted Stock	Weighted Average Grant Price
Nonvested at December 31, 2012	486,447	$5.86
Granted	—	—
Vested	98,815	5.67
Forfeited	—	—
Nonvested at March 31, 2013	387,632	$5.90

Share-based compensation expense was $288,000 for the three months ended March 31, 2013.

6. FAIR VALUE ELECTION AND MEASUREMENT

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. Current accounting 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). The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices in markets that are not active, or inputs that are observable, either directly, for substantially the full term of the asset or liability;

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

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

In certain circumstances, fair value enables a company to more accurately align its financial performance with the economic value of hedged assets. Fair value enables a company to mitigate the non-economic earnings volatility caused from financial assets

Table of Contents

and financial liabilities being carried at different bases of accounting, as well as to more accurately portray the active and dynamic management of a company's balance sheet.

The Company has elected to record mortgage loans held-for-sale at fair value. The following is a description of mortgage loans held-for-sale as of March 31, 2013, including the specific reasons for electing fair value and the strategies for managing these assets on a fair value basis.

Mortgage Loans Held-for-Sale

The Company records mortgage loans held-for-sale at fair value in order to eliminate the complexities and inherent difficulties of achieving hedge accounting and to better align reported results with the underlying economic changes in value of the loans and related hedge instruments. This election impacts the timing and recognition of origination fees and costs, as well as servicing value, which are now recognized in earnings at the time of origination. Interest income on mortgage loans held-for-sale is recorded on an accrual basis in the consolidated statement of income under the heading "Interest income – loans, including fees". The servicing value is included in the fair value of the Interest Rate Lock Commitments ("IRLCs") with borrowers. The mark to market adjustments related to loans held-for-sale and the associated economic hedges are captured in mortgage banking activities.

Valuation Methodologies and Fair Value Hierarchy

The primary financial instruments that the Company carries at fair value include investment securities, IRLCs, derivative instruments, and loans held-for-sale. The Company used the following methods and significant assumptions to estimate fair value:

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

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

The Company classifies IRLCs on residential mortgage loans held-for-sale 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. Projected "pull-through" rates are determined quarterly by the Mortgage Banking Division of the Bank, using the Company's historical data and the current interest rate environment to reflect the Company's best estimate of the likelihood that a commitment will ultimately result in a closed loan. The loan servicing value is also included in the fair value of IRLCs. Because these inputs are not transparent in market trades, IRLCs are considered to be Level 3 assets.

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

The credit risk associated with the underlying cash flows of an instrument carried at fair value was a consideration in estimating the fair value of certain financial instruments. Credit risk was considered in the valuation through a variety of inputs, as applicable, including, the actual default and loss severity of the collateral, and level of subordination. The assumptions used to estimate credit risk applied relevant information that a market participant would likely use in valuing an instrument. Because mortgage loans held-for-sale are sold within a few weeks of origination, it is unlikely to demonstrate any of the credit weaknesses discussed above and as a result, there were no credit related adjustments to fair value during the three month periods ended March 31, 2013 and 2012.

9

Table of Contents

The following tables present financial assets measured at fair value at March 31, 2013 and December 31, 2012, on a recurring basis and the change in fair value for those specific financial instruments in which fair value has been elected at March 31, 2013 and 2012. The changes in the fair value of economic hedges were also recorded in mortgage banking activities and are designed to partially offset the change in fair value of the mortgage loans held-for-sale and interest rate lock commitments referenced in the following tables.

		Fair Value Measurements at March 31, 2013		
	Assets and Liabilities Measured at Fair Value March 31, 2013	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Debt securities issued by U.S. Government corporations and agencies	$10,186	$—	$10,186	$—
Debt securities issued by states and political subdivisions	17,698	—	17,698	—
Residential mortgage-backed securities – Agency	125,401	—	125,401	—
Mortgage loans held-for-sale	281,839	—	281,839	—
Other Assets [1]	5,521	—	—	5,521
Other Liabilities [1]	(2,889)	—	—	(2,889)

		Fair Value Measurements at December 31, 2012		
	Assets and Liabilities Measured at Fair Value December 31, 2012	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Debt securities issued by U.S. Government corporations and agencies	$10,480	$—	$10,480	$—
Debt securities issued by states and political subdivisions	19,715	—	19,715	—
Residential mortgage-backed securities – Agency	124,638	—	124,638	—
Mortgage loans held-for-sale	253,108	—	253,108	—
Other Assets [1]	4,864	—	—	4,864
Other Liabilities[1]	(1,053)	—	—	(1,053)

(1) This amount includes mortgage related interest rate lock commitments and derivative financial instruments to hedge interest rate risk. Interest rate lock commitments were recorded on a gross basis.

The following tables present a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended March 31, 2013 and 2012. There were no transfers into or out of Level 3. There were no transfers between Level 1 and Level 2 during the three months ended March 31, 2013.

	Other Assets [1]	Other Liabilities [1]
	(in thousands)	
Beginning Balance January 1, 2013	$4,864	$(1,053)
Total gains (losses) included in earnings:[2]		
Issuances	6,177	(2,889)
Settlements and closed loans	(5,398)	—

Expirations	(122)	1,053
Total gains (losses) included in other comprehensive income	—	—
Ending Balance March 31, 2013 [3]	$5,521	$(2,889)

(1) Includes mortgage related interest rate lock commitments and derivative financial instruments entered into to hedge interest rate risk.

(2) Amounts included in earnings are recorded in mortgage banking activities.

(3) Represents the amount included in earnings attributable to the changes in unrealized gains/losses relating to IRLCs and derivatives still held at period end.

Table of Contents

	Other Assets [1]	Other Liabilities [1]
	(in thousands)	
Beginning Balance January 1, 2012	$3,612	$(1,528)
Total gains (losses) included in earnings:[2]		
Issuances	5,542	(369)
Settlements and closed loans	(3,185)	—
Expirations	(1,392)	1,528
Total gains (losses) included in other comprehensive income	—	—
Ending Balance March 31, 2012 [3]	$4,577	$(369)

(1) Includes mortgage related interest rate lock commitments and derivative financial instruments entered into to hedge interest rate risk.

(2) Amounts included in earnings are recorded in mortgage banking activities.

(3) Represents the amount included in earnings attributable to the changes in unrealized gains/losses relating to IRLCs and derivatives still held at period end.

The unobservable input utilized in the determination of fair value of other assets and liabilities was a pull through rate, which was 73.0% as of March 31, 2013. A pull through rate is management's assumption as to the percentage of loans in the pipeline that will close and eventually fund. It is based on the Company's historical fall-out activity. Significant increases in this input in isolation would result in a significantly higher fair value measurement and significant decreases would result in a significantly lower fair value measurement. In addition, IRLCs fair value include mortgage servicing rights that do not trade in an active market with readily observable prices. Accordingly, the fair value is estimated based on a valuation model which calculates the present value of estimated future net servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds, market discount rates, cost to service, float earnings rates, and other ancillary income, including late fees.

	For Items Measured at Fair Value Pursuant to Election of the Fair Value Option: Fair Value Gain related to Mortgage Banking Activities for the Three Months Ended	
	March 31, 2013	March 31, 2012
	(in thousands)	
Mortgage loans held-for-sale	$ (1,164)	$ (182)

The following tables present the assets that are measured at fair value on a non-recurring basis by level within the fair value hierarchy as reported on the consolidated statements of financial position at March 31, 2013 and December 31, 2012

	Fair Value Measurements at March 31, 2013				
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Valuation Allowance
			(in thousands)		
Impaired loans	50,861	—	—	50,861	(4,275)
ORE	38,951	—	—	38,951	(22,935)
Mortgage servicing rights	29,471	—	—	29,471	(3,463)
SBA servicing rights	7,161	—	—	7,161	(542)

Fair Value Measurements at December 31, 2012

	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Valuation Allowance
			(in thousands)		
Impaired loans	$73,255	$ —	$—	$73,255	$(6,460)
ORE	39,756	—	—	39,756	(26,751)
Mortgage servicing rights	23,153	—	—	23,153	(5,070)
SBA servicing rights	7,244	—	—	7,244	(339)

Table of Contents

Quantitative Information about Level 3 Fair Value Measurements

The following table shows significant unobservable inputs used in the fair value measurement of Level 3 assets and liabilities:

Nonrecurring Measurements	Fair Value at March 31, 2013 ($ in thousands)	Valuation Technique	Unobservable Inputs	Range
Nonrecurring:				
Impaired loans	$50,861	Discounted appraisals	Collateral discounts	6.00% - 40.00%
Other Real Estate	38,951	Discounted appraisals	Collateral discounts	6.00% - 40.00%
Mortgage Servicing Rights	29,471	Discounted cash flows	Discount Rate	8.00% - 10.00%
			Prepayment Speeds	8.00% - 20.00%
SBA Servicing Rights	7,161	Discounted cash flows	Discount Rate	2.00% - 7.00%
			Prepayment Speeds	3.00% - 13.00%
Recurring:				
IRLCs	5,073	Pricing Model	Weighted-Average closing ratio	96.50% - 105.12%
Forward Commitments	(2,442)	Investor Pricing	Pricing spreads	104.30% - 106.60%

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. For collateral dependent loans, fair value is measured based on the value of the collateral securing these loans and is classified as a Level 3 in the fair value hierarchy. Collateral may include real estate or business assets, including equipment, inventory and account receivable. The value of real estate collateral is determined based on an appraisal by qualified licensed appraisers hired by the Company. If significant, the value of business equipment is based on an appraisal by qualified licensed appraisers hired by the Company 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, the Company records 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, the Company records the foreclosed asset as nonrecurring Level 3. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business. Increases or decreases in realization for properties sold impact the comparability adjustment for similar assets remaining on the balance sheet.

SBA servicing rights are initially recorded at fair value when loans are sold 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. See Note 14 for additional disclosures related to assumptions used in the fair value

calculation for SBA servicing rights.

Mortgage servicing rights are initially recorded at fair value when mortgage loans are sold servicing retained. These assets are then amortized in proportion to and over the period of estimated 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. See Note 14 for additional disclosures related to assumptions used in the fair value calculation for mortgage servicing rights.

The significant unobservable input used in the fair value measurement of the Company's IRLCs is the closing ratio, which represents the percentage of loans currently in a lock position which management estimates will ultimately close. Generally, the fair value of an IRLC is positive (negative) if the prevailing interest rate is lower (higher) than the IRLC rate. Therefore, an increase in the closing ratio (i.e., higher percentage of loans are estimated to close) will result in the fair value of the IRLC to

Table of Contents

increase if in a gain position, or decrease if in a loss position. The closing ratio is largely dependent on the loan processing stage that a loan is currently in and the change in prevailing interest rates from the time of the rate lock. The closing ratio is computed by our secondary marketing system using historical data and the ratio is periodically reviewed by the Company's Secondary Marketing Department of the Mortgage Banking Division for reasonableness.

Forward commitments are instruments that are used to hedge the value of the IRLC's and mortgage Loans Held for Sale. Primarily forward commitments are made up of Federal National Mortgage Association (“FNMA”) 30 year and 15 year fixed rate mortgage backed securities (“MBS”) forward commitments. A FNMA MBS forward commitment is an agreement to sell a FNMA MBS security at an agreed up principal and interest rate pass-through at a specific date in the future. The Company also takes investor commitments to sell a loan or pool of newly originated loans to an investor for an agreed upon price for delivery in the future. This type of forward commitment is also known as a mandatory commitment. Generally, the fair value of a forward is positive (negative) if the prevailing interest rate is lower (higher) than the current commitment interest rate. The value of these commitments is ultimately determined by the investor that sold the commitment and represents a significant unobservable input used in the fair value measurement of the Company's fair value of forward commitments.

Management makes certain estimates and assumptions related to costs to service varying types of loans and pools of loans, prepayment speeds, the projected lives of loans and pools of loans sold servicing retained, and discount factors used in calculating the present values of servicing fees projected to be received. No less frequently than quarterly, management reviews the status of all loans and pools of servicing assets to determine if there is any impairment to those assets due to such factors as earlier than estimated repayments or significant prepayments. Any impairment identified in these assets will result in reductions in their carrying values through a valuation allowance and a corresponding increase in operating expenses.

