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

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2019

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 001-37875

FB FINANCIAL CORPORATION
(Exact name of Registrant as specified in its Charter)

Tennessee	**62-1216058**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
211 Commerce Street, Suite 300 Nashville, Tennessee	**37201**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (615) 564-1212

Securities registered pursuant to Section 12(b) of the Act: Common Stock, Par Value $1.00 Per Share; Common stock traded on the New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES ☐ NO ☒

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 ☒ NO ☐

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). YES ☒ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Small reporting company	☐
Emerging growth company	☒		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

As of June 28, 2019, the last business day of the Registrant's most recently completed second fiscal quarter, the aggregate market value of the Registrant's common stock held by non-affiliates of the registrant was $621.8 million, based on the closing sales price of $36.60 per share as reported on the New York Stock Exchange.

The number of shares of Registrant's Common Stock outstanding as of March 5, 2020 was 31,070,901.

Portions of the Registrant's Definitive Proxy Statement relating to the Annual Meeting of Shareholders, which will be filed within 120 days after December 31, 2019, are incorporated by reference into Part III of this Annual Report on Form 10-K.

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of exchange on which registered
Common Stock, Par Value $1.00 Per Share	FBK	New York Stock Exchange

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In this Annual Report on Form 10-K (this “Annual Report”), references to “we,” “our,” “us,” “FB Financial,” or “the Company” refer to FB Financial Corporation, a Tennessee corporation, and our wholly owned banking subsidiary, FirstBank, a Tennessee state chartered bank, unless otherwise indicated or the context otherwise requires. References to “Bank” or “FirstBank” refer to FirstBank, our wholly owned banking subsidiary.

Cautionary note regarding forward-looking statements

This Annual Report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbor for "forward-looking statements" provided by the Private Securities Litigation Reform Act of 1995. You can find many of these statements by looking for words such as "anticipates," "expects," "believes," "estimates," "intends" and "forecast" and words or phrases of similar meaning. We make forward-looking statements regarding our liquidity position; projected sources of funds; our securities portfolio; loan sales; adequacy of our allowance for loan and lease losses and reserve for unfunded commitments; impaired loans and future losses; litigation; dividends; fair values of certain assets and liabilities, including mortgage servicing rights values; tax rates; the effect of accounting pronouncements; and strategic initiatives and the timing, benefits, costs and synergies of future acquisition, disposition and other growth opportunities.

These forward-looking statements are not historical facts, and are based upon current expectations, estimates and/or projections about our industry, management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. The inclusion of these forward-looking statements should not be regarded as a representation by us or any other person that such expectations, estimates and/or projections will be achieved. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict and that are beyond our control. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date of this Annual Report, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements. There are or will be important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, including, but not limited to, the following:

- business and economic conditions nationally, regionally and in our target markets, particularly in Tennessee and the geographic areas in which we operate;
- the concentration of our loan portfolio in real estate loans and changes in the prices, values and sales volumes of commercial and residential real estate;
- the concentration of our business within our geographic areas of operation in Tennessee and neighboring markets;
- credit and lending risks associated with our commercial real estate, commercial and industrial, and construction portfolios;
- increased competition in the banking and mortgage banking industry, nationally, regionally and locally;
- our ability to execute our business strategy to achieve profitable growth;
- the dependence of our operating model on our ability to attract and retain experienced and talented bankers in each of our markets;
- risks that our cost of funding could increase, in the event we are unable to continue to attract stable, low-cost deposits and reduce our cost of deposits;
- our ability to increase our operating efficiency;
- failure to keep pace with technological change or difficulties when implementing new technologies;
- risks related to our recently completed and pending acquisitions and other strategic opportunities and initiaitves;
- the timing, anticipated benefits and financial impact of the proposed acquisition of Franklin Financial Network, Inc. ("Franklin");
- the anticipated timing of the closing of the proposed acquisition, acceptance by the customers of Franklin of the Company and Bank's products and services;
- negative impact on our mortgage banking services, including declines in our mortgage originations or profitability due to future rises in interest rates and increased competition and regulation, increased prepayments of mortgage loans serviced for others due to future declining interest rates, the Bank’s or third party’s failure to satisfy mortgage servicing obligations, and the possibility of the Bank being required to repurchase mortgage loans or indemnify buyers;
- failure to timely and accurately implement changes to mortgage laws and regulations into our compliance processes;
- our ability to attract and maintain business banking relationships with well-qualified businesses, real estate developers and investors with proven track records in our market areas;

- our ability to attract sufficient loans that meet prudent credit standards;
- failure to maintain adequate liquidity and regulatory capital and comply with evolving federal and state banking regulations;
- inability of our risk management framework to effectively mitigate credit risk, interest rate risk, liquidity risk, price risk, compliance risk, operational risk, strategic risk, information security risk, cyber security risk, and reputational risk;
- failure to develop new, and grow our existing, streams of noninterest income;
- our ability to oversee the performance of third party service providers that provide material services to our business;
- our ability to maintain expenses in line with our current projections;
- our dependence on our management team and our ability to motivate and retain our management team;
- risks related to any future acquisitions, including failure to realize anticipated benefits from future acquisitions;
- inability to find acquisition candidates that will be accretive to our financial condition and results of operations;
- system failures, data security breaches (including as a result of cyber-attacks), or failures to prevent breaches of our network security;
- data processing system failures and errors;
- fraudulent and negligent acts by individuals and entities that are beyond our control;
- fluctuations in the market value, and its impact, of the securities held in our securities portfolio;
- the adequacy of our reserves (including allowance for loan losses) and the appropriateness of our methodology for calculating such reserves;
- the makeup of our asset mix and investments;
- our focus on small and mid-sized businesses;
- an inability to raise necessary capital to fund our growth strategy or operations, or to meet increased minimum regulatory capital levels;
- the sufficiency of our capital, including sources of such capital and the extent to which capital may be used or required;
- interest rate shifts and its impact on our financial condition and results of operation;
- the expenses that we will incur to operate as a public company and our complying with the requirements of being a public company;
- the institution and outcome of litigation and other legal proceeding against us or to which we become subject;
- changes in accounting standards, particularly ASU 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” on our financial conditions or results of operations;
- the impact of recent and future legislative and regulatory changes;
- governmental monetary and fiscal policies;
- changes in the scope and cost of Federal Deposit Insurance Corporation ("FDIC") insurance assessments and other coverage; and
- future equity issuances under our 2016 Incentive Plan and our Employee Stock Purchase Plan and future sales of our common stock by us, our principal shareholder or our executive officers or directors.

The foregoing factors should not be construed as exhaustive and should be read in conjunction with the sections entitled “Risk factors” and “Management’s discussion and analysis of financial condition and results of operations” included in this Annual Report. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from our forward-looking statements. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date of this Annual Report, and we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law. New risks and uncertainties may emerge from time to time, and it is not possible for us to predict their occurrence or how they will affect us.

PART I

ITEM - 1. Business

In this annual report, the terms "we," "our," "ours," "us," "FB Financial," and "the Company" refer to FB Financial Corporation, a Tennessee corporation, and our consolidated banking subsidiary, FirstBank, a Tennessee state chartered bank, unless the context indicates that we refer only to the parent company, FB Financial Corporation. The terms "FirstBank" or "the Bank" refer to our wholly owned subsidiary and Tennessee banking corporation.

Overview

FB Financial Corporation is a bank holding company, headquartered in Nashville, Tennessee. Our wholly owned bank subsidiary, FirstBank, is the third largest Tennessee-headquartered bank, based on total assets. FirstBank provides a comprehensive suite of commercial and consumer banking services to clients in select markets primarily in Tennessee, North Alabama and North Georgia. As of December 31, 2019, our footprint included 68 full-service bank branches and eight other banking locations serving the metropolitan markets of Nashville, Chattanooga, Knoxville, Memphis, Tennessee and Jackson and Huntsville, Alabama in addition to 12 community markets. On February 14, 2020, we closed on our acquisition of FNB Financial Corp. and its wholly owned subsidiary, Farmers National Bank of Scottsville, adding five full service banking locations and expanding our footprint into Kentucky. The Company also provides mortgage banking services utilizing its bank branch network and mortgage banking offices strategically located throughout the southeastern United States in addition to its national internet delivery channel. As of December 31, 2019, we had total assets of $6.12 billion, loans held for investment of $4.41 billion, total deposits of $4.93 billion, and total shareholders' equity of $762.3 million.

Throughout our history, we have steadfastly maintained a community banking approach of personalized relationship-based service, which is delivered locally through experienced bankers in each market. As we have grown, maintaining this relationship-based approach utilizing local, talented and experienced bankers in each market has been an integral component of our success. Our bankers utilize their local knowledge and relationships to deliver timely solutions to our clients. We empower these bankers by giving them local decision making authority supplemented by appropriate risk oversight. In our experience, business owners and operators prefer to deal with decision makers, and our banking model is built to place the decision maker as close to the client as possible. We have designed our operations, technology, and centralized risk oversight processes to specifically support our operating model. We deploy this operating model universally in each of our markets, regardless of size. We believe we have a competitive advantage in our markets versus both smaller community banks and larger regional and national banks. Our robust offering of products, services and capabilities differentiate us from community banks and our significant local market knowledge, client service level and the speed with which we are able to make decisions and deliver our services to customers differentiate us from larger regional and national banks.

We seek to leverage our operating model by focusing on profitable growth opportunities across our footprint, focused primarily on both high-growth metropolitan markets and stable and growing community markets. As a result, we are able to strategically deploy our capital across our markets to take advantage of those opportunities that we believe provide the greatest certainty of profitable growth and the highest returns.

Our operating model is executed by a talented management team lead by our Chief Executive Officer, Christopher T. Holmes. Mr. Holmes, a 28-year banking veteran originally from Lexington, Tennessee, joined the Bank in 2010 as Chief Banking Officer and was elected Chief Executive Officer and President in 2013. Mr. Holmes has an extensive background in both metropolitan and community banking gained from his time at community banks and larger public financial institutions. Mr. Holmes has assembled a highly effective management team, blending members that have a long history with FirstBank and members that have significant banking experience at other in-market banks.

Our history

Originally chartered in 1906, we are one of the longest continually operating banks in Tennessee. While our deep community roots go back over 100 years, our growth trajectory changed in 1984 when Tennessee businessman James W. Ayers, our Executive Chairman, acquired Farmers State Bank with an associate. In 1988, we purchased the assets of First National Bank of Lexington, Tennessee and changed our name to FirstBank, forming the foundation of our current franchise. In 1990, Mr. Ayers became our sole shareholder and remained our sole shareholder until our initial public offering in September 2016. Under Mr. Ayers' ownership, we grew from a community bank with only $14 million in assets in 1984 to the third largest bank headquartered in Tennessee, based on total assets of $6.12 billion at December 31, 2019.

From 1984 to 2001, we operated as a community bank growing organically and through small acquisitions in community markets in West Tennessee. In 2001, our strategy evolved from serving purely community markets to include a modest presence in metropolitan markets, expanding our reach and enhancing our growth. We entered Nashville and Memphis in 2001 by opening a branch in each of those markets. In 2004 and 2008, we opened our first branches in Knoxville and Chattanooga, respectively. Although we experienced some growth in each metropolitan market, it did not become a major strategic focus until we implemented our current strategy in the Nashville metropolitan statistical area (“MSA”) in 2012. The successful implementation of this strategy has resulted in 949.6% deposit growth in the Nashville MSA from June 30, 2012 to June 30, 2019, making it our largest market with 54% of our total deposits. Additionally, we expanded into the Huntsville, Alabama MSA in 2014 by opening a branch in Huntsville and loan production office in Florence, Alabama, which was converted to a full service branch in 2019. As a result of this evolution and recent acquisitions discussed below, we now operate a balanced business model that serves a diverse customer base in both metropolitan and community markets.

Mergers and acquisitions

On September 18, 2015, the Bank completed its acquisition of Northwest Georgia Bank (“NWGB”), a bank headquartered in Ringgold, Georgia, pursuant to the Agreement and Plan of Merger dated April 27, 2015 by and between the Bank and NWGB. The Company acquired NWGB in a $1.5 million cash purchase. NWGB was merged with and into the Bank, with the Bank as the surviving entity. As of September 18, 2015, the estimated fair value of loans acquired and deposits assumed as a result of the merger was $78.6 million and $246.2 million, respectively.

On July 31, 2017, the Bank completed its merger with Clayton Bank and Trust (“CBT”) and American City Bank (“ACB” and together with CBT, the “Clayton Banks”), pursuant to the Stock Purchase Agreement with Clayton HC, Inc., a Tennessee corporation (“Seller”), and James L. Clayton, the majority shareholder of Seller, dated February 8, 2017, as amended on May 26, 2017, with a purchase price of approximately $236.5 million. The Company issued 1,521,200 shares of common stock and paid cash of $184.2 million to purchase all of the outstanding shares of the Clayton Banks. At closing, the Clayton Banks merged with and into FirstBank, with FirstBank continuing as the surviving banking entity. As of July 31, 2017, the estimated fair value of loans acquired and deposits assumed as a result of the merger was $1,059.7 million and $979.5 million, respectively.

On April 5, 2019, the Bank acquired 11 Tennessee and three Georgia branch locations from Atlantic Capital Bank, N.A., further increasing market share in existing markets and expanding the Company's footprint into new locations. Under the terms of the agreement, the Bank assumed $588.9 million in deposits for a premium of 6.25% and acquired $374.4 million in loans at 99.32% of principal outstanding.

On January 21, 2020, the Company announced entry into a definitive merger agreement with Franklin Financial Network, Inc. ("Franklin") pursuant to which Franklin will be merged with and and into FB Financial and Franklin's wholly owned banking subsidiary, Franklin Synergy Bank, which will be merged into FirstBank. Franklin has 15 branches and had approximately $3.90 billion in total assets, $2.80 billion in loans, and $3.20 billion in deposits as of December 31, 2019. In connection with the merger, Franklin shareholders will receive 0.9650 shares of FB Financial common stock and $2.00 in cash for each share of Franklin stock. Based on FB Financial's closing price of $38.23 per share as of January 21, 2020, the implied transaction value is approximately $602 million. The merger is expected to close in the third quarter of 2020 and is subject to regulatory approvals, approval by FB Financial's and Franklin's shareholders and other customary closing conditions.

On February 14, 2020, the Company completed the acquisition of FNB Financial Corp. and its wholly owned subsidiary, Farmers National Bank of Scottsville (collectively, "Farmers National"). Farmers National has five branches and reported total assets of $255.2 million, loans of $178.6 million and deposits of $206.0 million as of December 31, 2019. The Company issued 954,797 shares of FBK common stock as consideration in connection with the merger, in addition to approximately $15.0 million in cash consideration. Based on the closing price of the Company's common stock on the New York Stock Exchange of $36.70 on February 14, 2020, the merger consideration represented approximately $50.0 million in aggregate consideration. The Company is currently in the process of determining the approximate fair value of net assets acquired and will include preliminary purchase accounting estimates in Form 10-Q for the quarterly period ended March 31, 2020.

See Note 2, “Mergers and acquisitions” in the notes to the consolidated financial statements for further details regarding the terms and conditions of these acquisitions.

Our markets

Our pro forma market footprint is the southeastern United States, centered around Tennessee, and includes portions of North Alabama, North Georgia and Kentucky.

Top Metropolitan Markets

Market	Market Rank	Branches (#)	Deposits ($mm)	Deposit Market Share	Percent of Total Deposits
Nashville	6	29	4,460	6.9%	54.4%
Chattanooga	5	8	612	6.0%	7.5%
Knoxville	9	6	550	3.1%	6.7%
Jackson	3	7	371	11.7%	4.5%
Bowling Green	7	5	204	6.3%	2.5%
Memphis	28	4	161	0.5%	2.0%
Huntsville	19	1	52	0.6%	0.6%

Top Community Markets[1]

Market	Market Rank	Branches (#)	Deposits ($mm)	Deposit Market Share	Percent of Total Deposits
Lexington	1	6	293	53.5%	3.6%
Tullahoma	3	2	134	13.3%	1.8%
Huntingdon	2	5	130	23.9%	1.6%
Parsons	1	1	116	41.5%	1.4%
Paris	3	2	111	16.8%	1.4%
Smithville	3	1	99	23.3%	1.2%
Waverly	2	1	73	23.6%	0.9%

Note: Market data as of June 30, 2019 and is presented on a pro forma basis for pending and completed acquisitions as of February 4, 2020. Size of bubble represents size of company deposits in a given market.
Source: Company data and S&P Global Market Intelligence; [1]Statistics based on county data.

Market characteristics and mix.

Metropolitan markets. Our metropolitan markets are generally characterized by attractive demographics and strong economies and offer substantial opportunity for future growth. We compete in these markets with national and regional banks that currently have the largest market share positions and with community banks primarily focused only on a particular geographic area or business niche. We believe we are well positioned to grow our market penetration among our target clients of small to medium sized businesses as well as large corporate businesses and the consumer base working and living in these metropolitan markets. In our experience, such clients demand the product sophistication of a larger bank, but prefer the customer service, relationship focus and local connectivity of a community bank. We believe that our size, product suite and operating model offer us a competitive advantage in these markets versus our smaller competitors, many of which are focused only on specific counties or industries. Our operating model driven by local talent with strong community ties and local authority serves as a key competitive advantage over our larger competitors. We believe that, as a result, we are well positioned to leverage our existing franchise to expand our market share in our metropolitan markets.

Community markets. Our community markets tend to be more stable throughout various economic cycles, with primarily retail and small business customer opportunities and more limited competition. We believe this leads to an attractive profitability profile and more granular loan and deposit portfolios. Our community markets are standalone markets and not suburbs of larger markets. We primarily compete in these markets with community banks that generally have less than $1 billion in total assets. Our strategy is to compete against these smaller community banks by providing a broader and more sophisticated set of products and capabilities while still maintaining our local service model. We believe these markets are being deemphasized by national and regional banks which provides us with opportunities to hire talented bankers in these communities and maintain or grow market share in these community markets.

Our core client profile across our footprint includes small businesses, corporate clients and owners, and investors of commercial real estate. We target business clients with substantial operating history that have annual revenues of up to $250 million. Our typical business client would keep business deposit accounts with us, and we would look to provide banking services to the owners and employees of the business as well. We also have an active consumer lending business that includes deposit products, mortgages, home equity lines and small consumer finance loans. We continuously strive to build deeper relationships by actively cross-selling incremental products to meet the banking needs of our clients.

The following tables show our deposit market share ranking among all banks and community banks (which we define as banks with less than $30 billion in assets) in Tennessee as of June 30, 2019 (the most recent date where such information is publicly available). Of the 10 largest banks in the state based on total deposits, five are national or regional banks, which we believe provides us with significant opportunities to gain market share from these banks.

Top 10 banks in Tennessee:

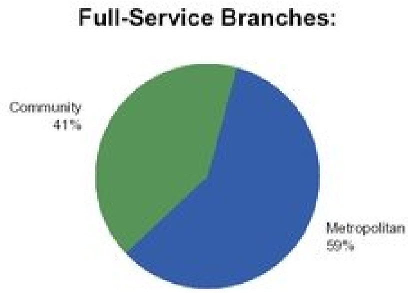
Rank	Company name	Headquarters	Branches (#)	Total deposits ($bn)	Deposit market share (%)
1	First Horizon National Corp. (TN)	Memphis, TN	164	25.0	15.6
2	Regions Financial Corp. (AL)	Birmingham, AL	217	18.4	11.5
3	Truist Financial Corp. (NC)	Winston-Salem, NC	147	15.5	9.7
4	Pinnacle Financial Partners (TN)	Nashville, TN	48	13.5	8.5
5	Bank of America Corporation (NC)	Charlotte, NC	58	12.6	7.9
6	**FB Financial Corp (TN)**	**Nashville, TN**	**75**	**7.5**	**4.7**
7	U.S. Bancorp (MN)	Minneapolis, MN	90	3.5	2.2
8	Wilson Bank Holding Co. (TN)	Lebanon, TN	28	2.3	1.5
9	Reliant Bancorp Inc. (TN)	Brentwood, TN	31	2.3	1.5
10	Fifth Third Bancorp (OH)	Cincinnati, OH	36	2.3	1.4

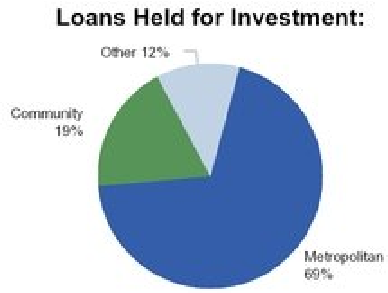
Top 10 banks under $30bn assets in Tennessee:

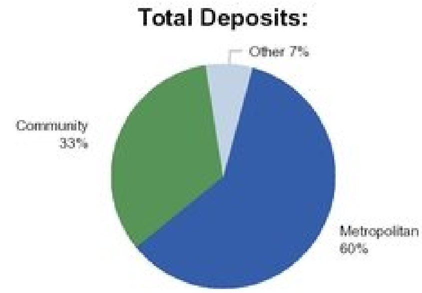
Rank	Company name	Headquarters	Branches (#)	Total deposits ($bn)	Deposit market share (%)
1	Pinnacle Financial Partners (TN)	Nashville, TN	48	13.5	8.5
2	**FB Financial Corp (TN)**	**Nashville, TN**	**75**	**7.5**	**4.7**
3	Wilson Bank Holding Co. (TN)	Lebanon, TN	28	2.3	1.5
4	Reliant Bancorp Inc. (TN)	Brentwood, TN	31	2.3	1.5
5	CapStar Financial Hlgs Inc. (TN)	Nashville, TN	22	2.1	1.3
6	Simmons First National Corp. (AR)	Pine Bluff, AR	42	2.0	1.3
7	Home Federal Bank of Tennessee (TN)	Knoxville, TN	23	1.7	1.1
8	SmartFinancial Inc. (TN)	Knoxville, TN	24	1.7	1.1
9	Educational Loan (TN)	Farragut, TN	14	1.6	1.0
10	Renasant Corp. (MS)	Tupelo, MS	21	1.5	0.9

Source: S&P Global Market Intelligence and Company reports as of June 30, 2019; total assets as of December 31, 2019, adjusted for pending and completed acquisitions as of February 4, 2020.

Market mix. The charts below show our branch, loan and deposit mix between our metropolitan and community markets as of December 31, 2019.







Total: 68 **Total: $4.41 billion** **Total: $4.93 billion**

Our business strategy

Our overall business strategy is comprised of the following core strategies.

Enhance market penetration in metropolitan markets. In recent years, we have successfully grown our franchise in the Nashville MSA by executing our community bank growth strategy. The strategy is centered on the following: recruiting the best bankers and empowering them with local authority; developing branch density; building brand awareness and growing our business and consumer banking presence; and expanding our product offering and capabilities. These strategies coupled with our personalized, relationship-based client service have contributed significantly to our success. Additionally, we believe that our scale, resources and sophisticated range of products provides us with a competitive advantage over the smaller community banks in the Nashville MSA and our other MSAs. As a result of these competitive advantages and growth strategies, the Nashville MSA has become our largest market. With approximately 6.9% market share, based on pro forma deposits as of June 30, 2019 for our pending acquisition of Franklin, we intend to continue to efficiently increase our market penetration through organic growth and acquisitions including Farmers National Bank and Franklin.

Based on market and competitive similarities, we believe our growth strategies are transferable to our other metropolitan markets. We implemented these strategies with a focus on the Chattanooga and Knoxville MSAs. Our acquisitions of Northwest Georgia Bank, the Clayton Banks, and the branches from Atlantic Capital Bank have accelerated our growth and profitability in the Chattanooga and Knoxville MSAs, and we have continued to build momentum in these markets.

Pursue opportunistic acquisitions. While most of our growth has been organic, we have completed 11 acquisitions under our current ownership, and have recently entered into a merger agreement with Franklin Synergy Bank. We pursue acquisition opportunities that meet our internal return targets, maintain or enhance our earnings per share, enhance market penetration, and possess strong core deposits while minimizing tangible book value. We believe that numerous small to mid-sized banks or branch networks will be available for acquisition in metropolitan and community markets throughout Tennessee as well as in attractive contiguous markets in the coming years due to industry trends, such as scale and operational challenges, regulatory pressure, management succession issues and shareholder liquidity needs. In Tennessee alone, there are approximately 126 banks with total assets of less than $2 billion, and in the contiguous states of Alabama, Georgia, Kentucky, North Carolina, South Carolina and Virginia, there are over 475 banks under $2 billion in assets. We believe that we are positioned as a natural consolidator because of our financial strength, reputation and operating model.

Improve efficiency by leveraging technology and consolidating operations. We have invested significantly in our bankers, infrastructure and technology in recent years, which we believe has created a scalable platform that will support future growth across all of our markets. Our bankers and branches, especially in the metropolitan markets, continue to scale in size, and we believe there is capacity to grow our business without adding significantly to our branch network. We plan to continue to invest, as needed, in our technology and business infrastructure to support our future growth and increase operating efficiencies. We intend to leverage these investments to consolidate and centralize our operations and support functions while protecting our decentralized client service model.

Seize opportunities to expand noninterest income. While our primary focus is on capturing opportunities in our core banking business, we have successfully seized opportunities to grow our noninterest income by providing our people with the flexibility to take advantage of market opportunities. As part of our strategic focus to grow our noninterest income, we restructured our mortgage operations in 2019, resulting in the sale of our wholesale delivery channels and maximizing profitability in our retail and Consumer Direct internet delivery channel. We have also successfully expanded our fee-based businesses to include more robust treasury management, trust and investment services and capital markets. We intend to continue emphasizing these business lines, which we believe will serve as strong customer acquisition channels and provide us with a range of cross-selling opportunities, while making our business stronger and more profitable.

Products and Services

We operate our business in two business segments: Banking and Mortgage. See Note 19, “Segment Reporting,” in the notes to our consolidated financial statements for a description of these business segments.

Banking services

While we operate through two segments, Banking and Mortgage, Banking has been, and is, the cornerstone of our operations and underlying philosophy since our beginnings in 1906. As the third largest Tennessee-headquartered bank, we are dedicated to serving the banking needs of businesses, professionals and individuals in our metropolitan and community markets through our community banking approach of personalized, relationship-based service. We strive to become trusted advisers to our clients and achieve long-term relationships. We deliver a wide range of banking products and services tailored to meet the needs of our clients across our footprint.

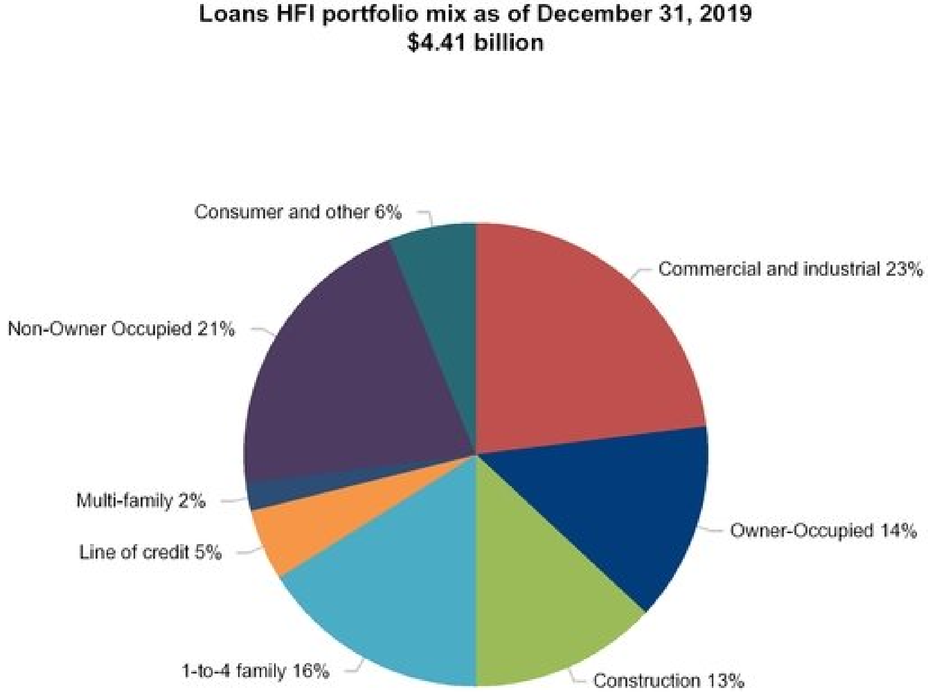
Lending activities

Through the Bank, we offer a broad range of lending products to our targeted clients, which includes businesses generally with up to $250 million in annual revenues, business owners, real estate investors and consumers. Our commercial lending products include working capital lines of credit, equipment loans, owner-occupied and non-owner-occupied real estate construction loans, “mini-perm” real estate term loans, and cash flow loans to a diversified mix of clients, including small and medium sized businesses. Our consumer lending products include first and second residential mortgage loans, home equity lines of credit and consumer installment loans to purchase cars, boats and other recreational vehicles. At December 31, 2019, we had loans held for investment of $4.41 billion. Throughout the following discussion of our banking services, we present our loan information excluding loans held for sale arising from our mortgage operations.

Lending strategy

Our strategy is to grow our loan portfolio by originating commercial and consumer loans that produce revenues consistent with our financial objectives. Through our operating model and strategies, we seek to be the leading provider of lending products and services in our market areas to our clients. We market our lending products and services to our clients through our personalized service. As a general practice, we originate substantially all of our loans, but we occasionally participate in syndications, limiting participations to loans originated by lead banks with which we have a close relationship and which share our credit philosophies.

We also actively pursue and maintain a balanced loan portfolio by type, size and location. Our loans are generally secured and supported by personal guarantees.



Commercial and industrial loans. Our commercial and industrial loans are typically made to small and medium sized manufacturing, wholesale, retail and service businesses for working capital and operational needs and business expansions, including the purchase of capital equipment and loans made to farmers related to their operations. This category also includes loans secured by manufactured housing assets and receivables. Commercial and industrial loans generally include lines of credit and loans with maturities of five years or less. Because we are a community bank with long standing ties to the businesses and professionals operating in our market areas, we are able to tailor our commercial and industrial loan programs to meet the needs of our clients. We target high-quality businesses in our markets with a proven track record and up to $250 million in annual revenues. As of December 31, 2019, we had outstanding commercial and industrial loans of $1,034.0 million, or 23% of our loan portfolio. Growing our commercial and industrial loan portfolio is an important area of emphasis for us, and we intend to continue to grow this portfolio.

Commercial and industrial loans are generally made with operating cash flows as the primary source of repayment, but may also include collateralization by inventory, accounts receivable, equipment and personal guarantees. As a result, the repayment risk is subject to the ongoing business operations of the borrower. Any interruption or discontinuance of operating cash flows from the business, which may be influenced by events not under the control of the borrower such as economic events and changes in governmental regulations, could materially affect the ability of the borrower to repay the loan. Further, commercial and industrial loans may be secured by the collateral described above, which if the business is unsuccessful, typically have values insufficient to satisfy the loan without a loss.

Commercial real estate loans. Our commercial real estate loans consist of both owner-occupied and non-owner occupied commercial real estate loans. The total amount of commercial real estate loans outstanding as of December 31, 2019 was $1,551.0 million, or 35% of our loan portfolio. The real estate securing our existing commercial real estate loans includes a wide variety of property types, such as offices, warehouses, production facilities, health care facilities, hotels, mixed-use residential/commercial, retail centers, restaurants, churches, assisted living facilities and agricultural based facilities. As of December 31, 2019, $630.3 million of our commercial real estate loan portfolio, or 14% of our loan portfolio, was owner-occupied commercial real estate loans, and $920.7 million of our commercial real estate loan portfolio, or 21% of our loan portfolio, was non-owner occupied commercial real estate loans. We are primarily focused on growing the owner-occupied portion of our commercial real estate loan portfolio.

With respect to our owner-occupied commercial real estate loans, we target local companies with a proven operating history that tend to be business-operators and professionals within our markets. Owner-occupied real estate loans are typically repaid through the ongoing business operations of the borrower, and hence are dependent on the success of the underlying business for repayment and are more exposed to general economic conditions.

With respect to our non-owner occupied commercial real estate loans, we target experienced, local real estate developers and investors with whom our bankers have long-standing relationships. Our non-owner occupied commercial real estate loans also tend to involve retail, hotel, office, warehouse, industrial, healthcare, assisted living and mix-used properties. Non-owner occupied real estate loans are typically repaid with the funds received from the sale of the completed property or rental proceeds from such property, and are therefore more sensitive to adverse conditions in the real estate market, which can also be affected by general economic conditions.

Commercial real estate loans are often larger and involve greater risks than other types of lending. Adverse developments affecting commercial real estate values in our market areas could increase the credit risk associated with these loans, impair the value of property pledged as collateral for these loans, and affect our ability to sell the collateral upon foreclosure without a loss. Furthermore, adverse developments affecting the business operations of the borrowers of our owner-occupied commercial real estate loans could significantly increase the credit risk associated with these loans. Due to the larger average size of commercial real estate loans, we face the risk that losses incurred on a small number of commercial real estate loans could have a material adverse impact on our financial condition and results of operations.

Residential real estate loans. Our residential real estate loans consist of 1-4 family loans, home equity loans and multi-family loans. The residential real estate loans described below exclude mortgage loans that are held for sale. As of December 31, 2019, the total amount of residential real estate loans outstanding was $1,001.4 million, or 23% of our loan portfolio.

Our 1-4 family mortgage loans are primarily made with respect to and secured by single family homes, including owner-occupied manufactured homes with real estate. We seek to make our 1-4 family mortgage loans to well-qualified homeowners and investors with a proven track record that satisfy our credit and underwriting standards. As of December 31, 2019, our 1-4 family mortgage loans comprised $710.5 million, or 16%, of loans.

Our home equity loans are primarily revolving, open-end lines of credit secured by 1-4 family residential properties. We seek to make our home equity loans to well-qualified borrowers that satisfy our credit and underwriting standards. Our home equity loans as of December 31, 2019 comprised $221.5 million, or 5%, of loans.

Our multi-family residential loans are primarily secured by multi-family properties, primarily apartment and condominium buildings. We seek to make multi-family residential loans to experienced real estate investors with a proven track record. These loans are primarily repaid from the rental payments generated by the multifamily properties. Our multifamily loans as of December 31, 2019 comprised $69.4 million, or 2% of loans.

We expect to continue to make residential real estate mortgage loans at a similar pace so long as housing values in our markets do not deteriorate from current prevailing levels and we are able to make such loans consistent with our current credit and underwriting standards. Like our commercial real estate loans, our residential real estate loans are secured by real estate, the value of which may fluctuate significantly over a short period of time as a result of market conditions in the area in which the real estate is located. Adverse developments affecting real estate values in our market areas could therefore increase the credit risk associated with these loans, impair the value of property pledged as collateral on loans and affect our ability to sell the collateral upon foreclosure without a loss or additional losses. We primarily make our residential real estate loans to qualified individuals and investors in accordance with our real estate lending policies, which detail maximum loan to value ratios and maturities and, as a result, the repayment of these loans are also affected by adverse personal circumstances.

Construction loans. Our construction real estate loans include commercial construction, land acquisition and land development loans and single-family interim construction loans to small and medium sized businesses, investors, and individuals. We target experienced local developers primarily focused on multifamily, hospitality, commercial building, retail and warehouse developments. These loans typically are disbursed as construction progresses and carry variable interest rates for commercial loans and fixed rates for consumer loans. As of December 31, 2019, the outstanding balance of our construction loans was $551.1 million, or 13% of our loan portfolio. We expect to continue to make construction loans at a similar pace so long as demand continues and the market for and values of such properties remain stable or continue to improve in our markets.

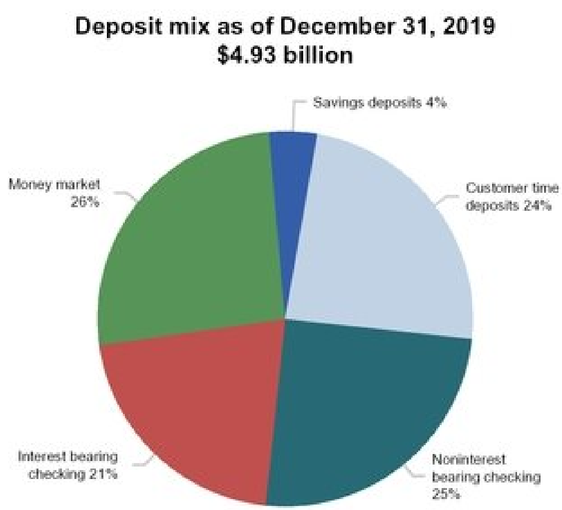
Construction loans carry a high degree of risk because repayment of these loans is dependent, in part, on the success of the ultimate project or, to a lesser extent, the ability of the borrower to refinance the loan or sell the property upon completion of the project, rather than the ability of the borrower or guarantor to repay principal and interest. Moreover, these loans are typically based on future estimates of value and economic circumstances, which may differ from actual results or be affected by unforeseen events. If the actual circumstances differ from the estimates made at the time of approval of these loans, we face the risk of having inadequate security for the repayment of the loan. Further, these loans are typically secured by the underlying development and, even if we foreclose on the loan, we may be required to fund additional amounts to complete the project and may have to hold the property for an unspecified period of time while we attempt to dispose of it.

Consumer and other loans. We offer a variety of consumer loans, such as installment loans to individuals for personal, family and household purposes, including car, boat and other recreational vehicle loans, manufactured homes without real estate and personal lines of credit. Other loans also include loans to states and political subdivisions in the U.S. As of December 31, 2019, we had outstanding $272.1 million of consumer and other loans, excluding residential real estate loans, representing 6% of our loan portfolio. Consumer loans typically have shorter terms, lower balances, higher yields and higher risks of default than residential real estate mortgage loans. The repayment of consumer loans is dependent on the borrower's continuing financial stability and are therefore more likely to be affected by adverse personal circumstances, such as the loss of employment, unexpected medical costs or divorce. These loans are often secured by the underlying personal property, which typically has insufficient value to satisfy the loan without a loss due to damage to the collateral and general depreciation. Other loans are generally subject to the risk that the borrowing municipality or political subdivision may lose a significant portion of its tax base or that the project for which the loan was made may produce inadequate revenue. None of these categories of loans represents a significant portion of our loan portfolio.