The following tables present the difference between the aggregate fair value and the aggregate unpaid principal balance of loans held-for-sale for which the fair value option has been elected as of March 31, 2013 and December 31, 2012. The tables also include the difference between aggregate fair value and the aggregate unpaid principal balance of loans held-for-sale that are 90 days or more past due, as well as loans held-for-sale in nonaccrual status:

	Aggregate Fair Value March 31, 2013	Aggregate Unpaid Principal Balance Under FVO March 31, 2013	Fair Value Over Unpaid Principal
		(in thousands)	
Loans held-for-sale	$ 281,839	$ 277,931	$3,908
Past due loans of 90+ days	—	—	—
Nonaccrual loans	—	—	—

	Aggregate Fair Value December 31, 2012	Aggregate Unpaid Principal Balance Under FVO December 31, 2012	Fair Value Over Unpaid Principal
		(in thousands)	
Loans held-for-sale	$ 253,108	$ 248,036	$5,072
Past due loans of 90+ days	—	—	—
Nonaccrual loans	—	—	—

Current accounting guidance requires interim disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on settlements using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets, and, in many cases, could not be realized in immediate settlement of the instrument. Current accounting guidance excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

13

Table of Contents

	Fair Value Measurements at March 31, 2013 Using:				
	Carrying Value	Level 1	Level 2	Level 3	Total
			(in thousands)		
Financial assets:					
Cash and cash equivalents	$40,262	$40,262	$—	$—	$40,262
Investment securities available-for-sale	153,285	—	153,285	—	153,285
Investment securities held-to-maturity	5,523	—	6,039	—	6,039
Total loans [1]	2,109,294	—	281,839	1,748,095	2,029,934
Financial Liabilities:					
Noninterest-bearing demand deposits	$385,019	$—	$—	$385,019	$385,019
Interest-bearing deposits	1,673,132	—	—	1,680,652	1,680,652
Short-term borrowings	176,051	—	176,153	—	176,153
Long-term debt	77,527	—	79,999	—	79,999

	Fair Value Measurements at December 31, 2012 Using:				
	Carrying Value	Level 1	Level 2	Level 3	Total
			(in thousands)		
Financial Instruments (Assets):					
Cash and cash equivalents	$49,020	$49,020	$—	$—	$49,020
Investment securities available-for-sale	154,367	—	154,367	—	154,367
Investment securities held-to-maturity	6,162	—	6,723	—	6,723
Total loans [1]	2,047,143	—	253,108	1,756,169	2,009,277
Financial Instruments (Liabilities):					
Noninterest-bearing demand deposits	$381,846	$—	$—	$381,846	$381,846
Interest-bearing deposits	1,686,165	—	—	1,693,579	1,693,579
Short-term borrowings	125,660	—	125,984	—	125,984
Long-term debt	67,527	—	70,085	—	70,085

[1] Includes $281,839 and $253,108 in mortgage loans held-for-sale at fair value at March 31, 2013 and December 31, 2012, respectively.

The methods and assumptions, not previously presented, used to estimate fair value are described as follows: The carrying amount reported in the consolidated balance sheets for cash, and cash equivalents approximates fair values. It is not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability.

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

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

The carrying amounts reported in the consolidated balance sheets for short-term debt generally approximate those liabilities' fair values with the exception of FHLB advances which are estimated based on the current rates offered to us for debt of the same remaining maturity.

The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to us for debt of the same remaining maturities.

Overnight repurchase agreements consist primarily of balances in the transaction accounts of commercial customers swept nightly to an overnight investment account. All short-term repurchase agreements are collateralized with investment securities having a market value that approximates the balance borrowed. Overnight repurchase agreements are not subject to offset. The following table describes the Company's offsetting of assets and liabilities as of March 31, 2013:

	Balance prior to Offset	Offset	Balance after Offset	Value of Securities Pledged	Net
	(in thousands)				
Overnight repurchase agreements	$12,151	$—	$12,151	$11,780	$371

Table of Contents

7. DERIVATIVE FINANCIAL INSTRUMENTS

The Company maintains a risk management program to manage interest rate risk and pricing risk associated with its mortgage lending activities. The risk management program includes the use of forward contracts and other derivatives that are recorded in the financial statements at fair value and are used to offset changes in value of the mortgage inventory due to changes in market interest rates. As a normal part of its operations, the Company enters into derivative contracts to economically hedge risks associated with overall price risk related to Interest Rate Lock Commitments ("IRLCs") and mortgage loans held-for-sale for which the fair value option has been elected. Fair value changes occur as a result of interest rate movements as well as changes in the value of the associated servicing. Derivative instruments used include forward commitments, mandatory commitments and best effort commitments. All derivatives are carried at fair value in the Consolidated Balance Sheets in other assets or other liabilities. A gross loss of $1.2 million was recorded for all related commitments as of March 31, 2013, gross gain of $1.7 million at December 31, 2012, and gross gain of $2.1 million at March 31, 2012.

The Company's risk management derivatives are based on underlying risks primarily related to interest rates and forward sales commitments. Forwards are contracts for the delayed delivery or net settlement of an underlying instrument, such as a mortgage loan, in which the seller agrees to deliver on a specified future date, either a specified instrument at a specified price or yield or the net cash equivalent of an underlying instrument. These hedges are used to preserve the Company's position relative to future sales of loans to third parties in an effort to minimize the volatility of the expected gain on sale from changes in interest rate and the associated pricing changes.

Credit and Market Risk Associated with Derivatives

Derivatives expose the Company to credit risk. If the counterparty fails to perform, the credit risk at that time would be equal to the net derivative asset position, if any, for that counterparty. The Company minimizes the credit or repayment risk in derivative instruments by entering into transactions with high quality counterparties that are reviewed periodically by the Company's Risk Management area.

The Company's derivative positions as of March 31, 2013 and December 31, 2012 were as follows:

	Contract or Notional Amount	
	March 31, 2013	December 31, 2012
	(in thousands)	
Forward rate commitments	$551,407	$489,179
Interest rate lock commitments	301,563	258,981
Total derivatives contracts	$852,970	$748,160

Total commitments increased by $104.8 million, or 14.0%, to $853.0 million during the first three months of 2013. The increase is a direct result of the Company's residential mortgage production loan pipeline growth which includes both loans held for sale along with locked and unclosed loans.

Table of Contents

8. INVESTMENTS

The amortized cost and fair value of debt securities are shown by contractual maturity. Expected maturities may differ from contractual maturities if issuers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	March 31, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Available-for-Sale:				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies:				
Due in less than one year	$6,135	$6,202	$6,385	$6,481
Due after one year through five years	1,528	1,580	1,532	1,592
Due five years through ten years	1,194	1,296	1,198	1,297
Due after ten years	1,004	1,108	1,005	1,110
Municipal securities				
Due in less than one year	1,400	1,413	2,900	2,925
Due after one year through five years	5,010	5,229	5,015	5,265
Due five years through ten years	2,785	3,004	2,789	2,982
Due after ten years	7,611	8,052	7,612	8,077
Mortgage backed securities-agency				
Due in less than one year	604	654	846	902
Due after one year through five years	111,546	115,395	109,978	113,888
Due after ten years	9,022	9,352	9,388	9,848
	$147,839	$153,285	$148,648	$154,367
Held-to-Maturity:				
Mortgage backed securities-agency	$5,523	$6,039	$6,162	$6,723

There were 2 securities available-for-sale called during the three month period ending March 31, 2013 for a total of $1.8 million. The Bank did not sell any securities during the three month period ending March 31, 2013. The Bank purchased $10.4 million in available-for-sale securities during the three months ended March 31, 2013. There were no purchases for the three months ended March 31, 2012. The Bank sold 31 securities available-for-sale totaling $25.4 million during the three month period ended March 31, 2012. Proceeds received totaled $25.7 million for a gross gain of $303,000. There were no investments held in trading accounts during 2013 and 2012.

	March 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Other than Temporary Impairment	Fair Value
	(in thousands)				
Available-for-Sale:					
Obligations of U.S. Government corporations and agencies	$9,861	$325	$—	$—	$10,186
Municipal securities	16,806	897	(5)	—	17,698
Residential mortgage-backed securities – agency	121,172	4,231	(2)	—	125,401
	$147,839	$5,453	$(7)	$—	$153,285
Held-to-Maturity:					
Residential mortgage-backed securities – agency	$5,523	$516	$—	$—	$6,039

Table of Contents

	December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Other than Temporary Impairment	Fair Value
	(in thousands)				
Available-for-Sale:					
Obligations of U.S. Government corporations and agencies	$10,120	$360	$—	$—	$10,480
Municipal securities	18,316	933	—	—	19,249
Residential mortgage-backed securities – agency	120,212	4,462	(36)	—	124,638
	$148,648	$5,755	$(36)	$—	$154,367
Held-to-Maturity:					
Residential mortgage-backed securities – agency	$6,162	$561	$—	$—	$6,723

At March 31, 2013 and December 31, 2012, all securities in an unrealized loss position had been in a loss position for less than 12 months, and result from changes in interest rates and not credit related issues.

If the fair value of a debt security is less than its amortized cost basis at the balance sheet date, management must determine if the security has an other than temporary impairment ("OTTI"). If management does not expect to recover the entire amortized cost basis of a security, an OTTI has occurred. If management's intention is to sell the security, an OTTI has occurred. If it is more likely than not that management will be required to sell a security before the recovery of the amortized cost basis, an OTTI has occurred. The Company will recognize the full OTTI in earnings if it intends to sell a security or will more likely than not be required to sell the security. Otherwise, an OTTI will be separated into the amount representing a credit loss and the amount related to all other factors. The amount of an OTTI related to credit losses will be recognized in earnings. The amount related to other factors will be recognized in other comprehensive income, net of taxes.

The Company carries its investment securities at fair value and employs valuation techniques which utilize observable inputs when those inputs are available. These observable inputs reflect assumptions market participants would use in pricing the security and are developed based on market data obtained from sources independent of the Company. Investment securities are valued using Level 2 inputs.

The changes in accumulated other comprehensive income by component for the period ending March 31, 2013 is as follows:

	Unrealized Gains and Losses on Available-for-Sale Securities
	(in thousands)
Beginning Balance at December 31, 2012	$3,545
Other comprehensive income before reclassifications	(169)
Amount reclassified from accumulated other comprehensive income	—
Net current period other comprehensive income	(169)
Ending Balance at March 31, 2013	$3,376

There were no investment security sales during the period, therefore there was no impact on the Consolidated Statement of Comprehensive Income for reclassifications.

Table of Contents

9. LOANS

Non-Covered loans represent existing portfolio loans prior to the Decatur First and Security Exchange FDIC-assisted acquisitions, loans not coved under the Loss Share Agreements, and additional loans made subsequent to the transaction. Loans outstanding, by class, are summarized as follows:

	Non-Covered		Covered	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
		(in thousands)		
Commercial loans	$469,505	$459,902	$47,698	$49,341
SBA loans	125,740	120,693	695	735
Total commercial loans	595,245	580,595	48,393	50,076
Construction	81,062	76,304	13,589	13,620
Indirect loans	959,471	930,232	—	—
Installment loans	13,037	17,989	787	785
Total consumer loans	972,508	948,221	787	785
First mortgage loans	35,481	34,611	3,020	3,174
Second mortgage loans	58,796	60,412	8,382	9,233
Total mortgage loans	94,277	95,023	11,402	12,407
Total loans	$1,743,092	$1,700,143	$74,171	$76,888

Loans held-for-sale at March 31, 2013 and December 31, 2012 are shown in the table below:

	March 31, 2013	December 31, 2012
	(in thousands)	
SBA loans	$14,102	$20,986
Real estate – mortgage – residential	281,839	253,108
Indirect loans	30,000	30,000
Total	$325,941	$304,094

Nonaccrual loans, segregated by class of loans, were as follows:

	Non-Covered		Covered	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
		(in thousands)		
Commercial loans	$17,373	$21,032	$13,502	$10,525
SBA loans	19,754	19,081	—	—
Total commercial loans	37,127	40,113	13,502	10,525
Construction	8,889	9,708	13,130	11,381
Indirect loans	872	2,174	—	—
Installment loans	723	476	932	659
Total consumer loans	1,595	2,650	932	659
First mortgage loans	2,166	3,222	1,576	1,388
Second mortgage loans	2,443	2,020	380	223
Total mortgage loans	4,609	5,242	1,956	1,611
Loans	$52,220	$57,713	$29,520	$24,176

Table of Contents

Loans delinquent 30-89 days and troubled debt restructured loans accruing interest, segregated by class of loans at March 31, 2013 and December 31, 2012, were as follows:

	March 31, 2013		December 31, 2012	
	Accruing Delinquent 30-89 Days	Troubled Debt Restructured Loans Accruing	Accruing Delinquent 30-89 Days	Troubled Debt Restructured Loans Accruing
		(in thousands)		
Commercial loans	$6,992	$6,764	$8,817	$6,571
SBA loans	435	2,863	523	2,888
Construction loans	—	6,894	1,603	7,419
Indirect loans	1,746	2,688	2,437	2,729
Installment loans	1,066	6	407	9
First mortgage loans	608	658	1,421	286
Second mortgage loans	1,307	—	944	—
Total	$12,154	$19,873	$16,152	$19,902

Troubled Debt Restructurings (“TDRs”) are loans in which the borrower is experiencing financial difficulty and the Company has granted an economic concession to the borrower. Prior to modifying a borrower’s loan terms, the Company performs an evaluation of the borrower’s financial condition and ability to service under the potential modified loan terms. The types of concessions granted are generally interest rate reductions or term extensions. If a loan is accruing at the time of modification, the loan remains on accrual status and is subject to the Company’s charge-off and nonaccrual policies. If a loan is on nonaccrual before it is determined to be a TDR then the loan remains on nonaccrual. TDRs may be returned to accrual status if there has been at least a six month sustained period of repayment performance by the borrower. Generally, once a loan becomes a TDR, it is probable that the loan will likely continue to be reported as a TDR for the life of the loan. Interest income recognition on impaired loans is dependent upon nonaccrual status.