Deposits and other banking services

We offer a full range of transaction and interest-bearing depository products and services to meet the demands of each segment within our client base. Our target segments include consumer, small business, state, municipal and other governmental entities, and corporate entities. We solicit deposits from these target segments through our local bankers, sophisticated product offering and our brand-awareness initiatives, such as our community focused marketing and high-visibility branch locations. We offer demand, negotiable order of withdrawal, money market, certificates of deposit, municipal and savings accounts. To complement our account offerings, we also have in place technology to support treasury management and electronic banking activities which includes consumer online banking and mobile banking. In addition to these electronic banking activities, we make deposit services accessible to our clients by offering direct deposit, wire transfer, night depository, banking-by-mail and remote capture for non-cash items. Our commercial clients are served by a well-developed cash management technology platform and mobile banking. Our treasury management team consults with our commercial clients to tailor solutions for optimal efficiency. We offer a full array of services to better manage receivables, payables, implement controls, and automate movement of funds.

The following charts show our deposit composition as of December 31, 2019 and our cost of deposits since 2015.



**Includes mortgage servicing-related escrow deposits of $45.4 million, $53.7 million and $53.5 million for the years ended December 31, 2016, 2017 and 2018, respectively, and $92.6 million as of December 31, 2019. There were no mortgage servicing-related escrow deposits prior to those periods.*

The growth of low-cost deposits is an important aspect of our strategic plan, and we believe it is a significant driver of our value. The primary driver of our noninterest-bearing deposit growth has been our ability to acquire new commercial clients. This has resulted from the addition of relationship bankers across our markets, improved technology in the cash management area, and the addition of experienced cash management sales and operational specialists. Our cash management product offering includes a well-developed online banking platform complimented by a host of ancillary services including lockbox remittance processing, remote check deposit capture, remote cash capture, fraud protection services, armored car services, commercial and business card products, and merchant processing solutions.

Our consumer offering is anchored on our rewards based checking product where we currently hold over $272 million in deposit balances in approximately 39,900 accounts. The “FirstRewards” checking product incents our clients to use their FirstBank debit card as a primary method of payment at point of sale, utilize online and mobile banking, electronic bill pay, direct deposit, and receive electronic statements. Additionally, we offer a "FirstRate" money market product to qualifying "FirstRewards" customers. We currently hold approximately $137.9 million in deposit balances related to "FirstRate" money market accounts. When meeting certain criteria, clients receive a premium interest rate on balances. The Bank benefits from higher interchange revenue, lower expense on a per account basis as compared to traditional products, and better client retention.

The coupling of these strategies delivered through our relationship-based sales model has allowed us to grow noninterest-bearing deposits and noninterest income without expanding our account level fee structure. This differentiating approach has set us apart from national and regional competitors and has built loyalty and satisfaction within our client segments.

Mortgage banking services

We offer full-service residential mortgage products and services through our bank branches, our mortgage offices strategically located throughout the southeastern United States both in and outside our community banking footprint and our internet delivery channel.

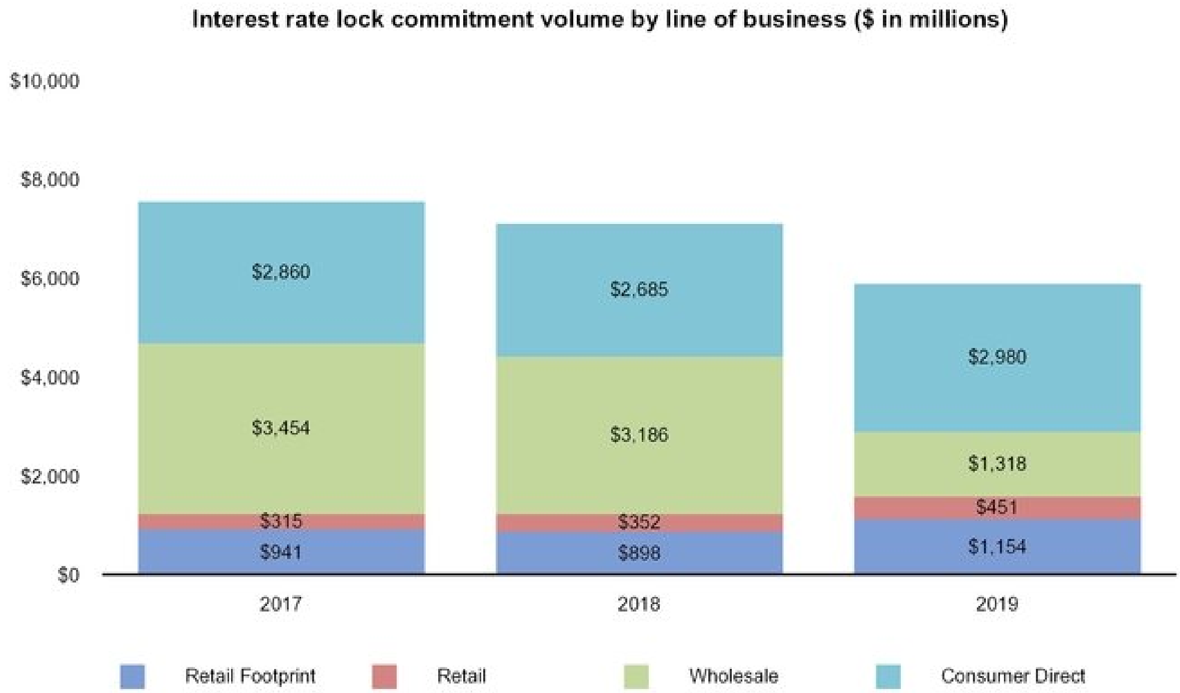
From 2010 to 2017, our mortgage banking services underwent significant expansion, diversifying to offer the following delivery channels: (1) retail mortgage, which provides residential mortgages to consumers in the Southeast primarily through our bank branches and mortgage offices; (2) wholesale consisting of third party origination and correspondent lending, which provides mortgage processing and resale services to smaller banks and mortgage companies; and (3) ConsumerDirect, which provides residential mortgages on a national basis via internet delivery. During the year ended December 31, 2019, the Company restructured its mortgage business and sold its wholesale delivery channels, allowing the Company to focus on the retail and ConsumerDirect delivery channels.

The residential mortgage products and services originated in our community banking footprint and related revenues and expenses are included in our Banking segment while the residential mortgage products and services originated outside of our community banking footprint and related revenues and expenses are included in our Mortgage segment.

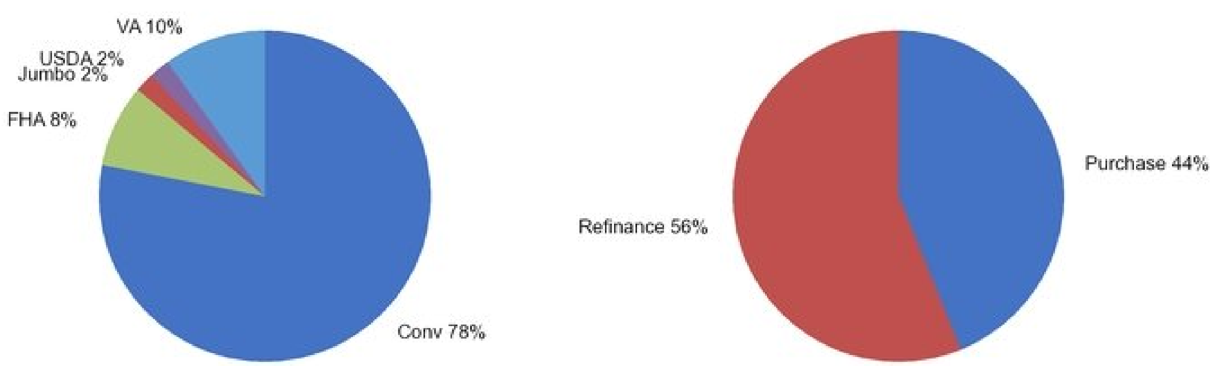
In accordance with our lending policy, each loan undergoes a detailed underwriting process which incorporates uniform underwriting standards and oversight that satisfies secondary market standards as outlined by our investors and our internal policies. Mortgage loans are subject to the same uniform lending policies and consist primarily of loans with relatively stronger borrower credit scores, with an average FICO score of 743 during the year ended December 31, 2019.

The residential mortgage industry is highly competitive, and we compete with other community banks, regional banks, national banks, credit unions, mortgage companies, financial service companies and online mortgage companies. Due to the highly competitive nature of the residential mortgage industry, we expect to face continued industry-wide competitive pressures related to changing market conditions that could reduce our pricing margins and mortgage revenues generally, especially in a rising rate environment. While we have experienced rate declines during the year ended December 31, 2019, increasing interest rate lock commitment volume and profitability of our mortgage business, the mortgage industry remains sensitive to interest rate changes and our profitability could be adversely impacted by rising interest rates. Our mortgage banking business is also directly impacted by increased regulations and consumer demand, driven in large part by general economic conditions and the real estate markets along with investor demand for mortgage securities. While sensitive to these factors, our mortgage loan office leases are primarily short-term in nature and approximately 59% of our mortgage-related compensation is in the form of variable compensation, providing scalability to our business model.

During the year ended December 31, 2019, we generated $5.90 billion compared to $7.12 billion during the year ended December 31, 2018 in interest rate lock commitment volume, with 44% of these commitments being purchase money mortgage loans. Please see below for a breakdown of our interest rate lock commitment volume by distribution channel since 2017:



Interest rate lock commitment volume by product type and purpose (year ended December 31, 2019)



Note: Conv = Conventional; VA = Veterans Affairs; USDA = United States Department of Agriculture Rural Housing Mortgage; FHA = Federal Housing Administration

Investment and trust services

The Bank provides our individual clients access to investment services offered through LPL Financial LLC ("LPL Financial"), an independent third-party broker-dealer that maintains offices in selected bank branches. A full range of investment choices is available through LPL Financial for our clients, including equities, mutual funds, bonds, tax-exempt municipals, and annuities, as well as money management consultation. Life insurance products are also offered to our clients through FirstBank Insurance, Inc., a wholly-owned insurance agency. We also offer our business clients group retirement plan advisory services. We primarily market these services to retirees or pre-retirees with a minimum of $100,000 of investable assets, high income professionals earning more than $200,000 and businesses with group retirements plans that have more than $1 million in assets. We earn noninterest income from the investment and life insurance sales arrangements.

During 2017, the Bank began providing trust administration services through the FirstBank trust department, ("FirstBank Trust"), which was acquired through the acquisition of the Clayton Banks. With $713.0 million and $ 556.6 million assets under management at December 31, 2019 and December 31, 2018, respectively, a disciplined investment philosophy and a highly competitive fee schedule, FirstBank Trust primarily serves high-wealth bank relationships and a niche of charitable endowments and foundations.

Risk management

General

Our operating model demands a strong risk culture built to address multiple areas of risk, including credit risk, interest rate risk, liquidity risk, price risk, compliance risk, information security / cyber risk, operational risk, strategic risk and reputational risk. Our risk culture is supported by investments in the right people and technologies to protect our business. Our board of directors and the Bank's board of directors are ultimately responsible for overseeing risk management at the holding company and the Bank, respectively. We have a Chief Risk Officer who oversees risk management across our business (including the Bank). Our board, Chief Executive Officer and Chief Risk Officer are supported by the heads of other functional areas at the Bank, including credit, legal, IT, audit, compliance, capital markets, credit review, information security and physical security. Our comprehensive risk management framework is designed to complement our core strategy of empowering our experienced, local bankers with local-decision making to better serve our clients.

Our credit policies support our goal of maintaining sound credit quality standards while achieving balance sheet growth, earnings growth, appropriate liquidity and other key objectives. We maintain a risk management infrastructure that includes local authority, centralized policymaking and a strong system of checks and balances under the direction of our Chief Credit Officer. The fundamental principles of our credit policy and procedures are to maintain credit quality standards, which enhance our long-term value to our clients, associates, shareholders and communities. Our loan policies provide our bankers with a sufficient degree of flexibility to permit them to deliver responsive and effective lending solutions to our clients while maintaining appropriate credit quality. Furthermore, our bankers and associates are hired for the long-term and they are incentivized to focus on long-term credit quality. Since lending represents credit risk exposure, the board of directors and its duly appointed committees seek to ensure that the Bank maintains appropriate credit quality standards. We have established management oversight committees to administer the loan portfolio and monitor credit risk. These committees include our audit committee and credit committee, and they meet at least quarterly to review the lending activities.

Credit concentration

Diversification of risk is a key factor in prudent asset management. Our loan portfolio is balanced between our metropolitan and community markets and by type, thereby diversifying our loan concentration. Our granular loan portfolio reflects a balanced mix of consumer and commercial clients across these markets that we think provides a natural hedge to industry and market cycles. In addition, risk from concentration is actively managed by management and reviewed by the board of directors of the Bank, and exposures relating to borrower, industry and commercial real estate categories are tracked and measured against policy limits. These limits are reviewed as part of our periodic review of the loan policy. Loan concentration levels are monitored by the Chief Credit Officer and reported to the board of directors.

Loan approval process

The loan approval process at the Bank is characterized by local authority supported by a risk control environment that provides for prompt and thorough underwriting of loans. Our localized decision making is reinforced through a centralized review process supported by technology that monitors credits to ensure compliance with our credit policies. Our loan approval method is based on a hierarchy of individual lending authorities for new credits and renewals granted to our individual bankers, market presidents, credit officers, senior management and credit committee. The board of directors establishes the maximum lending limits at each level and our senior management team sets individual authorities within these maximum limits to each individual based on demonstrated experience and expertise, and are periodically reviewed and updated. We believe that the ability to have individual loan authority up to specified levels based on experience and track record coupled with appropriate approval limits for our market presidents and credit officers allows us to provide prompt and appropriate responses to our clients while still allowing for the appropriate level of oversight.

As a relationship-oriented lender, rather than transaction-oriented lender, substantially all of our loans are made to borrowers or relationships located or operating in our market area. This provides us with a better understanding of their business, creditworthiness and the economic conditions in their market and industry. Furthermore, our associates are held accountable for all of their decisions, which effectively aligns their incentives to reflect appropriate risk management.

In considering loans, we follow the underwriting principles set forth in our loan policy with a primary focus on the following factors:

- A relationship with our clients that provides us with a thorough understanding of their financial condition and ability to repay the loan;
- verification that the primary and secondary sources of repayment are adequate in relation to the amount of the loan;
- adherence to appropriate loan to value guidelines for real estate secured loans;
- targeted levels of diversification for the loan portfolio, both as to type of borrower and type of collateral; and
- proper documentation of loans, including perfected liens on collateral.

As part of the approval process for any given loan, we seek to minimize risk in a variety of ways, including the following:

- analysis of the borrower's and/or guarantor's financial condition, cash flow, liquidity, and leverage;
- assessment of the project's operating history, operating projections, location and condition;
- review of appraisals, title commitment and environmental reports;
- consideration of the management's experience and financial strength of the principals of the borrower; and
- understanding economic trends and industry conditions.

The board of directors reviews and approves loan policy changes, monitors loan portfolio trends and credit trends, and reviews and approves loan transactions that exceed management thresholds as set forth in our loan policies. Loan pricing is established in conjunction with the loan approval process based on pricing guidelines for loans that are set by the Bank’s senior management. We believe that our loan approval process provides for thorough internal controls, underwriting, and decision making.

Lending limits

The Bank is limited in the amount it can loan in the aggregate to a single borrower or related borrowers by the amount of our regulatory capital. The Bank is a Tennessee chartered bank and therefore all branches, regardless of location, fall under the legal lending limits of the state of Tennessee. Tennessee’s legal lending limit is a safety and soundness measure intended to prevent one person or a relatively small and economically related group of persons from borrowing an unduly large amount of a bank’s funds. It is also intended to safeguard a bank’s depositors by diversifying the risk of loan losses among a relatively large number of creditworthy borrowers engaged in various types of businesses. Generally, under Tennessee law, loans and extensions of credit to a borrower may not exceed 15% of our bank’s Tier 1 capital, plus an additional 10% of the bank’s Tier 1 capital, with approval of the bank’s board. Further, the Bank may elect to conform to similar standards applicable to national banks under federal law, in lieu of Tennessee law. Because the federal law and Tennessee state law standards are determined as a percentage of the Bank’s capital, these state and federal limits both increase or decrease as the Bank’s capital increases or decreases. Based upon the capitalization of the Bank at December 31, 2019, the Bank’s legal lending limits were approximately $89 million (15%) and $148 million (25%). The Bank may seek to sell participations in our larger loans to other financial institutions, which will allow us to manage the risk involved in these loans and to meet the lending needs of our clients requiring extensions of credit in excess of these limits.

In addition to these legally imposed lending limits, we also employ appropriate limits on our overall loan portfolio and requirements with respect to certain types of lending and individual lending relationships. For example, we have lending limits related to maximum borrower, industry and certain types of commercial real estate exposures.

Enterprise risk management

We maintain an enterprise risk management program that helps us to identify, manage, monitor and control potential risks that may affect us, including credit risk, interest rate risk, liquidity risk, price risk, compliance risk, operational risk, strategic risk and reputational risk. Our operating model demands a strong risk culture built to address the multiple areas of risk we face, and our risk management strategy is supported by significant investments in the right people and technologies to protect the organization.

Our comprehensive risk management framework and risk identification is a continuous process and occurs at both the transaction level and the portfolio level. While our local bankers and associates support our day-to-day risk practices, management seeks to identify interdependencies and correlations across portfolios and lines of business that may amplify risk exposure through a thorough centralized review process. Risk measurement helps us to control and monitor risk levels and is based on the sophistication of the risk measurement tools used to reflect the complexity and levels of assumed risk. We monitor risks and ensure compliance with our risk policies by timely reviewing risk positions and exceptions, investing in the technology to monitor credits, requiring senior management authority sign-off on larger credit requests and granting credit authority to bankers and officers based on demonstrated experience and expertise. This monitoring process ensures that management's decisions are implemented for all geographies, products and legal entities.

We control risks through limits that are communicated through policies, standards, procedures and processes that define responsibility and authority. Such limits serve as a means to control exposures to the various risks associated with our activities, and are meaningful management tools that can be adjusted if conditions or risk tolerances change. In addition, we maintain a process to authorize exceptions or changes to risk limits when warranted. These risk management practices help to ensure effective reporting, compliance with all laws, rules and regulations, avoid damage to our reputation and related consequences, and attain our strategic goals while avoiding pitfalls and surprises along the way.

The board of directors approves policies that set operational standards and risk limits, and any changes require approval by the Bank's board of directors. Management is responsible for the implementation, integrity and maintenance of our risk management systems ensuring the directives are implemented and administered in compliance with the approved policy. Our Chief Risk Officer supervises the overall management of our risk management program, reports to management and yet also retains independent access to the board of directors.

Credit risk management

Credit risk management is a key component of our risk management program. We employ consistent analysis and underwriting to examine credit information and prepare underwriting documentation. We monitor and approve exceptions to our credit policies as required, and we also track and address technical exceptions.

Each loan officer has the primary responsibility for appropriately risk rating each commercial loan that is made. In addition, our credit administration department is responsible for the ongoing monitoring of loan portfolio performance through the review of ongoing financial reports, loan officer reports, audit reviews and exception reporting and concentration analysis. This monitoring process also includes an ongoing review of loan risk ratings and management of our allowance for loan losses. We have a Chief Credit Officer responsible for maintaining the integrity of our portfolio within the parameters of the credit policy. We utilize a risk grading system that enables management to differentiate individual loan quality and forecast future profitability and portfolio loss potential.

We assign a credit risk rating at the time a commercial loan is made and adjust it promptly as conditions warrant. Portfolio monitoring systems allow management to proactively assess risk and make decisions that will minimize the impact of negative developments. We promote open communication to minimize or eliminate surprises. Successful credit management is achieved by lenders consistently meeting with clients and reviewing their financial conditions regularly. This enables both the recognition of future opportunities and potential weaknesses early.

The board of directors supports a strong loan review program and is committed to its effectiveness as part of the independent process of assessing our lending activities. We have communicated to our credit and lending staff that the identification of emerging problem loans begins with the lending personnel knowing their client and, supported by credit personnel, actively monitoring their client relationships. The loan review process is meant to augment this active management of client relationships and to provide an independent and broad-based look into our lending activities. We believe that our strong client relationships support our ability to identify potential deterioration of our credits at an early stage enabling us to address these issues early on to minimize potential losses.

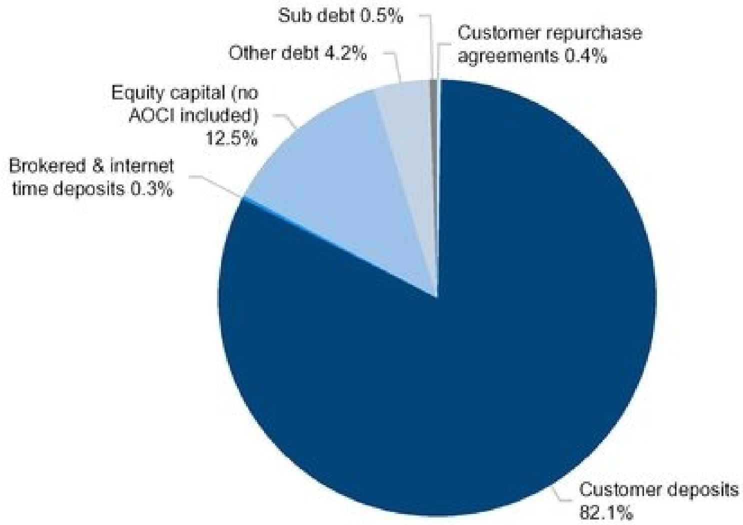
We maintain a robust loan review function by utilizing an internal loan review team as well as third-party loan review firms that report to the board of directors to ensure independence and objectivity. The examinations performed by the loan review department are based on risk assessments of individual loan commitments within our loan portfolio over a period of time. At the conclusion of each review, the loan review department provides management and the board of directors with a report that summarizes the findings of the review. At a minimum, the report addresses risk rating accuracy, compliance with regulations and policies, loan documentation accuracy, the timely receipt of financial statements, and any additional material issues.

We rigorously monitor the levels of such delinquencies for any negative or adverse trends. From time to time, we may modify loans to extend the term or make other concessions to help a borrower with a deteriorating financial condition stay current on their loan and to avoid foreclosure. We generally do not forgive principal or interest on loans or modify the interest rates on loans to rates that are below market rates. Furthermore, we are committed to collecting on all of our loans and, as a result, at times have lower net charge-offs compared to our peer banks. This practice can result in us carrying higher nonperforming assets on our books than our peers, however, our nonperforming assets in recent years have been lower than peers due to strong asset quality. Our commitment to collecting on all of our loans, coupled with our knowledge of our borrowers, sometimes results in higher loan recoveries. We believe that we are well reserved for losses resulting from our non-performing assets.

Liquidity and interest rate risk management

Our liquidity planning framework is focused on ensuring the lowest cost of funding available and planning for unpredictable funding circumstances. To achieve these objectives, we utilize a simple funding and capital structure consisting primarily of deposits and common equity. We remain continually focused on growing our noninterest-bearing and other low-cost core deposits while replacing higher cost funding options, including wholesale time deposits and other borrowed debt, to fund our balance sheet growth. The following chart shows our overall funding structure as of December 31, 2019.

Funding structure as of December 31, 2019



In addition, we monitor our liquidity risk by adopting policies to define potential liquidity problems, reviewing and maintaining an updated liquidity contingency plan and providing a prudent capital structure consistent with our credit standing and plans for strategic growth.

Our interest risk management system is overseen by our board of directors, who has the authority to approve acceptable rate risk levels. Our board of directors has established the Asset Liability Committee to ensure appropriate risk appetite by requiring:

- quarterly testing of interest rate risk exposure;
- proactive risk identification and measurement;
- quarterly risk presentations by senior management; and
- independent review of the risk management process.

Competition

We conduct our core banking operations primarily in Tennessee and compete in the commercial banking industry solely through our wholly owned banking subsidiary, FirstBank. The banking industry is highly competitive, and we experience competition in our market areas from many other financial institutions. We compete with commercial banks, credit unions, savings institutions, mortgage banking firms, online mortgage lenders, online deposit banks, digital banking platforms, consumer finance companies, securities brokerage firms, insurance companies, money market funds and other mutual funds, as well as super-regional, national and international financial institutions that operate offices in our market areas and elsewhere. In addition, a number of out-of-state financial intermediaries have opened production offices, or otherwise solicit deposits, in our market areas. Increased competition in our markets may result in reduced loans and deposits, as well as reduced net interest margin and profitability. Furthermore, the Tennessee market has grown increasingly competitive in recent years with a number of banks entering this market, with a primary focus on the state's metropolitan markets. We believe this trend will continue as banks look to gain a foothold in these growing markets. This trend will result in greater competition primarily in our metropolitan markets. However, we firmly believe that our market position and client-focused operating model enhances our ability to attract and retain clients.

See "Our markets" in this section above for a further discussion of the markets we compete in and the competitive landscape in these markets.

Our associates

As of December 31, 2019, we had 1,377 full-time equivalent associates and 22 part-time equivalent associates. We pride ourselves on maintaining good relations with our associates. None of our employees are represented by any collective bargaining unit or are parties to a collective bargaining agreement.

Information technology systems

We continue to make significant investments in our technology platforms to further strengthen our scalability and resiliency. In 2019, we have made investments in key underlying technology support components, through upgrading our client workstation operating systems, our network infrastructure, expanding the deployment of Software Defined Wide Area Network ("SD-WAN") architecture, and the implementation of an improved workstation management systems, all of which support our continued growth.

In 2019, we also expanded the adoption of core and ancillary functionality of the Jack Henry technology improving efficiency and capacity, including the implementation of an improved Teller platform. We have added Mobile Wallet technology, allowing customers to utilize Apple Pay, Google Pay, and Samsung Pay with their FirstBank debit cards. Additionally, we have enhanced our online account opening functionality, and streamlined customer interactions by implementing e-sign capability within our banking and Specialty Lending functions. Finally, working to create a better customer experience for our digital mortgage offering, we are nearing completion of a new Digital Lending platform, and have deployed it for a small pilot group. This system streamlines the mortgage application process, resulting in an easier, more competitive experience for our mortgage customers.

Supervision and regulation

The following is a general summary of the material aspects of certain statutes and regulations applicable to us and the Bank. These summary descriptions are not complete, and you should refer to the full text of the statutes, regulations, and corresponding guidance for more information. These statutes and regulations are subject to change, and additional statutes, regulations, and corresponding guidance may be adopted. We are unable to predict these future changes or the effects, if any, that these changes could have on our business, revenues, and financial results.

General

As a registered bank holding company, we are subject to regulation, supervision, and examination by the Board of Governors of the Federal Reserve System, or Federal Reserve, under the Bank Holding Company Act of 1956, as amended (the “BHCA”). In addition, as a Tennessee state-chartered bank that is not a member of the Federal Reserve System, the Bank is subject to primary regulation, supervision, and examination by the FDIC and the Bank’s state banking regulator, the Tennessee Department of Financial Institutions, or TDFI. Supervision, regulation, and examination of the Bank by the bank regulatory agencies are intended primarily for the protection of consumers, bank depositors and the Deposit Insurance Fund of the FDIC, rather than holders of our capital stock.

Changes as a result of the Dodd-Frank Act

As a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or Dodd-Frank Act, the regulatory framework under which we and the Bank operate has changed. The Dodd-Frank Act brought about a significant overhaul of many aspects of the regulation of the financial services industry, addressing issues including, among others, systemic risk, capital adequacy, deposit insurance assessments, consumer financial protection, interchange fees, lending limits, mortgage lending practices, registration of investment advisers and changes among the bank regulatory agencies. In particular, portions of the Dodd-Frank Act that affected us and the Bank include, but are not limited to:

- The Dodd-Frank Act created the Consumer Financial Protection Bureau, or CFPB, a new federal regulatory body with broad authority to regulate the offering and provision of consumer financial products and services. The authority to examine depository institutions with $10 billion or less in assets, such as the Bank, for compliance with federal consumer laws remain largely with the Bank's primary federal regulator, the FDIC. However, the CFPB may participate in examinations of smaller institutions on a "sampling basis" and may refer potential enforcement actions against such institutions to their primary regulators. While the CFPB does not have direct supervisory authority over us or the Bank, it nevertheless has important rulemaking, examination and enforcement authority with regard to consumer financial products and services.
- The Dodd-Frank Act imposed new duties on mortgage lenders, including a duty to determine the borrower's ability to repay the loan, and imposed a requirement on mortgage securitizers to retain a minimum level of economic interest in securitized pools of certain mortgage types.

- The Dodd-Frank Act's Volcker Rule substantially restricted proprietary trading and investments in hedge funds or private equity funds and requires banking entities to implement compliance programs, as desribed further under "Other Dodd-Frank Act reforms: Volcker Rule" below.
- The Dodd-Frank Act contained other provisions, including but not limited to: new limitations on federal preemption; application of new regulatory capital requirements, including changes to leverage and risk-based capital standards and changes to the components of permissible tiered capital; changes to the assessment base for deposit insurance premiums; permanently raising the FDIC's standard maximum deposit insurance amount to $250,000 limit for federal deposit insurance; repeal of the prohibition on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts; a prohibition on incentive-based compensation arrangements that encourage inappropriate risk taking by covered financial institutions and are deemed to be excessive, or that may lead to material losses; requirement that sponsors of asset-backed securities retain a percentage of the credit risk of the assets underlying the securities; requirement that banking regulators remove references to and requirements of reliance upon credit ratings from their regulations and replace them with appropriate alternatives for evaluating credit worthiness.

The list above is not exhaustive. It reflects our current assessment of the Dodd-Frank Act provisions and implementing rules that are reasonably possible to have a substantial impact on us in the future. After our planned merger with Franklin Synergy Bank, the Bank will have more than $10 billion in total assets and will be subject to additional federal regulations under Section 165 of the Dodd-Frank Act.

Changes as a result of Current Expected Credit Losses (CECL) accounting standard

In December 2018, the Office of the Comptroller of the Currency ("OCC"), the Board of Governors of the Federal Reserve System, and the FDIC approved a final rule to address changes to credit loss accounting under GAAP. The final rule provides banking organizations the option to phase in over a three-year period the day-one adverse effects on regulatory capital that may result from the adoption of the new accounting standard. Effective January 1, 2020, the Company has adopted the transitional guidance to reduce the impact of the initial adoption on regulatory capital.

Proposed changes of the Economic Growth, Regulatory Relief and Consumer Protection Act (Regulatory Relief Act)

The Regulatory Relief Act was enacted to modify or remove certain financial reform rules and regulations, including some of those implemented under the Dodd-Frank Act. While it maintains the majority of the regulatory structure established by the Dodd-Frank Act, the Regulatory Relief Act amends certain aspects for small depository institutions with less than $10 billion in assets. Sections in the Regulatory Relief Act address access to mortgage credit; consumer access to credit; protections for veterans, consumers, and homeowners; rules for certain bank or financial holding companies; capital access; and protections for student borrowers.

Among other items, the Regulatory Relief Act simplifies the regulatory capital rules for financial institutions and their holding companies with total consolidated assets of less than $10 billion. The Regulatory Relief Act requires federal banking agencies to develop a community bank leverage ratio (defined as the ratio of tangible equity capital to average total consolidated assets) for banks and holding companies with total consolidated assets of less than $10 billion and an appropriate risk profile. The required regulations specify a minimum community bank leverage ratio of not less than 8% and not more than 10%, as well as procedures for treatment of a qualifying community bank that has a community bank leverage ratio that falls below the required minimum. Qualifying banks that exceed the minimum community bank leverage ratio will be deemed to be in compliance with all other capital and leverage requirements. Given the pending acquisition of Franklin, we do not currently plan on adopting the new capital standard.

In September 2019, pursuant to the Regulatory Relief Act, the federal banking agencies adopted a final rule setting the community bank leverage ratio at 9%.

Further, the Regulatory Relief Act decreased the burden for community banks in regards to call reports, the Volcker Rule (which generally restricts banks from engaging in certain investment activities and limits involvement with hedge funds and private equity firms), mortgage disclosures, and risk weights for some high-risk commercial real estate loans. On December 28, 2018, the federal banking agencies issued a final rule increasing the asset threshold to qualify for an 18-month examination cycle from $1 billion to $3 billion for qualifying institutions that are well capitalized, well managed and meet certain other requirements.

Any number of the provisions of the Regulatory Relief Act may have the effect of increasing our expenses, decreasing our revenues, or changing the activities in which we choose to engage. The environment in which banking organizations operate, including legislative and regulatory changes affecting capital, liquidity, supervision, permissible activities, corporate governance and compensation, changes in fiscal policy and steps to eliminate government support for banking organizations, may have long-term effects on the profitability of banking organizations that cannot now be foreseen.

Holding company regulation

As a regulated bank holding company, we are subject to various laws and regulations that affect our business. These laws and regulations, among other matters, prescribe minimum capital requirements, limit transactions with affiliates, impose limitations on the business activities in which we can engage, limit the dividend or distributions that the Bank can pay to us, restrict the ability of institutions to guarantee our debt, and impose certain specific accounting requirements on us that may be more restrictive and may result in greater or earlier charges to earnings or reductions in our capital than generally accepted accounting principles, among other things.

Permitted activities

Under the BHCA, as amended, a bank holding company is generally permitted to engage in, or acquire direct or indirect control of more than five percent of any class of the voting shares of any company that is not a bank or bank holding company and that is engaged in, the following activities (in each case, subject to certain conditions and restrictions and prior approval of the Federal Reserve):

- banking or managing or controlling banks:
- furnishing services to or performing services for our subsidiaries:
- any activity that the Federal Reserve determines by regulation or order to be so closely related to banking as to be a proper incident to the business of banking, including:
  - factoring accounts receivable;
  - making, acquiring, brokering or servicing loans and related activities;
  - leasing personal or real property;
  - operating a nonbank depository instititution, such as a savings association;
  - performing trust company functions;
  - conducting financial and investment advisory activities;
  - underwriting and dealing in government obligations and money market instruments;
  - providing specified management consulting and counseling activities;
  - performing selected data processing services and support services;
  - acting as agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions;
  - performing selected insurance underwriting activities;
  - providing certain community development activities (such as making investments in projects designed primarily to promote community welfare); and
  - issuing and selling money orders and similar consumer-type payment instruments.

While the Federal Reserve has found these activities in the past acceptable for other bank holding companies, the Federal Reserve may not allow us to conduct any or all of these activities, which are reviewed by the Federal Reserve on a case by case basis upon application by a bank holding company.

The Federal Reserve has the authority to order a bank holding company or its subsidiaries to terminate any of these activities or to terminate its ownership or control of any subsidiary when it has reasonable cause to believe that the bank holding company's continued ownership, activity or control constitutes a serious risk to the financial safety, soundness or stability of it or any of its bank subsidiaries.

Acquisitions subject to prior regulatory approval

The BHCA requires the prior approval of the Federal Reserve for a bank holding company to acquire substantially all the assets of a bank or to acquire direct or indirect ownership or control of more than 5% of any class of the voting shares of any bank, bank holding company, savings and loan holding company or savings association, or to increase any such non-majority ownership or control of any bank, bank holding company, savings and loan holding company or savings association, or to merge or consolidate with any bank holding company.

Under the BHCA, if "well capitalized" and "well managed", as defined under the BHCA and implementing regulations, we or any other bank holding company located in Tennessee may purchase a bank located outside of Tennessee. Conversely, a well-capitalized and well-managed bank holding company located outside of Tennessee may purchase a bank located inside Tennessee. In each case, however, restrictions may be placed on the acquisition of a bank that has only been in existence for a limited amount of time or will result in concentrations of deposits exceeding limits specified by statute. For example, Tennessee law currently prohibits a bank holding company from acquiring control of a Tennessee-based financial institution until the target financial institution has been in operation for at least three years.

Bank holding company obligations to bank subsidiaries

Under current law and Federal Reserve policy, a bank holding company is expected to act as a source of financial and managerial strength to its depository institution subsidiaries and to maintain resources adequate to support such subsidiaries, which could require us to commit resources to support the Bank in situations where additional investments in a bank may not otherwise be warranted. These situations include guaranteeing the compliance of an "undercapitalized" bank with its obligations under a capital restoration plan, as described further under "Bank regulation-: Capitalization levels and prompt corrective action" below. As a result of these obligations, a bank holding company may be required to contribute additional capital to its subsidiaries in the form of capital notes or other instruments that qualify as capital under regulatory rules. Any such loan from a holding company to a subsidiary bank is likely to be unsecured and subordinated to the bank's depositors and perhaps to other creditors of the bank. If we were to enter bankruptcy or become subject to the orderly liquidation process established by the Dodd-Frank Act, any commitment by us to a federal bank regulatory agency to maintain the capital of the Bank would be assumed by the bankruptcy trustee or the FDIC, as appropriate, and entitled to a priority of payment.

Restrictions on bank holding company dividends.

The Federal Reserve's policy regarding dividends is that a bank holding company should not declare or pay a cash dividend which would impose undue pressure on the capital of any bank subsidiary or would be funded only through borrowing or other arrangements that might adversely affect a bank holding company's financial position. As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company should consult with the Federal Reserve and eliminate, defer or significantly reduce the bank holding company's dividends if:

- its net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends;
- its prospective rate of earnings retention is not consistent with its capital needs and overall current and prospective financial condition; or
- it will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

Should an insured depository institution controlled by a bank holding company be "significantly undercapitalized" under the applicable federal bank capital ratios, or if the bank subsidiary is "undercapitalized" and has failed to submit an acceptable capital restoration plan or has materially failed to implement such a plan, federal banking regulators (in the case of the Bank, the FDIC) may choose to require prior Federal Reserve approval for any capital distribution by the bank holding company. For more information, see "Bank regulation: Capitalization levels and prompt corrective action."

In addition, since our legal entity is separate and distinct from the Bank and does not conduct stand-alone operations, our ability to pay dividends depends on the ability of the Bank to pay dividends to us, which is also subject to regulatory restrictions as described below in "Bank regulation: Bank dividends."

Under Tennessee law, we are not permitted to pay cash dividends if, after giving effect to such payment, we would not be able to pay our debts as they become due in the usual course of business or our total assets would be less than the sum of our total liabilities plus any amounts needed to satisfy any preferential rights if we were dissolving. In addition, in deciding whether or not to declare a dividend of any particular size, our board of directors must consider our current and prospective capital, liquidity, and other needs.

U.S. Basel III capital rules

In July 2013, federal banking regulators, including the Federal Reserve and the FDIC, adopted the U.S. Basel Capital Rules implementing many aspects of the Basel III Capital Standards.

The U.S. Basel III Capital Rules apply to all national and state banks and savings associations and most bank holding companies and savings and loan holding companies, which we collectively refer to herein as "covered" banking organizations. The requirements in the U.S. Basel III Capital Rules started to phase in on January 1, 2015, for many covered banking organizations, including the Company and the Bank and have been fully phased-in as of January 1, 2019.

The U.S. Basel III Capital Rules impose higher risk-based capital and leverage requirements than those previously in place. Specifically, the rules impose the following minimum capital requirements applicable to us and the Bank:

- a common equity Tier 1 risk-based capital ratio of 4.5%;
- a Tier 1 risk-based capital ratio of 6%;
- a total risk-based capital ratio of 8%;
- a leverage ratio of 4%; and
- a supplementary leverage ratio of 3%, resulting in a leverage ratio requirement of 7% for such institutions.

Under the U.S. Basel III Capital Rules, Tier 1 Capital is defined to include two components: common equity Tier 1 Capital and additional Tier 1 Capital. The highest form of capital, Common Equity Tier 1 Capital ("CET1 Capital"), consists solely of common stock plus related surplus, retained earnings, accumulated other comprehensive income, and limited amounts of minority interests that are in the form of common stock. Additional Tier 1 Capital includes other perpetual instruments historically included in Tier 1 Capital, such as non-cumulative perpetual preferred stock.

The rules permit bank holding companies with less than $15.0 billion in total consolidated assets, to continue to include trust-preferred securities and cumulative perpetual preferred stock issued before May 19, 2010, in Tier 1 Capital, but not in CET1 Capital, subject to certain restrictions. Tier 2 Capital consists of instruments that currently qualify in Tier 2 Capital plus instruments that the rule has disqualified from Tier 1 Capital treatment. We have outstanding trust-preferred securities, issued as debt securities. The first issue was for $21.0 million (21,000 securities priced at $1,000 each) plus $0.7 million in the related common securities, and the second issue was for $9.0 million (9,000 securities priced at $1,000 each) plus $0.3 million in the related common securities.

In addition, in order to avoid restrictions on capital distributions or discretionary bonus payments to executives, a covered banking organization must maintain a capital conservation buffer on top of its minimum risk-based capital requirements. This buffer must consist solely of Tier 1 Common Equity, but the buffer applies to all three risk-based measurements (CET1 Captial, Tier 1 Capital and total capital). The capital conservation buffer consists of an additional amount of common equity equal to 2.5% of risk-weighted assets.

The U.S. Basel III Capital Standards require certain deductions from or adjustments to capital. As a result, deductions from CET1 Capital are required for goodwill (net of associated deferred tax liabilities); intangible assets such as non-mortgage servicing assets and purchased credit card relationships (net of associated deferred tax liabilities); deferred tax assets that arise from net operating loss and tax credit carryforwards (net of any related valuation allowances and net of deferred tax liabilities); any gain on sale in connection with a securitization exposure; any defined benefit pension fund net asset (net of any associated deferred tax liabilities) held by a bank holding company; the aggregate amount of outstanding equity investments (including retained earnings) in financial subsidiaries; and identified losses. Other deductions are required from different levels of capital. The U.S. Basel III Capital Rules also increase the risk weight for certain assets, meaning that more capital must be held against such assets. For example, commercial real estate loans that do not meet certain underwriting requirements must be risk-weighted at 150% rather than the current 100%.

Additionally, the U.S. Basel III Capital Standards provide for the deduction of three categories of assets: (i) deferred tax assets arising from temporary differences that cannot be realized through net operating loss carrybacks (net of related valuation allowances and of deferred tax liabilities), (ii) mortgage servicing assets (net of associated deferred tax liabilities) and (iii) investments in more than 10% of the issued and outstanding common stock of unconsolidated financial institutions (net of associated deferred tax liabilities). The joint agencies issued the Regulatory Capital: Simplifications to the Capital Rule Pursant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (Capital Simplifications Final Rule) on July 22, 2019. Under the Capital Simplifications Final Rule, non-advanced approaches banking organizations are subject to simpler regulatory capital requirements for the three categories of assets discussed above. There is a 25% CET1 Capital deduction threshold for all three categories combined. In September 2019, the join agencies published an updated allowing early adoption on January 1, 2020, which we plan to utilize. We do not anticipate any significant impact to the capital ratios.

Accumulated other comprehensive income, or AOCI, is presumptively included in CET1 Capital and often would operate to reduce this category of capital. The U.S. Basel III Capital Rules provided a one-time opportunity at the end of the first quarter of 2015 for covered banking organizations to opt out of much of this treatment of AOCI, which we elected. The rules also have the effect of increasing capital requirements by increasing the risk weights on certain assets, including high volatility commercial real estate, mortgage servicing rights not includable in CET1 Capital, equity exposures, and claims on securities firms, which are used in the denominator of the three risk-based capital ratios.

U.S. Basel III Capital Rules will require us and the Bank to maintain (i) a minimum ratio of CET1 Capital to risk-weighted assets of at least 4.5%, plus the 2.5% capital conservation buffer, effectively resulting in a minimum ratio of CET1 Capital to risk-weighted assets of at least 7.0%, (ii) a minimum ratio of Tier 1 Capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer, effectively resulting in a minimum Tier 1 Capital ratio of 8.5%, (iii) a minimum ratio of total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer, effectively resulting in a minimum total capital ratio of 10.5% and (iv) a minimum leverage ratio of 4%, calculated as the ratio of Tier 1 Capital to average assets.

The U.S. Basel III Capital Rules also make important changes to the “prompt corrective action” framework discussed below in “Bank regulation: Capitalization levels and prompt corrective action.”

Restrictions on affiliate transactions

See “Bank regulation: Restrictions on transactions with affiliates” below.

Change in control

We are a bank holding company regulated by the Federal Reserve. Subject to certain exceptions, the Change in Bank Control Act, or ("CIBCA"), and its implementing regulations require that any individual or company acquiring "control" of a bank or bank holding company, either directly or indirectly, give the Federal Reserve 60 days' prior written notice of the proposed acquisition. If within that time period the Federal Reserve has not issued a notice disapproving the proposed acquisition, extended the period for an additional period up to 90 days or requested additional information, the acquisition may proceed. An acquisition may be made before expiration of the disapproval period if the Federal Reserve issues written notice that it intends not to disapprove the acquisition. Acquisition of 25 percent or more of any class of voting securities constitutes control, and it is generally presumed for purposes of the CIBCA that the acquisition of 10 percent or more of any class of voting securities would constitute the acquisition of control, although such a presumption of control may be rebutted.

Also, under the CIBCA, the shareholdings of individuals and companies that are deemed to be "acting in concert" would be aggregated for purposes of determining whether such holders "control" a bank or bank holding company. "Acting in concert" under the CIBCA generally means knowing participation in a joint activity or parallel action towards the common goal of acquiring control of a bank or a bank holding company, whether or not pursuant to an express agreement. The manner in which this definition is applied in individual circumstances can vary and cannot always be predicted with certainty. Many factors can lead to a rebuttable presumption of acting in concert, including where: (i) the shareholders are commonly controlled or managed; (ii) the shareholders are parties to an oral or written agreement or understanding regarding the acquisition, voting or transfer of control of voting securities of a bank or bank holding company; (iii) the shareholders are immediate family members; or (iv) both a shareholder and a controlling shareholder, partner, trustee or management official of such shareholder own equity in the bank or bank holding company.

Furthermore, under the BHCA and its implementing regulations, and subject to certain exceptions, any company would be required to obtain Federal Reserve approval prior to obtaining control of a bank or bank holding company. The Federal Reserve issued a final rule in 2019, effective April 1, 2020, which established tiered presumptions of control as detailed in the table below. The final rule provides clarity for circumstances where a company acquires less than 25% of any class of voting securities; control continues to exist in circumstances where a company directly or indirectly owns, controls or has power to vote 25% or more of any class of voting securities or control in any manner the election of a majority of the directors or trustees of the other company. There is a presumption of non-control for any holder of less than 5% of any class of voting securities, assuming none of the generally applicable presumptions are triggered.

	Summary of Tiered Presumptions (Presumption triggered if any relationship exceeds the amount on the table)			
	Less than 5% voting securities	5-9.99% voting securities	10-14.99% voting securities	15-24.99% voting securities
Directors serving on both boards	Less than half	Less than a quarter	Less than a quarter	Less than a quarter
Director service as Board Chair	NA	NA	NA	No director representative is chair of the board
Director service on Board Committees	NA	NA	A quarter or less of a committee with power to bind the company	A quarter or less of a committee with power to bind the company
Business Relationships	NA	First company accounts for less than 10% of revenue or expenses of second company	First company accounts for less than 5% of revenue or expenses of second company	First company accounts for less than 2% of revenue or expenses of second company
Business terms	NA	NA	Market terms	Market terms
Officer/employee interlocks	NA	No more than 1 interlock, never CEO	No more than 1 interlock, never CEO	No interlocks
Contractual Powers	No management agreements	No rights that significantly restrict discretion	No rights that significantly restrict discretion	No rights that significantly restrict discretion
Proxy contests (directors)	NA	NA	No soliciting proxies to replace more than a quarter of total directors of second company	No soliciting proxies to replace more than a quarter of total directors of second company
Total equity	Less than one third of the second company	Less than one third of the second company	Less than one third of the second company	Less than one quarter of the second company

In addition, in 2008 the Federal Reserve issued a policy statement on equity investments in banks and bank holding companies, which sets out circumstances under which a minority investor would not be deemed to control a bank or bank holding company for purposes of the BHCA. Among other things, the 2008 policy statement permits a minority investor to hold up to 24.9% (or 33.3% under certain circumstances) of the total equity (voting and non-voting combined) and have at least one representative on the company's board of directors (with two directors permitted under certain circumstances). This policy statement remains in effect to the extent not superseded by the final rule.

Compensation and risk management

In 2010, the federal banking agencies issued guidance to regulated banks and bank holding companies intended to ensure that incentive compensation arrangements at financial organizations take into account risk and are consistent with safe and sound practices. The guidance is based on three "key principles" calling for incentive compensation plans to: appropriately balance risks and rewards; be compatible with effective controls and risk management; and be backed up by strong corporate governance. Further, in 2016 the federal banking regulators re-proposed rules that would prohibit incentive compensation arrangements that would encourage inappropriate risks by providing excessive compensation or that could lead to a material financial loss, and include certain prescribed standards for governance and risk management for incentive compensation for institutions, such as us, that have over $1 billion in consolidated assets.

Bank regulation

The Bank is a banking institution that is chartered by and headquartered in the State of Tennessee, and it is subject to supervision and regulation by the TDFI and the FDIC. The TDFI and FDIC supervise and regulate all areas of the Bank's operations including, without limitation, the making of loans, the issuance of securities, the conduct of the Bank's corporate affairs, the satisfaction of capital adequacy requirements, the payment of dividends, and the establishment or closing of banking offices. The FDIC is the Bank's primary federal regulatory agency, which periodically examines the Bank's operations and financial condition and compliance with federal consumer protection laws. In addition, the Bank's deposit accounts are insured by the FDIC to the maximum extent permitted by law, and the FDIC has certain enforcement powers over the Bank.

As a state-chartered banking institution in the State of Tennessee, the Bank is empowered by statute, subject to the limitations contained in those statutes, to take and pay interest on deposits, to make loans on residential and other real estate, to make consumer and commercial loans, to invest, with certain limitations, in equity securities and in debt obligations of banks and corporations and to provide various other banking services for the benefit of the Bank's clients. Various state consumer laws and regulations also affect the operations of the Bank, including state usury laws, consumer credit and equal credit opportunity laws, and fair credit reporting. In addition, the Federal Deposit Insurance Corporation Improvement Act of 1991, or FDICIA, generally prohibits insured state chartered institutions from conducting activities as principal that are not permitted for national banks. The Bank is also subject to various requirements and restrictions under federal and state law, including but not limited to requirements to maintain reserves against deposits, lending limits, limitations on branching activities, limitations on the types of investments that may be made, activities that may be engaged in, and types of services that may be offered. Various consumer laws and regulations also affect the operations of the Bank. Also, the Bank and certain of its subsidiaries are prohibited from engaging in certain tying arrangements in connection with extensions of credit, leases or sales of property, or furnishing products or services.

Capital adequacy

See "Holding company regulation: U.S. Basel III capital rules."

Capitalization levels and prompt corrective action

Federal law and regulations establish a capital-based regulatory scheme designed to promote early intervention for troubled banks and require the FDIC to choose the least expensive resolution of bank failures. The capital-based regulatory framework contains five categories of regulatory capital requirements, including "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." A well-capitalized insured depository institution is one (i) having a total risk-based capital ratio of 10 percent or greater, (ii) having a Tier 1 risk-based capital ratio of 8 percent or greater, (iii) having a CET1 capital ratio of 6.5 percent or greater, (iv) having a leverage capital ratio of 5 percent or greater and (v) that is not subject to any order or written directive to meet and maintain a specific capital level for any capital measure.

Generally, a financial institution must be "well capitalized" before the Federal Reserve will approve an application by a bank holding company to acquire a bank or merge with a bank holding company, and the FDIC applies the same requirement in approving bank merger applications.

Immediately upon becoming undercapitalized, a depository institution becomes subject to the provisions of Section 38 of the Federal Deposit Insurance Act, or FDIA, which: (i) restrict payment of capital distributions and management fees; (ii) require that the appropriate federal banking agency monitor the condition of the institution and its efforts to restore its capital; (iii) require submission of a capital restoration plan; (iv) restrict the growth of the institution's assets; and (v) require prior approval of certain expansion proposals. Bank holding companies controlling financial institutions can be called upon to boost the institutions' capital and to partially guarantee the institutions' performance under their capital restoration plans. The appropriate federal banking agency for an undercapitalized institution also may take any number of discretionary supervisory actions if the agency determines that any of these actions is necessary to resolve the problems of the institution at the least possible long-term cost to the deposit insurance fund, subject in certain cases to specified procedures. These discretionary supervisory actions include: (i) requiring the institution to raise additional capital; (ii) restricting transactions with affiliates; (iii) requiring divestiture of the institution or the sale of the institution to a willing purchaser; (iv) requiring the institution to change and improve its management; (iv) prohibiting the acceptance of deposits from correspondent banks; (v) requiring prior Federal Reserve approval for any capital distribution by a bank holding company controlling the institution; and (vi) any other supervisory action that the agency deems appropriate. These and additional mandatory and permissive supervisory actions may be taken with respect to significantly undercapitalized and critically undercapitalized institutions.

As of December 31, 2019, the Bank had sufficient capital to qualify as "well capitalized" under the requirements contained in the applicable regulations, policies and directives pertaining to capital adequacy, and it is unaware of any material violation or alleged material violation of these regulations, policies or directives. Rapid growth, poor loan portfolio performance, or poor earnings performance, or a combination of these factors, could change the Bank's capital position in a relatively short period of time, making additional capital infusions necessary.

It should be noted that the minimum ratios referred to above in this section are merely guidelines, and the bank regulators possess the discretionary authority to require higher capital ratios.

Bank reserves

The Federal Reserve requires all depository institutions, even if not members of the Federal Reserve System, to maintain reserves against some transaction accounts. The balances maintained to meet the reserve requirements imposed by the Federal Reserve may be used to satisfy liquidity requirements. An institution may borrow from the Federal Reserve Bank “discount window” as a secondary source of funds, provided that the institution meets the Federal Reserve Bank’s credit standards.

Bank dividends

The FDIC prohibits any distribution that would result in the bank being “undercapitalized” (<4% leverage ratio, <4.5% CET1 Risk-Based ratio, <6% Tier 1 Risk-Based ratio, or <8% Total Risk-Based ratio). Tennessee law places restrictions on the declaration of dividends by state chartered banks to their shareholders, including, but not limited to, that the board of directors of a Tennessee-chartered bank may only make a dividend from the surplus profits arising from the business of the bank, and may not declare dividends in any calendar year that exceeds the total of its retained net income of that year combined with its retained net income of the preceding two (2) years without the prior approval of the TDFI commissioner. Furthermore, the FDIC and the TDFI also have authority to prohibit the payment of dividends by a Tennessee bank when it determines such payment to be an unsafe and unsound banking practice.

Insurance of accounts and other assessments

The Bank pays deposit insurance assessments to the Deposit Insurance Fund, which is determined through a risk-based assessment system. The Bank’s deposit accounts are currently insured by the Deposit Insurance Fund, generally up to a maximum of $250,000 per separately insured depositor. The Bank pays assessments to the FDIC for such deposit insurance. Under the current assessment system, the FDIC assigns an institution to a risk category based on the institution’s most recent supervisory and capital evaluations, which are designed to measure risk. Under the FDIA, the FDIC may terminate a bank’s deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order, agreement or condition imposed by the FDIC.

In addition, all FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation, or FICO, a federal government corporation established to recapitalize the predecessor to the Savings Association Insurance Fund. FICO assessments are set quarterly and the assessment rate was .520 (annual) basis points for all four quarters in 2017 and 0.305 (annual) basis points for all four quarters in 2018. The bonds matured in 2019 and the final FICO assessment was on March 29, 2019.

Restrictions on transactions with affiliates

The Bank is subject to sections 23A and 23B of the Federal Reserve Act, or FRA, and the Federal Reserve’s Regulation W, as made applicable to state nonmember banks by section 18(j) of the FDIA. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the Bank, and, in our case, includes, among others, the Company as well as our Executive Chairman, James W. Ayers and the companies he controls. Accordingly, transactions between the Bank, on the one hand, and the Company or Mr. Ayers or any of his affiliates, on the other hand, will be subject to a number of restrictions, including restrictions relating to extensions of credit, contracts, leases and purchases or sale of assets. Such restrictions and limitations prevent the Company or Mr. Ayers or his affiliates from borrowing from the Bank unless the loans are secured by specified collateral of designated amounts. Furthermore, such secured loans by the Bank to the Company or Mr. Ayers and his affiliates are limited, individually, to ten percent (10%) of the Bank’s capital and surplus, and such secured loans are limited in the aggregate to twenty percent (20%) of the Bank’s capital and surplus.

All such transactions must be on terms that are no less favorable to the Bank than those that would be available from nonaffiliated third parties. Federal Reserve policies also forbid the payment by bank subsidiaries of management fees which are unreasonable in amount or exceed the fair market value of the services rendered or, if no market exists, actual costs plus a reasonable profit.

Loans to insiders

Loans to executive officers, directors or to any person who directly or indirectly, or acting through or in concert with one or more persons, owns, controls or has the power to vote more than 10% of any class of voting securities of a bank, which the Bank refers to as “10% Shareholders,” or to any political or campaign committee the funds or services of which will benefit those executive officers, directors, or 10% Shareholders or which is controlled by those executive officers, directors or 10% Shareholders, are subject to Sections 22(g) and 22(h) of the FRA and their corresponding regulations, which are commonly referred to as Regulation O. Among other things, these loans must be made on terms substantially the same as those prevailing on transactions made to unaffiliated individuals and certain extensions of credit to those persons must first be approved in advance by a disinterested majority of the entire board of directors. Regulation O prohibits loans to any of those individuals where the aggregate amount exceeds an amount equal to 15% of an institution's unimpaired capital and surplus plus an additional 10% of unimpaired capital and surplus in the case of loans that are fully secured by readily marketable collateral, or when the aggregate amount on all of the extensions of credit outstanding to all of these persons would exceed the Bank's unimpaired capital and unimpaired surplus. Section 22(g) identifies limited circumstances in which the Bank is permitted to extend credit to executive officers.

Community Reinvestment Act

The Community Reinvestment Act, or CRA, and its corresponding regulations are intended to encourage banks to help meet the credit needs of their service areas, including low and moderate-income neighborhoods, consistent with safe and sound operations. These regulations provide for regulatory assessment of a bank's record in meeting the credit needs of its service area. Federal banking agencies are required to make public a rating of a bank's performance under the CRA. The federal banking agencies consider a bank's CRA rating when a bank submits an application to establish banking centers, merge, or acquire the assets and assume the liabilities of another bank. In the case of a bank holding company, the CRA performance record of all banks involved in the merger or acquisition are reviewed in connection with the filing of an application to acquire ownership or control of shares or assets of a bank or to merge with any other financial holding company. An unsatisfactory record can substantially delay, block or impose conditions on the transaction. The Bank received a satisfactory rating on its most recent CRA assessment.

Branching

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, or Riegle-Neal Act, provides that adequately capitalized and managed bank holding companies are permitted to acquire banks in any state. Previously, under the Riegle-Neal Act, a bank's ability to branch into a particular state was largely dependent upon whether the state "opted in" to de novo interstate branching. Many states did not "opt-in," which resulted in branching restrictions in those states. The Dodd-Frank Act amended the Riegle-Neal legal framework for interstate branching to permit national banks and state banks to establish branches in any state if that state would permit the establishment of the branch by a state bank chartered in that state. Under current Tennessee law, our bank may open branch offices throughout Tennessee with the prior approval of the TDFI. All branching remains subject to applicable regulatory approval and adherence to applicable legal requirements.

Anti-money laundering and economic sanctions

The USA PATRIOT Act provides the federal government with additional powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. By way of amendments to the BSA, the USA PATRIOT Act imposed new requirements that obligate financial institutions, such as banks, to take certain steps to control the risks associated with money laundering and terrorist financing.

Among other requirements, the USA PATRIOT Act and implementing regulations require banks to establish anti-money laundering programs that include, at a minimum:

- internal policies, procedures and controls designed to implement and maintain the bank's compliance with all of the requirements of the USE PATRIOT Act, the BSA and related laws and regulations;
- systems and procedures for monitoring and reporting of suspicious transactions and activities;
- designated compliance officer;
- employee training;
- an independent audit function to test the anti-money laundering program;
- procedures to verify the identity of each client upon the opening of accounts; and
- heightened due diligence policies, procedures and controls applicable to certain foreign accounts and relationships.

Additionally, the USA PATRIOT Act requires each financial institution to develop a customer identification program ("CIP") as part of the Bank's anti-money laundering program. The key components of the CIP are identification, verification, government list comparison, notice and record retention. The purpose of the CIP is to enable the financial institution to determine the true identity and anticipated account activity of each client. To make this determination, among other things, the financial institution must collect certain information from clients at the time they enter into the client relationship with the financial institution. This information must be verified within a reasonable time through documentary and non-documentary methods. Furthermore, all clients must be screened against any CIP-related government lists of known or suspected terrorists. Financial institutions are also required to comply with various reporting and recordkeeping requirements. The Federal Reserve and the FDIC consider an applicant's effectiveness in combating money laundering, among other factors, in connection with an application to approve a bank merger or acquisition of control of a bank or bank holding company.

Likewise, the U.S. Department of the Treasury's Office of Foreign Assets Control, or OFAC, is responsible for helping to ensure that United States entities do not engage in transactions with the subjects of U.S. sanctions, as defined by various Executive Orders and Acts of Congress. Currently, OFAC administers and enforces comprehensive U.S. economic sanctions programs against certain specified countries/regions. In addition to the country/region-wide sanctions programs, OFAC also administers complete embargoes against individuals and entities identified on OFAC's list of Specially Designated Nationals and Blocked Persons ("SDN List"). The SDN List includes over 7000 parties that are located in many jurisdictions throughout the world, including in the United States and Europe. The Bank is responsible for determining whether any potential and/or existing clients appear on the SDN List or are owned or controlled by a person on the SDN List. If any client appears on the SDN List or is owned or controlled by a person or entity on the SDN List, such client's account must be placed on hold and a blocking or rejection report, as appropriate and if required, must be filed within 10 business days with OFAC. In addition, if a client is a citizen of, has provided an address in, or is organized under the laws of any country or region for which OFAC maintains a comprehensive sanctions program, the Bank must take certain actions with respect to such clients as dictated under the relevant OFAC sanctions program. The Bank must maintain compliance with OFAC by implementing appropriate policies and procedures and by establishing a recordkeeping system that is reasonably appropriate to administer the Bank's compliance program. The Bank has adopted policies, procedures and controls to comply with the BSA, the USA PATRIOT Act and OFAC regulations.

Regulatory enforcement authority

Federal and state banking laws grant substantial enforcement powers to federal and state banking regulators. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to initiate injunctive actions against banking organizations and "institution-affiliated parties," such as management, employees and agents. In general, these enforcement actions may be initiated for violations of laws, regulations and orders of regulatory authorities, or unsafe or unsound practices. Other actions or inactions, including filing false, misleading or untimely reports with regulatory authorities, may provide the basis for enforcement action. When issued by a banking regulator, cease-and-desist and similar orders may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications or guarantees against loss. A bank may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts, or take other actions determined to be appropriate by the ordering regulatory agency.

Federal Home Loan Bank system

The Bank is a member of the Federal Home Loan Bank of Cincinnati, which is one of 11 regional Federal Home Loan Banks ("FHLBs"). Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from funds deposited by member institutions and proceeds from the sale of consolidated obligations of the FHLB system. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of directors of the FHLB.

As a member of the FHLB of Cincinnati, the Bank is required to own capital stock in the FHLB in an amount generally at least equal to 0.20% (or 20 basis points) of the Bank's total assets at the end of each calendar year, plus 4.5% of its outstanding advances (borrowings) from the FHLB of Cincinnati under the activity-based stock ownership requirement. These requirements are subject to adjustment from time to time. On December 31, 2019, the Bank was in compliance with this requirement.

Privacy and data security

Under the GLBA, federal banking regulators adopted rules limiting the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third parties. The rules require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to nonaffiliated third parties. The GLBA also directed federal regulators, including the FDIC, to prescribe standards for the security of consumer information. The Bank is subject to such standards, as well as standards for notifying clients in the event of a security breach.

Consumer laws and regulations

The Bank is also subject to other federal and state consumer laws and regulations that are designed to protect consumers in transactions with banks. While the list set forth below is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Check Clearing for the 21st Century Act, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Fair and Accurate Transactions Act, the Servicemembers Civil Relief Act, the Military Lending Act, the Mortgage Disclosure Improvement Act, and the Real Estate

Settlement Procedures Act, among others. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with consumers when offering consumer financial products and services.

Rulemaking authority for these and other consumer financial protection laws transferred from the prudential regulators to the CFPB on July 21, 2011. In some cases, regulators such as the Federal Trade Commission and the U.S. Department of Justice also retain certain rulemaking or enforcement authority. The CFPB also has broad authority to prohibit unfair, deceptive and abusive acts and practices (“UDAAP”), and to investigate and penalize financial institutions that violate this prohibition. While the statutory language of the Dodd-Frank Act sets forth the standards for acts and practices that violate the prohibition on UDAAP, certain aspects of these standards are untested, and thus it is currently not possible to predict how the CFPB will exercise this authority. In addition, consumer compliance examination authority remains with the prudential regulators for smaller depository institutions ($10 billion or less in total assets).

The Dodd-Frank Act also authorized the CFPB to establish certain minimum standards for the origination of residential mortgages, including a determination of the borrower’s ability to repay. Under the Dodd-Frank Act, financial institutions may not make a residential mortgage loan unless they make a “reasonable and good faith determination” that the consumer has a “reasonable ability” to repay the loan. The act allows borrowers to raise certain defenses to foreclosure but provides a full or partial safe harbor from such defenses for loans that are “qualified mortgages.” On January 10, 2013, the CFPB published final rules to, among other things, specify the types of income and assets that may be considered in the ability-to-repay determination, the permissible sources for verification, and the required methods of calculating the loan’s monthly payments. Since then the CFPB made certain modifications to these rules. The rules extend the requirement that creditors verify and document a borrower’s “income and assets” to include all “information” that creditors rely on in determining repayment ability. The rules also provide further examples of third-party documents that may be relied on for such verification, such as government records and check-cashing or funds-transfer service receipts. The new rules were effective beginning on January 10, 2014. The rules also define “qualified mortgages,” imposing both underwriting standards—for example, a borrower’s debt-to-income ratio may not exceed 43%—and limits on the terms of their loans. Points and fees are subject to a relatively stringent cap, and the terms include a wide array of payments that may be made in the course of closing a loan. Certain loans, including interest-only loans and negative amortization loans, cannot be qualified mortgages.

Other Dodd-Frank Act reforms

Volcker Rule

The Volcker Rule generally prohibits a “banking entity” (which includes any insured depository institution, such as the Bank, or any affiliate or subsidiary of such depository institution, such as the Company) from (i) engaging in proprietary trading and (ii) acquiring or retaining any ownership interest in, sponsoring, or engaging in certain transactions with, a “covered fund”. Both the proprietary trading and covered fund-related prohibitions are subject to a number of exemptions and exclusions. The final regulations contain exemptions for, among others, market making, risk-mitigating hedging, underwriting, and trading in U.S. government and agency obligations and also permit certain ownership interests in certain types of funds to be retained. They also permit the offering and sponsoring of funds under certain conditions. In addition, the final regulations impose significant compliance and reporting obligations on banking entities.

Executive compensation and corporate governance

The Dodd-Frank Act requires public companies to include, at least once every three years, a separate non-binding “say on pay” vote in their proxy statement by which shareholders may vote on the compensation of the public company’s named executive officers. In addition, if such public companies are involved in a merger, acquisition, or consolidation, or if they propose to sell or dispose of all or substantially all of their assets, shareholders have a right to an advisory vote on any golden parachute arrangements in connection with such transaction (frequently referred to as “say-on-golden parachute” vote). Once the Company no longer qualifies as an emerging growth company, we will be subject to the say-on-pay and say-on-golden-parachute requirements. Other provisions of the act may impact our corporate governance. For instance, the act requires the SEC to adopt rules prohibiting the listing of any equity security of a company that does not have an independent compensation committee; and requiring all exchange-traded companies to adopt clawback policies for incentive compensation paid to executive officers in the event of accounting restatements based on material non-compliance with financial reporting requirements.

Future legislative developments

Various legislative acts are from time to time introduced in Congress and the Tennessee legislature. This legislation may change banking statutes and the environment in which we operate in substantial and unpredictable ways. We cannot determine the ultimate effect that potential legislation, if enacted, or implementing regulations and interpretations with respect thereto, would have our financial condition or results of operations.

Available Information

Our website address is www.firstbankonline.com. We file or furnish to the SEC Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and annual reports to shareholders, and from time to time, amendments to these documents and other documents called for by the SEC. The reports and other documents filed with or furnished to the SEC are available to investors on or through our website at https://investors.firstbankonline.com under the heading “Stock & Filings” and then under “SEC Filings.” These reports are available on our website free of charge as soon as reasonably practicable after we electronically file them with the SEC.

In addition to our website, the SEC maintains an internet site that contains our reports, proxy and information statements and other information we file electronically with the SEC at https://www.sec.gov.

ITEM 1A - Risk Factors

Our operations and financial results are subject to various risks and uncertainties, including, but not limited to, the material risks described below. Many of these risks are beyond our control although efforts are made to manage those risks while simultaneously optimizing operational and financial results. The occurrence of any of the following risks, as well as risks of which we are currently unaware or currently deem immaterial, could materially and adversely affect our assets, business, cash flows, condition (financial or otherwise), liquidity, prospects, results of operations and the trading price of our common stock. It is impossible to predict or identify all such factors and, as a result, you should not consider the following factors to be a complete discussion of the risks, uncertainties and assumptions that could materially and adversely affect our assets, business, cash flows, condition (financial or otherwise), liquidity, prospects, results of operations and the trading price of our common stock.

In addition, certain statements in the following risk factors constitute forward-looking statements. Please refer to the section entitled “Cautionary note regarding forward-looking statements” beginning on page 2 of this Annual Report.

Risks related to our business

Difficult or volatile conditions in the national financial markets, the U.S. economy generally, or the state of Tennessee in particular may adversely affect our lending activity or other businesses, as well as our financial condition.

Our business and financial performance are vulnerable to weak economic conditions in the financial markets and economic conditions generally or specifically in the state of Tennessee, the principal market in which we conduct business. A deterioration in economic conditions in our primary market areas could result in the following consequences, any of which could materially and adversely affect our business: increased loan delinquencies; problem assets and foreclosures; significant write-downs of asset values; lower demand for our products and services; reduced low cost or noninterest-bearing deposits; intangible asset impairment; and collateral for loans made by us, especially real estate, may decline in value, in turn reducing our customers' ability to repay outstanding loans, and reducing the value of assets and collateral associated with our existing loans. Additional issues surrounding weakening economic conditions and volatile markets that could adversely impact us include:

- Increased regulation of our industry, and resulting increased costs associated with regulatory compliance and potential limits on our ability to pursue business opportunities;
- Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite our customers become less predictive of future performance;
- The process we use to estimate losses inherent in our loan portfolio requires difficult, subjective, and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of our borrowers to repay their loans, and process may no longer be capable of accurate estimation and may, in turn, impact its reliability;
- Downward pressure on our stock price.

Additionally, we conduct our banking operations primarily in Tennessee. As of December 31, 2019, approximately 76% of our loans and approximately 83% of our deposits were made to borrowers or received from depositors who live and/or primarily conduct business in Tennessee. Therefore, our success will depend in large part upon the general economic conditions in this area. This geographic concentration imposes risks from lack of geographic diversification, as adverse economic developments in Tennessee (including the Nashville MSA, our largest market), among other things, could affect the volume of loan originations, increase the level of nonperforming assets, increase the rate of foreclosure losses on loans, reduce the value of our loans and loan servicing portfolio, reduce the value of the collateral securing our loans and reduce the amount of our deposits.

Any regional or local economic downturn that affects Tennessee or existing or prospective borrowers, depositors or property values in this area may affect us and our profitability more significantly and more adversely than our competitors whose operations are less geographically concentrated.

We face strong competition from financial services companies and other companies that offer banking services.

We conduct our banking operations primarily in Tennessee, with our largest market being the Nashville MSA, which is a highly competitive banking market. Many of our competitors offer the same, or a wider variety of, banking services within our market areas, and we compete with them for the same customers. These competitors include banks with nationwide operations, regional banks and community banks. In many instances these national and regional banks have greater resources than we do, and the smaller community banks may have stronger ties in local markets than we do, which may put us at a competitive disadvantage. We also face competition from many other types of financial institutions, including thrift institutions, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other internet-based companies offering financial services which enjoy fewer regulatory constraints and some may have lower cost structures. In addition, a number of out-of-state financial institutions have opened offices and solicit deposits in our market areas. Increased competition in our markets may result in reduced loans and deposits, as well as reduced net interest margin and profitability. If we are unable to attract and retain banking customers, we may be unable to continue to grow our loan and deposit portfolios, and our business, financial condition or results of operations may be adversely affected.

Further, a number of larger banks have recently entered the Nashville MSA, and we believe this trend will continue as banks look to gain a foothold in this growing market. This trend will likely result in greater competition in, and may impair our ability to grow our share of our largest market.

If we do not effectively manage our asset quality and credit risk, we could experience loan losses.

Making any loan involves various risks, including risks inherent in dealing with individual borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and cash flows available to service debt, and risks resulting from changes in economic and market conditions. Our credit risk approval and monitoring procedures may fail to identify or reduce these credit risks, and they cannot completely eliminate all credit risks related to our loan portfolio. If the overall economic climate, including employment rates, real estate markets, interest rates and general economic growth, in the United States, generally, or Tennessee (particularly the Nashville MSA), specifically, experiences material disruption, our borrowers may experience difficulties in repaying their loans, the collateral we hold may decrease in value or become illiquid, and the levels of nonperforming loans, charge-offs and delinquencies could rise and require additional provisions for loan losses, which would cause our net income and return on equity to decrease.

If our allowance for loan losses (including the fair value adjustments with respect to loans acquired in acquisitions) is not enough to cover losses inherent in our loan portfolio, our results of operations and financial condition could be negatively affected.

We maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, which represents management’s best estimate of inherent losses that have been incurred in our existing loan portfolio. The level of the allowance reflects management’s continuing evaluation of factors including the volume and types of loans; industry concentrations; specific credit risks; internal loan classifications; trends in classifications; volume and trends in delinquencies, non-accruals and charge-offs; present economic, political and regulatory conditions; industry and peer bank loan quality indications; and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves subjectivity in our modeling and requires us to make estimates of current credit risks and future trends, all of which may undergo material changes or vary from our historical experience. Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses.

The application of the purchase method of accounting in our acquisitions (and any future acquisitions) also will affect our allowance for loan losses. Under the purchase method of accounting, all acquired loans were recorded in our consolidated financial statements at their estimated fair value at the time of acquisition and any related allowance for loan loss was eliminated because credit quality, among other factors, was considered in the determination of fair value. To the extent that our estimates of fair value are too high, we will incur losses associated with the acquired loans. The allowance associated with our purchased credit impaired loans reflects deterioration in cash flows after they were acquired resulting from our quarterly re-estimation of cash flows, which involves complex cash flow projections and significant judgment on timing of loan resolution.

In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. Furthermore, if charge-offs in future periods exceed the allowance for loan losses, we will need additional provisions to increase the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on our business, financial condition and results of operations.

We implemented CECL on January 1, 2020, which will result in an increase to the allowance for credit losses. In future periods, CECL may result in increased reserves during or in advance of an economic downturn. Because CECL recognizes the expected losses over the life of the loan at the time the loan is made, it is possible that CECL implementation may increase the cost of lending in the industry and result in slower loan growth and lower levels of net income and capital. The adoption of the CECL model may materially affect how we determine our allowance for credit losses and could require us to significantly increase our allowance. Moreover, the CECL model may create more volatility in the level of our allowance for credit losses. If we are required to materially increase our level of allowance for credit losses for any reason, such increase could adversely affect our business, financial condition and results of operations.

See the section captioned “Allowance for Loan Losses” in Part II, Item 7 of this Report “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for further discussion related to our process for determining the appropriate level of the allowance for loan losses.