During the periods ended March 31, 2013 and 2012, certain loans were modified resulting in TDRs. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan or an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk.

The following table presents loans, by class, which were modified as TDRs that occurred during the three months ended March 31, 2013 and 2012 along with the type of modification:

	Troubled Debt Restructured During the Quarter Ended		Troubled Debt Restructured During the Quarter Ended	
	March 31, 2013		March 31, 2012	
	Interest Rate	Term	Interest Rate	Term
		(in thousands)		
Commercial loans	$214	$—	$200	$—
SBA loans	—	—	—	5,659
Construction	—	—	953	195
Indirect loans	—	433	—	3,015
Installment loans	—	—	—	—
First mortgage loans	—	76	—	291
Second mortgage loans	—	140	—	—
Total	$214	$649	$1,153	$9,160

19

Table of Contents

The following table presents the amount of loans which were restructured in the previous twelve months and which defaulted within each period:

	Troubled Debt Restructured During the Twelve Months Ended March 31, 2013 and Defaulting During Three Months Ended March 31, 2013
	(in thousands)
Commercial loans	$—
SBA loans	—
Construction	—
Indirect loans	351
Installment loans	—
First mortgage loans	76
Second mortgage loans	—
Total	$427

Note: A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

The Company had TDRs with a balance of $34.7 million and $36.0 million at March 31, 2013 and December 31, 2012, respectively. There were charge-offs of TDR loans of $1.9 million and none for the quarter ended March 31, 2013 and March 31, 2012, respectively. The Company is not committed to lend additional amounts as of March 31, 2013 and December 31, 2012 to customers with outstanding loans that are classified as TDRs. Charge-offs on such loans are factored into the rolling historical loss rate, which is one of the considerations used in establishing the allowance for loan losses.

The allowance for loan losses is established as losses are estimated to have occurred through a provision charged to earnings, and for loans covered by loss share agreements with the FDIC, through a provision charged to earnings that is partially offset by increases in the FDIC loss share receivable. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Changes in the allowance related to impaired loans are charged or credited to the provision for loan losses and reversed when losses are charged off for impaired loan pools or transferred as a component of the carrying value for ORE transfers.

The allowance for loan losses is maintained at a level which, in management's opinion, is adequate to absorb credit losses inherent in the portfolio. The Company utilizes both peer group analysis, as well as a historical analysis of the Company's portfolio to validate the overall adequacy of the allowance for loan losses. In addition to these objective criteria, the Company subjectively assesses the adequacy of the allowance for loan losses with consideration given to current economic conditions, changes to loan policies, the volume and type of lending, composition of the portfolio, the level of classified and criticized credits, seasoning of the loan portfolio, payment status and other factors.

In connection with acquisitions, the Company acquires certain loans considered impaired and initially recognizes these loans at the present value of amounts expected to be received. Further, the Company also accounts for non-impaired loans acquired in acquisitions by analogy to acquired impaired loans. The allowance for loan losses previously associated with acquired loans does not carry over. Any deterioration in the credit quality of these loans subsequent to acquisition would be considered in the allowance for loan losses. For any increases in cash flows expected to be collected, the Company adjusts the amount of accretable yield recognized on a prospective basis over the loan's or pool's remaining life and recaptures any previously recognized impairment up to the amount of the improvement in expected cash flows.

Table of Contents

A summary of changes in the allowance for loan losses for the covered loan and non-covered loan portfolios for the three months ended March 31, 2013 follows. The allowance for loan losses on the loan portfolio includes $2.3 million related to the Company's acquired covered portfolio at March 31, 2013.

	Three Months Ended March 31, 2013		
	Non-Covered Loans	Covered Loans	Total
		(in thousands)	
Balance, beginning of period	$31,830	$2,152	$33,982
Provision for loan losses before benefit attributable to FDIC loss share agreements	3,450	130	3,580
Benefits attributable to FDIC loss share agreements	—	(104)	(104)
Net provision for loan losses	3,450	26	3,476
Increase in FDIC loss share receivable	—	104	104
Loans charged-off	(4,330)	—	(4,330)
Recoveries	678	—	678
Balance, end of period	$31,628	$2,282	$33,910

A summary of changes in the allowance for loan losses for non-covered loans, by loan portfolio type, for the three months ended March 31, 2013 and 2012 is as follows:

	Three Months Ended March 31, 2013					
	Commercial	Construction	Consumer	Mortgage	Unallocated	Total
			(in thousands)			
Beginning balance	$13,965	$7,578	$6,135	$3,122	$1,030	$31,830
Charge-offs	(2,589)	(190)	(1,155)	(396)	—	(4,330)
Recoveries	117	72	486	3	—	678
Net Charge-offs	(2,472)	(118)	(669)	(393)	—	(3,652)
Provision for loan losses	3,756	(2,056)	532	537	681	3,450
Ending Balance	$15,249	$5,404	$5,998	$3,266	$1,711	$31,628

	Three Months Ended March 31, 2012					
	Commercial	Construction	Consumer	Mortgage	Unallocated	Total
			(in thousands)			
Beginning balance	$9,183	$8,262	$6,040	$2,535	$1,936	$27,956
Charge-offs	(18)	(1,507)	(1,273)	(95)	—	(2,893)
Recoveries	3	140	315	11	—	469
Net Charge-offs	(15)	(1,367)	(958)	(84)	—	(2,424)
Provision for loan losses	1,805	1,621	746	247	(669)	3,750
Ending Balance	$10,973	$8,516	$5,828	$2,698	$1,267	$29,282

The following table presents, by portfolio segment, the balance in the Allowance disaggregated on the basis of the Company’s impairment measurement method and the related recorded investment in loans and leases as of March 31, 2013 and December 31, 2012. The total of allowance for loan losses are exclusive of covered loans:

	March 31, 2013					
	Commercial	Construction	Consumer	Mortgage	Unallocated	Total
Allowance for loan losses			(in thousands)			
Individually evaluated for impairment	$3,372	$1,187	$385	$1,436	$—	$6,380
Collectively evaluated for impairment	11,877	4,217	5,613	1,830	1,711	25,248
Total allowance for loan losses	$15,249	$5,404	$5,998	$3,266	$1,711	$31,628
	$53,691	$16,107	$3,992	$5,351		$79,141

Individually evaluated for impairment					
Collectively evaluated for impairment	534,569	68,666	965,095	89,429	1,657,759
Acquired with deteriorated credit quality	55,378	9,878	4,208	10,899	80,363
Total loans	$643,638	$94,651	$973,295	$105,679	$1,817,263

Table of Contents

	December 31, 2012					
	Commercial	Construction	Consumer	Mortgage	Unallocated	Total
Allowance for loan losses			(in thousands)			
Individually evaluated for impairment	$4,100	$2,426	$325	$1,534	$—	$8,385
Collectively evaluated for impairment	9,865	5,152	5,810	1,588	1,030	23,445
Total allowance for loan losses	$13,965	$7,578	$6,135	$3,122	$1,030	$31,830
Individually evaluated for impairment	$57,291	$17,127	$3,706	$5,623		$83,747
Collectively evaluated for impairment	520,421	59,176	942,394	88,956		1,610,947
Acquired with deteriorated credit quality	52,959	13,621	2,906	12,851		82,337
Total loans	$630,671	$89,924	$949,006	$107,430		$1,777,031

Impaired loans are evaluated based on the present value of expected future cash flows discounted at the loan's original effective interest rate, or at the loan's observable market price, or the fair value of the collateral, if the loan is collateral dependent. Impaired loans are specifically reviewed loans for which it is probable that the Bank will be unable to collect all amounts due according to the terms of the loan agreement. A specific valuation allowance is required to the extent that the estimated value of an impaired loan is less than the recorded investment. Large groups of smaller balance, homogeneous loans, such as consumer installment loans, and smaller balance commercial loans are collectively evaluated for impairment. Interest on impaired loans is reported on the cash basis as received when the full recovery of principal and interest is anticipated, or after full principal and interest has been recovered when collection of interest is in question.

Impaired loans, by class, are shown below:

	March 31, 2013			December 31, 2012		
	Unpaid Principal	Amortized Cost [1]	Related Allowance	Unpaid Principal	Amortized Cost [1]	Related Allowance
			(in thousands)			
Impaired Loans with Allowance						
Commercial loans	$18,222	$16,039	$3,213	$18,581	$18,398	$3,869
SBA loans	5,896	4,713	159	6,968	5,516	231
Construction loans	20,431	15,045	1,187	20,532	15,484	2,426
Indirect loans	3,476	3,373	162	3,514	3,230	140
Installment loans	1,768	563	223	1,617	413	185
First mortgage loans	2,165	2,165	724	2,662	2,661	812
Second mortgage loans	832	764	712	834	775	722
Loans	$52,790	$42,662	$6,380	$54,708	$46,477	$8,385

	March 31, 2013			December 31, 2012		
	Unpaid Principal	Amortized Cost [1]	Related Allowance	Unpaid Principal	Amortized Cost [1]	Related Allowance
			(in thousands)			
Impaired Loans with No Allowance						
Commercial loans	$12,940	$11,925	$—	$14,234	$13,483	$—
SBA loans	22,821	21,014	—	22,906	19,894	—
Construction loans	1,906	1,062	—	2,967	1,643	—
Indirect loans	—	—	—	—	—	—
Installment loans	71	56	—	78	63	—

First mortgage loans	1,084	1,084	—	847	848	—
Second mortgage loans	1,363	1,338	—	1,363	1,339	—
Loans	$40,185	$36,479	$—	$42,395	$37,270	$—

(1) Amortized cost reflects charge-offs that have been recognized plus other amounts that have been applied to reduce net book balance.

Table of Contents

Average impaired loans and interest income recognized, by class, are summarized below.

	Three Months Ended March 31,					
	2013			2012		
	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Cash basis Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Cash basis Interest Income Recognized on Impaired Loans
	(in thousands)					
Commercial loans	$29,714	$ 247	$—	$23,027	$ 80	$ —
SBA loans	24,928	292	2	21,060	280	—
Construction loans	16,484	43	—	37,509	72	—
Indirect loans	3,391	38	—	3,515	28	—
Installment loans	519	33	—	523	24	—
First mortgage loans	3,666	9	—	3,852	5	—
Second mortgage loans	2,106	10	—	845	1	—
	$80,808	$ 672	$2	$90,331	$ 490	$ —

The Bank uses an asset quality ratings system to assign a numeric indicator of the credit quality and level of existing credit risk inherent in a loan. These ratings are adjusted periodically as the Bank becomes aware of changes in the credit quality of the underlying loans. The following are definitions of the asset ratings:

Rating #1 (High Quality) – Loans rated “1” are of the highest quality. This category includes loans that have been made to borrower’s exhibiting strong profitability and stable trends with a good track record. The borrower’s balance sheet indicates a strong liquidity and capital position. Industry outlook is good with the borrower performing as well as or better than the industry. Little credit risk appears to exist.

Rating #2 (Good Quality) – A “2” rated loan represents a good business risk with relatively little credit risk apparent.

Rating #3 (Average Quality) – A “3” rated loan represents an average business risk and credit risk within normal credit standards.

Rating #4 (Acceptable Quality) – A “4” rated loan represents acceptable business and credit risks. However, the risk exceeds normal credit standards. Weaknesses exist and are considered offset by other factors such as management, collateral or guarantors.

Rating #5 (Special Mention) – A special mention asset has potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or deterioration in the Bank’s credit position at some future date. Special mention assets are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

Rating #6 (Substandard Assets) – A Substandard Asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified will have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Rating #7 (Doubtful Assets) – Doubtful Assets have all the weaknesses inherent in one classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Rating #8 (Loss Assets) – Loss Assets are considered uncollectable and of such little value that their continuance as recorded assets is not warranted. This classification does not mean that the Loss Asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer charging off this substantially worthless asset, even though partial recovery may be realized in the future.

Table of Contents

The table below shows the weighted average asset rating by class as of March 31, 2013 and December 31, 2012:

	Weighted Average Asset Rating	
	March 31, 2013	December 31, 2012
Commercial loans	3.92	3.97
SBA loans	4.63	4.38
Construction loans	4.72	5.01
Indirect loans	3.01	3.02
Installment loans	3.85	3.75
First mortgage loans	3.10	3.11
Second mortgage loans	3.37	3.39

The Bank uses FICO scoring to help evaluate the likelihood consumer borrowers will pay their credit obligations as agreed. The weighted-average FICO score for the indirect loan portfolio, included in consumer installment loans, was 735 at March 31, 2013 and December 31, 2012.

Purchased Credit Impaired ("PCI") Loans:

The Company has purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans follows.

	March 31, 2013	December 31, 2012
	(in thousands)	
Commercial	$55,378	$52,959
Construction	9,878	13,621
Mortgage	10,899	12,851
Consumer	4,208	2,906
Outstanding Balance	$80,363	$82,337

Accretable yield, or income expected to be collected, is as follows.

	March 31, 2013	December 31, 2012
	(in thousands)	
Balance, Beginning Period	$20,132	$16,059
New loans purchased	—	10,295
Accretion of income	(1,105)	(5,546)
Reclassification of nonaccretable difference	—	—
Disposals	(867)	(676)
Balance, Ending Period	$18,160	$20,132

PCI loans purchased during the periods ending March 31, 2013 and December 31, 2012 for which it was probable at acquisition that all contractually required payments would not be collected follows.

	March 31, 2013	December 31, 2012
	(in thousands)	
Contractually required payments receivable of loans purchased during the year:		
Commercial	$—	$44,800
Construction	—	11,678
Mortgage	—	4,545
Consumer	—	1,036
Balance, Ending Period	$—	$62,059
Cash flows expected to be collected at acquisition	$—	$57,448

Fair value of acquired loans at acquisition	$—	$47,211

Table of Contents

10. OTHER REAL ESTATE AND PROPERTY ACQUIRED IN THE SETTLEMENT OF LOANS

ORE represents properties acquired through foreclosure or deed in lieu thereof. The property is classified as held for sale. The property is initially carried at fair value based on recent appraisals, less estimated costs to sell. Declines in the fair value of properties included in ORE below carrying value are recognized by a charge to income.

The following table summarizes real estate acquired in settlement of loans and personal property acquired in settlement of loans, the latter of which is included within the other assets financial statement line item on the Consolidated Balance Sheet at the dates indicated.

	March 31, 2013	December 31, 2012
	(in thousands)	
Real estate acquired in settlement of loans	38,951	39,756
Personal property acquired in settlement of loans	975	1,354
Total property acquired in settlement of loans	$39,926	$41,110

The following table summarizes the changes in real estate acquired in settlement of loans at the periods indicated.

	For the Three Months Ended March 31,	
	2013	2012
	(in thousands)	
Real estate acquired in settlement of loans, beginning of the period	$39,756	$30,526
Plus: New real estate acquired in settlement of loans	6,726	1,230
Plus: Real estate acquired in FDIC assisted acquisitions	—	—
Less: Sales of real estate acquired in settlement of loans	(5,977)	(6,058)
Less: LOCOM adjustments on other real estate acquired	(290)	979
Less: Write-downs on other real estate	(1,264)	(948)
Real estate acquired in settlement of loans, end of period	$38,951	$25,729

For the three months ending March 31, 2013 and 2012, respectively, there were write-downs totaling $1.3 million and 948,000 on ORE recorded in other operating expenses. For the same periods there were proceeds from sales of $7.5 million and $6.1 million, respectively, from ORE by the Company, resulting in net gains on sales of $1.5 million and $250,000, respectively.

ORE consisted of the following:

	Non-Covered		Covered	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
		(in thousands)		
Commercial	$11,508	$7,959	$5,564	$7,912
Residential	2,731	2,719	4,954	4,905
Lots	15,496	18,345	5,984	6,090
Gross other real estate	29,735	29,023	16,502	18,907
Valuation allowance	(5,687)	(6,864)	(1,599)	(1,310)
Total real estate owned	$24,048	$22,159	$14,903	$17,597

Table of Contents

11. OTHER ASSETS, OTHER LIABILITIES, OTHER OPERATING INCOME, AND OTHER OPERATING EXPENSE

Other assets and other liabilities at March 31, 2013 and December 31, 2012 are summarized as follows:

	For the Period Ended	
	March 31, 2013	December 31, 2012
	(in thousands)	
Other Assets:		
Receivables and prepaid expenses	$3,081	$3,605
Prepaid taxes	—	316
Prepaid FDIC insurance	5,043	5,533
Common stock of trust preferred securities subsidiaries	2,027	2,027
Investment in Georgia tax credits	729	784
Florida bank charter	1,289	1,289
Deferred compensation	2,724	2,404
Repossessions	975	1,354
Fair Value of mortgage-related derivatives	5,521	4,864
Core deposit intangible, net	1,206	1,246
Other	282	271
Total other assets	$22,877	$23,693
Other Liabilities:		
Payables and accrued expenses	$9,025	$11,210
Taxes payable	2,119	3,001
Fair value of mortgage-related derivatives	2,899	1,053
Deferred compensation	2,724	2,404
Other	3,077	3,444
Total other liabilities	$19,844	$21,112

Other operating income and other operating expense for the three month period ending March 31, 2013 and 2012 are summarized as follows:

	For the Period Ended	
	March 31, 2013	March 31, 2012
	(in thousands)	
Other Operating Income:		
Gain on the sale of ORE	$1,549	$250
Gain on acquisitions	—	206
Insurance Commissions	226	182
Rental income from ORE properties	296	106
Accretion of FDIC indemnification asset	138	171
Other operating income	164	98
Total other operating income	$2,373	$1,013
Other Operating Expense:		
Employee expenses	$491	$461
Business Taxes	227	237
Lending expenses	955	673
ATM and check card expenses	209	164
Advertising and promotions	394	232
Stationary, printing and supplies	274	279
Other insurance expense	230	280

Other operating expense	930	1,020
Total other operating expense	$3,710	$3,346

Table of Contents

12. SHORT-TERM BORROWINGS

The following schedule details the Company's FHLB borrowings and other short-term indebtedness at March 31, 2013 and December 31, 2012.

	For the Period Ended	
	March 31, 2013	December 31, 2012
	(in thousands)	
Repurchase agreements	$12,151	$12,160
FHLB short-term borrowings:		
New FHLB short-term borrowings	72,500	36,000
Long-term FHLB borrowing maturing in less than one year [1]	27,500	52,500
Federal Funds Purchased	63,900	25,000
Total short-term borrowings	$176,051	$125,660

[1] FHLB borrowing maturing in less than one year are transferred from long-term debt to short-term debt on the Balance Sheet.

Funds are borrowed on an overnight basis through retail repurchase agreements with bank customers and federal funds purchased from other financial institutions. Retail repurchase agreement borrowings are collateralized by securities of the U.S. Treasury and U.S. Government agencies and corporations.

13. LONG-TERM DEBT

Other Long-term Debt is summarized as follows:

	For the Period Ended	
	March 31, 2013	December 31, 2012
	(in thousands)	
Long-Term Debt:		
FHLB Fixed Rate Credit Advance with interest at 0.41%, maturing March 12, 2015	$10,000	$—
Long-term debt	$10,000	$—

14. CERTAIN TRANSFERS OF FINANCIAL ASSETS

The Company has transferred certain residential mortgage loans, SBA loans, and indirect loans in which the Company has continuing involvement to third parties. The Company has not engaged in securitization activities with respect to such loans. All such transfers have been accounted for as sales by the Company. The Company's continuing involvement in such transfers has been limited to certain servicing responsibilities. The Company is not required to provide additional financial support to any of these entities, nor has the Company provided any support it was not obligated to provide. Servicing rights may give rise to servicing assets, which are initially recognized at fair value, subsequently amortized, and tested for impairment. Gains or losses upon sale, in addition to servicing fees and collateral management fees, are recorded in noninterest income.

The majority of the indirect automobile loan pools and certain SBA and residential mortgage loans are sold with servicing retained. When the contractually specific servicing fees on loans sold servicing retained are expected to be more than adequate compensation to a servicer for performing the servicing, a capitalized servicing asset is recognized based on fair value. 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 based on fair value. The Company has no servicing liabilities. 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, prepayment speeds, the projected lives of loans and pools of loans sold servicing retained, and discount factors used in calculating the present values of servicing fees projected to be received.

27

Table of Contents

At March 31, 2013 and December 31, 2012, the total fair value of servicing for mortgage loans was $29.5 million and $23.2 million, respectively. The fair value of servicing for SBA loans at March 31, 2013 and December 31, 2012, was $7.2 million and $7.2 million, respectively. To estimate the fair values of these servicing assets, consideration was given to dealer indications of market value, where applicable, as well as the results of discounted cash flow models using key assumptions and inputs for prepayment rates, credit losses, and discount rates. Carrying value of these servicing assets is shown below:

	March 31, 2013	December 31, 2012
	(in thousands)	
Mortgage servicing	$29,163	$23,085
SBA servicing	6,233	6,192
Indirect servicing	1,133	967
Total carrying value of servicing assets	$36,529	$30,244

There are two primary classes of loan servicing rights for which the Company separately manages the economic risks: residential mortgage and SBA. Residential mortgage servicing rights and SBA loan servicing rights are initially recorded at fair value and then accounted for at the lower of cost or market and amortized in proportion to, and over the estimated period that net servicing income is expected to be received based on projections of the amount and timing of estimated future net cash flows. The amount and timing of estimated future net cash flows are updated based on actual results and updated projections. The Company periodically evaluates its loan servicing rights for impairment.

Residential Mortgage Loans

The Company typically sells first lien residential mortgage loans to third party investors including Fannie Mae. Certain of these loans are exchanged for cash and servicing rights, which generate servicing assets for the Company. The servicing assets are recorded initially at fair value. As seller, the Company has made certain standard representations and warranties with respect to the originally transferred loans. The Company estimates its reserves under such arrangements predominantly based on prior experience. To date, the Company's estimate of reserve, actual buy-backs as well as asserted claims under these provisions have been de minimis.

During the three months ended March 31, 2013 and 2012, the Company sold residential mortgage loans with unpaid principal balances of $536.8 million and $297.0 million, respectively on which the Company retained the related mortgage servicing rights (MSRs) and receives servicing fees. At March 31, 2013 and December 31, 2012, the approximate weighted average servicing fee was 0.25% of the outstanding balance of the residential mortgage loans. The weighted average coupon interest rate on the portfolio of mortgage loans serviced for others was 3.89% and 3.99% at March 31, 2013 and December 31, 2012, respectively.

The following is an analysis of the activity in the Company's residential MSR and impairment for the quarters ended March 31, 2013 and 2012:

	Three Months Ended March 31,	
	2012	2012
	(in thousands)	
Residential Mortgage Servicing Rights		
Beginning carrying value	$23,085	$11,456
Additions	6,176	3,251
Amortization	(1,705)	(797)
Impairment, net	1,607	1,107
Ending carrying value	$29,163	$15,017

	Three Months Ended March 31,	
	2012	2012
	(in thousands)	
Residential Mortgage Servicing Impairment		

Beginning balance	$5,070	$2,785
Additions	—	—
Recoveries	(1,607)	(1,107)
Ending balance	$3,463	$1,678

Table of Contents

The Company uses assumptions and estimates in determining the impairment of capitalized MSRs. These assumptions include prepayment speeds and discount rates commensurate with the risks involved and comparable to assumptions used by market participants to value and bid MSRs available for sale in the market. At March 31, 2013, the sensitivity of the current fair value of the residential mortgage servicing rights to immediate 10% and 20% adverse changes in key economic assumptions are included in the accompanying table.

	March 31, 2013 ($ in thousands)		December 31, 2012	
Residential Mortgage Servicing Rights				
Fair Value of Residential Mortgage Servicing Rights	$29,471		$23,153	
Composition of Residential Loans Serviced for Others:				
Fixed-rate mortgage loans	99	%	99	%
Adjustable-rate mortgage loans	1	%	1	%
Total	100	%	100	%
Weighted Average Remaining Term	26.0 years		25.7 years	
Prepayment Speed	13.01	%	15.75	%
Effect on fair value of a 10% increase	$(1,299)		$(1,131)	
Effect on fair value of a 20% increase	(2,498)		(2,155)	
Weighted Average Discount Rate	8.82	%	8.56	%
Effect on fair value of a 10% increase	$(908)		$(1,177)	
Effect on fair value of a 20% increase	(1,765)		(1,745)	

The sensitivity calculations above are hypothetical and should not be considered to be predictive of future performance. As indicated, changes in value based on adverse changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in value may not be linear. Also, in this table, the effect of an adverse variation in a particular assumption on the value of the MSRs is calculated without changing any other assumption; while in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which may magnify or counteract the effect of the change.

Information about the asset quality of mortgage loans managed by the Company is following table:

	March 31, 2013			
	Unpaid Principal (in thousands)	Delinquent (days) 30 to 89	90+	YTD Charge-offs
Loan Servicing Portfolio	$2,998,915	$4,518	$2,279	$—
Mortgage Loans Held-for-Sale	281,839	—	—	—
Mortgage Loans Held-for-Investment	38,854	329	397	368
Total Residential Mortgages Serviced	$3,319,608	$4,847	$2,676	$368

SBA Loans

Certain transfers of SBA loans were executed with third parties. These SBA loans, which are typically partially guaranteed or otherwise credit enhanced, are generally secured by business property such as inventory, equipment and accounts receivable. As seller, the Company had made certain representations and warranties with respect to the originally transferred loans and the Company has not incurred any material losses with respect to such representations and warranties.