Because a significant portion of our loan portfolio is comprised of real estate loans, negative changes in the economy affecting real estate values and liquidity could impair the value of collateral securing our real estate loans and result in loan and other losses.

As of December 31, 2019, approximately 72% of our loan portfolio was comprised of loans with real estate as a primary or secondary component of collateral. This includes collateral consisting of income producing and residential construction properties, which properties tend to be more sensitive to general economic conditions and downturns in real estate markets. As a result, adverse developments affecting real estate values in our market areas could increase the credit risk associated with our real estate loan portfolio. Adverse changes affecting real estate values and the liquidity of real estate in one or more of our markets could increase the credit risk associated with our loan portfolio and could result in losses that would adversely affect credit quality and our financial condition or results of operations. These adverse changes could significantly impair the value of property pledged as collateral to secure the loans and affect our ability to sell the collateral upon foreclosure without a loss or additional losses. If real estate values decline, it is also more likely that we would be required to increase our allowance for loan losses. Thus, declines in the value of real estate collateral could adversely affect our financial condition, results of operations or cash flows.

We are exposed to higher credit risk from commercial real estate, commercial and industrial, and construction based lending.

Commercial real estate, commercial and industrial, and construction based lending usually involves higher credit risks than 1-4 family residential real estate lending. As of December 31, 2019, the following loan types accounted for the stated percentages of our loan portfolio: commercial real estate (both owner-occupied and non-owner occupied) - 35%; commercial and industrial - 23%; and construction - 13%. These loans expose us to greater credit risk than loans secured by other types of collateral because the collateral securing these loans is typically more difficult to liquidate. Additionally, these types of loans also often involve larger loan balances to a single borrower or groups of related borrowers. These higher credit risks are further heightened when the loans are concentrated in a small number of larger borrowers leading to relationship exposure.

Non-owner occupied commercial real estate loans may be affected to a greater extent than residential loans by adverse conditions in real estate markets or the economy because commercial real estate borrowers’ ability to repay their loans depends on successful development of their properties. These loans also involve greater risk because they generally are not fully amortizing over the loan period, and therefore have a balloon payment due at maturity. A borrower’s ability to make a balloon payment typically will depend on being able to either refinance the loan or sell the underlying property in a timely manner. In addition, banking regulators have been giving commercial real estate lending greater scrutiny, and may require banks with higher levels of commercial real estate loans to implement improved underwriting, internal controls, risk management policies and portfolio stress testing, as well as possibly higher levels of allowances for losses and capital levels as a result of commercial real estate lending growth and exposures.

Commercial and industrial loans and owner-occupied commercial real estate loans are typically based on the borrowers’ ability to repay the loans from the cash flow of their businesses. These loans may involve greater risk because the availability of funds to repay each loan depends substantially on the success of the business itself. In addition, the assets securing the loans depreciate over time, are difficult to appraise and liquidate, and fluctuate in value based on the success of the business.

Risk of loss on a construction loan depends largely upon whether our initial estimate of the property’s value at completion of construction or development equals or exceeds the cost of the property construction or development (including interest), the availability of permanent take-out financing and the builder’s ability to sell the property. During the construction or development phase, a number of factors can result in delays and cost overruns. If estimates of value are inaccurate or if actual construction costs exceed estimates, the value of the property securing the loan may be insufficient to ensure full repayment when completed through a permanent loan or by foreclosure on collateral.

Commercial real estate loans, commercial and industrial loans, and construction loans are more susceptible to a risk of loss during a downturn in the business cycle due to the vulnerability of these sectors during a downturn. Our underwriting, review and monitoring cannot eliminate all of the risks related to these loans.

We also make both secured and unsecured loans to our commercial customers. Unsecured loans generally involve a higher degree of risk of loss than secured loans because, without collateral, repayment is wholly dependent upon the success of the borrowers' businesses. Because of this lack of collateral, we are limited in our ability to collect on defaulted unsecured loans. Further, the collateral that secures our secured commercial and industrial loans typically includes inventory, accounts receivable and equipment, which usually have a value that is insufficient to satisfy the loan without a loss if the business does not succeed.

Our loan concentration in these sectors and their higher credit risk could lead to increased losses on these loans, which could have a material adverse effect on our financial condition, results of operations or cash flows.

We are exposed to higher credit risk due to relationship exposure with a number of large borrowers.

As of December 31, 2019, we had 36 borrowing relationships in excess of $10 million but less than $15 million and 37 relationships greater than $15 million which accounted for approximately 10% and 19% of our loan portfolio, respectively. While we are not overly dependent on any one of these relationships and while these credit relationships have not had a significant impact on the allowance for loan losses in the past, a deterioration of any of these large credits could require us to increase our allowance for loan losses or result in significant losses to us, which could have a material adverse effect on our financial condition, results of operations or cash flows.

Our deposit portfolio includes significant concentrations and a large percentage of our deposits are attributable to a relatively small number of clients.

As a commercial bank, we provide services to a number of clients whose deposit levels may vary considerably and have seasonality based on their nature. At December 31, 2019, seven commercial and individual clients, maintained balances (aggregating all related accounts, including multiple business entities and personal funds of business owners) in excess of $25.0 million, which amounted to $351.4 million in total deposits at December 31, 2019. These clients are not concentrated in any particular industry or business but include certain related parties of the Company. In addition, mortgage escrow deposits that our third-party servicing provider, Cenlar, transfer to the Bank totaled $92.6 million at December 31, 2019. Further, our deposits from municipal and governmental entities (i.e., "public deposits") totaled $463.1 million at December 31, 2019. Of these public deposits, one public entity maintained balances in excess of $25.0 million at December 31, 2019 totaling $63.1 million. These deposits can and do fluctuate substantially. The loss of any combination of these depositors, or a significant decline in the deposit balances due to unexpected fluctuations related to these customers' businesses, would adversely affect our liquidity and may require us to raise deposit rates to quickly attract new customer deposits, purchase brokered deposits, purchase federal funds or borrow funds on a short-term basis to replace such deposits. Depending on the interest rate environment and competitive factors, lower cost deposits may need to be replaced with higher cost funding, resulting in a decrease in net interest income and net income. While these events could have a material impact on the Bank's results, the Bank expects, in the ordinary course of business, that these deposits will fluctuate and believes it is capable of mitigating this risk, as well as the risk of losing one of these depositors, through additional liquidity, and business generation in the future. However, should a significant number of these customers leave the Bank, it could have a material adverse impact on the Bank.

We make loans to small-to-medium sized businesses that may not have the resources to weather a downturn in the economy.

We make loans to privately-owned businesses, many of which are considered to be small to medium-sized businesses. Small to medium-sized businesses frequently have smaller market share than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience significant volatility in operating results. Any one or more of these factors may impair the borrower's ability to repay a loan. In addition, the success of a small to medium-sized business often depends on the management talents and efforts of one or two persons or a small group of persons, and the death, disability or resignation of one or more of these persons could have a material adverse impact on the business and its ability to repay a loan. Economic downturns, a sustained decline in commodity prices and other events that negatively impact small businesses in our market areas could cause us to incur substantial credit losses that could negatively affect our results of operations or financial condition.

We may be materially and adversely affected by the creditworthiness and liquidity of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks and other institutional customers. Many of these transactions expose us to credit risk in the event of a default by, or questions or concerns about the creditworthiness of, a counterparty or client, or concerns about the financial services industry generally. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to us. Any such losses could have a material adverse effect on us.

A lack of liquidity could adversely affect our operations and jeopardize our business, financial condition or results of operations.

We rely on our ability to generate deposits and effectively manage the repayment and maturity schedules of our loans and investment securities to ensure that we have adequate liquidity to fund our operations. In addition to our traditional funding sources, we also may borrow funds from third-party lenders or issue equity or debt securities to investors. Our access to funding sources in amounts adequate to finance or capitalize our activities, or on terms that are acceptable to us, could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry. Any decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, pay dividends to our shareholders, or to fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition or results of operations.

We may not be able to meet our unfunded credit commitments, or adequately reserve for losses associated with our unfunded credit commitments.

A commitment to extend credit is a formal agreement to lend funds to a client as long as there is no violation of any condition established under the agreement. The actual borrowing needs of our customers under these credit commitments have historically been lower than the contractual amount of the commitments. A significant portion of these commitments expire without being drawn upon. Because of the credit profile of our customers, we typically have a substantial amount of total unfunded credit commitments, which is not reflected on our balance sheet. Actual borrowing needs of our customers may exceed our expected funding requirements, especially during a challenging economic environment when our client companies may be more dependent on our credit commitments due to the lack of available credit elsewhere, the increasing costs of credit, or the limited availability of financings from other sources. Any failure to meet our unfunded credit commitments in accordance with the actual borrowing needs of our customers may have a material adverse effect on our business, financial condition, results of operations or reputation.

Changes in interest rates could have an adverse impact on our results of operations and financial condition.

Our earnings and financial condition are dependent to a large degree upon net interest income, which is the difference, or spread, between interest earned on loans, securities and other interest-earning assets and interest paid on deposits, borrowings and other interest-bearing liabilities. When market rates of interest change, the interest we receive on our assets and the interest we pay on our liabilities may fluctuate. This may cause decreases in our spread and may adversely affect our earnings and financial condition.

Interest rates are highly sensitive to many factors including, without limitation:

- The rate of inflation;
- Economic conditions;
- Federal monetary policies; and
- Stability of domestic and foreign markets

Although we have implemented procedures we believe will reduce the potential effects of changes in interest rates on our net interest income, these procedures may not always be successful. Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest income and our net interest margin, asset quality, loan and lease origination volume, liquidity or overall profitability. Additionally, changes in interest rates can adversely impact the origination of mortgage loans held for sale and resulting mortgage banking revenues.

A transition away from LIBOR as a reference rate for financial contracts could negatively affect our income and expenses and the value of various financial contracts.

LIBOR is used extensively in the United States and globally as a benchmark for various commercial and financial contracts, including adjustable rate mortgages, corporate debt, interest rate swaps and other derivatives. LIBOR is set based on interest rate information reported by certain banks, which may stop reporting such information after 2021. It is uncertain at this time whether LIBOR will change or cease to exist or the extent to which those entering into financial contracts will transition to any other particular benchmark. Other benchmarks may perform differently than LIBOR or alternative benchmarks have performed in the past or have other consequences that cannot currently be anticipated. It is also uncertain what will happen with instruments that rely on LIBOR for future interest rate adjustments and which remain outstanding if LIBOR ceases to exist.

We have a significant number of loans, derivative contracts, borrowings and other financial instruments with attributes that are either directly or indirectly dependent on LIBOR. The transition from LIBOR could create considerable costs and additional risk. Since proposed alternative rates are calculated differently, payments under contracts referencing new rates will differ from those referencing LIBOR. The transition will change our market risk profiles, requiring changes to risk and pricing models, valuation tools, product design and hedging strategies. Furthermore, failure to adequately manage this transition process with our customers could adversely impact our reputation. Although we are currently unable to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material adverse effect on our business, financial condition and results of operations.

If we are unable to grow our noninterest income, our growth prospects will be impaired.

Taking advantage of opportunities to develop new, and expand existing, streams of noninterest income, including our mortgage business, cash management services, investment services and interchange fees, is a part of our long-term growth strategy. If we are unsuccessful in our attempts to grow our noninterest income, especially in light of the expected continued competitive pressure on mortgage revenues from the interest rate environment, our long-term growth will be impaired. Further, focusing on these noninterest income streams may divert management’s attention and resources away from our core banking business, which could impair our core business, financial condition and operating results. We also derive a meaningful amount of our noninterest income from non-sufficient funds and overdraft fees, and such fees are subject to increased regulatory scrutiny, which could result in an erosion of such fees, and as a result, materially impair our future noninterest income. Additionally, interchange revenues from electronic transfers will be limited after exceeding $10 billion in total assets under the Durbin Amendment.

Our recent results may not be indicative of our future results.

We may not be able to grow our business at the same rate of growth achieved in recent years or even grow our business at all. In the future, we may not have the benefit of several factors that have been favorable to the growth of our business in past years, such as an interest rate environment where changes in rates occur at a relatively orderly and modest pace and the ability to find suitable expansion opportunities and acquisition targets. Numerous factors, such as weakening or deteriorating economic conditions, regulatory and legislative considerations, and competition may impede or restrict our ability to expand our market presence and build our franchise. Even if we are able to grow our business, we may fail to build the infrastructure sufficient to support such growth, suffer loan losses in excess of reserves for such losses or experience other risks associated with growth.

Our future success is largely dependent upon our ability to successfully execute our business strategy.

Our future success, including our ability to achieve our growth and profitability goals, is dependent on the ability of our management team to execute on our long-term business strategy, which requires them to, among other things:

- maintain and enhance our reputation;
- attract and retain experienced and talented bankers in each of our markets;
- maintain adequate funding sources, including by continuing to attract stable, ow-cost deposits;
- enhance our market penetration in our metropolitan markets and maintain our leadership position in our community markets;
- improve our operating efficiency;
- implement new technologies to enhance the client experience and keep pace with our competitors;
- identify attractive acquisition targets, close on such acquisitions on favorable terms and successfully integrate acquired businesses;
- attract and maintain business banking relationships with well-qualified businesses, real estate developers and investors with proven track records in our market areas;
- attract sufficient loans that meet prudent credit standards;
- originate conforming residential mortgage loans for resale into secondary markets to provide mortgage banking income;
- maintain adequate liquidity and regulatory capital and comply with applicable federal and state banking laws and regulations;
- manage our credit, interest rate and liquidity risk;
- develop new, and grow our existing streams of noninterest income;
- oversee the performance of third-party vendors that provide material services to our business; and
- control expenses in line with their current projections.

Failure of management to execute our business strategy could negatively impact our business, growth prospects, financial condition or results of operations. Further, if we do not manage our growth effectively, our business, financial condition, results of operations and future prospects could be negatively affected, and we may not be able to continue to implement our business strategy and successfully conduct our operations.

We may not be able to complete future financial institution acquisitions.

From time to time, we evaluate and engage in the acquisition of other banking organizations. We must satisfy a number of meaningful conditions before we can complete an acquisition of another bank or bank holding company, including federal and state bank regulatory approvals. The process for obtaining required regulatory approvals can be time-consuming and unpredictable and is subject to numerous regulatory and policy factors, a number of which are beyond our control. We may fail to pursue or to complete strategic and competitively significant acquisition opportunities as a result of the perceived difficulty or impossibility of obtaining required regulatory approvals in a timely manner or at all.

Our strategy of pursuing acquisitions exposes us to financial, execution, compliance and operational risks that could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We intend to continue pursuing a strategy that includes acquisitions. An acquisition strategy involves significant risks, including the following:

- finding suitable candidates for acquisition;
- attracting funding to support additional growth within acceptable risk tolerances;
- maintaining asset quality;
- retaining customers and key personnel, including bankers;
- obtaining necessary regulatory approvals, which we may have difficulty obtaining or be unable to obtain;
- conducting adequate due diligence and managing known and unknown risks and uncertainties;
- integrating acquired businesses; and
- maintaining adequate regulatory capital

The market for acquisition targets is highly competitive, which may adversely affect our ability to find acquisition candidates that fit our strategy and standards. We face significant competition in pursuing acquisition targets from other banks and financial institutions, many of which possess greater financial, human, technical and other resources than we do. Our ability to compete in acquiring target institutions will depend on our available financial resources to fund the acquisitions, including the amount of cash and cash equivalents we have and the liquidity and market price of our common stock. In addition, increased competition may also drive up the acquisition consideration that we will be required to pay in order to successfully capitalize on attractive acquisition opportunities. To the extent that we are unable to find suitable acquisition targets, an important component of our growth strategy may not be realized.

Acquisitions of financial institutions also involve operational risks and uncertainties, such as unknown or contingent liabilities with no available manner of recourse, exposure to unexpected problems such as asset quality, the retention of key employees and customers, and other issues that could negatively affect our business. We may not be able to complete future acquisitions or, if completed, we may not be able to successfully integrate the operations, technology platforms, management, products and services of the entities that we acquire or to realize our attempts to eliminate redundancies. The integration process may also require significant time and attention from our management that would otherwise be directed toward servicing existing business and developing new business. Failure to successfully integrate the entities we acquire into our existing operations in a timely manner may increase our operating costs significantly and adversely affect our business, financial condition and results of operations. Further, acquisitions typically involve the payment of a premium over book and market values and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future acquisition, and the carrying amount of any goodwill that we currently maintain or may acquire may be subject to impairment in future periods.

If we continue to grow, we will face risks arising from our increased size. If we do not manage such growth effectively, we may be unable to realize the benefit from the investments in technology, infrastructure and personnel that we have made to support our expansion. In addition, we may incur higher costs and realize less revenue growth than we expect, which would reduce our earnings and diminish our future prospects, and we may not be able to continue to implement our business strategy and successfully conduct our operations. Risks associated with failing to maintain effective financial and operational controls as we grow, such as maintaining appropriate loan underwriting procedures, information technology systems, determining adequate allowances for loan losses and complying with regulatory accounting requirements, including increased loan losses, reduced earnings and potential regulatory penalties and restrictions on growth, all could have a negative effect on our business, financial condition and results of operations.

Acquisitions may disrupt our business and dilute stockholder value, and integrating acquired companies may be more difficult, costly, or time-consuming than we expect.

Our pursuit of acquisitions may disrupt our business, and any equity that we issue as merger consideration may have the effect of diluting the value of your investment. In addition, we may fail to realize some or all of the anticipated benefits of completed acquisitions. We anticipate that the integration of businesses that we may acquire in the future will be a time-consuming and expensive process, even if the integration process is effectively planned and implemented.

In addition, our acquisition activities could be material to our business and involve a number of significant risks, including the following:

- incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in our attention being diverted from the operating of our existing business;
- using inaccurate estimates and judgments to evaluate credit, operations, management, and market risks with respect to the target company or the assets and liabilities that we seek to acquire;
- exposure to potential asset quality issues of the target company;
- changes to interest rates and/or economic conditions generally may cause significant changes in the fair value of the assets and liabilities that we acquire;
- intense competition from other banking organizations and other potential acquirers, many of which have substantially greater resources than we do;
- potential exposure to unknown or contingent liabilities of banks and businesses we acquire, including, without limitation, liabilities for regulatory and compliance issues;
- inability to realize the expected revenue increases, cost savings, increases in geographic or product presence, an other projected benefits of the acquisition;
- incurring time and expense required to integrate the operations and personnel of the combined businesses;
- inconsistencies in standards, procedures, and policies that would adversely affect our ability to maintain relationships with customers and employees;
- experiencing higher operating expenses relative to operating income from the new operations;
- creating an adverse short-term effect on our results of operations;
- losing key employees and customers;
- significant problems related to the conversion of the financial and customer data of the entity;
- integration of acquired customers into our financial and customer product systems;
- potential changes in banking or tax laws or regulations that may affect the target company; or
- risks of impairment to goodwill.

If difficulties arise with respect to the integration process, the economic benefits expected to result from acquisitions might not occur. As with any merger of financial institutions, there also may be business disruptions that cause us to lose customers or cause customers to move their business to other financial institutions. Failure to successfully integrate businesses that we acquire could have an adverse effect on our profitability, return on equity, return on assets, or our ability to implement our strategy, any of which in turn could have a material adverse effect on our business, financial condition, and results of operations.

The value of our Mortgage servicing rights asset is subjective by nature and may be vulnerable to inaccuracies or other events outside our control.

The value of our mortgage servicing rights asset can fluctuate. Particularly, the asset could decrease in value if prepay speeds, delinquency rates, or the cost to service increases or overall values decrease causing a lack of liquidity of MSRs in the market. Similarly, the value may decrease if interest rates decrease or change in a non-parallel manner or are otherwise volatile. All of which are mostly out of FirstBank’s control. We must use estimates, assumptions and judgments when valuing this asset. An inaccurate valuation, or changes to the valuation due to factors outside of our control, could negatively impact our ability to realize the full value of this asset. As a result, our balance sheet may not precisely represent the fair market value of this and other financial assets.

We are dependent on U.S. government-sponsored entities and government agencies, and any changes in these entities, their current roles or the leadership at such entities or their regulators could materially and adversely affect our business, financial condition, liquidity and results of operations.

Our ability to generate revenues through mortgage loan sales depends on programs administered by GSEs, such as Fannie Mae and Freddie Mac, government agencies, including Ginnie Mae, and others that facilitate the issuance of mortgage-backed securities (“MBS”), in the secondary market. Presently, almost all of the newly originated loans that we originate directly with borrowers qualify under existing standards for inclusion in MBS issued by Fannie Mae or Freddie Mac or guaranteed by Ginnie Mae. A number of legislative proposals have been introduced in recent years that would wind down or phase out the GSEs, including a proposal by the current White House administration to end the conservatorship and privatize Fannie Mae and Freddie Mac. It is not possible to predict the scope and nature of the actions that the U.S. government, will ultimately take with respect to the GSEs. Any changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and their regulators or the U.S. federal government, and any changes in leadership at these entities, could adversely affect our business and prospects. Any discontinuation of, or significant reduction in, the operation of Fannie Mae or Freddie Mac or any significant adverse change in their capital structure, financial condition, activity levels in the primary or secondary mortgage markets or in underwriting criteria could materially and adversely affect our business, financial condition, liquidity and results of operations.

Elimination of the traditional roles of Fannie Mae and Freddie Mac, or any changes to the nature or extent of the guarantees provided by Fannie Mae and Freddie Mac or the fees, terms and guidelines that govern our selling and servicing relationships with them, could also materially and adversely affect our ability to sell and securitize loans through our loan production segment, and the performance, liquidity and market value of our investments. Moreover, any changes to the nature of the GSEs or their guarantee obligations could redefine what constitutes an Agency MBS and could have broad adverse implications for the market and our business, financial condition, liquidity and results of operations.

We follow a relationship-based operating model, and our ability to maintain our reputation is critical to the success of our business.

We are a community bank, and our reputation is one of the most valuable components of our business. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining bankers and other associates who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. Further, maintaining our reputation also depends on our ability to protect our brand and associated intellectual property. If our reputation is negatively affected by the actions of our associates or otherwise, our business and, therefore, our operating results may be materially and adversely affected.

We depend on our executive officers and other key individuals to continue the implementation of our long-term business strategy and could be harmed by the loss of their services and our inability to make up for such loss with qualified replacements.

We believe that our continued growth and future success will depend in large part on the skills of our senior management team and our ability to motivate and retain these individuals and other key individuals. The loss of any member of our senior management team could reduce our ability to successfully implement our long-term business strategy, our business could suffer and the value of our common stock could be materially and adversely affected.

The success of our operating model is largely dependent on our ability to attract and retain talented bankers in each of our markets.

We strive to attract and retain talented bankers in each of our markets by fostering an entrepreneurial environment, empowering them with local decision making authority and providing them with sufficient infrastructure and resources to support their growth while also providing management with appropriate oversight. However, the competition for bankers in each of our markets is intense. We compete for talent with both smaller banks that may be able to offer bankers more responsibility, autonomy and local relationships and larger banks that may be able to offer bankers higher compensation, resources and support. As a result, we may not be able to effectively compete for talent across our markets. Further, our bankers may leave us to work for our competitors and, in some instances, may take important banking relationships with them. If we are unable to attract and retain talented bankers in our markets, our business, growth prospects or financial results could be materially and adversely affected.

We may fail to realize all of the anticipated benefits from previously acquired financial institutions or institutions that we may acquire in the future, or those benefits may take longer to realize than expected. We may also encounter significant difficulties in integrating financial institutions that we acquire.

Our ability to realize the anticipated benefits of any acquisition of other financial institutions, bank branches and/or mortgage operations in target markets will depend, to a large extent, on our ability to successfully integrate the acquired businesses. Such an acquisition strategy will involve significant risks, including the following:

- finding suitable markets for expansion;
- finding suitable candidates for acquisition;
- finding suitable financing sources to fund acquisitions;
- attracting and retaining qualified management;
- maintaining adequate regulatory approvals; and
- closing on suitable acquisitions on terms that are favorable to us.

The integration and combination of the acquired businesses is a complex, costly and time-consuming process. As a result, we may be required to devote significant management attention and resources to integrating business practices and operations. The integration process may disrupt our business and the business of the acquired bank and, if implemented ineffectively, would restrict the full realization of the anticipated benefits of the acquisition. The failure to meet the challenges involved in integrating acquired businesses and to fully realize the anticipated benefits of acquisitions could adversely impact our business, financial condition or results of operations. Further, we cannot assure you that we will be successful in completing any future acquisitions or integrations, or that we will not incur disruptions or unexpected expenses in negotiating or consummating such acquisitions or integrations. Additionally, in attempting to make such acquisitions, we anticipate competing with other financial institutions, some of which have greater financial and operational resources.

Our lending limit may restrict our growth and prevent us from effectively implementing our business strategy.

We are limited by law in the amount we can loan in the aggregate to a single borrower or related borrowers by the amount of our capital. Tennessee's legal lending limit is intended to prevent one person or a relatively small and economically related group of persons from borrowing an unduly large amount of a bank's funds. It is also intended to safeguard a bank's depositors by diversifying the risk of loan losses among a relatively large number of creditworthy borrowers engaged in various types of businesses. Based upon our capitalization at December 31, 2019, our legal lending limits were approximately $89 million (15% of capital and surplus) and $148 million (25% of capital and surplus). Therefore, based upon our current capital levels, the amount we may lend may be significantly less than that of many of our larger competitors and may discourage potential borrowers who have credit needs in excess of our lending limit from doing business with us. We may accommodate larger loans by selling participations in those loans to other financial institutions, but this strategy may not always be available. In addition to these legally imposed lending limits, we also employ appropriate limits on our overall loan portfolio and requirements with respect to certain types of lending and individual lending relationships. If we are unable to compete effectively for loans from our target customers, we may not be able to effectively implement our business strategy, which could have a material adverse effect on our business, financial condition, results of operations or prospects.

Our funding sources may prove insufficient to support our future growth.

Deposits, cash flows from operations (including from our mortgage business) and investment securities for sale are the primary sources of funds for our lending activities and general business purposes. However, from time to time we also obtain advances from the Federal Home Loan Bank, purchase federal funds, engage in overnight borrowing from the Federal Reserve and correspondent banks and sell loans**.** While we believe our current funding sources to be adequate, our future growth may be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available on acceptable terms to accommodate future growth, which could have a material adverse effect on our financial condition, results of operations or cash flows.

The performance of our investment securities portfolio is subject to fluctuation due to changes in interest rates and market conditions, including credit deterioration of the issuers of individual securities.

Changes in interest rates may negatively affect both the returns on and fair value of our investment securities. Interest rate volatility can reduce unrealized gains or increase unrealized losses in our portfolio. Interest rates are highly sensitive to many factors including monetary policies, domestic and international economic and political issues, and other factors beyond our control. Additionally, actual investment income and cash flows from investment securities that carry prepayment risk, such as mortgage-backed securities and callable securities, may materially differ from those anticipated at the time of investment or subsequently as a result of changes in interest rates and market conditions. These occurrences could have a material adverse effect on our net interest income or our results of operations.

Decreased residential mortgage origination volume and pricing decisions of competitors may adversely affect our profitability.

Our mortgage operation originates, sells and services residential mortgage loans. Changes in interest rates, housing prices, applicable government regulations and pricing decisions by our loan competitors may adversely affect demand for our residential mortgage loan products, the revenue realized on the sale of loans, the revenues received from servicing such loans for others and, ultimately, reduce our net income. New regulations, increased regulatory reviews, and/or changes in the structure of the secondary mortgage markets which we utilize to sell mortgage loans may increase costs and make it more difficult to operate a residential mortgage origination business. Our revenue from the mortgage banking business was $100.9 million in 2019. This revenue could significantly decline in future periods if interest rates were to rise and the other risks highlighted in this paragraph were realized, which may adversely affect our profitability.

Our mortgage banking profitability could significantly decline if we are not able to originate and resell a high volume of mortgage loans and securities.

Mortgage production, especially refinancing activity, declines in rising interest rate environments. Our mortgage origination volume could be materially and adversely affected by rising interest rates. Moreover, when interest rates increase, there can be no assurance that our mortgage production will continue at current levels. Further, over half of our mortgage volume is through our consumer direct internet delivery channel, which targets national customers. As a result, loan originations through this channel are particularly susceptible to the interest rate environment and the national housing market. Because we sell a substantial portion of the mortgage loans we originate, the profitability of our mortgage banking business also depends in large part on our ability to aggregate a high volume of loans and sell them in the secondary market at a gain. In fact, when rates rise, we expect increasing industry-wide competitive pressures related to changing market conditions to reduce pricing margins and mortgage revenues generally. If our level of mortgage production declines, our continued profitability will depend upon our ability to reduce our costs commensurate with the reduction of revenue from our mortgage operations. If we are unable to do so, our continued profitability may be materially and adversely affected.

We may incur costs, liabilities, fines and other sanctions if we fail to satisfy our mortgage loan servicing obligations.

We act as servicer for approximately $6.73 billion of mortgage loans owned by third parties as of December 31, 2019. As a servicer for those loans, we have certain contractual obligations to third parties. If we commit a material breach of our obligations as servicer, we may be subject to termination if the breach is not cured within a specified period of time following notice, causing us to lose servicing income. For certain investors and/or transactions, we may be contractually obligated to repurchase a mortgage loan or reimburse the investor for credit losses incurred on the loan as a remedy for origination errors with respect to the loan. If we have increased repurchase obligations because of claims that we did not satisfy our obligations as a servicer, or if we have increased loss severity on such repurchases, we may have a significant reduction to net servicing income within our mortgage banking noninterest income. In addition, we may be subject to fines and other sanctions imposed by federal or state regulators as a result of actual or perceived deficiencies in our foreclosure practices. Any of these actions may harm our reputation or negatively affect our residential lending or servicing business and, as a result, our profitability.

We may be required to repurchase mortgage loans or indemnify buyers against losses in some circumstances.

In 2019, we sold nearly all of the $4.54 billion of mortgage loans held for sale that we originated and purchased. When mortgage loans are sold, whether as whole loans or pursuant to a securitization, we are required to make customary representations and warranties to purchasers, guarantors and insurers about the mortgage loans and the manner in which they were originated. We may be required to repurchase or substitute mortgage loans, or indemnify buyers against losses, in the event we breach certain representations or warranties in connection with the sale of such loans. If repurchase and indemnity demands increase, such demands are valid claims and are in excess of our provision for potential losses, our liquidity, results of operations or financial condition may be materially and adversely affected.

We rely on third party vendors to provide services that are integral to the operation of our business.

We depend on many third-party service providers that are integral to the operation of our business. These vendors service our mortgage loan business, provide critical core systems processing services, essential web hosting and other internet systems, and deposit processing services. If any of these service providers fail to perform servicing duties or perform those duties inadequately, we could experience a temporary interruption in our business, sustain credit losses on our loans or incur additional costs to obtain a replacement servicer. There can be no assurance that a replacement servicer could be retained in a timely manner or at similar rates.

We cannot be sure that we will be able to maintain these relationships on favorable terms. In addition, some of our data processing services are provided by companies associated with our competitors. The loss of these vendor relationships could disrupt the services we provide to our customers and cause us to incur significant expense in connection with replacing these services. If these third-party service providers experience difficulties, or terminate their services, and we are unable to replace them with other service providers, particularly on a timely basis, our operations could be interrupted. If an interruption were to continue for a significant period of time, our business, financial condition or results of operations could be adversely affected, perhaps materially. Even if we are able to replace third-party service providers, it may be at a higher cost to us, which could adversely affect our business, financial condition or results of operations. If we experienced issues with our mortgage servicing provider, our servicing rights could be terminated or we may be required to repurchase mortgage loans or reimburse investors as a result of such failures of our third-party service providers, any of which could adversely affect our reputation, results of operations or financial condition.

Additionally, we utilize many vendors that provide services to support our operations, including the storage and processing of sensitive consumer and business customer data. A cyber security breach of a vendor's system may result in theft and/or unavailability of our data or disruption of business processes. In most cases, we will remain primarily liable to our customers for losses arising from a breach of a vendor's data security system. We rely on our outsourced service providers to implement and maintain prudent cyber security controls. We have procedures in place to assess a vendor's cyber security controls prior to establishing a contractual relationship and to periodically review assessments of those control systems. However, these procedures are not infallible, and a vendor's system can be breached despite the procedures we employ.

If these third-party service providers experience difficulties, or terminate their services, and we are unable to replace them with other service providers, particularly on a timely basis, our operations could be interrupted. If an interruption were to continue for a significant period of time, our business, financial condition or results of operations could be adversely affected, perhaps materially. Even if we are able to replace third-party service providers, it may be at a higher cost to us, which could adversely affect our business, financial condition or results of operations.

Failure to timely and accurately implement changes to mortgage laws and regulations into our compliance processes could adversely affect our ability to mitigate certain risks and losses.

FirstBank must routinely implement changes to mortgage industry law and regulation into our mortgage business practices. Since the CFPB was created in 2011, even more drastic and frequent changes have occurred. In 2015, the CFPB enacted rules known as the TILA-RESPA Integrated Disclosure. This new set of rules consolidated and combined certain mortgage origination rules previously established separately under the Truth-in-Lending Act (TILA) and Real Estate Settlement Procedures Act (RESPA). Additionally, Congress amended the Home Mortgage Disclosure Act (HMDA) in 2010 and the CFPB finalized a rule implementing changes to HMDA in 2015. The rule's provisions require that certain mortgage origination data be collected and reported on an accurate and timely basis. These new CFPB rules, among others, require personnel training, technological enhancements, and revisions to policies and procedures. In addition to these past and future CFPB regulations, FirstBank is subject to additional regulations and rules promulgated by other federal and local governing authorities and agencies including, HUD, FDIC, GNMA, Fannie Mae, and Freddie Mac, among others. We must also comply with many ever-changing federal and local consumer protection laws including in part, the Dodd-Frank Act, the Fair Credit Reporting Act, the Homeowner's Protection Act, the Gramm-Leach-Bliley Act, the Servicemembers Civil Relief Act, the Fair Debt Collection Practices Act, the Telephone Consumer Protection Act, and the Equal Credit Opportunity Act. FirstBank's response to and implementation of these laws and regulation that are already enacted and those to be enacted in the future, could materially increase our compliance expenses causing weakness to our overall financial condition.

Our risk management framework may not be effective in mitigating risks and/or losses to us.

Our risk management framework is comprised of various processes, systems and strategies, and is designed to manage the types of risk to which we are subject, including, among others, credit, market, liquidity, interest rate and compliance risks. Our framework also includes financial or other modeling methodologies that involve management assumptions and judgment. Our risk management framework may not be effective under all circumstances and may not adequately mitigate any risk or loss to us. If our framework is not effective, we could suffer unexpected losses and our business, financial condition, results of operations or prospects could be materially and adversely affected.

System failure or breaches of our network security, including as a result of cyber-attacks or data security breaches, could subject us to increased operating costs as well as litigation and other liabilities.

The computer systems and network infrastructure we, and our vendors, use may be vulnerable to physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as security breaches, denial of service attacks, viruses, ransomware, and other disruptive problems caused by cyber criminals. Any damage or failure that causes breakdowns or disruptions in our client relationship management, general ledger, deposit, loan and other systems could damage our reputation, result in a loss of client business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on us.

Computer break-ins, phishing and other disruptions could also jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure. Information security risks have generally increased in recent years in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, nation state supported organizations, terrorists, and other external parties. Our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. Although we believe we have robust information security procedures and controls, our technologies, systems, vendors, networks, and our customers' devices may become the target of cyber-attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, unavailability, loss or destruction of our or our customers' confidential, proprietary and other information, or otherwise disrupt our or our customers' business operations. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

We are under continuous threat of loss due to cyber-attacks, especially as we continue to expand client capabilities to utilize internet and other remote channels to transact business. While we are not aware of any successful cyber-attacks into our, or our vendors, computer or information technology systems, there can be no assurance that we, or our vendors, will not be the victim of successful cyber-attacks in the future that could cause us to suffer material losses. The occurrence of any cyber-attack or information security breach could result in significant potential liabilities to customers and other third parties, reputational damage, the disruption of our operations and regulatory concerns, all of which could materially and adversely affect our business, financial condition or results of operations.

The financial services industry is undergoing rapid technological changes and, we may not have the resources to implement new technology to stay current with these changes.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy client demands for convenience as well as to provide secure electronic environments as we continue to grow and expand our market area. Many of our larger competitors have substantially greater resources to invest, and have invested significantly more than us, in technological improvements. As a result, they may be able to offer additional or more convenient products compared to those that we will be able to provide, which would put us at a competitive disadvantage. Accordingly, we may not be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers, which could impair our growth and profitability.

We are subject to certain operational risks, including, but not limited to, client or employee fraud.

Employee errors and employee and client misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence. We maintain a system of internal controls and insurance coverage to mitigate against these operational risks. If our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition or results of operations.

In addition, we rely heavily upon information supplied by third parties, including the information contained in credit applications, property appraisals, title information, equipment pricing and valuation and employment and income documentation, in deciding which loans we will originate, as well as the terms of those loans. If any of the information upon which we rely is misrepresented, either fraudulently or inadvertently, and the misrepresentation is not detected prior to asset funding, the value of the asset may be significantly lower than expected, or we may fund a loan that we would not have funded or on terms we would not have extended.

Catastrophic events and disasters could negatively affect our local economies or disrupt our operations or result in other consequences which could have an adverse impact on our financial results or condition.

A significant portion of our business is located in the Southeast and includes areas which are susceptible to weather-related events such as tornadoes, floods, droughts, and fires. Such events can disrupt our operations, cause damage to our properties, and negatively affect the local economies in which we operate. The severity and impact of future natural disasters such as earthquakes, fires, hurricanes, tornadoes, droughts, floods, and other weather-related events are difficult to predict. While we maintain insurance covering many of these weather-related events, there is no insurance against the disruption that such a catastrophic event could cause in the markets that we serve, the resulting adverse impact on our borrowers' ability to timely repay their loans, and/or the value of any collateral held by us.