During the three months ended March 31, 2013 and 2012, the Company sold SBA loans with unpaid principal balances of $10.2 million and $14.2 million, respectively. The Company retained the related loan servicing rights and receives servicing fees. At March 31, 2013 and December 31, 2012, the approximate weighted average servicing fee as a percentage of the outstanding balance of the SBA loans was 0.86%. The weighted average coupon interest rate on the portfolio of loans serviced for others was 4.96% at March 31, 2013 and December 31, 2012.

29

Table of Contents

The following is an analysis of the activity in the Company's SBA loan servicing rights and impairment for the quarters ended March 31, 2013 and 2012:

	Three Months Ended March 31,	
	2013	2012
	(in thousands)	
SBA Loan Servicing Rights		
Beginning carrying value	$6,192	$5,736
Additions	489	222
Amortization	(245)	(131)
(Impairment)/recoveries, net	(203)	(190)
Ending carrying value	$6,233	$5,637

	Three Months Ended March 31,	
	2013	2012
	(in thousands)	
SBA Servicing Rights Impairment		
Beginning balance	$339	$213
Additions	416	214
Recoveries	(213)	(24)
Ending balance	$542	$403

SBA loan servicing rights are recorded on the Consolidated Balance Sheet at the lower of cost or market and are amortized in proportion to, and over the estimated period that, net servicing income is expected to be received based on projections of the amount and timing of estimated future net cash flows. The amount and timing of estimated future net cash flows are updated based on actual results and updated projections. The Company periodically evaluates its loan servicing rights for impairment.

The Company uses assumptions and estimates in determining the impairment of capitalized SBA loan servicing rights. These assumptions include prepayment speeds and discount rates commensurate with the risks involved and comparable to assumptions used by market participants to value and bid servicing rights available for sale in the market. At March 31, 2013, the sensitivity of the current fair value of the SBA loan servicing rights to immediate 10% and 20% adverse changes in key economic assumptions are included in the accompanying table.

	March 31, 2013		December 31, 2012	
	($ in thousands)			
SBA Loan Servicing Rights				
Fair Value of SBA Servicing Rights	$7,161		$7,244	
Composition of SBA Loans Serviced for Others:				
Fixed-rate SBA loans	—	%	—	%
Adjustable-rate SBA loans	100	%	100	%
Total	100	%	100	%
Weighted Average Remaining Term	20.1 years		20.8 years	
Prepayment Speed	7.34	%	3.80	%
Effect on fair value of a 10% increase	$(171)		$(191)	
Effect on fair value of a 20% increase	(335)		(374)	
Weighted Average Discount Rate	4.95	%	4.92	%
Effect on fair value of a 10% increase	$(253)		$(180)	
Effect on fair value of a 20% increase	(495)		(266)	

The sensitivity calculations above are hypothetical and should not be considered to be predictive of future performance. As indicated, changes in value based on adverse changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in value may not be linear. Also in this table, the effect of an adverse variation in a particular assumption on the value of the SBA servicing rights is

calculated without changing any other assumption; while in reality, changes in one factor may magnify or counteract the effect of the change.

Table of Contents

Information about the asset quality of SBA loans managed by Fidelity is shown below.

	March 31, 2013			
	Unpaid Principal	Delinquent (days) 30 to 89	90+	YTD Charge-offs
	($ in thousands)			
SBA Serviced for Others Portfolio	$213,034	$872	$308	$—
SBA Loans Held-for-Sale	14,102	—	—	—
SBA Loans Held-for-Investment	126,467	3,538	14,571	126
Total SBA Loans Serviced	$353,603	$4,410	$14,879	$126

Indirect Loans

The Bank purchases, 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 Southeast. A portion of the indirect automobile loans the Bank originates is sold with servicing retained. Certain of these loans are exchanged for cash and servicing rights, which generate servicing assets for the Company. The servicing assets are recorded initially at fair value and subsequently amortized and evaluated for impairment. As seller, the Company has made certain standard representations and warranties with respect to the originally transferred loans. The estimate of reserve related to this liability, amount of loans repurchased as well as asserted claims under these provisions have been de minimis.

15. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2011, FASB issued ASU No. 2011-11 "Disclosures about Offsetting Assets and Liabilities" for companies with financial instruments and derivative instruments that offset or are subject to a master netting agreement. The amendments require disclosure of both gross information and net information about instruments and transactions eligible for offset or subject to an agreement similar to a master netting agreement. The amendments were effective for reporting periods beginning on or after January 1, 2013 and required retrospective presentation for all comparative periods presented. Additionally, in January 2013, the FASB issued ASU 2013-01 "Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities" which clarified that the amendments apply only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in U.S. GAAP or subject to a master netting arrangement or similar agreement. The required disclosure for this ASU can be found in footnote "6. FAIR VALUE ELECTION AND MEASUREMENT" of this report of Form 10-Q. The adoption of this ASU did not have a material impact on the Company’s Consolidated Financial Statements.

In July 2012, FASB issued ASU No. 2012-02 “Testing Indefinite-Lived Intangible Assets for Impairment” which permit an entity to consider qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible assets are impaired, then the entity is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. The amendments are effective for annual and interim impairment test performed for fiscal years beginning after September 15, 2012. The adoption of this ASU did not have a material impact on the Company’s Consolidated Financial Statements.

In October 2012, FASB issued ASU No. 2012-06 "Business Combinations: Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution" addresses the subsequent accounting for an indemnification asset resulting from a government-assisted acquisition of a financial institution. The guidance indicates that when a reporting entity records an indemnification asset as a result of a government-assisted acquisition of a financial institution involving an indemnification agreement, the indemnification asset should be subsequently measured on the same basis as the asset subject to indemnification. Any amortization of changes in value should be limited to any contractual limitations on the amount and the term of the indemnification agreement. The amendments should be applied prospectively to any new indemnification assets acquired and to changes in expected cash flows of existing indemnification assets occurring on or after the date of adoption. Prior periods would not be adjusted. These changes will be effective for 2013, however early adoption will be permitted. The adoption of this ASU did not have a material impact on the

Company’s Consolidated Financial Statements.

In February 2013, FASB issued ASU No. 2013-02 "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The amendments address reporting of amounts reclassified out of accumulated other comprehensive income. Specifically, the amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments do require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, in certain circumstances an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts

Table of Contents

reclassified out of accumulated other comprehensive income by the respective line items of net income. The amendments will be effective for the Company on a prospective basis for reporting periods beginning after December 15, 2012. Early adoption is permitted. The required disclosure for this ASU can be found in footnote "8. INVESTMENTS" of this report of Form 10-Q. The adoption of this ASU did not have a material impact on the Company’s Consolidated Financial Statements.

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

16. SUBSEQUENT EVENTS

The Board of Directors has approved the distribution on April 18, 2013, of the regular quarterly dividend to be paid in shares of common stock. The Corporation distributed one new share for every 120 shares held on the record date of May 1, 2013. Basic and diluted earnings per share for prior years have been retroactively adjusted to reflect this stock dividend.

Table of Contents

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

The following analysis reviews important factors affecting our financial condition at March 31, 2013, compared to December 31, 2012, and compares the results of operations for the three months ended March 31, 2013 and 2012. These comments should be read in conjunction with our consolidated financial statements and accompanying notes appearing in this report and the "Risk Factors" set forth in our Annual Report on Form 10-K for the year ended December 31, 2012. All percentage and dollar variances noted in the following analysis are calculated from the balances presented in the accompanying consolidated financial statements.

Forward-Looking Statements

This report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that reflect our current expectations relating to present or future trends or factors generally affecting the banking industry and specifically affecting our operations, markets and services. 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, and 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 adverse economic conditions, including risk of continued stagnation in real estate values in the Atlanta, Georgia, metropolitan area and in eastern and northern Florida markets, conditions in the financial markets and economic conditions generally and the impact of efforts to address difficult market and economic conditions; a stagnant economy and its impact on operations and credit quality, the impact of a recession on our loan portfolio, changes in the interest rate environment and the impact on our net interest margin, and inflation; (3) 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; (4) the ability to maintain adequate liquidity and sources of liquidity; (5) our ability to maintain sufficient capital and to raise additional capital; (6) the accuracy and completeness of information from customers and our counterparties; (7) the effectiveness of our controls and procedures; (8) our ability to attract and retain skilled people; (9) greater competitive pressures among financial institutions in our market; (10) 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; (11) the volatility and limited trading of our common stock; (12) the impact of dilution on our common stock; (13) risks related to FDIC-assisted transactions; compliance with certain requirements under our FDIC loss share agreements; changes in national and local economic conditions resulting in higher charge-offs not covered by the FDIC loss share agreement; and (14) risks associated with technological changes and the possibility of cyber-fraud.

This list is intended to identify some of the principal factors that could cause actual results to differ materially from those described in the forward-looking statements included herein and are not intended to represent a complete list of all risks and uncertainties in our business. Investors are encouraged to read the related section in our 2012 Annual Report on Form 10-K, including the "Risk Factors" set forth therein. Additional information and other factors that could affect future financial results are included in our filings with the Securities and Exchange Commission.

Important Factors Impacting Comparability of Results

We have accounted for our acquisition of Securities Exchange Bank ("Security Exchange") using the acquisition method of accounting as of the acquisition date. Under these accounting rules, the results of our operations for the three months ended March 31, 2013 include the results of Security Exchange, but the results of operations for the three months ended March 31, 2012 do not include the results of Security Exchange. Our balance sheets as of March 31, 2013 and December 31, 2012, include the assets, liabilities and equity of Security Exchange. Footnotes and tables presented as of March 31, 2012 do not include the assets, liabilities and equity of Security Exchange.

Table of Contents

Selected Financial Data

($ in thousands, except per share data)	For the Three Months Ended March 31, 2013	2012
RESULTS OF OPERATIONS		
Net Interest Income	$21,075	$19,655
Provision for Loan Losses	3,476	3,750
Non-Interest Income	25,047	17,655
Non-Interest Expense	32,524	25,350
Income Tax Expense	3,631	2,894
Net Income	6,491	5,316
Preferred Stock Dividends	(823)	(823)
Net Income Available to Common Shareholders	5,668	4,493
PERFORMANCE		
Earnings Per Share – Basic[1]	$0.38	$0.31
Earnings Per Share – Diluted[1]	$0.33	$0.28
Return on Average Assets	1.07 %	0.96 %
Return on Average Equity	13.53 %	12.67 %
NET INTEREST MARGIN		
Interest Earning Assets	4.55 %	4.96 %
Cost of Funds	0.84 %	1.06 %
Net Interest Spread	3.71 %	3.90 %
Net Interest Margin	3.77 %	3.86 %
CAPITAL		
Tier 1 Risk-Based Capital	12.22 %	11.91 %
Total Risk-Based Capital	13.48 %	13.66 %
Leverage Ratio	10.51 %	10.04 %
AVERAGE BALANCE SHEET		
Loans, Net of Unearned	$2,096,551	$1,785,382
Investment Securities	161,861	240,342
Earning Assets	2,281,648	2,063,475
Total Assets	2,469,538	2,215,944
Deposits	1,663,394	1,577,682
Borrowings	222,028	168,639
Shareholders' Equity	194,559	168,751
STOCK PERFORMANCE		
Market Price		
Closing [1]	$11.50	$6.39
High Close [1]	$11.81	$6.50
Low Close [1]	$9.56	$5.51
Daily Average Trading Volume	23,583	8,645
Book Value Per Common Share	$10.14	$8.56
Price to Book Value	1.13	0.75
Tangible Book Value Per Common Share [1]	$9.97	$8.41
Price to Tangible Book Value	1.15	0.76
ASSET QUALITY [2]		
Total Non-Performing Loans	$81,740	$77,010
Total Non-Performing Assets	$121,666	$103,705
Loans 90 Days Past Due and Still Accruing	$141	$290

Non-Performing Loans as a % of Loans	4.50	%	4.64	%
Non-Performing Assets as a % of Loans and ORE	6.55	%	6.16	%
ALL to Non-Performing Loans	41.49	%	38.02	%
Net Charge-Offs During the Period to Average Loans	0.17	%	0.14	%
ALL as a % of Loans, at End of Period	1.86	%	1.76	%
OTHER INFORMATION				
Non-Interest Income to Revenues	54.31	%	47.32	%
End-of-Period shares outstanding	14,971,580		14,629,133	
Weighted Average Shares Outstanding - Basic [1]	14,951,008		14,527,631	
Weighted Average Shares Outstanding - Diluted [1]	16,944,361		16,002,923	
Full-time Equivalent Employees	806.0		656.5	

[1] Adjusted for stock dividend and retroactive application on shares outstanding

[2] Including FDIC covered assets

Table of Contents

Overview

Fidelity Southern Corporation ("FSC" or "Fidelity") is a bank holding company headquartered in Atlanta, Georgia. We conduct operations primarily though 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 ("LIC") is a wholly-owned subsidiary of FSC and is an insurance agency offering consumer credit related insurance products. FSC also owns five 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.