In addition, geopolitical matters, including international trade disputes, political unrest, the emergence of widespread health emergencies or pandemics, cyber attacks or campaigns, and slow growth in the global economy, as well as acts of terrorism, war, and other violence could result in disruptions in the financial markets or the markets that we serve. These negative events could have a material adverse effect on our results of operations or financial condition and may affect our ability to access capital.

In the first quarter of 2020, the novel coronavirus (COVID-19) was identified as a pandemic by the World Health Organization. We may experience negative impacts from quarantines, market downturns and changes in consumer behavior related to COVID-19. Although the Company has established a pandemic response plan and procedures, our workforce may be impacted if the virus becomes widespread in any of our markets, and we could experience an adverse financial impact due to branch and office closures. In addition, our financial results could be impacted due to an inability of our customers to meet their loan commitments in a timely manner because of their losses associated with impacts of the disease, including a decrease in revenues for certain businesses in areas impacted by quarantines during a pandemic or other changes in consumer behavior. In addition, downturns in the global market related to pandemic fears could result in a lowering of interest rates as a stimulus to boost consumer spending, which could further negatively impact our results of operations.

We may need to raise additional capital in the future.

We are required to meet certain regulatory capital requirements and maintain sufficient liquidity. We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, which could include the possibility of financing acquisitions. Our ability to raise additional capital depends on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions, governmental activities, and our financial condition and performance. Accordingly, we may be unable to raise additional capital if needed or on terms acceptable to us. Further, such additional capital could result in dilution to our existing shareholders. If we fail to maintain capital to meet regulatory requirements, our financial condition, liquidity, results of operations, as well as our ability to maintain compliance with regulatory capital requirements, would be materially and adversely affected.

Our FDIC deposit insurance premiums and assessments may increase.

Our deposits are insured by the FDIC up to legal limits, which subjects us to the payment of FDIC deposit insurance premiums and assessments. The FDIC may increase assessment rates on all institutions or impose special assessments, especially if failures of financial institutions were to occur in the future. Additionally, after our planned merger with Franklin Financial Network, Inc. we will have more than $10 billion in total assets, which will change the method that the FDIC uses to determine the amount of our deposit insurance premium. Any increases in our assessment rate, future special assessments, or required prepayments in FDIC insurance premiums could reduce our profitability or limit our ability to pursue certain business opportunities, which could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects or results of operations.

Our financial condition may be affected negatively by the costs of litigation.

We may be involved from time to time in a variety of litigation, investigations or similar matters arising out of our business. From time to time, and particularly during periods of economic stress, customers may make claims or otherwise take legal action pertaining to performance of our responsibilities. These claims are often referred to as “lender liability” claims. Whether customer claims and legal action related to the performance of our responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a favorable manner, they may result in significant financial liability and/or adversely affect our market perception, products and services, as well as potentially affecting customer demand for those products and services. In many cases, we may seek reimbursement from our insurance carriers to cover such costs and expenses. These claims, as well as supervisory and enforcement actions by our regulators could involve large monetary claims, capital directives, regulatory agreements and directives and significant defense costs. The outcome of any such cases or actions is uncertain. Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause significant reputational harm to us, which in turn could seriously harm our business prospects. Our insurance may not cover all claims that may be asserted against us, and any claims asserted against us, regardless of merit or eventual outcome, may harm our reputation. Should the ultimate judgments or settlements in any litigation or investigation significantly exceed our insurance coverage, they could have a material adverse effect on our business, financial condition or results of operations.

Prior to our initial public offering, we were treated as an S-corporation, and claims of taxing authorities or our former sole shareholder related to our prior status as an S-corporation, could harm us.

Prior to our initial public offering, we were an S-corporation for U.S. federal income tax purposes. While we were an S-corporation, Mr. Ayers, our sole shareholder at the time, was taxed on our income. Following our initial public offering in 2016, our status as an S-corporation was terminated and we became a “C-corporation” under the provisions of the Internal Revenue Code. If the unaudited, open tax years in which we were an S-corporation are audited by the Internal Revenue Service (the “IRS”) and we are determined not to have qualified for, or to have violated, our S-corporation status, we will be obligated to pay back tax, interest and penalties. The amounts that we would be obligated to pay could include tax on all of our taxable income while we were an S-corporation. Any such claims could result in additional costs to us and could have a material adverse effect on our results of operations or financial condition.

In addition, in the event of an adjustment to our reported taxable income for periods prior to termination of our S-corporation status, it is possible that Mr. Ayers would be liable for additional income taxes for those prior periods. Therefore, we entered into a tax sharing agreement with Mr. Ayers. Pursuant to this agreement, upon our filing any tax return (amended or otherwise), in the event of any restatement of our taxable income or pursuant to a determination by, or a settlement with, a taxing authority, for any period during which we were an S-corporation, we may be required to make a payment to Mr. Ayers in an amount equal to Mr. Ayers’ incremental tax liability. In addition, we have agreed to indemnify Mr. Ayers with respect to unpaid income tax liabilities to the extent that such unpaid income tax liabilities are attributable to an adjustment to our taxable income for any period after our S-corporation status terminates. In both cases the amount of the payment will be based on the assumption that Mr. Ayers is taxed at the highest rate applicable to individuals for the relevant periods. We will also indemnify Mr. Ayers for any interest, penalties, losses, costs or expenses arising out of any claim under the agreement. Any such payments to or on behalf of Mr. Ayers would result in additional costs to us and could have a material adverse effect on our results of operations or financial condition.

We could be subject to environmental risks and associated costs on our other real estate owned assets.

A significant portion of our loan portfolio is comprised of loans collateralized by real estate. There is a risk that hazardous or toxic waste could be discovered on the properties that secure our loans. If we acquire such properties as a result of foreclosure, we could be held responsible for the cost of cleaning up or removing this waste, and this cost could exceed the value of the underlying properties and materially and adversely affect us.

We could be required to write down goodwill and other intangible assets.

At December 31, 2019, our goodwill and other identifiable intangible assets were $186.6 million. Under current accounting standards, if we determine goodwill or intangible assets are impaired because, for example, the acquired business does not meet projected revenue targets or certain key employees leave, we are required to write down the carrying value of these assets. We conduct a review at least annually to determine whether goodwill is impaired. Our goodwill impairment evaluation indicated no impairment of goodwill for our reporting segments. We cannot provide assurance, however, that we will not be required to take an impairment charge in the future. Any impairment charge would have an adverse effect on our shareholders' equity and financial results and could cause a decline in our stock price.

Risks related to our regulatory environment

The Dodd-Frank Act and related rules and regulations may adversely affect our business, financial condition or results of operations.

The Dodd-Frank Act contains a variety of far-reaching changes and reforms for the financial services industry and directs federal regulatory agencies to study the effects of, and issue implementing regulations for, these reforms. Many of the provisions of the Dodd-Frank Act could have a direct effect on our performance and, in some cases, impact our ability to conduct business. Examples of these provisions include, but are not limited to:

- Increased capital requirements and changes to the quality of capital required to be held by banking organizations;
- Changes to deposit insurance assessments;
- Regulation of proprietary trading;
- Repeal of the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;
- Establishment of the Consumer Financial Protection Bureau (the "CFPB") with broad authority to implement new consumer protection regulations and, for banks with $10 billion or more in assets, to examine and enforce compliance with federal consumer laws;
- Implementation of risk retention rules for loans (excluding qualified residential mortgages) that are sold by a bank;
- Regulation of debit-card interchange fees; and
- Regulation of lending and the requirements for "qualified mortgages", "qualified residential mortgages" and the assessment of "ability to repay" requirements.

Many of these provisions have already been the subject of proposed and final rules by regulatory authorities. Many other provisions, however, remain subject to regulatory rulemaking and implementation, the effects of which are not yet known. The provisions of the Dodd-Frank Act and any rules adopted to implement those provisions as well as any additional legislative or regulatory changes may impact the profitability of our business, require that we change certain of our business practices, materially affect our business model or affect retention of key personnel, require us to raise additional capital and expose us to additional costs (including increased compliance costs). These and other changes may also require us to invest significant management attention and resources to make any necessary changes and may adversely affect our ability to conduct our business as previously conducted or our financial condition or results of operations.

After our planned merger with Franklin Synergy Bank, FirstBank may have more than $10 billion in total assets, which will subject us additional federal regulations and could materially and adversely affect our business.

On January 21, 2020, we announced that we had executed an agreement to merge with Franklin Financial Network and its wholly owned subsidiary, Franklin Synergy Bank. At the consummation of this merger, FirstBank may have more than $10 billion in total consolidated assets. Pursuant to Section 165 of the Dodd-Frank Act, banks with greater than $10 billion in total consolidated assets are subject to certain additional regulatory requirements, including limits on the debit card interchange fees that such banks may collect, changes in the manner in which assessments for FDIC deposit insurance are calculated, and providing the authority to the Consumer Financial Protection Bureau (“CFPB”) to supervise and examine such banks. Additionally, compliance with the Dodd-Frank Act’s requirements may necessitate that we hire or contract with additional compliance or other personnel, design and implement additional internal controls, or incur other significant expenses, any of which could have a material adverse effect on our business, financial condition or results of operations.

Monetary policies and economic factors may limit our ability to attract deposits or make loans.

The monetary policies of federal regulatory authorities, particularly the Federal Reserve, and economic conditions in our service area and the United States generally, affect our ability to attract deposits and extend loans. We cannot predict either the nature or timing of any changes in these monetary policies and economic conditions, including the Federal Reserve's interest rate policies, or their impact on our financial performance. Adverse conditions in the economic environment could also lead to a potential decline in deposits and demand for loans, which could have a material and adverse effect on our financial condition, results of operations or cash flows.

As the parent company of FirstBank, the Federal Reserve may require us to commit capital resources to support the Bank.

The Federal Reserve requires us to act as a source of strength to the Bank and to commit capital and financial resources to support the Bank. This support may be required at times when we might otherwise determine not to provide it. In addition, if we commit to a federal bank regulator that we will maintain the capital of the Bank, whether in response to the Federal Reserve's invoking its source-of-strength authority or in response to other regulatory measures, that commitment will be assumed by a bankruptcy trustee and, as a result, the Bank will be entitled to priority payment in respect of that commitment, ahead of our other creditors. Thus, any borrowing that must be done by us in order to support the Bank may adversely impact our cash flow, financial condition, results of operations or prospects.

Federal and state regulators periodically examine our business and may require us to remediate adverse examination findings or may take enforcement action against us.

The Federal Reserve, the FDIC and the TDFI periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, the Federal Reserve, the FDIC, or the TDFI were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, they may take a number of different remedial actions as they deem appropriate. These actions could include requiring the remediation of any such adverse examination findings.

In addition, these agencies have the power to take enforcement action against us to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation of law or regulation or unsafe or unsound practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to direct the sale of subsidiaries or other assets, to limit dividends and distributions, to restrict our growth, to assess civil monetary penalties against us or our officers or directors, to remove officers and/or directors or, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. Any regulatory enforcement action against us could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects or results of operations.

Federal, state and local consumer lending laws may restrict our ability to originate certain mortgage loans or increase our risk of liability with respect to such loans and could increase our cost of doing business.

Federal, state and local laws and regulations have been adopted that are intended to eliminate certain lending practices considered "predatory." The origination of loans with certain terms and conditions and that otherwise meet the definition of a "qualified mortgage" may protect us from liability to a borrower for failing to make the necessary determinations. In either case, we may find it necessary to tighten our mortgage loan underwriting standards in response to applicable regulations, which may constrain our ability to make loans consistent with our business strategies. It is our policy not to make predatory loans and to determine borrowers' ability to repay, but the law and related rules create the potential for increased liability with respect to our lending and loan investment activities. They increase our cost of doing business and, ultimately, may prevent us from making certain loans and cause us to reduce the average percentage rate or the points and fees on loans that we do make, which in turn could have a material adverse effect on our business, cash flow, condition (financial or otherwise), liquidity, prospects or results of operations.

We are subject to numerous fair lending laws designed to protect consumers and failure to comply with these laws could lead to a wide variety of sanctions.

The Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations prohibit discriminatory lending practices by financial institutions. The U.S. Department of Justice, federal banking agencies and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution's compliance with fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions, restrictions on expansion and restrictions on entering new lines of business. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects or results of operations.

We could face a risk of noncompliance and enforcement action with the Bank Secrecy Act of 1970 (the "Bank Secrecy Act") and other anti-money laundering statutes and regulations.

The Bank Secrecy Act, the USA PATRIOT Act and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti-money laundering programs and file suspicious activity and currency transaction reports as appropriate. The Financial Crimes Enforcement Network, established by the U.S. Department of the Treasury to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and engages in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and IRS. There is also increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control related to U.S. sanctions regimes. If our policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that we have already acquired or may acquire in the future are deficient, we would be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans, which would negatively impact our business, financial condition or results of operations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us, which could in turn have a material adverse effect on our business.

Risks related to our common stock

We have a shareholder who owns a significant portion of our stock and that shareholders' interests in our business may be different than our other shareholders.

Mr. Ayers, our Executive Chairman, currently owns approximately 44% of our common stock. Further, Mr. Ayers has the right under the shareholder's agreement, by and between the Company and Mr. Ayers and entered into in connection with the Company's initial public offering, to designate up to 40% of our directors and at least one member of the nominating and corporate governance and compensation committees of our board of directors for so long as permitted under applicable law. So long as Mr. Ayers continues to own a significant portion of our common stock, he will have the ability to significantly influence the vote in any election of directors and will have the ability to significantly influence a vote regarding a transaction that requires shareholder approval regardless of whether others believe the transaction is in our best interests. In any of these matters, the interests of Mr. Ayers may differ from or conflict with the interests of our other shareholders. Moreover, this concentration of stock ownership may also adversely affect the trading price of our common stock to the extent investors perceive disadvantages in owning stock of a company with a significant shareholder.

Our corporate organization documents contain certain provisions that could have an anti-takeover effect and may delay, make more difficult or prevent an attempted acquisition of us that our shareholders may favor.

Our governing documents and certain agreements to which we are a party contain provisions that make a change-in-control difficult to accomplish, and may discourage a potential acquirer. These include a provision that directors cannot be removed except for cause and a provision that requires the affirmative vote of eighty percent (80%) of the shares outstanding to amend certain provisions of our charter. These anti-takeover provisions may have an adverse effect on the market for our common stock.

We have the ability to incur debt and pledge our assets, including our stock in the Bank, to secure that debt.

Absent special and unusual circumstances, a holder of any indebtedness for borrowed money has rights that are superior to those of holders of any common stock. For example, interest must be paid to the lender before dividends can be paid to any shareholders, and loans must be paid off before any assets can be distributed to any shareholders if we were to liquidate. Further, we would have to make principal and interest payments on our indebtedness, which could reduce our profitability or result in net losses on a consolidated basis even if the Bank were profitable.

The price of our common stock could be volatile.

The market price of our common stock may be volatile and could be subject to wide fluctuations in price in response to various factors, some of which are beyond our control. In addition, if the market for stocks in our industry, or the stock market in general, experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition or results of operations. If any of the foregoing occurs, it could cause our stock price to fall and may expose us to lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management which could materially adversely affect our business, financial condition or results of operations.

Future sales of our common stock or securities convertible into our common stock may dilute our shareholders' ownership in us and may adversely affect us or the market price of our common stock.

We are generally not restricted from issuing additional shares of our common stock up to the authorized number of shares set forth in our charter. We may issue additional shares of our common stock or securities convertible into our common stock in the future pursuant to current or future employee stock option plans, employee stock grants, upon exercise of warrants or in connection with future acquisitions or financings. In addition, Mr. Ayers has registration rights that allow him to sell additional shares of common stock in subsequent offerings. We cannot predict the size of any such future issuances or the effect, if any, that any such future issuances will have on the trading price of our common stock. Any such future issuances of shares of our common stock or securities convertible into common stock may have a dilutive effect on the holders of our common stock and could have a material negative effect on the trading price of our common stock.

Future sales of our common stock in the public market could lower our share price, and any additional capital raised by us through the sale of equity or convertible debt securities may dilute our shareholders ownership in us and may adversely affect us or the market price of our common stock.

We or Mr. Ayers, may sell additional shares of common stock in subsequent public offerings. We may also issue additional shares of common stock or convertible securities to finance future acquisitions. We cannot predict the size of future issuances of our common stock or the effect, if any, that future issuances and sales of our common stock will have on the market price of our common stock. Sales of substantial amounts of our common stock (including sales that may occur pursuant to registration rights and shares that may be issued in connection with acquisitions), or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

Applicable laws and regulations restrict both the ability of the Bank to pay dividends to us and our ability to pay dividends to our shareholders.

We and the Bank are subject to various regulatory restrictions relating to the payment of dividends. In addition, the Federal Reserve has the authority to prohibit bank holding companies from engaging in unsafe or unsound practices in conducting their business. These federal and state laws, regulations and policies are described in greater detail in "Business: Supervision and regulation: Bank regulation: Bank dividends" and "Business: Supervision and regulation: Holding company regulation: Restriction on bank holding company dividends," and generally consider previous results and net income, capital needs, asset quality, existence of enforcement or remediation proceedings, and overall financial condition in determining whether a dividend payment is appropriate. For the foreseeable future, the majority, if not all, of our revenue will be from any dividends paid to us by the Bank. Accordingly, our ability to pay dividends also depends on the ability of the Bank to pay dividends to us. Further, the present and future dividend policy of the Bank is subject to the discretion of its board of directors. We cannot guarantee that we or the Bank will be permitted by financial condition or applicable regulatory restrictions to pay dividends, that the board of directors of the Bank will elect to pay dividends to us, or the timing or amount of any dividend actually paid. See "Dividend policy." If we do not pay dividends, market perceptions of our common stock may be adversely affected, which could in turn create downward pressure on our stock price.

We are an emerging growth company, and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an "emerging growth company," as defined in the JOBS Act, and we intend to take advantage of certain exemptions from various regulatory and reporting requirements that are applicable to public companies that are emerging growth companies, including, but not limited to, exemptions from being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. In addition, even if we comply with the greater obligations of public companies that are not emerging growth companies, we may avail ourselves of the reduced requirements applicable to emerging growth companies from time to time in the future, so long as we are an emerging growth company. We will remain an emerging growth company for up to five years, though we will cease to be an emerging growth company earlier if we have more than $1 billion in annual gross revenues, have more than $700 million in market value of our common stock held by non-affiliates, or issue more than $1 billion of non-convertible debt in a three-year period. Investors and securities analysts may find it more difficult to evaluate our common stock because we will rely on one or more of these exemptions and, as a result, investor confidence or the market price of our common stock may be materially and adversely affected.

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

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

ITEM 1B - Unresolved Staff Comments

None.

ITEM 2 - Properties

Our principal executive offices and FirstBank’s main office are located at 211 Commerce Street, Suite 300, Nashville, Tennessee 37201. As of December 31, 2019, we operated 68 full-service bank branches and eight limited service branch locations throughout our geographic market areas as well as 29 mortgage offices throughout the southeastern United States. We have banking locations in the metropolitan markets of Nashville, Chattanooga, Knoxville, Memphis, Jackson, Tennessee and Huntsville, Alabama in addition to 12 community markets. See “ITEM 1. Business – Our Markets” for more detail. We own 48 of these banking locations and lease our other banking locations, nearly all of our mortgage offices and our principal executive office. We believe that our offices and banking locations are in good condition, are suitable to our needs and, for the most part, are relatively new or refurbished. Additionally, we continue to upgrade our properties to make them more energy efficient and protect the environment.

ITEM 3 - Legal Proceedings

Various legal proceedings to which FB Financial Corporation or a subsidiary of FB Financial Corporation is party arise from time to time in the normal course of business. As of the date hereof, there are no material pending legal proceedings to which FB Financial Corporation or any of its subsidiaries is a party or of which any of its or its subsidiaries' assets or properties are subject.

ITEM 4 - Mine Safety Disclosures

Not applicable.

PART II

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

Market Information and Holders of Record

FB Financial Corporation's common stock is traded on the New York Stock Exchange under the symbol "FBK" and has traded on that market since September 16, 2016.

The Company had approximately 744 stockholders of record as of March 5, 2020. A substantially greater number of holders of FBK common stock are "street name" or beneficial holders, whose shares of record are held by banks, brokers, and other financial institutions.

Stock Performance Graph

The performance graph and table below compares the cumulative total stockholder return on the common stock of the Company with the cumulative total return on the equity securities included in the Standard & Poor’s 500 Index (S&P 500), which reflects overall stock market performance and the S&P 500 Bank Industry Group, which is a GICS Level 2 industry group consisting of 19 regional and national publicly traded banks. The graph assumes an initial $100 investment on December 31, 2018 through December 31, 2019. Data for the S&P 500 and S&P 500 Bank Industry Group assumes reinvestment of dividends. Returns are shown on a total return basis. The performance graph represents past performance and should not be considered to be an indication of future performance. The information in this paragraph and the following stock performance graph shall not be deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C, other than as provided in Item 201 of Regulation S-K, or to the liabilities of Section 18 of the Exchange Act, except to the extent that we specifically request that such information be treated as soliciting material or specifically incorporate it by reference into a filing under the Securities Act or the Exchange Act.

	Index		
	FB Financial Corporation	**S&P 500 Total Return Index**	**S&P 500 Bank Total Return Index**
9/16/2016	109.21	99.62	98.77
12/29/2017	221.00	127.79	158.91
12/31/2018	185.25	122.18	132.79
12/31/2019	211.28	160.65	186.75

Source: S&P Global Market Intelligence

Dividends

During the second quarter of 2018, our board of directors declared a dividend to shareholders of record for the first time as a public company and have done so for each subsequent quarter since . Our dividend declarations have also been applicable to outstanding restricted stock units, for which related cash distributions are made on the vesting dates of the underlying units.

The following table shows the dividends that have been declared on our common stock with respect to the periods indicated below. Per share amounts are presented to the nearest cent.

(dollars in thousands, except per share data) Quarterly period	Amount per share	Total cash dividend
2018:		
First Quarter	$ —	$ —
Second Quarter	0.06	1,909
Third Quarter	0.06	1,909
Fourth Quarter	0.08	2,545
2019:		
First Quarter	$ 0.08	$ 2,545
Second Quarter	0.08	2,555
Third Quarter	0.08	2,555
Fourth Quarter	0.08	2,539

Subsequent to December 31, 2019, our board of directors declared a dividend of $0.09 per share to shareholders of record as of February 15, 2020 payable March 2, 2020.

Any future determination or changes relating to our dividend policy will be made by our board of directors and will depend on a number of factors, including general and economic conditions, industry standards, our financial condition and operating results, our available cash and current and anticipated cash needs, capital requirements, banking regulations, contractual, legal, tax and regulatory restrictions and implications on the payment of dividends by us to our shareholders or by the Bank to us, and such other factors as our board of directors may deem relevant.

As a bank holding company, any dividends paid by us are subject to various federal and state regulatory limitations and also may be subject to the ability of the Bank to make distributions or pay dividends to us. The Bank is also subject to various legal, regulatory and other restrictions on its ability to pay dividends and make other distributions and payments to us. Our ability to pay dividends is limited by minimum capital and other requirements prescribed by law and regulation. Furthermore, we are generally prohibited under Tennessee corporate law from making a distribution to a shareholder to the extent that, at the time of the distribution, after giving effect to the distribution, we would not be able to pay our debts as they become due in the usual course of business or our total assets would be less than the sum of its total liabilities plus (unless the charter permits otherwise) the amount that would be needed, if we were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of any shareholders who may have preferential rights superior to those receiving the distribution. In addition, financing arrangements that we may enter into in the future may include restrictive covenants that may limit our ability to pay dividends.

Stock Repurchase Program

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs
October 1 - October 31	—	—	—	$ 25,000,000
November 1 - November 30	—	—	—	25,000,000
December 1 - December 31	—	—	—	25,000,000
Total	—	—	—	25,000,000

On October 22, 2018, the Company announced that its board of directors approved a stock repurchase program (the "Program"), and on March 22, 2019, the Company's board of directors approved an amendment to the Program. As amended, the Program contemplates that the Company may purchase up to $50 million of its common stock in the aggregate as follows: (i) up to $25 million in shares during the year ending December 31, 2019, and (ii) up to an additional $25 million in shares during the year ending December 31, 2020. The Program will be conducted pursuant to a written plan and is intended to comply with Rule 10b-18 promulgated under the Exchange Act.

Sale of Equity Securities

The Company did not sell any unregistered equity securities during 2019.

ITEM 6 - Selected Financial Data

The following selected historical consolidated financial data of the Company should be read in conjunction with, and are qualified by reference to, “Management’s discussion and analysis of financial condition and results of operations” and the consolidated financial statements and notes thereto included elsewhere herein. Our historical results for any prior period are not necessarily indicative of results to be expected in any future period.

	As of or for the year ended December 31,				
(Dollars in thousands, except per share data)	**2019**	**2018**	**2017**	**2016**	**2015**
Statement of Income Data					
Total interest income	$ 282,537	$ 239,571	$ 169,613	$ 120,494	$ 102,782
Total interest expense	56,501	35,503	16,342	9,544	8,910
Net interest income	226,036	204,068	153,271	110,950	93,872
Provision for loan losses	7,053	5,398	(950)	(1,479)	(3,064)
Total noninterest income	135,397	130,642	141,581	144,685	92,380
Total noninterest expense	244,841	223,458	222,317	194,790	138,492
Net income before income taxes	109,539	105,854	73,485	62,324	50,824
Income tax expense	25,725	25,618	21,087	21,733	2,968
Net income	$ 83,814	$ 80,236	$ 52,398	$ 40,591	$ 47,856
Net interest income (tax—equivalent basis)	$ 227,930	$ 205,668	$ 156,094	$ 113,311	$ 95,887
Per Common Share					
Basic net income	$ 2.70	$ 2.60	$ 1.90	$ 2.12	$ 2.79
Diluted net income	2.65	2.55	1.86	2.10	2.79
Book value(1)	24.56	21.87	19.54	13.71	13.78
Tangible book value(5)	18.55	17.02	14.56	11.58	10.66
Cash dividends declared	0.32	0.20	—	4.03	1.37
Pro Forma Statement of Income and Per Common Share Data(4)					
Pro forma provision for income tax	$ 25,725	$ 25,618	$ 21,087	$ 22,902	$ 17,829
Pro forma net income	83,814	80,236	52,398	39,422	32,995
Pro forma net income per common share—basic	2.70	2.60	1.90	2.06	1.92
Pro forma net income per common share—diluted	2.65	2.55	1.86	2.04	1.92
Selected Balance Sheet Data					
Cash and cash equivalents	$ 232,681	$ 125,356	$ 119,751	$ 136,327	$ 97,723
Loans held for investment	4,409,642	3,667,511	3,166,911	1,848,784	1,701,863
Allowance for loan losses	(31,139)	(28,932)	(24,041)	(21,747)	(24,460)
Loans held for sale	262,518	278,815	526,185	507,442	273,196
Investment securities, at fair value	691,676	658,805	543,992	582,183	649,387
Other real estate owned, net	18,939	12,643	16,442	7,403	11,641
Total assets	6,124,921	5,136,764	4,727,713	3,276,881	2,899,420
Customer deposits	4,914,587	4,068,610	3,578,694	2,670,031	2,432,843
Brokered and internet time deposits	20,351	103,107	85,701	1,531	5,631
Total deposits	4,934,938	4,171,717	3,664,395	2,671,562	2,438,474
Borrowings	304,675	227,776	347,595	216,453	179,749
Total shareholders' equity	762,329	671,857	596,729	330,498	236,674
Selected Ratios					
Return on average:					
Assets(2)	1.45%	1.66%	1.37%	1.35%	1.86%
Shareholders' equity(2)	11.6%	12.7%	11.2%	14.7%	20.9%
Tangible common equity(5)	15.4%	16.7%	14.0%	17.6%	18.7%
Average shareholders' equity to average assets	12.5%	13.0%	12.2%	9.2%	8.9%
Net interest margin (tax-equivalent basis)	4.34%	4.66%	4.46%	4.10%	3.97%
Efficiency ratio	67.7%	66.8%	75.4%	76.2%	74.4%
Adjusted efficiency ratio (tax-equivalent basis)(5)	65.4%	65.8%	68.1%	70.6%	73.1%
Loans held for investment to deposit ratio	89.4%	87.9%	86.4%	69.2%	69.8%
Yield on interest-earning assets	5.42%	5.47%	4.93%	4.45%	4.34%

Cost of interest-bearing liabilities	1.48%	1.11%	0.66%	0.48%	0.49%
Cost of total deposits	1.10%	0.76%	0.42%	0.29%	0.30%

	As of or for the year ended December 31,				
	2019	2018	2017	2016	2015
Pro Forma Selected Ratios					
Pro forma return on average assets(2)(4)	1.45%	1.66%	1.37%	1.31%	1.28%
Pro forma return on average equity(2)(4)	11.6%	12.7%	11.2%	14.3%	14.5%
Credit Quality Ratios					
Allowance for loan losses to loans, net of unearned income	0.71%	0.79%	0.76%	1.18%	1.50%
Allowance for loan losses to nonperforming loans	117.0%	173.0%	238.1%	216.2%	211.1%
Nonperforming loans to loans, net of unearned income	0.60%	0.46%	0.32%	0.54%	0.68%
Capital Ratios (Company)					
Shareholders' equity to assets	12.4%	13.1%	12.6%	10.1%	8.2%
Tier 1 capital (to average assets)	10.1%	11.4%	10.5%	10.1%	7.6%
Tier 1 capital (to risk-weighted assets(3)	11.6%	12.4%	11.4%	12.2%	9.6%
Total capital (to risk-weighted assets)(3)	12.2%	13.0%	12.0%	13.0%	11.2%
Tangible common equity to tangible assets(5)	9.7%	10.5%	9.7%	8.7%	6.4%
Common Equity Tier 1 (to risk-weighted assets) (CET1)(3)	11.1%	11.7%	10.7%	11.0%	8.2%
Capital Ratios (Bank)					
Shareholders' equity to assets	12.8%	13.2%	12.6%	9.9%	9.2%
Tier 1 capital (to average assets)	9.9%	10.9%	9.8%	9.0%	7.7%
Tier 1 capital (to risk-weighted assets)(3)	11.5%	11.9%	10.7%	10.9%	9.6%
Total capital to (risk-weighted assets)(3)	12.1%	12.5%	11.3%	11.7%	11.0%
Common Equity Tier 1 (to risk-weighted assets) (CET1)(3)	11.5%	11.9%	10.7%	10.9%	9.6%

(1) Book value per share equals our total shareholders' equity as of the date presented divided by the number of shares of our common stock outstanding as of the date presented. The number of shares of our common stock outstanding was 31,034,315, 30,724,532, 30,535,517, 24,107,660, and 17,180,000 as of December 31, 2019, 2018, 2017, 2016 and 2015, respectively.

(2) We have calculated our return on average assets and return on average equity for a period by dividing net income for that period by our average assets and average equity, as the case may be, for that period. We have calculated our pro forma return on average assets and pro forma return on average equity for a period by calculating our pro forma net income for that period as described in footnote 4 below and dividing that by our average assets and average equity, as the case be, for that period. We calculate our average assets and average equity for a period by dividing the sum of our total asset balance or total stockholder's equity balance, as the case may be, as of the close of business on each day in the relevant period and dividing by the number of days in the period.

(3) We calculate our risk-weighted assets using the standardized method of the Basel III Framework.

(4) We have calculated our pro forma net income, pro forma net income per share, pro forma returns on average assets and pro forma return on average equity for each period shown by calculating a pro forma provision for federal income tax using a combined effective income tax rate of 36.75% and 35.08% for the years ended December 31, 2016 and 2015, respectively, and adjusting our historical net income for each period to give effect to the pro forma provision for U.S. federal income tax for such period.

(5) These measures are not measures recognized under generally accepted accounting principles (United States) ("GAAP"), and are therefore considered to be non-GAAP financial measures. See "GAAP reconciliation and management explanation of non-GAAP financial measures" for a reconciliation of these measures to their most comparable GAAP measures.

GAAP reconciliation and management explanation of non-GAAP financial measures

We identify certain financial measures discussed in this Report as being "non-GAAP financial measures." The non-GAAP financial measures presented in this Report are adjusted efficiency ratio (tax equivalent basis), tangible book value per common share, tangible common equity to tangible assets and return on average tangible equity.

In accordance with the SEC's rules, we classify a financial measure as being a non-GAAP financial measure if that financial measure excludes or includes amounts, or is subject to adjustments that have the effect of excluding or including amounts, that are included or excluded, as the case may be, in the most directly comparable measure calculated and presented in accordance with GAAP as in effect from time to time in the United States in our statements of income, balance sheets or statements of cash flows.

The non-GAAP financial measures that we discuss in this Report should not be considered in isolation or as a substitute for the most directly comparable or other financial measures calculated in accordance with GAAP. Moreover, the manner in which we calculate the non-GAAP financial measures that we discuss in our selected historical consolidated financial data may differ from that of other companies reporting measures with similar names. You should understand how such other banking organizations calculate their financial measures similar or with names similar to the non-GAAP financial measures we have discussed in our selected historical consolidated financial data when comparing such non-GAAP financial measures. The following reconciliation tables provide a more detailed analysis of these, and reconciliation for, each of non-GAAP financial measures.

Adjusted efficiency ratio (tax equivalent basis)

The adjusted efficiency ratio (tax equivalent basis) is a non-GAAP measure that excludes certain gains (losses), merger and offering-related expenses and other selected items. Our management uses this measure in its analysis of our performance. Our management believes this measure provides a greater understanding of ongoing operations and enhances comparability of results with prior periods, as well as demonstrates the effects of significant gains and charges. The most directly comparable financial measure calculated in accordance with GAAP is the efficiency ratio.

The following table presents, as of the dates set forth below, a reconciliation of our adjusted efficiency ratio (tax-equivalent basis) to our efficiency ratio:

	Year Ended December 31,				
(dollars in thousands)	**2019**	**2018**	**2017**	**2016**	**2015**
Adjusted efficiency ratio (tax-equivalent basis)					
Total noninterest expense	$ 244,841	$ 223,458	$ 222,317	$ 194,790	$ 138,492
Less vesting of one time equity grants	—	—	—	2,960	—
Less variable compensation charge related to cash settled equity awards previously issued	—	—	635	1,254	—
Less merger and conversion, offering and mortgage restructuring expenses	7,380	2,265	19,034	3,268	3,543
Less impairment of MSRs	—	—	—	4,678	194
Less loss on sale of MSRs	—	—	249	4,447	—
Adjusted noninterest expense	$ 237,461	$ 221,193	$ 202,399	$ 178,183	$ 134,755
Net interest income (tax-equivalent basis)	$ 227,930	$ 205,668	$ 156,094	$ 113,311	$ 95,887
Total noninterest income	135,397	130,642	141,581	144,685	92,380
Less bargain purchase gain	—	—	—	—	2,794
Less gain (loss) on sales of other real estate	545	(99)	774	1,282	(317)
Less (loss) gain on other assets	(104)	328	(664)	(103)	(393)
Less gain (loss) on securities	57	(116)	285	4,407	1,844
Adjusted noninterest income	$ 134,899	$ 130,529	$ 141,186	$ 139,099	$ 88,452
Adjusted operating revenue	$ 362,829	$ 336,197	$ 297,280	$ 252,410	$ 184,339
Efficiency ratio (GAAP)	67.7%	66.8%	75.4%	76.2%	74.4%
Adjusted efficiency ratio (tax-equivalent basis)	65.4%	65.8%	68.1%	70.6%	73.1%

Tangible book value per common share and tangible common equity to tangible assets

Tangible book value per common share and tangible common equity to tangible assets are non-GAAP measures that exclude the impact of goodwill and other intangibles used by the Company's management to evaluate capital adequacy. Because intangible assets such as goodwill and other intangibles vary extensively from company to company, we believe that the presentation of this information allows investors to more easily compare the Company's capital position to other companies. The most directly comparable financial measure calculated in accordance with GAAP is book value per common share and our total shareholders' equity to total assets.

The following table presents, as of the dates set forth below, tangible common equity compared with total shareholders' equity, tangible book value per common share compared with our book value per common share and common equity to tangible assets compared to total shareholders' equity to total assets:

	As of December 31,				
(dollars in thousands, except share and per share data)	**2019**	**2018**	**2017**	**2016**	**2015**
Tangible Assets					
Total assets	$ 6,124,921	$ 5,136,764	$ 4,727,713	$ 3,276,881	$ 2,899,420
Adjustments:					
Goodwill	(169,051)	(137,190)	(137,190)	(46,867)	(46,804)
Core deposit and other intangibles	(17,589)	(11,628)	(14,902)	(4,563)	(6,695)
Tangible assets	$ 5,938,281	$ 4,987,946	$ 4,575,621	$ 3,225,451	$ 2,845,821
Tangible Common Equity					
Total shareholders' equity	$ 762,329	$ 671,857	$ 596,729	$ 330,498	$ 236,674
Adjustments:					
Goodwill	(169,051)	(137,190)	(137,190)	(46,867)	(46,904)
Core deposit and other intangibles	(17,589)	(11,628)	(14,902)	(4,563)	(6,695)
Tangible common equity	$ 575,689	$ 523,039	$ 444,637	$ 279,068	$ 183,075
Common shares outstanding	31,034,315	30,724,532	30,535,517	24,107,660	17,180,000
Book value per common share	$ 24.56	$ 21.87	$ 19.54	$ 13.71	$ 13.78
Tangible book value per common share	$ 18.55	$ 17.02	$ 14.56	$ 11.58	$ 10.66
Total shareholders' equity to total assets	12.4%	13.1%	12.6%	10.1%	8.2%
Tangible common equity to tangible assets	9.7%	10.5%	9.7%	8.7%	6.4%

Return on average tangible common equity

Return on average tangible common equity is a non-GAAP measure that uses average shareholders' equity and excludes the impact of goodwill and other intangibles. This measurement is also used by the Company's management to evaluate capital adequacy. The following table presents, as of the dates set forth below, reconciliations of total average tangible common equity to average shareholders' equity and return on average tangible common equity to return on average
shareholders equity:

	Year Ended December 31,				
(dollars in thousands)	**2019**	**2018**	**2017**	**2016**	**2015**
Pro forma return on average tangible common equity					
Total average shareholders' equity	$ 723,494	$ 629,922	$ 466,219	$ 276,587	$ 228,844
Average goodwill	(160,587)	(137,190)	(84,997)	(46,867)	(46,904)
Average intangibles, net	(17,236)	(12,815)	(8,047)	(5,353)	(5,095)
Average tangible common equity	$ 545,671	$ 479,917	$ 373,175	$ 224,367	$ 176,845
Net income	$ 83,814	$ 80,236	$ 52,398	$ 40,591	$ 47,856
Return on average shareholders' equity	11.6%	12.7%	11.2%	14.7%	20.9%
Pro forma return on average tangible common equity	15.4%	16.7%	14.0%	17.6%	18.7%

ITEM 7 – Management’s discussion and analysis of financial condition and results of operations

The following is a discussion of our financial condition at December 31, 2019 and December 31, 2018 and our results of operations for the years ended December 31, 2019 and 2018 and should be read in conjunction with our audited consolidated financial statements included elsewhere herein. This discussion and analysis contains forward-looking statements that are subject to certain risks and uncertainties and are based on certain assumptions that we believe are reasonable but may prove to be inaccurate. Certain risks, uncertainties and other factors, including those set forth in the “Cautionary note regarding forward-looking statements” and “Risk Factors” sections of this Annual Report, may cause actual results to differ materially from those projected results discussed in the forward-looking statements appearing in this discussion and analysis. We assume no obligation to update any of these forward-looking statements.