The Bank provides an array of financial products and services for business and retail customers primarily through 31 branches in Fulton, Dekalb, Cobb, Clayton, Forsyth, Gwinnett, Rockdale, Coweta, Henry, Greene, and Barrow Counties in Georgia, a branch in Jacksonville, Duval County, Florida, and online at www.LionBank.com. The Bank's customers are primarily individuals and small and medium sized businesses located in Georgia. Mortgage and construction loans are also provided through a branch in Jacksonville, Florida. Mortgage loans, automobile loans, and Small Business Administration ("SBA") loans are provided through employees located in eleven Southern states.

The Bank is primarily engaged in attracting deposits from individuals and businesses and using these deposits and borrowed funds to originate commercial and industrial loans, commercial loans secured by real estate, SBA loans, construction and residential real estate loans, direct and indirect automobile loans, residential mortgage and home equity loans, and secured and unsecured installment loans. The Bank offers business and personal credit card loans through a third party agency relationship. Internet banking, including on-line bill pay, and Internet cash management services are available to individuals and businesses, respectively. Additionally, the Bank offers businesses remote deposit services, which allow participating companies to scan and electronically send deposits to the Bank for improved security and funds availability. The Bank also provides international trade services. Trust services and merchant services activities are provided through agreements with third parties. Investment services are provided through an agreement with an independent broker-dealer.

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. We do not purchase loan participations from any other financial institution. We have participated in FDIC-assisted transactions and will continue to review opportunities to participate in such transactions in the future.

Our profitability, as with most financial institutions, is dependent upon net interest income, which is the difference between interest received on interest-earning assets, such as loans and securities, and the interest paid on interest-bearing liabilities, principally deposits and borrowings. During a period of economic slowdown the lack of interest income from nonperforming assets and an additional provision for loan losses can greatly reduce our profitability. Results of operations are also affected by noninterest income, such as service charges on deposit accounts and fees on other services, income from indirect automobile and SBA lending activities, mortgage banking, brokerage activities, and bank owned life insurance; as well as noninterest expenses such as salaries and employee benefits, occupancy, furniture and equipment, professional and other services, and other expenses, including income taxes.

Non-GAAP Measures

This quarterly Report on Form 10-Q contains financial information determined by methods other than in accordance with GAAP. We use these non-GAAP measures in our analysis of the Company's performance. Some of these non-GAAP measures exclude core deposit premiums from the calculations of return on average assets and return on average equity. We believe presentations of financial measures excluding the impact of core deposit premiums provide useful supplemental information that is essential to a proper understanding of the operating results of our core businesses. In addition, certain designated net interest income amounts are presented on a taxable equivalent basis. We believe that the presentation of net interest income on a taxable equivalent basis aids in the comparability of net interest income arising from taxable and tax-exempt sources. Further, we use other non-GAAP measures that exclude preferred stock and common stock warrants to report equity available to holders of our common stock. We believe that measures that exclude these items provide useful supplemental information that enhances an understanding of the

equity that is available to holders of the Company's stock.

These disclosures should not be viewed as a substitute for results determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies.

These non-GAAP financial measures are “common shareholders' equity,” “tangible common shareholders' equity,” “tangible equity,” “tangible assets” and “tangible book value.” The Company's management, the entire financial services sector, bank stock analysts, and bank regulators use these non-GAAP measures in their analysis of our performance.

“Common shareholders' equity” is shareholders' equity reduced by preferred stock.

“Tangible common shareholders' equity” is shareholders' equity reduced by preferred stock and other intangible assets.

“Tangible shareholders' equity” is shareholders' equity reduced by recorded other intangible assets and preferred stock.

“Tangible assets” are total assets reduced by recorded other intangible assets.

Table of Contents

"Tangible book value" is defined as total equity reduced by recorded other intangible assets and preferred stock divided by total common shares outstanding. This measure discloses changes from period-to-period in book value per share exclusive of changes in intangible assets and preferred stock.

The following table provides a more detailed analysis of these non-GAAP measures:

($ in thousands, except per share data)	March 31, 2013	December 31, 2012	March 31, 2012
Total shareholders' equity	$199,301	$192,888	$171,922
Less:			
Preferred stock	47,564	47,344	46,682
Common shareholders' equity	$151,737	$145,544	$116,330
Total shareholders' equity	$199,301	$192,888	$171,922
Less:			
Core deposit intangible	1,206	1,246	951
Preferred stock	47,564	47,344	46,682
Tangible common shareholders' equity	$150,531	$144,298	$124,289
Total shareholders' equity	$199,301	$192,888	$171,922
Less:			
Core deposit intangible	1,206	1,246	951
Tangible shareholders' equity	$198,095	$191,642	$170,971
Total assets	$2,532,249	$2,477,291	$2,215,226
Less:			
Core deposit intangible	1,206	1,246	951
Tangible assets	$2,531,043	$2,476,045	$2,214,275
Book value per common share	$10.14	$9.77	$8.56
Effect of intangible assets	(0.17)	(0.17)	(0.15)
Tangible book value per common share	$9.97	$9.60	$8.41

Results of Operations

Net Income

For the three months ended March 31, 2013, the Company recorded net income of $6.5 million compared to net income of $5.3 million for the same period of 2012. Net income available to common equity was $5.7 million and $4.5 million for the three months ended March 31, 2013 and 2012, respectively. Basic and diluted earnings per share for the first quarter of 2013 were $0.38 and $0.33, respectively, compared to $0.31 and $0.28, respectively, for the three months ended March 31, 2012. The increase in net income for the three months ended March 31, 2013, compared to the same period in 2012, primarily the result of a $1.4 million increase in net interest income and a $5.7 million increase in mortgage banking income offset primarily by increased salary and benefit expense of $5.8 million.

Net Interest Income

Net interest income for the three months ended March 31, 2013, increased $1.4 million, or 7.2%, to $21.1 million compared to the same period in 2012. Net interest margin decreased 9 basis points to 3.77% in the first quarter of 2013, compared to 3.86% in the same period in 2012 from the combination of a decrease in the cost of interest-bearing liabilities and an increase in the average balance of interest-earning assets. Excluding the accretion of the purchased loan discount of $1.4 million and $716,000, the net interest margin would have decreased to 3.52% in the first quarter of 2013 and 3.72% for the first quarter of 2012, respectively.

The cost of funds on total interest-bearing liabilities decreased 22 basis points to 0.84% for the first quarter of 2013 compared to the same period in 2012 as a result of a continued reduction in deposit interest rates in response to the market and our local competition. The 22 basis point decrease in cost of funds contributed $1.0 million of the $1.4 million increase in net interest income, although it was slightly offset by a $288,000 increase in interest expense related to the $139.1 million, or 7.97%, increase in average interest-bearing liabilities.

The average balance of interest-earning assets increased by $218.2 million, or 10.6%, to $2.282 billion for the first three months of 2013, when compared to the same period in 2012. The increase contributed $2.4 million of interest

income, which was mostly offset by a decrease in the yield on interest-earning assets. The yield on interest-earning assets for the three month period ended March 31, 2013 was 4.55%, a decrease of 41 basis points when compared to the yield on interest-earning assets for the same period in 2012. For the three month periods this decrease equated to a $2.3 million decrease in interest income. For the first three months of 2013, the average balance of loans outstanding increased $311.2 million, or 17.4%, to $2.097 billion, when compared to

Table of Contents

the same period in 2012. The increase in the loan portfolio was primarily the result of the growth in the mortgage and indirect lending portfolios due to increased market penetration which contributed approximately $144.4 million and $80.7 million, respectively, in average loan balances, and the FDIC-assisted acquisitions of Security Exchange which contributed approximately $33.8 million in average loan balances to the first three months of 2013. The yield on average loans outstanding for the three months ended March 31, 2013 decreased 49 basis points to 4.64% when compared to the same period in 2012 as strong competition for high-quality loans continue to pervade our market. Average Investment securities decreased $78.5 million, or 32.7%, and yielded 2.82%.

The Bank manages its net interest spread and net interest margin based primarily on its loan and deposit pricing. As part of management's concerted effort to reduce the cost of funds on deposits, there was a shift in the mix of deposits from higher cost certificate of deposits to lower cost savings and money market accounts and noninterest-bearing demand deposits. Noninterest-bearing demand deposits increased by $90.2 million, or 32.4%, which compared to the same three month period in 2012, a much faster increase than the 5.4% increase in interest-bearing deposits.

	THREE MONTHS ENDED							
	March 31, 2013				March 31, 2012			
($ in thousands)	Average Balance	Income/ Expense	Yield/ Rate		Average Balance	Income/ Expense	Yield/ Rate	
Assets								
Interest-earning assets:								
Loans, net of unearned income:								
Taxable	$2,090,711	$23,902	4.64	%	$1,780,480	$22,705	5.13	%
Tax-exempt [1]	5,840	65	4.52	%	4,902	50	4.15	%
Total loans	2,096,551	23,967	4.64	%	1,785,382	22,755	5.13	%
Investment securities:								
Taxable	143,965	849	2.39	%	220,553	1,305	2.38	%
Tax-exempt [2]	17,896	276	6.26	%	19,789	310	6.39	%
Total investment securities	161,861	1,125	2.82	%	240,342	1,615	2.70	%
Interest-bearing deposits	22,353	3	0.06	%	36,741	18	0.20	%
Federal funds sold	883	—	0.06	%	1,010	—	0.05	%
Total interest-earning assets	2,281,648	25,095	4.55	%	2,063,475	24,388	4.96	%
Noninterest-earning:								
Cash and due from banks	13,962				14,485			
Allowance for loan losses	(33,662)				(28,037)			
Premises and equipment, net	37,886				29,464			
Other real estate	38,783				29,357			
Other assets	130,921				107,200			
Total assets	$2,469,538				$2,215,944			
Liabilities and shareholders' equity								
Interest-bearing liabilities:								
Demand deposits	$620,425	$418	0.27	%	$536,982	$397	0.30	%
Savings deposits	330,364	377	0.46	%	377,187	292	0.31	%
Time deposits	712,605	1,832	1.04	%	663,513	2,318	1.41	%
Total interest-bearing deposits	1,663,394	2,627	0.64	%	1,577,682	3,007	0.77	%
Federal funds purchased	57,111	106	0.76	%	473	1	0.86	%
Securities sold under agreements to repurchase	11,496	5	0.16	%	16,057	9	0.22	%
Other short-term borrowings	83,672	293	1.42	%	37,577	164	1.75	%
Subordinated debt	67,527	867	5.21	%	67,527	1,139	6.79	%
Long-term debt	2,222	2	0.41	%	47,005	287	2.46	%

Total interest-bearing liabilities	1,885,422	3,900	0.84	%	1,746,321	4,607	1.06	%
Noninterest-bearing:								
Demand deposits	368,483				278,310			
Other liabilities	21,074				22,562			
Shareholders' equity	194,559				168,751			
Total liabilities and shareholders' equity	$2,469,538				$2,215,944			
Net interest income/spread		$21,195	3.71	%		$19,781	3.90	%
Net interest margin			3.77	%			3.86	%

(1) Interest income includes the effect of taxable equivalent adjustment for 2013 and 2012 of $22,800 and $17,700, respectively.

(2) Interest income includes the effect of taxable-equivalent adjustment for 2013 and 2012 of $96,600 and $108,300, respectively.

Table of Contents

Provision 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, require consideration in estimating loan losses. Loans are charged off or charged down when, in the opinion of management, such loans are deemed to be uncollectable or not fully collectible. Subsequent 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 allocated based on the probable losses of individual impaired loans and the effect of economic conditions on both individual loans and loan categories. Since the allocation 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 homogeneous pools is allocated to loan types based on historical net charge-off rates adjusted for any current trends or other factors. The specific allowance for individually reviewed nonperforming loans and loans having greater than normal risk characteristics is based on a specific loan impairment analysis which in many cases relies predominantly on the adequacy of loan collateral.

In determining the appropriate level for the allowance, management ensures that the overall allowance appropriately reflects a margin for the imprecision inherent in most estimates of the range of probable credit losses. This additional amount, if any, is reflected in the overall allowance. Management believes the allowance for loan losses is adequate to provide for losses inherent in the loan portfolio at March 31, 2013 (see "Asset Quality").

The provision for loan losses for the three month period ending March 31, 2013 was $3.5 million compared to $3.8 million for the same period in 2012. The year-to-date decrease was primarily a result of improving credit trends and a net decrease in required specific reserves as more charge-offs for classified construction borrowers were processed and the associated collateral was transferred to ORE following foreclosure than additional problem loans being added and that require a specific reserve.