Discussion and analysis of our financial condition and results of operations for the years ended December 31, 2018 and 2017 are included in the respective sections within "Part II. Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report filed on Form 10-K for the year ended December 31, 2018.

Critical accounting policies

Our financial statements are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and general practices within the banking industry. Within our financial statements, certain financial information contain approximate measurements of financial effects of transactions and impacts at the consolidated balance sheet dates and our results of operations for the reporting periods. We monitor the status of proposed and newly issued accounting standards to evaluate the impact on our financial condition and results of operations. Our accounting policies, including the impact of newly issued accounting standards and subsequent adoptions, are discussed in further detail in "Part II- Item 8. Financial Statements and Supplementary Data - Note 1. Basis of Presentation" of this Report.

Allowance for loan losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Management periodically reviews the allowance for loan losses. Loans are charged against the allowance for loan losses when management believes that the collectability of principal is unlikely. Recoveries of amounts previously charged off are credited to the allowance. In the event management concludes that the allowance for loan losses is more than adequate to absorb potential loan losses, a reverse provision may be recorded whereby a credit is made to the expense account.

The allowance for loan losses is maintained at a level that management considers adequate to absorb probable incurred credit losses on outstanding loans. Factors considered in management’s evaluation of the adequacy of the allowance are current and anticipated economic conditions, previous loan loss experience, changes in the nature, volume and composition of the loan portfolio, industry or other concentrations of credit, review of specific problem loans, the level of classified and nonperforming loans, the results of regulatory examinations, the estimated fair value of underlying collateral and overall quality of the loan portfolio. The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For such loans, an allowance is established when the discounted cash flows or the collateral value, less estimated selling costs, of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience with the overall level, adjusted for qualitative, economic and other factors impacting the future collectability of the loan portfolio.

Certain loans acquired in acquisitions or mergers are accounted for under ASC 310-30 “Loans and Debt Securities Acquired with Deteriorated Credit Quality,” which prohibits the carryover of an allowance for loan losses for loans acquired in which the acquirer concludes that it will not collect the contractual amount. As a result, these loans are carried at values which represent management’s estimate of the future cash flows of these loans. Increases in expected cash flows to be collected from the contractual cash flows are required to be recognized as an adjustment to the loan’s yield over its remaining life, while decreases in expected cash flows are required to be recognized as impairment charges to the provision for loan losses.

Effective January 1, 2020, we adopted ASU 2016-13, "Financial Instruments - Measurement of Current Expected Credit Losses on Financial Instruments" ("CECL"), which modifies the accounting for the allowance for loan losses from an incurred loss model to an expected loss model, as discussed more fully under the subheading "Asset quality" contained within management's discussion and analysis and in "Part II - Item 8. Financial Statements and Supplementary Data - Note 1. Basis of Presentation" of this Report.

Fair Value Measurements

A hierarchical disclosure framework associated with the level of pricing observability is utilized in measuring financial instruments at fair value. See Note 17 "Fair Value" in the consolidated financial statements herein for additional disclosures regarding the fair value of our assets and liabilities, including a description of the fair value hierarchy.

Investment securities

Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available-for-sale when they might be sold before maturity. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss), net of applicable taxes. Gains and losses on sales are recorded on the trade date and determined using the specific identification method as no ready market exists for this stock and it has no quoted market value.

In periods prior to 2018, equity securities were classified as available-for-sale. As such, equity securities were carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss), net of applicable taxes.

As of January 1, 2018, the Company adopted ASU 2016-01, "Recognition and Measurement of Financial Assets and Liabilities" requiring that equity securities with readily determinable fair values be carried at fair value on the balance sheet with any periodic changes in value adjusted through the income statement. The change in accounting policy resulted in a one-time adjustment to retained earnings for the after-tax decrease in fair value below book value at January 1, 2018 and a reclassification of certain investments that did not meet the definition of equity securities with readily determinable fair values to other assets. These other investments are carried at cost less any identified impairment.

Interest income includes the amortization and accretion of purchase premium and discount. Premiums and discounts on securities are amortized on the level-yield method anticipating prepayments based upon the prior three month average monthly prepayments when available.

We evaluate available-for-sale securities for other-than-temporary impairment (“OTTI”) at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. For securities in an unrealized loss position, consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer’s financial condition, we consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer’s financial condition.

When OTTI is determined to have occurred, the amount of the OTTI recognized in earnings depends on whether we intend to sell the security or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss. If we intend to sell the security or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss, the OTTI recognized in earnings is equal to the entire difference between its amortized cost basis and its fair value at the balance sheet date. If we do not intend to sell the security and it is not more likely than not that we will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the OTTI is separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized as a charge to earnings. The amount of the OTTI related to other factors is recognized in other comprehensive income (loss), net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment.

Loans held for sale

Loans originated and intended for sale in the secondary market, primarily mortgage loans, are carried at fair value as permitted under the guidance in ASC 825, “Financial Instruments.” Gains and losses are recognized in income at the time the loan is closed. These gains and losses are classified under the line item “Mortgage banking income” in our consolidated financial statements. Pass through origination costs and related loan fees are also included in “Mortgage banking income.” Other expenses are classified in the appropriate noninterest expense accounts.

Mortgage servicing rights

We began retaining the right to service certain mortgage loans in 2014 that we sell to secondary market investors.

In periods prior to 2017, mortgage servicing rights were amortized in proportion to and over the period of estimated net servicing income. These servicing rights were carried at amortized cost less any impairment. Impairment losses on mortgage servicing rights were recognized to the extent by which the unamortized cost exceeded fair value.

As of January 1, 2017, the Company elected to account for its mortgage servicing rights under the fair value option as permitted under ASC 860-50-35, "Transfers and Servicing." The change in accounting policy resulted in a one-time adjustment to retained earnings for the after-tax increase in fair value above book value at the time of adoption. Subsequent changes in fair value are recorded in earnings in Mortgage banking income.

Retained mortgage servicing rights are measured at fair value as of the date of the related loan sale. We use quoted market prices when available. Subsequent fair value measurements are determined using a discounted cash flow model. In order to determine the fair value of the MSR, the present value of expected net future cash flows is estimated. Assumptions used include market discount rates, anticipated prepayment speeds, delinquency and foreclosure rates, and ancillary fee income net of servicing costs. This model is periodically validated by an independent model validation group. The model assumptions and the MSR fair value estimates are also compared to observable trades of similar portfolios as well as to MSR broker valuations and industry surveys, as available.

Derivative financial instruments

We enter into cash flow hedges to mitigate the exposure to variability in expected future cash flows or other types of forecasted transactions. Changes in the fair value of the cash flow hedges, to the extent that the hedging relationship is effective, are recorded as other comprehensive income and are subsequently recognized in earnings at the same time that the hedged item is recognized in earnings. The ineffective portions of the changes in fair value of the hedging instruments are immediately recognized in earnings. The assessment of the effectiveness of the hedging relationship is evaluated under the hypothetical derivative method.

We utilize derivative instruments that are not designated as hedging instruments. The Company enters into swaps, interest rate cap and/or floor agreements with its customers and then enters into an offsetting derivative contract position with other financial institutions to mitigate the interest rate risk associated with these customer contracts. Because these derivative instruments are not designated as hedging instruments, changes in the fair value of the derivative instruments are recognized currently in earnings.

We enter into commitments to originate and purchase loans whereby the interest rate on the loan is determined prior to funding (rate-lock commitments). Rate-lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Accordingly, such commitments, along with any related fees received from potential borrowers, are recorded at fair value in other assets or liabilities, with changes in fair value recorded in mortgage banking income. Fair value is based on fees currently charged to enter into similar agreements, and for fixed-rate commitments, the difference between current levels of interest rates and the committed rates is also considered.

We utilize forward loan sale contracts to mitigate the interest rate risk inherent in our mortgage loan pipeline and held-for-sale portfolio. Forward loan sale contracts are contracts for delayed delivery of mortgage loans. We agree to deliver on a specified future date, a specified instrument, at a specified price or yield. However, the contract may allow for cash settlement. The credit risk inherent to us arises from the potential inability of counterparties to meet the terms of their contracts. In the event of non-acceptance by the counterparty, we would be subject to the credit and inherent (or market) risk of the loans retained. Such contracts are accounted for as derivatives and, along with related fees paid to investor are recorded at fair value in derivative assets or liabilities, with changes in fair value recorded in mortgage banking income. Fair value is based on the estimated amounts that we would receive or pay to terminate the commitment at the reporting date.

We utilize two methods to deliver mortgage loans sold to an investor. Under a “best efforts” sales agreement, the Company enters into a sales agreement with an investor in the secondary market to sell the loan when an interest rate-lock commitment is entered into with a customer, as described above. Under a “best efforts” sales agreement, the Company is obligated to sell the mortgage loan to the investor only if the loan is closed and funded. Thus, the Company will not incur any liability to an investor if the mortgage loan commitment in the pipeline fails to close. The Company also utilizes “mandatory delivery” sales agreements. Under a mandatory delivery sales agreement, the Company commits to deliver a certain principal amount of mortgage loans to an investor at a specified price and delivery date. Penalties are paid to the investor should the Company fail to satisfy the contract. Mandatory commitments are recorded at fair value in the Company’s Consolidated Balance Sheets. Gains and losses arising from changes in the valuation of these commitments are recognized currently in earnings and are reflected under the line item “Other noninterest income” on the Consolidated Statements of Income.

Business combinations and accounting for acquired loans with credit deterioration

Business combinations are accounted for by applying the acquisition method in accordance with ASC 805, “Business Combinations” (“ASC 805”). Under the acquisition method, identifiable assets acquired and liabilities assumed and any non-controlling interest in the acquiree at the acquisition date are measured at their fair values as of that date. Any excess of the purchase price over fair value of net assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including any other identifiable intangible assets, exceed the purchase price, a bargain purchase gain is recognized. Results of operations of acquired entities are included in the Consolidated Statements of Income from the date of acquisition.

Loans acquired in business combinations with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be credit-impaired. Purchased credit impaired loans (“PCI” loans) are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality, in accordance with ASC 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality” (“ASC 310-30”), and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. We evaluate on a quarterly basis, the present value of the acquired loans determining the effective interest rates. Increases in expected cash flows to be collected on these loans are recognized as an adjustment of the loan’s yield over its remaining life, while decreases in expected cash flows are recognized as an impairment. As a result, related discounts are recognized subsequently through accretion based on the expected cash flow of the acquired loans or through adjustment to the allowance for loan loss for any impairment identified subsequent to acquisitions.

Overview

We are a bank holding company headquartered in Nashville, Tennessee. We operate primarily through our wholly owned bank subsidiary, FirstBank, the third largest bank headquartered in Tennessee, based on total assets. FirstBank provides a comprehensive suite of commercial and consumer banking services to clients in select markets in Tennessee, North Alabama, and North Georgia. As of December 31, 2019, our footprint included 68 full-service bank branches serving the following Metropolitan Statistical Areas (“MSAs”): Nashville, Chattanooga (including North Georgia), Knoxville, Memphis, Jackson, and Huntsville, Alabama and 16 community markets throughout Tennessee and North Georgia. FirstBank also provides mortgage banking services utilizing its bank branch network and mortgage banking offices strategically located throughout the southeastern United States and a national internet delivery channel.

We operate through two segments, Banking and Mortgage. We generate most of our revenue in our Banking segment from interest on loans and investments, loan-related fees, mortgage originations from mortgage offices within our banking footprint, trust and investment services and deposit-related fees. Our primary source of funding for our loans is customer deposits, and, to a lesser extent, Federal Home Loan Bank (“FHLB”) advances, brokered and internet deposits, and other borrowings. We generate most of our revenue in our Mortgage segment from origination fees and gains on sales in the secondary market of mortgage loans that we originate from our mortgage offices outside our Banking footprint and through our online ConsumerDirect channel, as well as from mortgage servicing revenues.

On April 1, 2019, we announced our intention to sell our wholesale mortgage operations, comprising the third party origination ("TPO") and correspondent mortgage delivery channels (collectively referred to as "mortgage restructuring"). The sale of the two wholesale channels better aligns the Mortgage segment with our strategic plan and long-term vision for the Company. The exit also allows additional focus on our retail and ConsumerDirect origination channels. The sale of TPO channel was completed on June 7, 2019 and the sale of correspondent channel was completed on August 1, 2019. In connection with the mortgage restructuring, the Company incurred certain related and miscellaneous expenses of $2.0 million for the year ended December 31, 2019.

Mergers and acquisitions

Franklin Financial Network, Inc.

On January 21, 2020, the Company announced entry into a definitive merger agreement with Franklin Financial Network, Inc ("Franklin"). pursuant to which Franklin will be merged with and and into the Company. Franklin has 15 branches and reported approximately $3.90 billion of total assets, $2.80 billion of loans, and $3.20 billion of deposits as of December 31, 2019. According to the terms of the merger agreement, Franklin shareholders will receive 0.9650 shares of FB Financial Corporation's common stock and $2.00 in cash for each share of Franklin stock. Based on the Company's closing price of $38.23 per share as of January 21, 2020, the implied transaction value is approximately $602 million. The merger is expected to close in the third quarter of 2020 and is subject to regulator approvals, approval by the Company's and Franklin's shareholders and other customary closing conditions.

FNB Financial Corp. merger

On February 14 2020, the Company completed its previously-announced acquisition of FNB Financial Corp. and its wholly owned subsidiary, Farmers National Bank of Scottsville (collectively, "Farmers National"). Farmers National reported total assets of $255.2 million, loans of $178.6 million and deposits of $206.0 million as of December 31, 2019. The consideration is valued at approximately $50.0 million based on 954,797 shares of FBK common stock (utilizing the market price of $36.70 per FBK on February 14, 2020) and $15.0 million in cash consideration. The Company is currently in the process of determining the approximate fair value of net assets acquired and will include preliminary purchase accounting estimates in Form 10-Q for the quarterly period ended March 31, 2020. See Note 2, “Mergers and acquisitions” in the notes to the consolidated financial statements included in this Report for further details regarding the terms and conditions of this merger.

Atlantic Capital Bank, N.A. Branches

On April 5, 2019, the Bank completed its previously-announced branch acquisition to purchase 11 Tennessee and three Georgia branch locations (the "Branches") from Atlantic Capital Bank, N.A., a national banking association and a wholly owned subsidiary of Atlantic Capital Bancshares, Inc., a Georgia corporation (collectively, "Atlantic Capital"), further increasing market share in existing markets and expanding the Company's footprint into new locations. After finalizing purchase accounting adjustments, the branch acquisition added $588.9 million in customer deposits at a premium of 6.25% and $374.4 million in loans. All of the operations of the Branches are included in the Banking segment. We incurred merger costs of $4.8 million during the year ended December 31, 2019, in connection with this transaction. See Note 2, "Mergers and acquisitions" in the notes to the consolidated financial statements included in this Report for further details regarding the terms and conditions of this acquisition.

Key factors affecting our business

Economic conditions

Our business and financial performance are affected by economic conditions generally in the United States and more directly in the markets where we primarily operate. The significant economic factors that are most relevant to our business and our financial performance include the general economic conditions in the U.S. and in our markets, unemployment rates, real estate markets and interest rates.

The United States economy grew at a moderate 2.1% rate in the final three months of 2019, capping a year when growth slowed significantly due to weaker global economy and trade war uncertainties. According to the U.S. Bureau of Labor Statistics, the seasonally adjusted unemployment rate at December 31, 2019 was 3.5% compared to 3.9% at December 31, 2018 and 4.1% at December 31, 2017. The Federal Reserve Board increased its federal funds target range by 25 basis points in October 2019 to 150-175 basis points, the third decrease to its target range in 2019.

Existing home sales in the United States, as indicated by the National Association of Realtors, fell to a seasonally adjusted annual rate of 5.53 million units in December 2019, compared to 4.99 million units in December 2018 and 5.56 million units in December 2017. New home sales showed slightly lower growth, falling to a seasonally adjusted annual rate of 719 thousand units in December 2019, down from 600 thousand units in December 2018, and 643 thousand units in December 2017. Home values, as indicated by the seasonally adjusted S&P CoreLogic Case-Shiller 20-City Composite Home Price Index, showed an increase of 2.84% from December 31, 2018 to December 31, 2019. Bankruptcy filings, per the U.S. Court Statistics, also improved with total filings down 0.9% for the twelve month period ending March 31, 2019, compared with the year ending March 31, 2018.

According to the Beige Book published by the Federal Reserve Board in January 2020, overall economic activity generally continued to expand modestly in the final six weeks of 2019. The Dallas and Richmond Districts noted above-average growth, while Philadelphia, St. Louis, and Kansas City reported sub-par growth. Consumer spending grew at a modest to moderate pace, with a number of Districts noting some pickup from the prior reporting period. On balance, holiday sales were said to be solid, with several Districts noting the growing importance of online shopping. Vehicle sales generally expanded moderately, though a handful of Districts reported flat sales. Tourism was mixed, with growth reported in the eastern seaboard Districts but activity little changed in the Midwest and West. Manufacturing activity was essentially flat in most Districts, as in the previous report. Business in nonfinancial services was mixed but, on balance, growing modestly. Transportation activity was also mixed across Districts, with a majority reporting flat to weaker activity. Banks mostly characterized loan volume as steady to expanding moderately. Home sales trends varied widely across Districts but were flat overall, while residential rental markets strengthened. Some Districts pointed to low inventories as restraining home sales. New residential construction expanded modestly. Commercial real estate activity varied substantially across Districts. Agricultural conditions were little changed, as was activity in the energy sector. In many Districts, tariffs and trade uncertainty continued to weigh on some businesses. Expectations for the near-term outlook remained modestly favorable across the nation.

The unemployment rate for the state of Tennessee, as indicated by the U.S. Bureau of Labor Statistics, remained steady at 3.3% as of December 31, 2019 and December 31, 2018. Nashville's unemployment rate increased to 2.4% as of December 31, 2019 from 2.3% as of December 31, 2018.

Interest rates

Net interest income is the largest contributor to our net income and is the difference between the interest and fees earned on interest-earning assets (primarily loans and investment securities) and the interest expense incurred in connection with interest-bearing liabilities (primarily deposits and borrowings). The level of net interest income is primarily a function of the average balance of interest-earning assets, the average balance of interest-bearing liabilities and the spread between the contractual yield on such assets and the contractual cost of such liabilities. These factors are influenced by both the pricing and mix of interest-earning assets and interest-bearing liabilities which, in turn, are impacted by external factors such as local economic conditions, competition for loans and deposits, the monetary policy of the Federal Reserve Board and market interest rates.

The cost of our deposits and short-term wholesale borrowings is largely based on short-term interest rates, which are primarily driven by the Federal Reserve Board's actions. The yields generated by our loans and securities are typically driven by short-term and long-term interest rates, which are set by the market and are, at times, heavily influenced by the

Federal Reserve Board's actions. The level of net interest income is therefore influenced by movements in such interest rates and the pace at which such movements occur. Since December of 2016, the Federal Open Market Committee has raised the Fed Funds Target rate eight times, which has caused other short term yields such as 1-month and 3-month LIBOR to rise. Although short-term interest rates have risen, the Federal Reserve now maintains a neutral monetary policy, and we expect interest rates to increase nominally or remain flat throughout 2019. Subsequent declines in the yield curve or a decline in longer-term yields relative to short-term yields (a flatter yield curve) would have an adverse impact on our net interest margin and net interest income. Continued rate increases may have the effect of decreasing our mortgage origination and our general mortgage banking profitability. For additional information regarding our interest rate risks factors and management, see "Business: Risk management: Liquidity and interest rate risk management" and "Risk factors: Risks related to our business."

Credit trends

We focus on originating quality loans and have established loan approval policies and procedures to assist us in upholding the overall credit quality of our loan portfolio. However, credit trends in the markets in which we operate and in our loan portfolio can materially impact our financial condition and performance and are primarily driven by the economic conditions in our markets.

Underlying credit quality declined slightly during 2019 compared to 2018, which is consistent with our overall portfolio quality. Our percentage of total nonperforming loans to loans held for investment increased to 0.60% as of December 31, 2019, from 0.46% at December 31, 2018. Our loans classified as substandard increased to 1.82% of loans held for investment for the year ended December 31, 2019, compared to 1.81% for 2018. Our nonperforming assets for the year ended December 31, 2019 were $47.1 million, or 0.77% of assets, increasing from $31.4 million, or 0.61% of assets for the year ended December 31, 2018.

Although, overall we have experienced favorable credit trends in 2019 and 2018, we are sensitive to credit quality risks in our commercial real estate, commercial and industrial, and construction loan portfolios due to our concentration of loans in these categories. For additional information regarding credit quality risk factors for our Company, see "Business: Risk management: Credit risk management" and "Risk factors: Risks related to our business."

Competition

Our profitability and growth are affected by the highly competitive nature of the financial services industry. We compete with commercial banks, savings banks, credit unions, non-bank financial services companies, online mortgage providers, internet banks and other financial institutions operating within the areas we serve, particularly with national and regional banks that often have more resources than we do to invest in growth and technology and community banks with strong local ties, all of which target the same clients we do. Recently, we have seen increased competitive pressures on loan rates and terms and increased competition for deposits. Continued loan pricing pressure may continue to affect our financial results in the future.

For additional information, see "Business: Our markets," "Business: Competition" and "Risk factors: Risks related to our business."

Regulatory trends and changes in laws

We are subject to extensive regulation and supervision, which continue to evolve as the legal and regulatory framework governing our operations continues to change. The current operating environment also has heightened supervisory expectations in areas such as consumer compliance, the Bank Secrecy Act and anti-money laundering compliance, risk management and internal audit. As a result of these heightened expectations, we expect to incur additional costs for additional compliance, risk management and audit personnel or professional fees associated with advisors and consultants.

As described further under "Business: Supervision and regulation," we are subject to a variety of laws and regulations, including the Dodd-Frank Act. The Dodd-Frank Act is complex, and many aspects of it are subject to final rulemaking that continues to emerge. Implementation of the Dodd-Frank Act will continue to impact our earnings through higher compliance costs and imposition of new restrictions on our business. The Dodd-Frank Act may also continue to have a material adverse impact on the value of certain assets and liabilities held on our balance sheet. The ultimate impact of the Dodd-Frank Act on our business will depend on regulatory interpretation and rulemaking as well as the success of any of our actions to mitigate the negative impacts of certain provisions. Key parts of the Dodd-Frank Act that will specifically impact our business include the repeal of a previous prohibition against payment of interest on demand deposits, the implementation of the Basel III capital adequacy standards, a change in the basis for FDIC deposit insurance assessments, substantial revisions to the regulatory regime applicable to the mortgage market, and enhanced emphasis on consumer protection generally.

See also "Risk factors: Risks related to our regulatory environment."

Factor affecting comparability of financial results

Tax legislation changes

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Reform Act") was enacted into law. The Tax Reform Act provides for significant changes to the U.S. tax code that impact businesses. Effective January 1, 2018, the Tax Reform Act reduces the U.S. federal tax rate for corporations from 35% to 21% for U.S. taxable income and requires a one-time remeasurement of deferred taxes to reflect their value at a lower tax rate of 21%. The Tax Reform Act includes other changes, including, but not limited to, immediate deductions for certain new investments instead of deductions for depreciation expense over time, additional limitations on the deductibility of executive compensation and limitations on the deductibility of interest. For more information regarding the impact of the Tax Reform Act on the Company, see Note 14, "Income Taxes" in the notes to our consolidated financial statements.

Overview of recent financial performance

Results of operations

Year ended December 31, 2019 compared to year ended December 31, 2018

Our financial performance history reflects the success of our growth strategies and the continued favorable economic conditions in our markets, as described above. As a result, we have improved our profitability over each of the last three years. Our net income increased by 4.5% in 2019 to $83.8 million from $80.2 million in 2018. Pre-tax net income increased by $3.7 million, or 3.48%, from $105.9 million for the year ended December 31, 2018 to $109.5 million for the year ended December 31, 2019. Diluted earnings per common share was $2.65 and $2.55 for the years ended December 31, 2019 and 2018, respectively. Our net income represented a return on average assets, or ROAA, of 1.45% and 1.66% in 2019 and 2018, respectively, and a return on average shareholders' equity, or ROAE, of 11.6% and 12.7% in 2019 and 2018, respectively. Our ratio of return on average tangible common equity ("ROATE") for the years ended December 31, 2019 and 2018 was 15.4% and 16.7%, respectively. Our ratio of average shareholders' equity to average assets in 2019 and 2018 was 12.5% and 13.0%, respectively.

During the year ended December 31, 2019, net interest income before provision for loan losses increased to $226.0 million compared to $204.1 million in the year ended December 31, 2018, which was attributable to an increase in interest income and expense, primarily driven by loan and deposit growth driven by declining interest rates and our growth initiatives, including the Atlantic Capital branch acquisition.

Our net interest margin, on a tax-equivalent basis, decreased to 4.34% for the year ended December 31, 2019 as compared to 4.66% for the year ended December 31, 2018, due primarily to the increase in cost of funds partially offset by an increase in contractual loan yield earned on our loan portfolio.

Noninterest income for the year ended December 31, 2019 increased by $4.8 million to $135.4 million from $130.6 from the same period in the previous year. The increase in noninterest income was largely a result of an increase in ATM and interchange fees related to our growth and volume of business.

Noninterest expense increased to $244.8 million for the year ended December 31, 2019 compared to $223.5 million for the years ended December 31, 2018. The increase in noninterest expense reflects the impact of our acquisition of the Branches, including increases in salaries, commissions and personnel-related costs and increased merger expenses. Noninterest expense for the year ended December 31, 2019 also reflects expenses of $2.0 million related to our mortgage restructuring.

Year ended December 31, 2018 compared to year ended December 31, 2017

Our net income increased by 53.1% in 2018 to $80.2 million from $52.4 million in 2017. Pre-tax net income increased by $32.4 million, or 44.0%, from $73.5 million for the year ended December 31, 2017 to $105.9 million for the year ended December 31, 2018. Diluted earnings per common share was $2.55 and $1.86 for the years ended December 31, 2018 and 2017, respectively. Our net income represented a return on average assets, or ROAA, of 1.66% and 1.37% in 2018, 2017, respectively, and a return on average shareholders' equity, or ROAE, of 12.7% and 11.2% in 2018 and 2017, respectively. Our ratio of return on average tangible common equity ("ROATE") for the years ended December 31, 2018 and 2017 was 16.7% and 14.0%, respectively. Our ratio of average shareholders' equity to average assets in 2018 and 2017 was 13.0% and 12.2%, respectively.

During the year ended December 31, 2018, net interest income before provision for loan losses increased to $204.1 million compared to $153.3 million for the year ended December 31, 2017, which was attributable to an increase in interest income and expense, primarily driven by loan and deposit growth, reflecting the incorporation of a full year of results from the Clayton Banks merger in addition to increased overall interest rates. Our net interest margin, on a tax-equivalent basis, increased to 4.66% for the year ended December 31, 2018 as compared to 4.46% for the year ended December 31, 2017, due to loan and deposit growth, including the impact of the product mix acquired from the Clayton Banks, in addition to an increase in contractual loan yield during the period offset by elevated costs of funds.

Noninterest income for the year ended December 31, 2018 decreased by $10.9 million to $130.6 million from $141.6 million in the same period in the previous year. The decrease in noninterest income was largely a result of a decrease in mortgage banking income.

Noninterest expense increased to $223.5 million for the year ended December 31, 2018 compared to $222.3 million for the year ended December 31, 2017. This increase was largely a result of costs associated with our overall growth and added operational costs resulting from the merger with the Clayton Banks offset by the decrease in merger and conversion costs resulting from the 2017 transaction.

Financial condition

Our total assets grew by 19.2% to $6.12 billion at December 31, 2019 as compared to $5.14 billion at December 31, 2018. The increase was driven by the acquisition of $640.0 million in assets acquired in the Atlantic Capital branch acquisition, which closed on April 5, 2019. Loans held for investment increased $742.1 million to $4.41 billion at December 31, 2019 compared to $3.67 billion at December 31, 2018, which included $374.4 million in loans acquired in the Atlantic Capital branch acquisition.

We grew total deposits by $763.2 million to $4.93 billion at December 31, 2019 as compared to $4.17 billion at December 31, 2018. The increase includes $588.9 million of customer deposits acquired in the Atlantic Capital branch acquisition.

Excluding the impact of assets acquired and liabilities assumed in the Atlantic Capital branch transaction, total assets increased 6.78%, total loans increased 10.0%, and total deposits increased 4.18%, in each case from December 31, 2018 to December 31, 2019.

Business segment highlights

We operate our business in two business segments: Banking and Mortgage. See Note 20, "Segment Reporting," in the notes to our consolidated financial statements for a description of these business segments.

Banking

Income before taxes from the Banking segment increased by $2.4 million, or 2.29% in the year ended December 31, 2019 to $107.1 million as compared to $104.7 million in the year ended December 31, 2018. The results were primarily driven by increases in net interest income of $21.6 million and noninterest income of $9.5 million which was partially offset by an increase in noninterest expense. Noninterest income increased to $64.9 million in the year ended December 31, 2019 as compared to $55.4 million in the year ended December 31, 2018. Noninterest expense increased $27.0 million, primarily due to costs associated with our overall growth, including merger costs from the Atlantic Capital branch acquisition and increased salaries, commissions and employee benefits expenses. Results of our Banking Segment also include mortgage retail footprint pre-tax net contribution of $7.2 million in the year ended December 31, 2019 compared to $3.8 million for the year ended December 31, 2018.

Mortgage

Income before taxes from the Mortgage segment increased to $2.5 million in the year ended December 31, 2019 as compared to $1.2 million in the year ended December 31, 2018 primarily due to increased volume driven by declining interest rates and higher margins produced by our ConsumerDirect and retail delivery channels. Noninterest income decreased $4.7 million to $70.5 million during the year ended December 31, 2019 compared to the year ended December 31, 2018 mainly due to a decrease in loan servicing income. Mortgage servicing income decreased $11.2 million to $0.7 million for the year ended December 31, 2019 compared to the prior year. This decrease included a negative change in fair value of mortgage servicing rights of $26.3 million for the year ended December 31, 2019 , which was partially offset by gains of $9.3 million in derivative hedging instruments used to hedge the exposure on the MSRs. The negative change in fair value of MSRs was driven by faster than expected prepayment of loans.

Noninterest income also included fees from origination, gains on sale and fair value changes from loans held for sale, which are primarily driven by interest rate lock volume, interest rates. and overall market conditions. While overall interest rate lock commitment volume decreased $1.22 billion, or 17.1%, during the year ended December 31, 2019 compared to the previous year, interest rate lock commitment volume within our ConsumerDirect and retail delivery channels increased a combined $649.7 million, or 16.5% during the year ended December 31, 2019, again compared to the year prior. The decrease in total interest rate lock commitment volume is a result of the mortgage restructuring completed during the third quarter of 2019, which allowed us to concentrate on maximizing profitability of the historically higher margin delivery channels.

Noninterest expense for the year ended December 31, 2019 and 2018 was $68.0 million and $73.6 million, respectively. This decrease is mainly attributable to the mortgage restructuring and decreased mortgage servicing expenses. During the years ended December 31, 2019 and 2018, we sold $29.2 million and $39.4 million, respectively, in mortgage servicing rights. No material gains or losses were recognized in connection with these transactions.

Results of operations

Throughout the following discussion of our operating results, we present our net interest income, net interest margin and efficiency ratio on a fully tax-equivalent basis. The fully tax-equivalent basis adjusts for the tax-favored status of net interest income from certain loans and investments. We believe this measure to be the preferred industry measurement of net interest income, which enhances comparability of net interest income arising from taxable and tax-exempt sources.

The adjustment to convert certain income to a tax-equivalent basis consists of dividing tax exempt income by one minus the combined federal and blended state statutory income tax rate of 26.06% for the years ended December 31, 2019 and 2018.

Net interest income

Our net interest income is primarily affected by the interest rate environment and by the volume and the composition of our interest-earning assets and interest-bearing liabilities. We utilize net interest margin ("NIM") which represents net interest income, on a tax-equivalent basis, divided by average interest-earning assets, to track the performance of our investing and lending activities. We earn interest income from interest, dividends and fees earned on interest-earning assets, as well as from amortization and accretion of discounts on acquired loans. Our interest-earning assets include loans, time deposits in other financial institutions and securities available for sale. We incur interest expense on interest-bearing liabilities, including interest-bearing deposits, borrowings and other forms of indebtedness as well as from amortization of premiums on purchased deposits. Our interest-bearing liabilities include deposits, advances from the FHLB, repurchase agreements and subordinated debt.

Year ended December 31, 2019 compared to year ended December 31, 2018

Net interest income increased 10.8% to $226.0 million in the year ended December 31, 2019 compared to $204.1 million in the year ended December 31, 2018. On a tax-equivalent basis, net interest income increased $22.3 million to $227.9 million in the year ended December 31, 2019 as compared to $205.7 million in the year ended December 31, 2018. The increase in tax-equivalent net interest income in the year ended December 31, 2019 was primarily driven by increased volume in loans held for investment offset by an increase in deposit volume and rates, both partially driven by the product mix acquired from the Branches.

Interest income, on a tax-equivalent basis, was $284.4 million for the year ended December 31, 2019, compared to $241.2 million for the year ended December 31, 2018, an increase of $43.3 million. The two largest components of interest income are loan income and investment income. Loan income consists primarily of interest earned on our loans held for investment portfolio and secondarily, our loans held for sale. Investment income consists primarily of interest earned on our investment portfolio made up of both taxable and tax-exempt securities. Interest income on loans held for investment, on a tax-equivalent basis, increased $45.2 million to $250.7 million for the year ended December 31, 2019 from $205.5 million for the year ended December 31, 2018 primarily due to increased loan volume driven by growth in average loan balances of $773.4 million, partially attributable to the $374.4 million in loans acquired from the Branches.

Partially offsetting the increase in average volume of loans held for investment was a decrease in yields. The tax-equivalent yield on loans held for investment was 6.04%, down 5 basis points from the year ended December 31, 2018. The decrease in yield was primarily due to lower loan fees and accretion on purchased loans which yielded 0.31% and 0.21%, respectively, in the year ended December 31, 2019 compared with 0.39% and 0.23%, respectively, in the year ended December 31, 2018. Partially offsetting this decrease was an increase in contractual loan interest rates which yielded 5.50% in the year ended December 31, 2019 compared with 5.42% in the year ended December 31, 2018. Also included in the loan yield are nonaccrual interest collections and syndicated loan fee income which contributed 2 and 0 basis points, respectively, for the year ended December 31, 2019 and 4 and 1 basis points, respectively, for the year ended December 31, 2018.

The components of our loan yield, a key driver to our NIM for the years ended December 31, 2019, 2018 and 2017, were as follows:

	Year Ended December 31,					
	2019		2018		2017	
(dollars in thousands)	**Interest income**	**Average yield**	**Interest income**	**Average yield**	**Interest income**	**Average yield**
Loan yield components:						
Contractual interest rate on loans held for investment[(1)]	$ 228,069	5.50%	$ 183,116	5.42%	$ 119,617	4.95%
Origination and other loan fee income	12,977	0.31%	13,093	0.39%	7,638	0.32%
Accretion on purchased loans	8,556	0.21%	7,608	0.23%	5,419	0.22%
Nonaccrual interest collections	885	0.02%	1,375	0.04%	3,266	0.14%
Syndicated loan fee income	206	—%	351	0.01%	1,010	0.03%
Total loan yield	$ 250,693	6.04%	$ 205,543	6.09%	$ 136,950	5.66%

(1) Includes tax equivalent adjustment

Accretion on purchased loans contributed 16 and 17 basis points to the NIM for the year ended December 31, 2019 and 2018, respectively. Additionally, nonaccrual interest collections and syndicated loan fees contributed 2 and 0 basis points, respectively, to the NIM for the year ended December 31, 2019 compared to 3 and 1 basis points, respectively, to the NIM for the year ended December 31, 2018.

Our NIM, on a tax-equivalent basis, decreased to 4.34% during the year ended December 31, 2019 from 4.66% in the year ended December 31, 2018, primarily a result of decreased interest income from loans held for sale and increased cost of deposits driven by changes in both volume and rates.

For the year ended December 31, 2019, interest income on loans held for sale decreased $5.7 million to $10.0 million compared to $15.6 million for the year ended December 31, 2018 due to a decrease in volume contributing a decline of $3.8 million. The average balance of loans held for sale decreased $97.7 million to $254.7 million for the year ended December 31, 2019 compared to $352.4 million for the year ended December 31, 2018. This decrease includes the impact of the mortgage restructuring, which was completed during the third quarter of 2019. For additional information on the sale, refer to the discussion in this section under the heading "Noninterest income".