At date of acquisition, no allowance for loan losses was recorded on the covered loans acquired under the loss share agreements with the FDIC because these loans were recorded at fair value. On an ongoing basis, the Company re-evaluates the cash flows expected to be collected on the covered loans based on updates of assumptions regarding default rates, loss severities, and other factors that are reflective of current market conditions and, based upon those evaluations, determines if additional provision expense is required for the covered loans. Fidelity has evaluated the recorded investment of the covered loans and has compared the original Day 1 estimated losses to current estimated losses and has determined that an allowance for loan losses of $2.3 million was necessary for these covered loans as of March 31, 2013. The following schedule summarizes changes in the allowance for loan losses for the periods indicated:

	Three Months Ended March 31,		Year Ended December 31,
($ in thousands)	2013	2012	2012
Balance at beginning of period	$33,982	$27,956	$27,956
Net charge-offs (recoveries):			
Commercial, financial and agricultural	2,416	18	1,090
SBA	56	(3)	455
Real estate-construction	118	1,367	2,798
Real estate-mortgage	393	84	632
Consumer installment	669	958	5,367
Total net charge-offs	3,652	2,424	10,342
Provision for Loan Losses - Non-Covered Loans	3,450	3,750	12,066
Impairment Provision - Covered Loans	26	—	1,354
Indemnification - Covered Loans	104	—	4,563
Write-offs to transfer to ORE	—	—	(1,615)

Balance at end of period	$33,910		$29,282		$33,982	
Annualized ratio of net charge-offs to average loans	0.86	%	0.59	%	0.60	%
Allowance for loan losses as a percentage of loans at end of period	1.86	%	1.76	%	1.92	%
Allowance for loan losses as a percentage of loans, excluding covered loans	1.95	%	1.84	%	2.01	%

Net charge-offs for the three months ended 2013 totaled $3.7 million, up from $2.4 million of net charge-offs recorded in the same period of 2012 primarily due to the default and charge-off of one commercial loan during the first quarter of 2013.

Table of Contents

Noninterest Income

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

	Three Months Ended March 31,		$	%
($ in thousands)	2013	2012	Change	Change
Service charges on deposit accounts	$949	$1,133	$(184)	(16.2)%
Other fees and charges	887	784	103	13.1
Mortgage banking activities	17,795	12,084	5,711	47.3
Indirect lending activities	1,646	1,163	483	41.5
SBA lending activities	1,084	853	231	27.1
Bank owned life insurance	313	322	(9)	(2.8)
Securities gains	—	303	(303)	(100.0)
Other noninterest income:				
Gain on the sale of ORE	1,549	250	1,299	519.6
Gain on acquisitions	—	206	(206)	(100.0)
Insurance Commissions	226	182	44	24.2
Rental income from ORE properties	296	106	190	179.2
Accretion of FDIC indemnification asset	138	171	(33)	(19.3)
Other operating income	164	98	66	67.3
Total noninterest income	$25,047	$17,655	$7,392	41.9%

Noninterest income for the three months ended March 31, 2013 was $25.0 million compared to $17.7 million for the same period in 2012, an increase of $7.4 million for the three month period. The increase is the result of an increase in mortgage banking activities of $5.7 million to $17.8 million for the quarter ended March 31, 2013 compared to the same period in 2012, an increase of 47.3%. The increase was driven by a 76.2% increase in the pipeline which exceeded $582.0 million at March 31, 2013; total funded loan volume of over $651.3 million, a 62.5% increase compared to the same quarter in 2012. Historically low interest rates and an increase in origination staff contributed to the increase in both the pipeline and funding volume. Although the Company cannot predict future mortgage refinancing demand, the Company intends to continue to strategically increase the number of mortgage loan originators and support staff. Mortgage servicing rights (MSR) values can be highly impacted by fluctuation in market interest rates and global financial market uncertainty. During periods of economic uncertainty this can result in projected declining interest rates. A significant enough decline can result in a temporary impairment of MSR value primarily as a result of increased underlying loan prepayments. As the markets stabilize and/or rates increase, the prepayment assumptions decrease resulting in increased servicing values which can result in an impairment recovery.

Noninterest Expense

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

	Three Months Ended March 31,		$	%
($ in thousands)	2013	2012	Change	Change
Salaries and employee benefits	$20,672	$14,849	$5,823	39.2%
Furniture and equipment	998	977	21	2.1
Net occupancy	1,409	1,210	199	16.4
Communication	760	619	141	22.8
Professional and other services	2,246	2,141	105	4.9
Cost of operation of other real estate	2,203	1,737	466	26.8
FDIC insurance premiums	526	471	55	11.7
Other noninterest expense:				
Employee expenses	491	461	30	6.5
Business Taxes	227	237	(10)	(4.2)
Lending expenses	955	673	282	41.9

ATM and check card expenses	209	164	45	27.4	
Advertising and promotions	394	232	162	69.8	
Stationary, printing and supplies	274	279	(5)	(1.8)	
Other insurance expense	230	280	(50)	(17.9)	
Other operating expense	930	1,020	(90)	(8.8)	
Total noninterest expense	$32,524	$25,350	$7,174	28.3	%

Table of Contents

Noninterest expense was $32.5 million for the three month period ended March 31, 2013, compared to $25.4 million for the same period in 2012, an increase of $7.2 million, or 28.3%. The increase was a result of higher salaries and employee benefits which increased $5.8 million, or 39.2%, due to higher commission expense related to the increased mortgage banking volume and increased personnel from the Security Exchange acquisition. Also contributing to the increase in noninterest expense was a $466,000 increase in ORE expense.

Details of ORE expense are presented below:

	Three Months Ended March 31,					
	2013			2012		
($ in thousands)	$	%		$	%	
Write-down of ORE	$1,263	57.3	%	$947	54.5	%
ORE real property taxes	93	4.2	%	208	12.0	%
Foreclosure expense	464	21.1	%	225	13.0	%
ORE misc. expense	383	17.4	%	357	20.5	%
Other real estate expense	$2,203	100.0	%	$1,737	100.0	%

Provision for Income Taxes

The provision for income taxes for the first quarter of 2013 was $3.6 million, compared to $2.9 million for the same period in 2012. The increased income tax expense for the three month period ending March 31, 2013 was primarily the result of an increase in income before income taxes.

Financial Condition

Total assets were $2.532 billion at March 31, 2013, compared to $2.477 billion at December 31, 2012, an increase of $55.0 million, or 2.2%. This increase was due to an $21.8 million increase in loans held-for-sale, $40.2 million in loans, and $6.3 million in servicing assets. These increases were offset by a decrease in cash and due from banks of $8.8 million, investment securities available-for-sale of $1.1 million, and FDIC indemnification asset of $3.5 million. Cash and cash equivalents decreased $8.8 million, or 17.9%, to $40.3 million at March 31, 2013, compared to December 31, 2012. This balance varies with the Bank’s liquidity needs and is influenced by scheduled loan closings, investment purchases, timing of customer deposits, and loan sales.

Loans increased $40.2 million, or 2.3%, to $1.817 billion at March 31, 2013, compared to $1.777 billion at December 31, 2012. The increase in loans was primarily the result of an increase in consumer loans of $24.3 million, or 2.56%, to $973.3 million, an increase in construction loans of $4.7 million, or 5.26%, to $94.7 million, and an increase in commercial loans of $8.0 million, or 1.56%, to $517.2 million. Consumer installment loans increased as the Bank grew its indirect automobile loan portfolio by expanding its lending area. Commercial and construction loans increased primarily due to improvements in market conditions and increased loan demand inside of our lending footprint. Loans held-for-sale increased $21.8 million, or 7.2%, to $325.9 million at March 31, 2013, compared to December 31, 2012. The increase was due primarily to an increase in mortgage loans held-for-sale as a result of continued low mortgage interest rates during the first three months of 2013 which increased loan volume and also due to the Company's increased mortgage loan originators in strategic locations. Total loan production and loans sold are detailed in the table below:

	Three Months Ended March 31,		Year Ended December 31,		
(in thousands)	2013	2012	2012	2011	2010
Loans Originated	$999,943	$689,992	$3,669,008	$2,492,439	$2,209,238
Loans Sold	$702,305	$391,028	$2,342,356	$1,446,025	$1,245,659

Indirect Automobile Lending

The Bank purchases, 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 Southeast. A portion of the indirect automobile loans the Bank originates is generally sold with servicing retained. At March 31, 2013, December 31, 2012, and March 31, 2012, we were servicing $340.8 million, $318.0 million, and $206.8 million, respectively, in loans we had sold, primarily to other financial institutions.

40

Table of Contents

The following schedule summarizes our indirect lending at March 31, 2013, December 31, 2012 and March 31, 2012:

($ in thousands)	Three Months Ended		
	March 31, 2013	December 31, 2012	March 31, 2012
Average loans outstanding	$953,722	$966,082	$902,778
Past due loans:			
$ amount of indirect loans past due	$1,159	$1,262	$1,302
# of indirect loans past due	162	197	200
Net principal charge-offs	$667	$989	$929
# of repossessed vehicles	151	181	174
Non-performing loans	$872	$982	$912
30+ day performing delinquency rate [1]	0.12 %	0.14 %	0.15 %
Net charge-off rate [2]	0.28 %	0.37 %	0.41 %
Average beacon score	742	747	754
Production by State:			
Alabama	$16,847	$14,322	$15,926
Arkansas	4,760	3,514	—
North Carolina	15,226	11,828	16,441
South Carolina	7,550	6,356	6,598
Florida	67,243	59,782	59,668
Georgia	42,218	34,484	37,548
Mississippi	20,148	16,990	21,042
Tennessee	14,858	8,674	18,736
Virginia	8,601	6,241	5,854
Total production by state	$197,451	$162,191	$181,813
Percent Outstanding by State:			
Alabama	9.22 %	9.29 %	9.25 %
Arkansas	0.81 %	0.52 %	0.01 %
North Carolina	8.31 %	8.41 %	8.97 %
South Carolina	2.99 %	2.94 %	2.48 %
Florida	33.41 %	33.40 %	32.21 %
Georgia	27.11 %	28.45 %	32.80 %
Mississippi	7.50 %	6.81 %	4.66 %
Tennessee	7.95 %	7.85 %	8.53 %
Virginia	2.70 %	2.33 %	1.09 %
Total percent outstanding by State	100.00 %	100.00 %	100.00 %
Loan sales	$58,073	$48,166	$20,160
Yield	3.88 %	4.06 %	4.61 %

(1) Calculated by dividing 30+ day performing delinquent loans as of the end of the period by period-end loans held for investment for the specified loan category.

(2) Calculated by dividing annualized net charge-offs for the period by average loans held for investment during the period for the specified loan category.

Real Estate Mortgage Lending

The Bank's residential mortgage loan business focuses on one-to-four family properties. We offer Federal Housing Authority (“FHA”), Veterans Administration (“VA”), and conventional and non-conforming residential mortgage loans. The Bank operates our retail residential mortgage banking business primarily in the Atlanta metropolitan area with offices throughout Georgia along with offices throughout Virginia and one office in Jacksonville, Florida. We also operate a wholesale lending division purchasing loans from qualified brokers and correspondents in the Southeast and

Mid-Atlantic regions. The Bank is an approved originator and servicer for the Federal Home Loan Mortgage Corporation (“FHLMC”) and the Federal National Mortgage Association (“FNMA”), and is an approved originator for loans insured by the Department of Housing and Urban Development (“HUD”). The Bank is an approved originator for the Government National Mortgage Association (“GNMA”) as of January 2013.

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 retained by the Bank, and seasonal factors. As seller, the Company makes certain standard representations and warranties with respect to the loans being transferred. To date, the Company's repurchases of mortgage loans previously sold have been de minimus.

Table of Contents

The following schedule summarizes our mortgage lending at March 31, 2013, December 31, 2012 and March 31, 2012:

($ in thousands)	Three Months Ended		
	March 31, 2013	December 31, 2012	March 31, 2012
Average loans outstanding [1]	$284,910	$257,740	$129,939
% of loan production for new mortgage	36.78 %	34.45 %	39.81 %
% of loan production for refinanced loans	63.22 %	65.55 %	60.19 %
Production by State:			
Georgia	$392,749	$498,542	$248,748
Colorado	—	—	10,840
Florida	15,862	16,895	9,404
Virginia	111,126	126,901	5,300
Total retail production	519,737	642,338	274,292
Wholesale	136,508	150,648	126,456
Total production by State	$656,245	$792,986	$400,748
Loan sales	$634,074	$701,018	$376,710
Yield	3.43 %	3.58 %	4.19 %

[1] Average loans outstanding includes $246.3 million, $221.9 million, and $96.1 million in loans held-for-sale for the three months ended March 31, 2013, December 31, 2012, and March 31, 2012, respectively.

Asset Quality

The following schedule summarizes our asset quality at March 31, 2013, December 31, 2012, and March 31, 2012:

($ in thousands)	March 31, 2013		December 31, 2012		March 31, 2012	
	Including Covered Assets	Excluding Covered Assets	Including Covered Assets	Excluding Covered Assets	Including Covered Assets	Excluding Covered Assets
Nonaccrual loans	$81,740	$52,220	$81,889	$57,713	$74,526	$62,582
Other real estate owned	38,951	24,048	39,756	22,159	25,729	18,841
Repossessions	975	975	1,354	1,354	966	966
Total nonperforming assets	$121,666	$77,243	$122,999	$81,226	$101,221	$82,389
Total classified assets [1]	$112,036	$105,082	$114,857	$108,860	$117,898	$110,586
SBA guaranteed loans included in classified assets	$16,668	$16,668	$12,085	$12,085	$8,040	$8,040
Loans past due 90 days, still accruing	$—	$—	$—	$—	$290	$290
Ratio of nonperforming assets to total loans, ORE, and repossessions	6.55 %	4.37 %	6.73 %	4.60 %	6.01 %	5.12 %
Ratio of allowance for loan losses to loans	1.86 %	1.95 %	1.92 %	2.01 %	1.76 %	1.84 %
Classified assets to Tier 1 capital +allowance for loan losses	41.98 %	39.38 %	44.17 %	41.87 %	50.34 %	47.22 %

[1] Classified covered assets are presented net of the 80% loss share agreement with the FDIC.

The $52.2 million in nonaccrual loans, excluding covered loans, at March 31, 2013, included $8.9 million in residential construction related loans, $17.4 million in commercial, $4.6 million on first and second mortgage, $19.8 million on SBA loans and $1.6 million in retail and consumer loans. Of the $8.9 million in residential construction related loans on nonaccrual, $8.8 million was related to single family developed lots.

The $24.0 million in other real estate, excluding covered other real estate, at March 31, 2013, was made up of 18 commercial properties with a balance of $10.7 million and the remainder were residential construction related

balances which consisted of $1.5 million in 7 residential single family homes completed or substantially completed, $8.2 million in 638 single family developed lots, $2.5 million in 6 parcels of undeveloped land, and $1.2 million in 11 parcels of covered ORE.

The Bank makes standard representations and warranties in the normal course of selling mortgage loans in the secondary market. We have not experienced any material repurchase requests as a result of these obligations related to the representations and warranties. The Bank does not securitize the mortgages it originates.

Table of Contents

Deposits

	March 31, 2013			December 31, 2012		
($ in millions)	$	%		$	%	
Core deposits [1]	$1,659.7	80.6	%	$1,664.4	80.5	%
Time deposits greater than $100,000	356.7	17.4	%	346.7	16.8	%
Brokered deposits	41.8	2.0	%	56.9	2.7	%
Total deposits	$2,058.2	100.0	%	$2,068.0	100.0	%

(1) Core deposits include noninterest-bearing demand, money market and interest-bearing demand, savings deposits, and time deposits less than $100,000.

Total deposits at March 31, 2013, were $2.058 billion compared to $2.068 billion at December 31, 2012. Time deposits greater than $100,000 increased $9.9 million, or 2.9%, to $356.7 million. Noninterest-bearing demand deposits increased $3.2 million, or 0.8%, to $385.0 million. Interest-bearing demand deposits and money market deposits decreased $6.0 million, or 1.0%, to $632.5 million. Noninterest-bearing demand accounts increased and interest-bearing deposits increased as management worked to move customers to cheaper deposit products to improve the net interest margin and lower the total cost of funds.

Liquidity and Capital Resources

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

Liquidity is defined as the ability to meet anticipated customer demands for funds under credit commitments and deposit withdrawals at a reasonable cost and on a timely basis. Management measures the liquidity position by giving consideration to both on-balance sheet and off-balance sheet sources of and demands for funds on a daily and weekly basis. In addition, due to FSC being a separate entity and apart from the Bank, it must provide for its own liquidity. FSC is responsible for the payment of dividends declared for its common and preferred shareholders, and interest and principal on any outstanding debt or trust preferred securities.

Sources of the Bank's liquidity include cash and cash equivalents, net of Federal requirements to maintain reserves against deposit liabilities; investment securities eligible for sale or pledging to secure borrowings from dealers and customers pursuant to securities sold under agreements to repurchase ("repurchase agreements"); loan repayments; loan sales; deposits and certain interest-sensitive deposits; brokered deposits; a collateralized line of credit at the Federal Reserve Bank of Atlanta ("FRB") Discount Window; a collateralized line of credit from the Federal Home Loan Bank of Atlanta ("FHLB"); and borrowings under unsecured overnight Federal funds lines available from correspondent banks. Substantially all of FSC's liquidity is obtained from capital raises, subsidiary service fees and dividends from the Bank, which is limited by applicable law. The principal demands for liquidity are new loans, anticipated fundings under credit commitments to customers and deposit withdrawals.

Management seeks to maintain a stable net liquidity position while optimizing operating results, as reflected in net interest income, the net yield on interest-earning assets and the cost of interest-bearing liabilities in particular. Our Asset Liability Management Committee ("ALCO") meets regularly to review the current and projected net liquidity positions and to review actions taken by management to achieve this liquidity objective. Managing the levels of total liquidity, short-term liquidity, and short-term liquidity sources continues to be an important exercise because of the coordination of the projected mortgage, SBA and indirect automobile loan production and sales, loans held-for-sale balances, and individual loans and pools of loans sold anticipated to increase from time to time during the year.

In addition to the ability to increase brokered deposits and retail deposits, as of March 31, 2013, we had the following sources of available unused liquidity:

	March 31, 2013 ($ in thousands)
Unpledged securities	$12,042
FHLB advances	53,931

FRB lines	256,693
Unsecured Federal funds lines	23,100
Additional FRB line based on eligible but unpledged collateral	534,103
Total sources of available unused liquidity	$879,869

Table of Contents

Our loans held for sale are considered highly liquid. The majority of commitments to purchase Mortgage loans held for sale will be funded within one month of the loan closing. Also, the majority of these loans are conforming residential mortgage loans sold to FNMA. Other loans held for sale include commitments for both SBA loans and Indirect Auto loans where a firm buyer has committed to purchase within a short time period.

Shareholders' Equity

Shareholders' equity was $199.3 million at March 31, 2013, and $192.9 million at December 31, 2012. The increase in shareholders' equity in the first three months of 2013 was primarily the result of net income offset by preferred dividends paid.

Capital Ratios

The Company is regulated by the Board of Governors of the Federal Reserve Board and is subject to the securities registration and public reporting regulations of the Securities and Exchange Commission. The Bank is regulated by the Federal Deposit Insurance Corporation and the Georgia Department of Banking and Finance. The Company is not aware of any recommendations of regulatory authorities or otherwise which, if they were to be implemented, would have a material effect on our liquidity, capital resources, or operations.

The Bank must comply with regulatory capital requirements established by the regulators. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action ("PCA"), we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. These capital standards require us to maintain minimum ratios of "Tier 1" capital to total risk-weighted assets and total capital to risk-weighted assets of 4.00% and 8.00%, respectively. Tier 1 capital is comprised of total shareholders' equity calculated in accordance with generally accepted accounting principles, excluding accumulated other comprehensive income (loss), less intangible assets, and total capital is comprised of Tier 1 capital plus certain adjustments, the largest of which is our allowance for loan losses. Risk-weighted assets refer to our on- and off-balance sheet exposures, adjusted for their related risk levels using formulas set forth in FDIC regulations.

In addition to the risk-based capital requirements described above, we are subject to a leverage capital requirement, which calls for a minimum ratio of Tier 1 capital to quarterly average total assets of 4.00%.

At March 31, 2013, the Bank's capital ratios exceeded the regulatory minimum ratios discussed above. The following table presents our capital ratios and the minimum regulatory requirements:

		Minimum Regulatory Requirement	
	Fidelity Bank	Adequately Capitalized	Well Capitalized
Total risk-based capital ratio	12.68%	8.00%	10.00%
Tier 1 risk-based capital ratio	10.95%	4.00%	6.00%
Leverage capital ratio	9.43%	4.00%	5.00%

The Company is not subject to the provisions of prompt corrective action. The Company had total risk-based capital ratio, tier 1 risk-based capital ratio, and leverage capital ratio of 13.48%, 12.22%, and 10.51%, respectively, at March 31, 2013.

Dividends

In January, 2013, the Company declared a stock dividend equal to one share for every 100 shares owned. In April, 2013, the Company declared a stock dividend equal to one share for every 120 shares owned. Basic and diluted earnings per share for prior years have been retroactively adjusted to reflect this stock dividend. Future dividends will require a quarterly review of current and projected earnings for the remainder of 2013 in relation to capital requirements prior to the determination of the dividend, and be subject to regulatory restrictions under applicable law.

Market Risk

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

Interest rate risk is the exposure of a banking organization’s 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.

Table of Contents

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

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

A form of interest rate sensitivity analysis referred to as equity at risk, is used to measure our interest rate risk by computing estimated changes in earnings and the net present value of our cash flows from assets, liabilities, and off-balance sheet items in the event of a range of assumed changes in market interest rates. Net present value represents the market value of portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. This analysis assesses the risk of loss in the market risk sensitive instruments in the event of a sudden and sustained 100, 200 and 300 basis point increase or decrease in market interest rates.

Our policy states that a negative change in net present value (equity at risk) as a result of an immediate and sustained 200 basis point increase or decrease in interest rates should not exceed a 20% change from the base equity position. It also states that a similar increase or decrease in interest rates should not negatively impact net interest income by more than 10% over the following two years period, subject to senior management's concurrence that such a change is possible.

The most recent rate shock analysis indicated that the effects of an immediate and sustained increase or decrease of 200 basis points in market rates of interest would fall within policy parameters and approved tolerances for equity at risk, net interest income, and net income.

Rate shock analysis provides only a limited, point in time view of interest rate sensitivity. The gap analysis also does not reflect factors such as the magnitude (versus the timing) of future interest rate changes and asset prepayments. The actual impact of interest rate changes upon earnings and net present value may differ from that implied by any static rate shock or gap measurement. 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 or gap analysis, 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.

Interest Rate Sensitivity

An element used to manage interest rate risk includes estimating the mix of fixed and variable rate assets and liabilities and the maturity and repricing patterns of these assets and liabilities. 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 analysis, we monitor and manage our interest sensitivity gap to minimize the negative effects of changing interest rates.

The interest rate sensitivity structure within our balance sheet at March 31, 2013, indicated a cumulative net interest sensitivity asset gap of 14.00% when projecting out six months. When projecting forward one year, there was a cumulative net interest sensitivity asset gap of 7.47%. This information represents a general indication of repricing characteristics over time; however, the sensitivity of certain deposit products may vary during extreme swings in the interest rate cycle. Since all interest rates and yields do not adjust at the same velocity, the interest rate sensitivity gap is only a general indicator of the potential effects of interest rate changes on net interest income. Our policy states that

the cumulative gap, measured as rate sensitive assets divided by rate sensitive liabilities, at one year should generally be within 75% and 125%. At March 31, 2013 our cumulative gap ratio was 108%.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See Item 2 “Market Risk” and “Interest Rate Sensitivity” for quantitative and qualitative discussion about our market risk.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There has been no change in the Company’s internal control over financial reporting during the three months ended March 31, 2013, that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Table of Contents

PART II – OTHER INFORMATION

Item 1. 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 March 31, 2013, 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 1A. Risk Factors

While the Company attempts to identify, manage, and mitigate risks and uncertainties associated with its business to the extent practical under the circumstances, some level of risk and uncertainty will always be present. Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012, describes some of the risks and uncertainties associated with our business. These risks and uncertainties have the potential to materially affect our cash flows, results of operations, and financial condition. We do not believe that there have been any material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

Item 2. Unregistered Sales of Equity Securities and Repurchases

Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits

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

3(a)	Amended and Restated Articles of Incorporation of Fidelity Southern Corporation, as amended effective December 16, 2008 (incorporated by reference from Exhibit 3(a) to Fidelity Southern Corporation’s Annual Report on Form 10-K for the year ended December 31, 2009)
3(b)	Articles of Amendment to the Articles of Incorporation of Fidelity Southern Corporation (incorporated by reference from Exhibit 3.1 to Fidelity Southern Corporation’s Form 8-K filed November 18, 2010)
3(c)	By-Laws of Fidelity Southern Corporation, as amended (incorporated by reference from Exhibit 3(b) to Fidelity Southern Corporation’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2007)
3(d)	By-Laws of Fidelity Southern Corporation, as amended (incorporated by reference from Exhibit 3.2 to Fidelity Southern Corporation’s Form 8-k filed November 18, 2010)
4(a)	See Exhibits 3(a) and 3(b) for provisions of the Amended and Restated Articles of Incorporation, as amended, and Bylaws, which define the rights of the shareholders.
4(b)	Tax Benefits Preservation Plan dated November 19, 2010 between Fidelity Southern Corporation and Mellon Investor Services LLC as Rights Agent (incorporated by reference from Exhibit 4.1 to Fidelity Southern Corporation’s Form 8-K filed November 18, 2010)
10.1	Incentive Compensation Plan for Stephen H. Brolly (incorporated by reference from Exhibit 10.1 to Fidelity Southern Corporation's Form 8-K filed January 22, 2013).
10.2	Incentive Compensation Plan for David Buchanan (incorporated by reference from Exhibit 10.2 to Fidelity Southern Corporation's Form 8-K filed January 22, 2013).
31.1	Certification of Principal Executive Officer pursuant to Securities Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Securities Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101 Financial Statements submitted in XBRL format

Table of Contents

SIGNATURES

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

FIDELITY SOUTHERN CORPORATION
(Registrant)

Date: May 9, 2013

BY: /S/ JAMES B. MILLER, JR.
James B. Miller, Jr.
Chief Executive Officer

Date: May 9, 2013

BY: /s/ STEPHEN H. BROLLY
Stephen H. Brolly
Chief Financial Officer