Investment securities interest income, on a tax-equivalent basis, increased during the year ended December 31, 2019 to $19.7 million from $17.9 million for the year ended December 31, 2018 driven by increased volume. The average balance in the investment portfolio for the year ended December 31, 2019 was $671.6 million compared to $597.3 million for the year ended December 31, 2018.

Interest expense was $56.5 million for the year ended December 31, 2019, an increase of $21.0 million as compared to the year ended December 31, 2018. The primary driver for the increase in total interest expense is the increase in interest expense on deposits of $22.0 million to $51.6 million for the year ended December 31, 2019, compared to $29.5 million for the year ended December 31, 2018. The increase was largely attributed to money market and customer time deposits which increased to $17.4 million and $24.1 million, respectively, for the year ended December 31, 2019 from $10.9 million and $10.4 million, respectively, for the year ended December 31, 2018. The $6.5 million increase in money market interest expense during the year ended December 31, 2019 was primarily attributed to increased rates with a secondary driver of increased volume. The average rate on money markets rose to 1.42%, up 36 basis points from the year ended December 31, 2018. Average money market balances increased $192.6 million to $1,219.7 million during the year ended December 31, 2019 from $1,027.0 million for the same period in the previous year. The $13.7 million increase in customer time deposit interest expense during the year ended December 31, 2019 was primarily attributed to increased volume with a secondary driver of higher rates. Average customer time deposits increased $410.2 million from $744.8 million during the year ended December 31, 2018 to $1,155.1 million during the year ended December 31, 2019. The average rate on customer time deposits increased 69 basis points from 1.40% for the year ended December 31, 2018 to 2.09% for the year ended December 31, 2019.

Deposit growth was the result of a time deposit campaign implemented during the second half of 2018 and the $147.1 million in time deposits acquired in the Atlantic Capital branch acquisition. Total cost of total deposits was 1.10% for the year ended December 31, 2019 compared to 0.76% for the year ended December 31, 2018.

Offsetting the increase in total deposit interest expense was a decrease in interest expense on total borrowings, which decreased $1.0 million to $4.9 million during the year ended December 31, 2019 compared to $6.0 million during the year ended December 31, 2018. The cost of total borrowings decreased to 2.01% for the year ended December 31, 2019 from 2.24% for the year ended December 31, 2018. This decrease was primarily driven by lower interest rates on FHLB advances, with a secondary driver of decreased volume. Average FHLB advances decreased $28.5 million to $187.5 million for the year ended December 31, 2019 compared to $216.0 million for the year ended December 31, 2018. This decrease in average FHLB advances was primarily due to paying down higher rate advances with additional liquidity obtained from the Atlantic Capital branch acquisition. For more information about our borrowings, refer to the discussion in this section under the heading "Financial condition: Borrowed funds."

Average balance sheet amounts, interest earned and yield analysis

The table below shows the average balances, income and expense and yield and rates of each of our interesting-earning assets and interest-bearing liabilities on a tax equivalent basis, if applicable, for the periods indicated.

									Year Ended December 31,
			2019			2018			2017
(dollars in thousands on tax-equivalent basis)	Average balances (1)	Interest income/ expense	Average yield/ rate	Average balances (1)	Interest income/ expense	Average yield/ rate	Average balances (1)	Interest income/ expense	Average yield/ rate
Interest-earning assets:									
Loans(2)(4)	$ 4,149,590	$ 250,693	6.04%	$ 3,376,203	$ 205,543	6.09%	$ 2,418,261	$ 136,950	5.66%
Loans held for sale	254,689	9,966	3.91%	352,370	15,632	4.44%	419,290	17,256	4.12%
Securities:									
Taxable	516,250	13,223	2.56%	478,034	12,397	2.59%	441,568	10,084	2.28%
Tax-exempt(4)	155,306	6,498	4.18%	119,295	5,473	4.59%	116,384	6,592	5.66%
Total Securities(4)	671,556	19,721	2.94%	597,329	17,870	2.99%	557,952	16,676	2.99%
Federal funds sold	31,309	678	2.17%	21,466	412	1.92%	20,175	140	0.69%
Interest-bearing deposits with other financial institutions	130,145	2,651	2.04%	49,549	998	2.01%	75,567	954	1.26%
FHLB stock	15,146	722	4.77%	12,742	716	5.62%	8,894	460	5.17%
Total interest earning assets(4)	5,252,435	284,431	5.42%	4,409,659	241,171	5.47%	3,500,139	172,436	4.93%
Noninterest Earning Assets:									
Cash and due from banks	51,194			49,410			53,653		
Allowance for loan losses	(30,442)			(25,747)			(22,967)		
Other assets(3)	504,485			411,543			280,333		
Total noninterest earning assets	525,237			435,206			311,019		
Total assets	$ 5,777,672			$ 4,844,865			$ 3,811,158		
Interest-bearing liabilities:									
Interest-bearing deposits:									
Interest-bearing checking	$ 950,219	$ 8,755	0.92%	$ 894,252	$ 6,488	0.73%	$ 762,918	$ 3,640	0.48%
Money market	1,219,652	17,380	1.42%	1,027,047	10,895	1.06%	888,258	5,387	0.61%
Savings deposits	199,535	301	0.15%	178,303	272	0.15%	156,328	245	0.16%
Customer time deposits	1,155,058	24,103	2.09%	744,834	10,409	1.40%	467,507	3,077	0.66%
Brokered and internet time deposits	45,313	1,029	2.27%	82,113	1,472	1.79%	44,234	682	1.54%
Time deposits	1,200,371	25,132	2.09%	826,947	11,881	1.44%	511,741	3,759	0.73%
Total interest-bearing deposits	3,569,777	51,568	1.44%	2,926,549	29,536	1.01%	2,319,245	13,031	0.56%
Other interest-bearing liabilities:									
Securities sold under agreements to repurchase and federal funds purchased	26,400	291	1.10%	19,528	150	0.77%	16,968	42	0.25%
Federal Home Loan Bank advances	187,509	3,004	1.60%	216,011	4,166	1.93%	110,764	1,778	1.61%
Subordinated debt	30,930	1,638	5.30%	30,930	1,651	5.34%	30,930	1,491	4.82%
Total other interest-bearing liabilities	244,839	4,933	2.01%	266,469	5,967	2.24%	158,662	3,311	2.09%
Total interest-bearing liabilities	3,814,616	56,501	1.48%	3,193,018	35,503	1.11%	2,477,907	16,342	0.66%
Noninterest-bearing liabilities:									
Demand deposits	1,130,113			967,663			814,643		
Other liabilities	109,449			54,262			52,389		
Total noninterest-bearing liabilities	1,239,562			1,021,925			867,032		
Total liabilities	5,054,178			4,214,943			3,344,939		
Shareholders' equity	723,494			629,922			466,219		
Total liabilities and shareholders' equity	$ 5,777,672			$ 4,844,865			$ 3,811,158		
Net interest income (tax-equivalent basis)		$ 227,930			$ 205,668			156,094	
Interest rate spread (tax-equivalent basis)			3.94%			4.36%			4.27%
Net interest margin (tax-equivalent basis)(5)			4.34%			4.66%			4.46%
Cost of total deposits			1.10%			0.76%			0.42%

Average interest-earning assets to average interest-bearing liabilities	137.7%	138.1%	141.3%

(1) Calculated using daily averages.

(2) Average balances of nonaccrual loans are included in average loan balances. Loan fees of $13.0 million, $13.1 million, and $7.6 million, accretion of $8.6 million, $7.6 million, and $5.4 million, nonaccrual interest collections of $0.9 million, $1.4 million, and $3.3 million, and syndicated loan fees of $0.2 million, $0.4 million, and $1.0 million are included in interest income in the years ended December 31, 2019, 2018, and 2017 respectively.
(3) Includes investments in premises and equipment, other real estate owned, interest receivable, MSRs, core deposit and other intangibles, goodwill and other miscellaneous assets.
(4) Interest income includes the effects of taxable-equivalent adjustments using a U.S. federal income tax rate and, where applicable, state income tax to increase tax-exempt interest income to a tax-equivalent basis. The net taxable-equivalent adjustment amounts included in the above table were $1.9 million, $1.6 million, and $2.8 million for the years ended December 31, 2019, 2018, and 2017 respectively.
(5) The NIM is calculated by dividing annualized net interest income, on a tax-equivalent basis, by average total earning assets.

Rate/volume analysis

The tables below present the components of the changes in net interest income for the year ended December 31, 2019 and 2018. For each major category of interest-earning assets and interest-bearing liabilities, information is provided with respect to changes due to average volumes and changes due to rates, with the changes in both volumes and rates allocated to these two categories based on the proportionate absolute changes in each category.

Year ended December 31, 2019 compared to year ended December 31, 2018

	Year ended December 31, 2019 compared to year ended December 31, 2018 due to changes in		
(dollars in thousands on a tax-equivalent basis)	**Volume**	**Rate**	**Net increase (decrease)**
Interest-earning assets:			
Loans(1)(2)	$ 46,723	$ (1,573)	$ 45,150
Loans held for sale	(3,822)	(1,844)	(5,666)
Securities available for sale and other securities:			
Taxable	979	(153)	826
Tax Exempt(2)	1,507	(482)	1,025
Federal funds sold and balances at Federal Reserve Bank	213	53	266
Time deposits in other financial institutions	1,642	11	1,653
FHLB stock	115	(109)	6
Total interest income(2)	47,357	(4,097)	43,260
Interest-bearing liabilities:			
Interest-bearing checking	516	1,751	2,267
Money market	2,745	3,740	6,485
Savings deposits	32	(3)	29
Customer time deposits	8,560	5,134	13,694
Brokered and internet time deposits	(836)	393	(443)
Securities sold under agreements to repurchase and federal funds purchased	76	65	141
Federal Home Loan Bank advances	(457)	(705)	(1,162)
Subordinated debt	—	(13)	(13)
Total interest expense	10,636	10,362	20,998
Change in net interest income(2)	$ 36,721	$ (14,459)	$ 22,262

(1) Average loans are gross, including nonaccrual loans and overdrafts (before deduction of allowance for loan losses). Loan fees of $13.0 million and $13.1 million, accretion of $8.6 million and $7.6 million, nonaccrual interest collections of $0.9 million and $1.4 million, and syndicated loan fee income of $0.2 million and $0.4 million are included in interest income for the years ended December 31, 2019 and 2018, respectively.
(2) Interest income includes the effects of the tax-equivalent adjustments to increase tax-exempt interest income to a tax-equivalent basis.

As discussed above, the $45.2 million increase in interest income on loans held for investment during the year ended December 31, 2019 compared to December 31, 2018 was the primary driver of the $22.3 million increase in tax-equivalent net interest income. The increase in loan interest income was driven by an increase in average loans held for investment of $773.4 million, or 22.9%, to $4.15 billion for the year ended December 31, 2019, as compared to $3.38 billion for the year ended December 31, 2018, which was largely attributable to strong organic loan growth, the acquisition of $374.4 million in loans from the Branches and continued favorable economic conditions in many of our markets. The increase in loan income was partially offset by an increase in interest expense of $21.0 million driven by increases in rates and volume of customer deposits slightly offset by lower interest rates and volume in FHLB advances.

Year ended December 31, 2018 compared to year ended December 31, 2017

(dollars in thousands on a tax-equivalent basis)	Year Ended December 31, 2018 compared to year ended December 31, 2017 due to changes in		
	Volume	Rate	Net increase (decrease)
Interest-earning assets:			
Loans(1)(2)	$ 58,319	$ 10,274	$ 68,593
Loans held for sale	(2,969)	1,345	(1,624)
Securities available for sale and other securities:			
Taxable	946	1,367	2,313
Tax Exempt(2)	134	(1,253)	(1,119)
Federal funds sold and balances at Federal Reserve Bank	25	247	272
Time deposits in other financial institutions	(524)	568	44
FHLB stock	216	40	256
Total interest income(2)	56,147	12,588	68,735
Interest-bearing liabilities:			
Interest-bearing checking	953	1,895	2,848
Money market	1,472	4,036	5,508
Savings deposits	34	(7)	27
Customer time deposits	3,876	3,456	7,332
Brokered and internet time deposits	679	111	790
Securities sold under agreements to repurchase and federal funds purchased	20	88	108
Federal Home Loan Bank advances	2,030	358	2,388
Subordinated debt	—	160	160
Total interest expense	9,064	10,097	19,161
Change in net interest income(2)	$ 47,083	$ 2,491	$ 49,574

(1) Average loans are gross, including nonaccrual loans and overdrafts (before deduction of allowance for loan losses). Loan fees of $13.1 million and $7.6 million, accretion of $7.6 million and $5.4 million, nonaccrual interest collections of $1.4 million and $3.3 million, and syndicated loan fee income of $0.4 million and $1.0 million are included in interest income for the years ended December 31, 2018 and 2017, respectively.

(2) Interest income includes the effects of the tax-equivalent adjustments to increase tax-exempt interest income to a tax-equivalent basis.

Provision for loan losses

The provision for loan losses charged to operating expense is an amount which, in the judgment of management, is necessary to maintain the allowance for loan losses at a level that is believed to be adequate to meet the inherent risks of losses in our loan portfolio. Factors considered by management in determining the amount of the provision for loan losses include the internal risk rating of individual credits, historical and current trends in net charge-offs, trends in nonperforming loans, trends in past due loans, trends in the market values of underlying collateral securing loans and the current economic conditions in the markets in which we operate. The determination of the amount is complex and involves a high degree of judgment and subjectivity. See discussion under subheading “Allowance for Loan Losses” in Part II, Item 7 of this Report “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for further discussion related to our January 1, 2020 adoption of ASU 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments".

Year ended December 31, 2019 compared to year ended December 31, 2018

Our provision for loan losses for the year ended December 31, 2019 was $7.1 million as compared to $5.4 million for the year ended December 31, 2018. The increase is primarily attributable to our loan growth during the period and increased net charge-offs from the previous year. The provision for the year ended December 31, 2019 and 2018 also included $0.8 million and $0.9 million of subsequent deterioration on PCI loans related to our previously completed acquisitions. Net charge-offs for the year ended December 31, 2019 were $4.8 million compared to $0.2 million for the year ended December 31, 2018.

Noninterest income

Our noninterest income includes gains on sales of mortgage loans, fees on mortgage loan originations, loan servicing fees, hedging results, fees generated from deposit services, investment services and trust income, gains and losses on securities, other real estate owned and other assets and other miscellaneous noninterest income.

The following table sets forth the components of noninterest income for the periods indicated:

	Year Ended December 31,		
(dollars in thousands)	**2019**	**2018**	**2017**
Mortgage banking income	$ 100,916	$ 100,661	$ 116,933
Service charges on deposit accounts	9,479	8,502	7,426
ATM and interchange fees	12,161	10,013	8,784
Investment services and trust income	5,244	5,181	3,949
Gain (loss) from securities, net	57	(116)	285
Gain (loss) on sales or write-downs of other real estate owned	545	(99)	774
(Loss) gain from other assets	(104)	328	(664)
Other	7,099	6,172	4,094
Total noninterest income	$ 135,397	$ 130,642	$ 141,581

Year ended December 31, 2019 compared to year ended December 31, 2018

Noninterest income was $135.4 million for the year ended December 31, 2019, an increase of $4.8 million, or 3.64%, as compared to $130.6 million for the year ended December 31, 2018. Noninterest income to average assets (excluding any gains or losses from sale of securities, OREO and other assets) was 2.3% in the year ended December 31, 2019 as compared to 2.7% in the year ended December 31, 2018.

Mortgage banking income primarily includes origination fees and realized gains and losses on the sale of mortgage loans, unrealized change in fair value of mortgage loans and derivatives, and mortgage servicing fees, which includes net change in fair vale of MSRs and related derivatives. Mortgage banking income is initially driven by the recognition of interest rate lock commitments (IRLCs) at fair value at inception of the IRLCs. This is subsequently adjusted for changes in the overall interest rate environment offset by derivative contracts entered into to mitigate the interest rate exposure. Upon sale of the loan, the net fair value gain is reclassified as a realized gain on sale. Mortgage banking income was $100.9 million and $100.7 million for the year ended December 31, 2019 and 2018, respectively.

During the year ended December 31, 2019, the Bank's mortgage operations had sales of $4.55 billion which generated a sales margin of 2.12%. This compares to $6.15 billion and 1.59% for the year ended December 31, 2018. The increase in sales margin is a result of change in product mix due to the mortgage restructuring and market conditions. The overcapacity and slow-down of the mortgage market and overall compressing margins experienced during most of the first quarter of 2019 began to improve during the second quarter of 2019 with lowered interest rates bumping production. Mortgage banking income from gains on sale and related fair value changes increased to $100.2 million during the year ended December 31, 2019 compared to $88.7 million for the year ended December 31, 2018. While total interest rate lock volume decreased $1,218.3 million, or 17.1%, during the year ended December 31, 2019 as a result of our mortgage restructuring, interest rate lock volume in our ConsumerDirect and retail delivery channels increased 16.5% from year ended December 31, 2018. The increased volume in our ConsumerDirect and retail channels was driven by lower interest rates during the year ended December 31, 2019, leading to an increase in refinancing activity during the last half of 2019.

Income from mortgage servicing of $17.7 million and $20.6 million for year ended December 31, 2019 and 2018, respectively, were partially offset by declines in fair value of MSRs and related hedging activity of $17.0 million and $8.7 million in the year ended December 31, 2019 and 2018, respectively.

The components of mortgage banking income for the December 31, 2019, 2018 and 2017 were as follows:

	Year Ended December 31,		
(in thousands)	**2019**	**2018**	**2017**
Mortgage banking income:			
Origination and sales of mortgage loans	$ 96,710	$ 98,075	$ 103,735
Net change in fair value of loans held for sale and derivatives	3,518	(9,332)	3,454
Change in fair value on MSRs	(16,989)	(8,673)	(3,424)
Mortgage servicing income	17,677	20,591	13,168
Total mortgage banking income	$ 100,916	$ 100,661	$ 116,933
Interest rate lock commitment volume by line of business:			
ConsumerDirect	$ 2,979,811	$ 2,685,103	$ 2,859,992
Third party origination (TPO)	327,373	860,464	1,013,802
Retail	1,605,158	1,250,136	1,256,243
Correspondent	990,646	2,325,555	2,440,350
Total	$ 5,902,988	$ 7,121,258	$ 7,570,387
Interest rate lock commitment volume by purpose (%):			
Purchase	43.8%	65.7%	57.6%
Refinance	56.2%	34.3%	42.4%
Mortgage sales	4,554,962	6,154,847	6,349,717
Mortgage sale margin	2.12%	1.59%	1.63%
Closing volume	$ 4,540,652	$ 5,958,066	$ 6,331,458
Outstanding principal balance of mortgage loans serviced	$ 6,734,496	$ 6,755,114	$ 6,529,431

Mortgage banking income attributable to our Banking segment from retail operations within the Bank footprint was $30.4 million and $25.5 million for the year ended December 31, 2019 and 2018, respectively, and mortgage banking income attributable to our Mortgage segment was $70.5 million and $75.2 million for the years ended December 31, 2019 and 2018, respectively.

Service charges on deposit accounts include analysis and maintenance fees on accounts, per item charges, non-sufficient funds and overdraft fees. Service charges on deposit accounts were $9.5 million, an increase of $1.0 million, or 11.5%, for the year ended December 31, 2019, compared to $8.5 million for the year ended December 31, 2018. This increase is attributable to our 20.7% growth in average deposits, which is partially attributable to our branch acquisition from Atlantic Capital Bank.

ATM and interchange fees include debit card interchange, ATM and other consumer fees. These fees increased $2.1 million to $12.2 million during the year ended December 31, 2019 as compared to $10.0 million for the year ended December 31, 2018. This increase is also attributable to our growth in deposits and increased volume of transactions.

Investment services and trust income includes fees for discretionary portfolio management and trust administration for individuals and businesses. Investment services and trust income was $5.2 million for both the years ended December 31, 2019 and 2018.

Gain on securities for the year ended December 31, 2019 was $57 thousand compared to a loss on securities for the year ended December 31, 2018 of $116 thousand. Activity is typically driven by sales activity within our available-for-sale securities portfolio in addition to change in fair value of equity securities with readily determinable market values. Sales activity is attributable to management taking advantage of portfolio structuring opportunities to maintain comparable interest rates and maturities and to fund current loan growth in addition to overall asset liability management. The gain in the year ended December 31, 2019 is related to a net loss on available-for-sale securities of $91 thousand resulting primarily from the sale of $24.5 million in available-for-sale securities, which was offset by a net gain of $148 thousand related to changes in fair value of equity securities with readily determinable fair values. The loss in the year ended December 31, 2018 is related to the sale of approximately $2.7 million in available-for-sale debt securities and also includes a net loss of $81 thousand related to changes in fair value of equity securities with readily determinable fair values.

Gain on sales or write-downs of other real estate owned for the year ended December 31, 2019 was $0.5 million compared to a net loss of $0.1 million for the year ended December 31, 2018. This change was the result of specific sales and valuation transactions of other real estate.

Loss on other assets includes sales of repossessed assets and other miscellaneous assets in addition to any identified impairment during the period. Net loss on other assets for the year ended December 31, 2019 was $0.1 million compared to a gain of $0.3 million for the year ended December 31, 2018. The gain during the year ended December 31, 2018 resulted from the sale of restricted marketable securities received in satisfaction of a previously charged-off loan.

Other noninterest income for the year ended December 31, 2019 increased $0.9 million to $7.1 million as compared to other noninterest income of $6.2 million for year ended December 31, 2018. This increase reflected a $0.3 million increase in income from manufactured housing loan servicing along with miscellaneous costs associated with our overall growth, which is partially attributable to the branch acquisition from Atlantic Capital Bank.

Noninterest expense

Our noninterest expense includes primarily salaries and employee benefits expense, occupancy expense, legal and professional fees, data processing expense, regulatory fees and deposit insurance assessments, advertising and promotion and other real estate owned expense, among others. We monitor the ratio of noninterest expense to the sum of net interest income plus noninterest income, which is commonly known as the efficiency ratio.

The following table sets forth the components of noninterest expense for the periods indicated:

	Year Ended December 31,		
(dollars in thousands)	**2019**	**2018**	**2017**
Salaries, commissions and employee benefits	$ 152,084	$ 136,892	$ 130,005
Occupancy and equipment expense	15,641	13,976	13,010
Legal and professional fees	7,486	7,903	5,737
Data processing	10,589	9,100	6,488
Merger costs	5,385	1,594	19,034
Amortization of core deposit and other intangibles	4,339	3,185	1,995
Advertising	9,138	13,139	12,957
Other expense	40,179	37,669	33,091
Total noninterest expense	$ 244,841	$ 223,458	$ 222,317

Year ended December 31, 2019 compared to year ended December 31, 2018

Noninterest expense increased by $21.4 million during the year ended December 31, 2019 to $244.8 million as compared to $223.5 million in the year ended December 31, 2018. This increase resulted primarily from a $15.2 million increase in salaries, commissions and employee benefits expense in addition to merger costs and increased operational costs associated with our growth and acquisition of the Branches.

Salaries, commissions and employee benefits expense was the largest component of noninterest expenses representing 62.1% and 61.3% of total noninterest expense in the year ended December 31, 2019 and 2018, respectively. During the year ended December 31, 2019, salaries and employee benefits expense increased $15.2 million, or 11.1%, to $152.1 million as compared to $136.9 million for the year ended December 31, 2018. This increase was mainly driven by several key employee hires in the Banking segment in addition to the impact of our acquisition of the Branches and increased commissions related to swap activity and increased mortgage production in the last half of 2019.

Costs resulting from our equity compensation grants during the year ended December 31, 2019 and 2018 amounted to $7.1 million and $7.4 million, respectively. These grants comprise restricted stock units that were granted in conjunction with our 2016 IPO to all full-time associates and extended to new associates each year, in addition to annual performance grants.

Occupancy and equipment expense includes depreciation expense, rent expense related to leased properties, property taxes and costs related to the ongoing operation and repair and maintenance of our properties. Occupancy and equipment expense in the year ended December 31, 2019 was $15.6 million, an increase of $1.7 million, compared to $14.0 million for the year ended December 31, 2018. The increase is attributable to an increase in lease costs and property taxes, which are partially attributable to our acquisition of the Branches.

Legal and professional fees includes litigation expense, accounting, audit and tax service fees, professional licenses and fees, quality control and consulting fees. Legal and professional fees were $7.5 million for the year ended December 31, 2019 as compared to $7.9 million for the year ended December 31, 2018.

Data processing costs include computer expenses and data processing fees for authorization, clearing, settlement and other various processing activity. Data processing costs increased $1.5 million, or 16.4%, to $10.6 million for the year ended December 31, 2019 from $9.1 million for the year ended December 31, 2018. The increase for the year ended December 31, 2019 was attributable to our growth and increased volume of transaction processing.

Merger costs amounted to $5.4 million for the year ended December 31, 2019 compared to $1.6 million for the year ended December 31, 2018. Merger costs during the year ended December 31, 2019 include costs associated with our acquisition and conversion of the Branches in addition to due diligence and other costs associated with our previously announced mergers with Farmers National and Franklin.

Amortization of core deposits and other intangibles represents amortization of core deposit intangible assets acquired through acquisitions and other miscellaneous intangibles. Amortization of core deposit and other intangible assets totaled $4.3 million for the year ended December 31, 2019 compared to $3.2 million for the year ended December 31, 2018. The increase is due to the additional core deposit intangible of $10.8 million recorded in our acquisition of the Branches, which closed on April 5, 2019.

Advertising costs for the year ended December 31, 2019 were $9.1 million, a decrease of $4.0 million compared to $13.1 million for the year ended December 31, 2018. The decrease is attributable to lower costs from our mortgage business and a time deposit campaign that took place during the year ended December 31, 2018.

Other noninterest expense primarily includes mortgage servicing expenses, regulatory fees and deposit insurance assessments, software license and maintenance fees and various other miscellaneous expenses. Other noninterest expense increased $2.5 million during the year ended December 31, 2019 to $40.2 million compared to $37.7 million during the year ended December 31, 2018. The increase includes costs resulting from our mortgage restructuring amounting to $2.0 million in addition to other miscellaneous costs associated with our growth, including the impact of the Atlantic Capital branch acquisition.

Efficiency ratio

The efficiency ratio is one measure of productivity in the banking industry. This ratio is calculated to measure the cost of generating one dollar of revenue. That is, the ratio is designed to reflect the percentage of one dollar which must be expended to generate that dollar of revenue. We calculate this ratio by dividing noninterest expense by the sum of net interest income and noninterest income. For an adjusted efficiency ratio, we exclude certain gains, losses and expenses we do not consider core to our business.

Our efficiency ratio was 67.7% and 66.8% for the years ended December 31, 2019 and 2018, respectively. Our adjusted efficiency ratio, on a tax-equivalent basis, was 65.4% and 65.8% for the years ended December 31, 2019 and 2018, respectively. See "GAAP reconciliation and management explanation of non-GAAP financial measures" in this Report for a discussion of the adjusted efficiency ratio.

Return on equity and assets

The following table sets forth our ROAA, ROAE, dividend payout ratio and average shareholders' equity to average assets ratio for the periods indicated:

	Year Ended December 31,		
	2019	**2018**	**2017**
Return on average total assets	1.45%	1.66%	1.37%
Return on average shareholders' equity	11.6%	12.7%	11.2%
Dividend payout ratio	12.2%	7.93%	—%
Average shareholders' equity to average assets	12.5%	13.0%	12.2%

Income tax

Income tax expense was $25.7 million and $25.6 million for the years ended December 31, 2019 and 2018, respectively. This represents effective tax rates of 23.5% and 24.2% for the year ended December 31, 2019 and 2018 , respectively. The primary differences from the enacted rates are applicable state income taxes reduced for non-taxable income and additional deductions for equity-based compensation upon the distribution of RSUs.

Financial condition

The following discussion of our financial condition compares the year ended December 31, 2019 with the year ended December 31, 2018.

Total assets

Our total assets were $6.12 billion at December 31, 2019. This compares to total assets of $5.14 billion as of December 31, 2018. This increase was largely attributable to an increase of $742.1 million in loans held for investment driven by strong demand for loan products in our markets and the success of our growth initiatives, including $374.4 million of loans acquired through our branch acquisition from Atlantic Capital Bank.

Loan portfolio

Our loan portfolio is our most significant earning asset, comprising 72.0% and 71.4% of our total assets as of December 31, 2019 and December 31, 2018, respectively. Our strategy is to grow our loan portfolio by originating quality commercial and consumer loans that comply with our credit policies and that produce revenues consistent with our financial objectives. Currently, our loan portfolio is diversified relative to industry concentrations across the various loan portfolio categories. At December 31, 2019 and December 31, 2018, our outstanding loans to the broader healthcare industry made up less than 5% of our total outstanding loans and are spread across nursing homes, assisted living facilities, outpatient mental health and substance abuse centers, home health care services, and medical practices within our geographic markets. Additionally, at December 31, 2019 and December 31, 2018, our outstanding loans to hotels made up less than 5% of our total outstanding loans. Our overall lending approach is primarily focused on providing credit to our customers directly rather than purchasing loan syndications and loan participations from other banks (collectively, "Participated loans"). At December 31, 2019 and December 31, 2018, loans held for investment included approximately $103.4 million and $88.8 million, respectively, related to participated loans. We believe our loan portfolio is well-balanced, which provides us with the opportunity to grow while monitoring our loan concentrations.

Loans

Loans increased $742.1 million, or 20.2%, to $4.41 billion as of December 31, 2019 as compared to $3.67 billion as of December 31, 2018. Our loan growth during the year ended December 31, 2019 has been composed of increases of $167.0 million, or 19.3%, in commercial and industrial loans, $136.7 million, or 27.7%, in owner occupied commercial real estate loans, $220.5 million, or 31.5%, in non-owner occupied commercial real estate loans, $179.7 million, or 21.9%, in residential real estate loans and $43.2 million, or 18.9%, in consumer and other loans, respectively. These increases were offset by a decrease of $5.0 million, or 0.9%, in construction loans. The increase in loans during the year ended December 31, 2019 is attributable to our Atlantic Capital branch acquisition, continued strong demand in our metropolitan markets, and continued favorable economic conditions and interest rates throughout much of our geographic footprint.

Loans by type

The following table sets forth the balance and associated percentage of each major category in our loan portfolio of loans as of the dates indicated:

	As of December 31,									
	2019		2018		2017		2016		2015	
(dollars in thousands)	**Amount**	**% of total**	**Amount**	**% of total**	**Amount**	**% of total**	**Amount**	**% of total**	**Amount**	**% of total**
Loan Type:										
Commercial and industrial	$ 1,034,036	23%	$ 867,083	24%	$ 715,075	23%	$ 386,233	21%	$ 318,791	19%
Construction	551,101	13%	556,051	15%	448,326	14%	245,905	13%	238,170	14%
Residential real estate:										
1-to-4 family	710,454	16%	555,815	16%	480,989	15%	294,924	16%	290,704	17%
Line of credit	221,530	5%	190,480	5%	194,986	6%	177,190	10%	171,526	10%
Multi-family	69,429	2%	75,457	2%	62,374	2%	44,977	2%	59,510	3%
Commercial real estate:										
Owner-Occupied	630,270	14%	493,524	13%	495,872	16%	357,346	19%	337,664	20%
Non-Owner Occupied	920,744	21%	700,248	19%	551,588	17%	267,902	15%	207,871	12%
Consumer and other	272,078	6%	228,853	6%	217,701	7%	74,307	4%	77,627	5%
Total loans	$ 4,409,642	100%	$ 3,667,511	100%	$ 3,166,911	100%	$ 1,848,784	100%	$ 1,701,863	100%

Loan concentrations are considered to exist when there are amounts loaned to a number of borrowers engaged in similar activities which would cause them to be similarly impacted by economic or other conditions. At December 31, 2019 and December 31, 2018, there were no concentrations of loans exceeding 10% of loans other than the categories of loans disclosed in the table above.

Banking regulators have established thresholds of less than 100% for concentrations in construction lending and less than 300% for concentrations in commercial real estate lending that management monitors as part of the risk management process. The construction concentration ratio is a percentage of the outstanding construction and land development loans to total risk-based capital. The commercial real estate concentration ratio is a percentage of the outstanding balance of non-owner occupied commercial real estate, multifamily, and construction and land development loans to total risk-based capital. Management strives to operate within the thresholds set forth above.

When a company's ratios are in excess of one or both of these guidelines, banking regulators generally require an increased level of monitoring in these lending areas by management.

The table below shows concentration ratios for the Bank and Company as of December 31, 2019 and December 31, 2018, which both were within the stated thresholds.

	As a percentage (%) of risk based capital	
	FirstBank	FB Financial Corporation
December 31, 2019		
Construction	88.4%	87.0%
Commercial real estate	247.4%	243.4%
December 31, 2018		
Construction	99.1%	95.4%
Commercial real estate	237.5%	228.6%

Loan categories

The principal categories of our loans held for investment portfolio are discussed below:

Commercial and industrial loans. We provide a mix of variable and fixed rate commercial and industrial loans. Our commercial and industrial loans are typically made to small and medium-sized manufacturing, wholesale, retail and service businesses for working capital and operating needs and business expansions, including the purchase of capital equipment and loans made to farmers relating to their operations. This category also includes loans secured by manufactured housing receivables. Commercial and industrial loans generally include lines of credit and loans with maturities of five years or less. The loans are generally made with operating cash flows as the primary source of repayment, but may also include collateralization by inventory, accounts receivable, equipment and personal guarantees. We plan to continue to make commercial and industrial loans an area of emphasis in our lending operations in the future. As of December 31, 2019, our commercial and industrial loans comprised $1,034.0 million, or 23% of loans, compared to $867.1 million, or 24% of loans, as of December 31, 2018.

Commercial real estate owner-occupied loans. Our commercial real estate owner-occupied loans include loans to finance commercial real estate owner occupied properties for various purposes including use as offices, warehouses, production facilities, health care facilities, retail centers, restaurants, churches and agricultural based facilities. Commercial real estate owner-occupied loans are typically repaid through the ongoing business operations of the borrower, and hence are dependent on the success of the underlying business for repayment and are more exposed to general economic conditions. As of December 31, 2019, our owner occupied commercial real estate loans comprised $630.3 million, or 14% of loans, compared to $493.5 million, or 13%, of loans, as of December 31, 2018.

Commercial real estate non-owner occupied loans. Our commercial real estate non-owner occupied loans include loans to finance commercial real estate non-owner occupied investment properties for various purposes including use as offices, warehouses, health care facilities, hotels, mixed-use residential/commercial, manufactured housing communities, retail centers, multifamily properties, assisted living facilities and agricultural based facilities. Commercial real estate non-owner occupied loans are typically repaid with the funds received from the sale of the completed property or rental proceeds from such property, and are therefore more sensitive to adverse conditions in the real estate market, which can also be affected by general economic conditions. As of December 31, 2019, our non-owner occupied commercial real estate loans comprised $920.7 million, or 21%, of loans, compared to $700.2 million, or 19% of loans, as of December 31, 2018.

Residential real estate 1-4 family mortgage loans. Our residential real estate 1-4 family mortgage loans are primarily made with respect to and secured by single family homes, including manufactured homes with real estate, which are both owner-occupied and investor owned. We intend to continue to make residential 1-4 family housing loans at a similar pace, so long as housing values in our markets do not deteriorate from current prevailing levels and we are able to make such loans consistent with our current credit and underwriting standards. First lien residential 1-4 family mortgages may be affected by unemployment or underemployment and deteriorating market values of real estate. As of December 31, 2019, our residential real estate mortgage loans comprised $710.5 million, or 16% of loans, compared to $555.8 million, or 16%, of loans as of December 31, 2018.

Residential line of credit loans. Our residential line of credit loans are primarily revolving, open-end lines of credit secured by 1-4 family residential properties. We intend to continue to make residential line of credit loans if housing values in our markets do not deteriorate from current prevailing levels and we are able to make such loans consistent with our current credit and underwriting standards. Residential line of credit loans may be affected by unemployment or underemployment and deteriorating market values of real estate. Our home equity loans as of December 31, 2019 comprised $221.5 million or 5% of loans compared to $190.5 million, or 5%, of loans as of December 31, 2018.

Multi-family residential loans. Our multi-family residential loans are primarily secured by multi-family properties, such as apartments and condominium buildings. These loans may be affected by unemployment or underemployment and deteriorating market values of real estate. Our multifamily loans as of December 31, 2019 comprised $69.4 million, or 2% of loans, compared to $75.5 million, or 2%, of loans as of December 31, 2018.

Construction loans. Our construction loans include commercial construction, land acquisition and land development loans and single-family interim construction loans to small- and medium-sized businesses and individuals. These loans are generally secured by the land or the real property being built and are made based on our assessment of the value of the property on an as-completed basis. We expect to continue to make construction loans at a similar pace so long as demand continues and the market for and values of such properties remain stable or continue to improve in our markets. These loans can carry risk of repayment when projects incur cost overruns, have an increase in the price of building materials, encounter zoning and environmental issues, or encounter other factors that may affect the completion of a project on time and on budget. Additionally, repayment risk may be negatively impacted when the market experiences a deterioration in the value of real estate. As of December 31, 2019, our construction loans comprised $551.1 million, or 13% of loans compared to $556.1 million, or 15% of loans as of December 31, 2018.

Consumer and other loans. Consumer and other loans include consumer loans made to individuals for personal, family and household purposes, including car, boat and other recreational vehicle loans and personal lines of credit. Consumer loans are generally secured by vehicles and other household goods. The collateral securing consumer loans may depreciate over time. The company seeks to minimize these risks through its underwriting standards. Other loans also include loans to states and political subdivisions in the U.S. These loans are generally subject to the risk that the borrowing municipality or political subdivision may lose a significant portion of its tax base or that the project for which the loan was made may produce inadequate revenue. None of these categories of loans represents a significant portion of our loan portfolio. As of December 31, 2019, our consumer and other loans comprised $272.1 million, or 6% of loans, compared to $228.9 million, or 6% of loans as of December 31, 2018.

Loan maturity and sensitivities

The following tables present the contractual maturities of our loan portfolio as of December 31, 2019 and December 31, 2018. Loans with scheduled maturities are reported in the maturity category in which the payment is due. Demand loans with no stated maturity and overdrafts are reported in the "due in 1 year or less" category. Loans that have adjustable rates are shown as amortizing to final maturity rather than when the interest rates are next subject to change. The tables do not include prepayment or scheduled repayments. As of December 31, 2019 and December 31, 2018, the Company had $23.1 million and $39.9 million, respectively, in fixed-rate loans in which the Company has entered into variable rate swap contracts.

Loan type (dollars in thousands)	Maturing in one year or less	Maturing in one to five years	Maturing after five years	Total
As of December 31, 2019				
Commercial and industrial	$ 396,045	$ 501,693	$ 136,298	$ 1,034,036
Commercial real estate:				
Owner occupied	97,724	367,072	165,474	630,270
Non-owner occupied	109,172	552,333	259,239	920,744
Residential real estate:				
1-to-4 family	63,297	258,570	388,587	710,454
Line of credit	7,179	47,629	166,722	221,530
Multi-family	1,793	57,602	10,034	69,429
Construction	241,872	259,942	49,287	551,101
Consumer and other	38,830	66,016	167,232	272,078
Total ($)	$ 955,912	$ 2,110,857	$ 1,342,873	$ 4,409,642
Total (%)	21.7%	47.9%	30.4%	100.0%

Loan type (dollars in thousands)	Maturing in one year or less	Maturing in one to five years	Maturing after five years	Total
As of December 31, 2018				
Commercial and industrial	$ 316,253	$ 442,720	$ 108,110	$ 867,083
Commercial real estate:				
Owner occupied	82,141	296,303	115,080	493,524
Non-owner occupied	92,418	345,241	262,589	700,248
Residential real estate:				
1-to-4 family	55,553	223,346	276,916	555,815
Line of credit	10,382	41,024	139,074	190,480
Multi-family	2,226	18,706	54,525	75,457
Construction	233,108	256,079	66,864	556,051
Consumer and other	31,580	52,516	144,757	228,853
Total ($)	$ 823,661	$ 1,675,935	$ 1,167,915	$ 3,667,511
Total (%)	22.5%	45.7%	31.8%	100.0%

For loans due after one year or more, the following tables present the sensitivities to changes in interest rates as of December 31, 2019 and December 31, 2018.

Loan type (dollars in thousands)	Fixed interest rate	Floating interest rate	Total
As of December 31, 2019			
Commercial and industrial	$ 288,666	$ 349,325	$ 637,991
Commercial real estate:			
Owner occupied	422,684	109,862	532,546
Non-owner occupied	324,951	486,621	811,572
Residential real estate:			
1-to-4 family	532,409	114,748	647,157
Line of credit	892	213,459	214,351
Multi-family	49,091	18,545	67,636
Construction	93,342	215,887	309,229
Consumer and other	215,822	17,426	233,248
Total ($)	$ 1,927,857	$ 1,525,873	$ 3,453,730
Total (%)	55.8%	44.2%	100.0%

Loan type (dollars in thousands)	Fixed interest rate	Floating interest rate	Total
As of December 31, 2018			
Commercial and industrial	$ 195,589	$ 355,241	$ 550,830
Commercial real estate:			
Owner occupied	346,356	65,027	411,383
Non-owner occupied	289,990	317,840	607,830
Residential real estate:			
1-to-4 family	468,048	32,214	500,262
Line of credit	25,196	154,902	180,098
Multi-family	69,301	3,930	73,231
Construction	121,451	201,492	322,943
Consumer and other	193,115	4,158	197,273
Total ($)	$ 1,709,046	$ 1,134,804	$ 2,843,850
Total (%)	60.1%	39.9%	100.0%

The following table presents the contractual maturities of our loan portfolio segregated into fixed and floating interest rate loans as of December 31, 2019 and December 31, 2018.

(dollars in thousands)	Fixed interest rate	Floating interest rate	Total
As of December 31, 2019			
One year or less	$ 381,148	$ 574,764	$ 955,912

One to five years	1,224,977	885,880	2,110,857
More than five years	702,880	639,993	1,342,873
Total ($)	$ 2,309,005	$ 2,100,637	$ 4,409,642
Total (%)	52.4%	47.6%	100.0%

(dollars in thousands)	Fixed interest rate	Floating interest rate	Total
As of December 31, 2018			
One year or less	$ 346,928	$ 476,733	$ 823,661
One to five years	993,441	682,494	1,675,935
More than five years	715,605	452,310	1,167,915
Total ($)	$ 2,055,974	$ 1,611,537	$ 3,667,511
Total (%)	56.1%	43.9%	100.0%

Of the loans shown above with floating interest rates totaling $2.10 billion as of December 31, 2019, many of such have interest rate floors as follows:

Loans with interest rate floors (dollars in thousands)	Maturing in one year or less	Weighted average level of support (bps)	Maturing in one to five years	Weighted average level of support (bps)	Maturing after five years	Weighted average level of support (bps)	Total	Weighted average level of support (bps)
As of December 31, 2019								
Loans with current rates above floors:								
1-25 bps	$ 28,614	15.00	$ 15,902	15.98	$ 30,797	3.68	$ 75,313	10.58
26-50 bps	35,368	34.96	13,884	50.00	19,900	48.46	69,152	41.86
51-75 bps	41,672	75.00	16,562	75.00	15,546	72.86	73,780	74.55
76-100 bps	12,873	98.67	27,713	95.42	18,070	96.45	58,656	96.45
101-125 bps	31,853	124.38	33,390	119.30	28,435	118.48	93,678	120.78
126-150 bps	14,074	150.00	16,019	148.89	44,528	148.38	74,621	148.80
151-200 bps	2,450	178.07	12,172	178.43	63,436	179.18	78,058	179.03
200-250 bps	2,817	246.37	3,241	228.26	17,605	228.47	23,663	230.57
251 bps and above	18	323.65	2,434	349.01	13,725	347.19	16,177	347.44
Total loans with current rates above floors	$ 169,739	78.18	$ 141,317	105.89	$ 252,042	135.23	$ 563,098	110.67
Loans with current rates below floors:								
1-25 bps	$ 67,045	14.10	$ 186,954	9.61	$51,932	15.09	$305,931	11.52
26-50 bps	7,479	42.77	16,120	44.37	17,728	39.92	41,327	42.17
51-75 bps	6,262	74.81	27,902	74.82	24,570	70.59	58,734	73.05
76-100 bps	51	99.91	6,184	87.96	5,006	89.00	11,241	88.48
101-125 bps	1,198	123.80	6,009	120.96	28,949	116.99	36,156	117.88
126-150 bps	7	136.00	8,022	147.09	12,927	134.15	20,956	139.10
151-200 bps	7	193.63	4,337	175.05	24,766	161.38	29,110	163.42
200-250 bps	—	—	12,024	233.05	574	227.90	12,598	232.82
251 bps and above	482	1,008.92	—	—	78	331.00	560	915.04
Total loans with current rates below floors	$ 82,531	9.42	$ 267,552	25.95	$ 166,530	30.93	$ 516,613	24.02

Asset quality

In order to operate with a sound risk profile, we focus on originating loans that we believe to be of high quality. We have established loan approval policies and procedures to assist us in maintaining the overall quality of our loan portfolio. When delinquencies in our loans exist, we rigorously monitor the levels of such delinquencies for any negative or adverse trends. From time to time, we may modify loans to extend the term or make other concessions, including extensions or interest rate modifications, to help a borrower with a deteriorating financial condition stay current on their loan and to avoid foreclosure. Furthermore, we are committed to collecting on all of our loans and which can result in us carrying higher nonperforming assets. We believe this practice leads to higher recoveries in the long-term.

Nonperforming assets

Our nonperforming assets consist of nonperforming loans, other real estate owned and other miscellaneous non-earning assets. Nonperforming loans are those on which the accrual of interest has stopped, as well as loans that are contractually 90 days past due on which interest continues to accrue. Generally, the accrual of interest is discontinued when the full collection of principal or interest is in doubt or when the payment of principal or interest has been contractually 90 days past due, unless the obligation is both well secured and in the process of collection. In our loan review process, we seek to identify and proactively address nonperforming loans.

Purchased credit impaired ("PCI") loans are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement remains unpaid after the due date of the scheduled payment. However, these loans are considered to be performing, even though they may be contractually past due, as any non-payment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and is included in the resulting recognition of current period covered loan loss provision or future period yield adjustments. The accrual of interest is discontinued on PCI loans if management can no longer reliably estimate future cash flows on the loan. No PCI loans were classified as nonaccrual at December 31, 2019 or December 31, 2018 as the carrying value of the respective loan or pool of loans cash flows were considered estimable and probable of collection. Therefore, interest revenue, through accretion of the difference between the carrying value of the loans and the expected cash flows, is being recognized on all PCI loans. PCI contractually past due 30-89 days amounted to $3.0 million and $3.6 million as of December 31, 2019 and December 31, 2018, respectively, and an additional $0.8 million and $4.1 million were contractually past due 90 days or more as of December 31, 2019 and December 31, 2018, respectively.

As of December 31, 2019 and December 31, 2018, we had $47.1 million and $31.4 million, respectively, in nonperforming assets. As of December 31, 2019 and December 31, 2018, other real estate owned included $9.0 million and $5.4 million, respectively, of excess land and facilities resulting from our acquisitions. Other nonperforming assets, including other repossessed non-real estate, as of December 31, 2019 and December 31, 2018 amounted to $1.6 million and $1.6 million, respectively.

At December 31, 2019 and 2018, there were $51.7 million and $67.4 million of delinquent GNMA loans that had previously been sold; however, we determined there not to be a more-than-trivial benefit of rebooking based on an analysis of interest rates and an assessment of potential reputational risk associated with these loans. As such, these were not recorded on our balance sheet as of December 31, 2019 or 2018. We continue to assess this on a quarterly basis.

We had net interest recoveries of $0.9 million and $1.4 million during the year ended December 31, 2019 and 2018, respectively.

The following table provides details of our nonperforming assets, the ratio of such loans and other nonperforming assets to total assets, and certain other related information as of the dates presented:

	As of December 31,				
(dollars in thousands)	**2019**	**2018**	**2017**	**2016**	**2015**
Loan Type					
Commercial and industrial	$ 5,878	$ 503	$ 623	$ 1,424	$ 1,732
Construction	1,129	283	541	271	305
Residential real estate:					
1-to-4 family mortgage	7,297	3,441	3,504	2,986	2,392
Residential line of credit	828	1,761	833	1,034	1,437
Multi-family mortgage	—	—	—	—	—
Commercial real estate:					
Owner occupied	1,793	2,620	2,940	2,007	1,974
Non-owner occupied	7,880	6,962	1,371	2,251	3,512
Consumer and other	1,800	1,156	285	85	235
Total nonperforming loans held for investment	26,605	16,726	10,097	10,058	11,587
Loans held for sale	—	397	43,355	—	—
Other real estate owned	18,939	12,643	16,442	7,403	11,641
Other	1,580	1,637	2,369	1,654	1,654
Total nonperforming assets	$ 47,124	$ 31,403	$ 72,263	$ 19,115	$ 24,882
Total nonperforming loans held for investment as a percentage of total loans held for investment	0.60%	0.46%	0.32%	0.54%	0.68%
Total nonperforming assets as a percentage of total assets	0.77%	0.61%	1.53%	0.58%	0.86%
Total accruing loans over 90 days delinquent as a percentage of total assets	0.09%	0.06%	0.04%	0.04%	0.03%
Loans restructured as troubled debt restructurings	$ 12,206	$ 6,794	$ 8,604	$ 8,802	$ 15,289
Troubled debt restructurings as a percentage of total loans held for investment	0.28%	0.19%	0.27%	0.48%	0.90%

Total nonperforming loans as a percentage of loans were 0.60% as of December 31, 2019 as compared to 0.46% as of December 31, 2018. Our coverage ratio, or our allowance for loan losses as a percentage of our nonperforming loans, was 117.0% as of December 31, 2019 as compared to 173.0% as of December 31, 2018.

Management has evaluated the aforementioned loans and other loans classified as nonperforming and believes that all nonperforming loans have been adequately reserved for in the allowance for loan losses at December 31, 2019. Management also continually monitors past due loans for potential credit quality deterioration. Excluding PCI loans, loans 30-89 days past due were $18.5 million at December 31, 2019, as compared to $9.2 million at December 31, 2018.

For acquired loans, neither the credit portion nor any other portion of the fair value discount is reflected in the reported allowance for loan and lease losses. However, as of December 31, 2019 and December 31, 2018, the allowance included $1.7 million and $0.9 million, respectively, in reserves related to subsequent deterioration on loans acquired in our previous mergers and acquisitions.

Other real estate owned consists of properties acquired through foreclosure or acceptance of a deed in lieu of foreclosure in addition to excess facilities held for sale. These properties are carried at the lower of cost or fair market value based on appraised value less estimated selling costs. Losses arising at the time of foreclosure of properties are charged against the allowance for loan losses. Reductions in the carrying value subsequent to foreclosure are charged to earnings and are included in "(Loss) gain on sales or write-downs of other real estate owned" in the accompanying consolidated statements of income. Other real estate owned with a cost basis of $4.0 million were sold as of year ended December 31, 2019, resulting in a net gain of $0.5 million. Other real estate owned with a cost basis of $5.8 million were sold during the year ended December 31, 2018, resulting in a net loss of $99 thousand.

Classified loans

Accounting standards require us to identify loans, where full repayment of principal and interest is doubtful, as impaired loans. These standards require that impaired loans be valued at the present value of expected future cash flows, discounted at the loan's effective interest rate, or using one of the following methods: the observable market price of the loan or the fair value of the underlying collateral if the loan is collateral dependent. We have implemented these standards in our quarterly review of the adequacy of the allowance for loan losses and identify and value impaired loans in accordance with guidance on these standards. As part of the review process, we also identify loans classified as watch, which have a potential weakness that deserves management's close attention.

Loans totaling $80.3 million and $66.5 million were classified as substandard under our policy at December 31, 2019 and December 31, 2018, respectively. As of December 31, 2019 and December 31, 2018, $13.5 million and $22.3 million, respectively, of substandard loans were purchased credit impaired in connection with our mergers and acquisitions. The following table sets forth information related to the credit quality of our loan portfolio at December 31, 2019 and December 31, 2018.

Loan type (dollars in thousands)	Pass	Watch	Substandard	Total
As of December 31, 2019				
Loans, excluding purchased credit impaired loans				
Commercial and industrial	$ 946,247	$ 66,910	$ 19,195	$ 1,032,352
Construction	541,201	4,790	2,226	548,217
Residential real estate:				
1-to-4 family mortgage	666,177	11,380	13,559	691,116
Residential line of credit	218,086	1,343	2,028	221,457
Multi-family mortgage	69,366	63	—	69,429
Commercial real estate:				
Owner occupied	576,737	30,379	17,263	624,379
Non-owner occupied	876,670	24,342	9,535	910,547
Consumer and other	248,632	3,304	3,057	254,993
Total loans, excluding purchased credit impaired loans	$ 4,143,116	$ 142,511	$ 66,863	$ 4,352,490
Purchased credit impaired loans				
Commercial and industrial	$ —	$ 1,224	$ 460	$ 1,684
Construction	—	2,681	203	2,884
Residential real estate:				
1-to-4 family mortgage	—	15,091	4,247	19,338
Residential line of credit	—	—	73	73
Multi-family mortgage	—	—	—	—
Commercial real estate:				
Owner occupied	—	4,535	1,356	5,891
Non-owner occupied	—	6,617	3,580	10,197
Consumer and other	—	13,521	3,564	17,085
Total purchased credit impaired loans	$ —	$ 43,669	$ 13,483	$ 57,152
Total loans	$ 4,143,116	$ 186,180	$ 80,346	$ 4,409,642

Loan type (dollars in thousands)	Pass	Watch	Substandard	Total
As of December 31, 2018				
Loans, excluding purchased credit impaired loans				
Commercial and industrial	$ 804,447	$ 52,624	$ 8,564	$ 865,635
Construction	543,953	5,012	1,331	550,296
Residential real estate:				
1-to-4 family mortgage	519,541	8,697	8,200	536,438
Residential line of credit	186,753	1,039	2,688	190,480
Multi-family mortgage	75,381	76	—	75,457
Commercial real estate:				
Owner occupied	456,694	16,765	14,049	487,508
Non-owner occupied	667,447	8,881	7,654	683,982
Consumer and other	204,279	2,763	1,674	208,716
Total loans, excluding purchased credit impaired loans	$ 3,458,495	$ 95,857	$ 44,160	$ 3,598,512
Purchased credit impaired loans				
Commercial and industrial	$ —	$ 964	$ 484	$ 1,448
Construction	—	3,229	2,526	5,755
Residential real estate:				
1-to-4 family mortgage	—	14,681	4,696	19,377
Residential line of credit	—	—	—	—
Multi-family mortgage	—	—	—	—
Commercial real estate:				
Owner occupied	—	4,110	1,906	6,016
Non-owner occupied	—	8,266	8,000	16,266
Consumer and other	—	15,422	4,715	20,137
Total purchased credit impaired loans	$ —	$ 46,672	$ 22,327	$ 68,999
Total loans	$ 3,458,495	$ 142,529	$ 66,487	$ 3,667,511

Allowance for loan losses

The allowance for loan losses is the amount that, based on our judgment, is required to absorb probable credit losses inherent in our loan portfolio and that, in management's judgment, is appropriate under GAAP. The determination of the amount of the allowance is complex and involves a high degree of judgment and subjectivity. Among the material estimates required to establish the allowance are loss exposure at default, the amount and timing of future cash flows on impacted loans, value of collateral and determination of the loss factors to be applied to the various elements of the portfolio.

Our methodology for assessing the adequacy of the allowance for loan losses includes a general allowance for performing loans, which are grouped based on similar characteristics, and an allocated allowance for individual impaired loans. Actual credit losses or recoveries are charged or credited directly to the allowance.

The appropriate level of the allowance is established on a quarterly basis after input from management and our loan review staff and is based on an ongoing analysis of the credit risk of our loan portfolio. In making our evaluation of the credit risk of the loan portfolio, we consider factors such as the volume, growth and composition of our loan portfolio, the diversification by industry of our commercial loan portfolio, the effect of changes in the local real estate market on collateral values, trends in past dues, our experience as a lender, changes in lending policies, the effects on our loan portfolio of current economic indicators and their probable impact on borrowers, historical loan loss experience, industry loan loss experience, the amount of nonperforming loans and related collateral and the evaluation of our loan portfolio by our loan review function.

In addition, on a regular basis, management and the board of directors review credit metrics. These metrics include the allowance for loan losses as a percentage of loans, net charge-offs as a percentage of average loans, the provision for loan losses as a percentage of average loans, nonperforming loans as a percentage of loans and the allowance coverage on nonperforming loans. Also, management reviews past due ratios by relationship manager, individual markets and the Bank as a whole. The allowance for loan losses was $31.1 million and $28.9 million and represented 0.71% and 0.79% of loans held for investment at December 31, 2019 and December 31, 2018, respectively. This decrease is the result of current credit quality and was also impacted by the addition of purchased loans from our branch acquisition from Atlantic Capital, which contributed to this decrease as newly purchased loans were recorded at fair value as of the acquisition date and do not carry a significant allowance for loan losses as of December 31, 2019.

Effective January 1, 2020, we adopted new accounting guidance which requires current expected credit losses ("CECL") be estimated that management expects to be incurred over the life of the loan portfolio, resulting in the transition from our historical allowance for loan losses to an allowance for credit losses ("ACL"). This change in accounting estimate is currently expected to result in an ACL as of January 1, 2020 in the range of $60.0 million to $70.0 million, increasing from the allowance for loan losses reported as of December 31, 2019 of $31.1 million. This would result in an estimated $20.0 million to $31.0 million reduction, net of taxes, to retained earnings upon adoption. Additionally, the adoption will result in an increase to future reported nonperforming loans as purchased credit deteriorated ("PCD") loans (formerly PCI loans) will no longer be excluded from our nonperforming metrics. If PCI loans would have been included in nonperforming loans held for investment at December 31, 2019, our total nonperforming loans would have increased by $5.1 million and our nonperforming loans held for investment as a percentage of our total loans held for investment would have been 0.72% of total loans held for investment. These estimates are contingent upon continued refinement of assumptions, methodologies and judgments, which we will continue to finalize through the first quarter of 2020.

We have adopted the option provided by the regulatory capital framework that permits institutions to limit the initial regulatory capital day-one adverse impact by allowing a three-year phase in period for this impact. Based on the three-year phase in option allowed by the regulatory framework, we expect that all capital ratios will remain well in excess of minimum capital ratios.

The following table presents the allocation of the allowance for loan losses by loan category as of the periods indicated:

	As of December 31,									
	2019		2018		2017		2016		2015	
(dollars in thousands)	**Amount**	**% of loans**	**Amount**	**% of loans**	**Amount**	**% of loans**	**Amount**	**% of loans**	**Amount**	**% of loans**
Loan Type:										
Commercial and industrial	$ 4,805	23%	$ 5,348	24%	$ 4,461	23%	$ 5,309	21%	$ 5,135	19%
Construction	10,194	13%	9,729	15%	7,135	14%	4,940	13%	5,143	14%
Residential real estate:										
1-to-4 family mortgage	3,112	16%	3,428	16%	3,197	15%	3,197	16%	4,176	17%
Residential line of credit	752	5%	811	5%	944	6%	1,613	10%	2,201	10%
Multi-family mortgage	544	2%	566	2%	434	2%	504	2%	311	3%
Commercial real estate:										
Owner occupied	4,109	14%	3,132	13%	3,558	16%	3,302	19%	3,682	20%
Non-owner occupied	4,621	21%	4,149	19%	2,817	17%	2,019	15%	2,622	12%
Consumer and other	3,002	6%	1,769	6%	1,495	7%	863	4%	1,190	5%
Total allowance	$ 31,139	100%	$ 28,932	100%	$ 24,041	100%	$ 21,747	100%	$ 24,460	100%

The following table summarizes activity in our allowance for loan losses during the periods indicated:

	Year Ended December 31,				
(dollars in thousands)	2019	2018	2017	2016	2015
Allowance for loan loss at beginning of period	$ 28,932	$ 24,041	$ 21,747	$ 24,460	$ 29,030
Charge-offs:					
Commercial and industrial	(2,930)	(898)	(584)	(562)	(953)
Construction	—	(29)	(27)	(2)	(81)
Residential real estate:					
1-to-4 family mortgage	(220)	(138)	(200)	(224)	(828)
Residential line of credit	(309)	(36)	(276)	(132)	(230)
Multi-family mortgage	—	—	—	—	—
Commercial real estate:					
Owner occupied	—	(91)	(288)	(249)	(1,062)
Non-owner occupied	(12)	—	—	(527)	(54)
Consumer and other	(2,481)	(1,613)	(1,152)	(1,154)	(1,136)
Total charge-offs	$ (5,952)	$ (2,805)	$ (2,527)	$ (2,850)	$ (4,344)
Recoveries:					
Commercial and industrial	136	390	1,894	524	112
Construction	11	1,164	1,084	216	1,354
Residential real estate:					
1-to-4 family mortgage	79	171	159	127	161
Residential line of credit	138	178	395	174	286
Multi-family mortgage	—	—	—	—	—
Commercial real estate:					
Owner occupied	108	143	61	140	35
Non-owner occupied	—	51	1,646	195	342
Consumer and other	634	550	532	240	548
Total recoveries	$ 1,106	$ 2,647	$ 5,771	$ 1,616	$ 2,838
Net (charge-offs) recoveries	(4,846)	(158)	3,244	(1,234)	(1,506)
Provision for loan losses	7,053	5,398	(950)	(1,479)	(3,064)
Adjustments for transfers to loans HFS	—	(349)	—	—	—
Allowance for loan loss at the end of period	$ 31,139	$ 28,932	$ 24,041	$ 21,747	$ 24,460
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.12)%	— %	0.13%	(0.07)%	(0.10)%
Allowance for loan loss as a percentage of loans at end of period	0.71 %	0.79 %	0.76%	1.18 %	1.50 %
Allowance of loan loss as a percentage of nonperforming loans	117.0 %	173.0 %	238.1%	216.2 %	211.1 %

Mortgage loans held for sale

Mortgage loans held for sale were $262.5 million at December 31, 2019 compared to $278.8 million at December 31, 2018. Interest rate lock volume for the year ended December 31, 2019 and 2018 totaled $5.90 billion and $7.12 billion, respectively. Generally, mortgage volume increases in lower interest rate environments and robust housing markets and decreases in rising interest rate environments and slower housing markets. The decrease in interest rate lock volume for the year ended December 31, 2019, reflects the impact of our mortgage restructuring offset by increased volume in our retail and ConsumerDirect channels, which benefited from decreased interest rates when compared to the same period in the previous year. Interest rate lock commitments in the pipeline were $453.2 million at December 31, 2019 compared with $318.7 million at December 31, 2018.

Mortgage loans to be sold are sold either on a “best efforts” basis or under a mandatory delivery sales agreement. Under a “best efforts” sales agreement, residential real estate originations are locked in at a contractual rate with third party private investors or directly with government sponsored agencies, and we are obligated to sell the mortgages to such investors only if the mortgages are closed and funded. The risk we assume is conditioned upon loan underwriting and market conditions in the national mortgage market. Under a mandatory delivery sales agreement, we commit to deliver a certain principal amount of mortgage loans to an investor at a specified price and delivery date. Penalties are paid to the investor if we fail to satisfy the contract. Gains and losses are realized at the time consideration is received and all other criteria for sales treatment have been met. These loans are typically sold within thirty days after the loan is funded. Although loan fees and some interest income are derived from mortgage loans held for sale, the main source of income is gains from the sale of these loans in the secondary market.

Deposits

Deposits represent the Bank's primary source of funds. We continue to focus on growing core customer deposits through our relationship driven banking philosophy, community-focused marketing programs, and initiatives such as the development of our treasury management services.

Total deposits were $4.93 billion and $4.17 billion as of December 31, 2019 and December 31, 2018, respectively. Noninterest-bearing deposits at December 31, 2019 and December 31, 2018 were $1,208.2 million and $949.1 million, respectively, while interest-bearing deposits were $3.73 billion and $3.22 billion at December 31, 2019 and December 31, 2018, respectively. The 18.3% increase in total deposits is partially attributed to the acquisition of $588.9 million in deposits acquired from the Branches, continued focus on core customer deposit growth, and increased escrow deposits that our third party servicing provider, Cenlar, transferred to the Bank.

Brokered and internet time deposits at December 31, 2019 and December 31, 2018 were $20.4 million and $103.1 million, respectively. The decrease of $82.8 million was due to expected maturity of brokered deposits while replacing with lower cost funds, which is consistent with our asset liability management strategy.

Included in noninterest-bearing deposits are certain mortgage escrow and related customer deposits that our third-party servicing provider, Cenlar, transfers to the Bank which totaled $92.6 million and $53.5 million at December 31, 2019 and December 31, 2018, respectively. Additionally, our deposits from municipal and governmental entities (i.e. "public deposits") totaled $463.1 million at December 31, 2019 compared to $448.2 million at December 31, 2018. The increase in public deposits is mainly attributed to notable increase concentrated in a few large customers and the addition of new customers.

Our deposit base also includes certain commercial and high net worth individuals that periodically place deposits with the Bank for short periods of time and can from period to period cause fluctuations in the overall level of customer deposits outstanding. These fluctuations may include certain deposits from related parties as disclosed in Note 24 to the consolidated financial statements included in this Annual Report. The mix between noninterest-bearing and interest-bearing deposits as of December 31, 2019 shifted slightly due to growth of noninterest-bearing deposits and the maturity and non-renewal of brokered, internet and other time deposits when compared to December 31, 2018. Management continues to focus on growing noninterest-bearing deposits while allowing more costly funding sources to mature.

Average deposit balances by type, together with the average rates per periods are reflected in the average balance sheet amounts, interest paid and rate analysis tables included above under the discussion of net interest income.

The following table sets forth the distribution by type of our deposit accounts for the dates indicated:

	As of December 31,								
	2019			2018			2017		
(dollars in thousands)	Amount	% of total	Average rate	Amount	% of total	Average rate	Amount	% of total	Average rate
Deposit Type									
Noninterest-bearing demand	$ 1,208,175	25%	—%	$ 949,135	23%	—%	$ 888,200	24%	—%
Interest-bearing demand	1,014,875	21%	0.92%	863,706	21%	0.73%	895,140	24%	0.48%
Money market	1,306,913	26%	1.42%	1,064,191	26%	1.06%	1,014,406	29%	0.61%
Savings deposits	213,122	4%	0.15%	174,940	4%	0.15%	178,320	5%	0.16%
Customer time deposits	1,171,502	24%	2.09%	1,016,638	24%	1.40%	602,628	16%	0.66%
Brokered and internet time deposits	20,351	—%	2.27%	103,107	2%	1.79%	85,701	2%	1.54%
Total deposits	$ 4,934,938	100%	1.10%	$ 4,171,717	100%	0.76%	$ 3,664,395	100%	0.42%
Customer Time Deposits									
0.00-0.50%	$ 18,919	1%		$ 34,696	3%		$ 112,980	19%	
0.51-1.00%	140,682	12%		196,032	19%		258,790	43%	
1.01-1.50%	55,557	5%		124,007	12%		127,091	21%	
1.51-2.00%	338,997	29%		60,286	6%		87,038	14%	
2.01-2.50%	312,528	27%		260,173	26%		11,791	2%	
Above 2.50%	304,819	26%		341,444	34%		4,938	1%	
Total customer time deposits	$ 1,171,502	100%		$ 1,016,638	100%		$ 602,628	100%	
Brokered and Internet Time Deposits									
0.00-0.50%	$ —	—%		$ 787	1%		681	1%	
0.51-1.00%	—	—%		548	1%		713	1%	
1.01-1.50%	8,453	42%		21,211	21%		59,419	70%	
1.51-2.00%	9,368	46%		15,204	15%		20,922	24%	
2.01-2.50%	2,182	11%		63,167	60%		3,618	4%	
Above 2.50%	348	1%		2,190	2%		348	—%	
Total brokered and internet time deposits	20,351	100%		103,107	100%		85,701	100%	
Total time deposits	$ 1,191,853			$ 1,119,745			$ 688,329		

The following table sets forth our time deposits segmented by months to maturity and deposit amount as of December 31, 2019 and December 31, 2018:

	As of December 31, 2019		
(dollars in thousands)	Time deposits of $100 and greater	Time deposits of less than $100	Total
Months to maturity:			
Three or less	$ 126,604	$ 66,520	$ 193,124
Over Three to Six	110,617	68,031	178,648
Over Six to Twelve	295,412	147,724	443,136
Over Twelve	239,828	137,117	376,945
Total	$ 772,461	$ 419,392	$ 1,191,853

	As of December 31, 2018		
(dollars in thousands)	Time deposits of $100 and greater	Time deposits of less than $100	Total
Months to maturity:			
Three or less	$ 142,472	$ 95,209	$ 237,681
Over Three to Six	86,877	57,592	144,469
Over Six to Twelve	241,516	132,204	373,720
Over Twelve	236,972	126,903	363,875
Total	$ 707,837	$ 411,908	$ 1,119,745

Investment portfolio

Our investment portfolio provides liquidity and certain investment securities in our portfolio serve as collateral for certain deposits and other types of borrowings. Our investment strategy aims to maximize earnings while maintaining liquidity in securities with minimal credit risk. The types and maturities of securities purchased are primarily based on our current and projected liquidity and interest rate sensitivity positions.

The following table shows the carrying value of our total securities available for sale by investment type and the relative percentage of each investment type for the dates indicated:

								December 31,
			2019			**2018**		**2017**
(dollars in thousands)		**Carrying value**	**% of total**		**Carrying value**	**% of total**	**Carrying value**	**% of total**
U.S. Government agency securities	$	—	—%	$	989	—%	$ 986	—%
Mortgage-backed securities		490,676	71%		508,580	78%	418,781	78%
Municipals, tax exempt		189,235	28%		138,887	21%	109,251	21%
Treasury securities		7,448	1%		7,242	1%	7,252	1%
Corporate securities		1,022	—%		—	—%	—	—%
Total securities available for sale	$	688,381	100%	$	655,698	100%	$ 536,270	100%

The balance of our available-for-sale debt securities portfolio at December 31, 2019 was $688.4 million compared to $655.7 million at December 31, 2018. During the years ended December 31, 2019, 2018, and 2017 we purchased $151.4 million, $203.8 million and $81.4 million in investment securities, respectively. Mortgage-backed securities and collateralized mortgage obligations, or CMOs, in the aggregate, comprised 52.4%, 81.4%, and 73.4% of these purchases, respectively. CMOs are included in the "Mortgage-backed securities" line item in the above table. The mortgage-backed securities and CMOs held in our investment portfolio are primarily issued by government sponsored entities. Municipal securities accounted for 46.9%, 18.6%, and 26.6%, respectively of total securities purchased in the years ended December 31, 2019, 2018, and 2017, respectively. Corporate securities accounted for 0.7% of total securities purchased in the year ended December 31, 2019. The carrying value of securities sold during the years ended December 31, 2019, 2018, and 2017 totaled $24.5 million, $2.7 million, and $94.7 million, respectively. Maturities and calls of securities during the years ended December 31, 2019, 2018, and 2017 totaled $113.0 million, $73.1 million, and $83.3 million, respectively. As of December 31, 2019 and 2018, net unrealized gains of $11.7 million and losses of $12.3 million, respectively, were recorded on available-for-sale debt securities.

As of December 31, 2019 and December 31, 2018, the Company had $3.3 million and $3.1 million, respectively, in equity securities recorded at fair value. The change in the fair value of equity securities resulted in net gains of $148 thousand, respectively, during the year ended December 31, 2019 compared to net losses of $81 thousand, respectively, during the year ended December 31, 2018. As of January 1, 2018, the Company adopted ASU 2016-01 and reclassified $3.6 million of other securities without readily determinable market values to other assets. The provisions of this update require that equity securities be carried at fair value on the balance sheet with any periodic changes in value as adjustments to the income statement.

The following table sets forth the fair value, scheduled maturities and weighted average yields for our investment portfolio as of the dates indicated below:

	As of December 31,					
	2019			2018		
(dollars in thousands)	Fair value	% of total investment securities	Weighted average yield(1)	Fair value	% of total investment securities	Weighted average yield(1)
Treasury securities						
Maturing within one year	$ —	—%	—%	$ —	—%	—%
Maturing in one to five years	7,448	1.1%	1.76%	7,242	1.1%	1.76%
Maturing in five to ten years	—	—%	—%	—	—%	—%
Maturing after ten years	—	—%	—%	—	—%	—%
Total Treasury securities	7,448	1.1%	1.76%	7,242	1.1%	1.76%
Government agency securities:						
Maturing within one year	—	—%	—%	989	0.2%	1.43%
Maturing in one to five years	—	—%	—%	—	—%	—%
Maturing in five to ten years	—	—%	—%	—	—%	—%
Maturing after ten years	—	—%	—%	—	—%	—%
Total government agency securities	—	—%	—%	989	0.2%	1.43%
Obligations of state and municipal subdivisions:						
Maturing within one year	1,152	0.2%	5.11%	15,039	2.3%	6.14%
Maturing in one to five years	4,228	0.6%	4.60%	6,498	1.0%	4.86%
Maturing in five to ten years	17,865	2.6%	3.96%	18,387	2.8%	4.68%
Maturing after ten years	165,990	24.1%	3.84%	98,963	15.1%	4.13%
Total obligations of state and municipal subdivisions	189,235	27.5%	3.88%	138,887	21.2%	4.46%
Residential mortgage backed securities guaranteed by FNMA, GNMA and FHLMC:						
Maturing within one year	—	—%	—%	—	—%	—%
Maturing in one to five years	496	0.1%	1.83%	—	—%	—%
Maturing in five to ten years	24,316	3.5%	3.16%	11,988	1.8%	3.07%
Maturing after ten years	465,864	67.7%	2.36%	496,592	75.7%	2.67%
Total residential mortgage backed securities guaranteed by FNMA, GNMA and FHLMC	490,676	71.3%	2.40%	508,580	77.5%	2.68%
Corporate securities:						
Maturing within one year	—	—%	—%	—	—%	—%
Maturing in one to five years	—	—%	—%	—	—%	—%
Maturing in five to ten years	1,022	0.1%	4.13%	—	—%	—%
Maturing after ten years	—	—%	—%	—	—%	—%
Total Corporate securities	1,022	0.1%	4.13%	—	—%	—%
Total investment securities	$ 688,381	100.0%	2.94%	$ 655,698	100.0%	2.99%

(1) Yields on a tax-equivalent basis.

The following table summarizes the amortized cost of debt securities classified as available-for-sale and their approximate fair values as of the dates shown:

(dollars in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale debt securities				
As of As of December 31, 2019				
Mortgage-backed securities	$ 487,101	$ 5,236	$ (1,661)	$ 490,676
Municipals, tax exempt	181,178	8,287	(230)	189,235
Treasury securities	7,426	22	—	7,448
Corporate securities	1,000	22	—	1,022
	$ 676,705	$ 13,567	$ (1,891)	$ 688,381
As of As of December 31, 2018				
US Government agency securities	$ 1,000	$ —	$ (11)	$ 989

Mortgage-backed securities	520,654	1,191	(13,265)	508,580
Municipals, tax exempt	138,994	1,565	(1,672)	138,887
Treasury securities	7,385	—	(143)	7,242
	$ 668,033	$ 2,756	$ (15,091)	$ 655,698

Borrowed funds

Deposits and investment securities available for sale are the primary source of funds for our lending activities and general business purposes. However, we may also obtain advances from the FHLB, purchase federal funds and engage in overnight borrowing from the Federal Reserve, correspondent banks, or enter into client purchase agreements. We also use these sources of funds as part of our asset liability management process to control our long-term interest rate risk exposure, even if it may increase our short-term cost of funds. This may include match funding of fixed-rate loans.

Our level of short-term borrowing can fluctuate on a daily basis depending on funding needs and the source of funds to satisfy the needs in addition to the overall interest rate environment and cost of public funds. Borrowings include securities sold under agreements to repurchase, lines of credit, advances from the FHLB, federal funds and subordinated debt.

The following table sets forth our total borrowings segmented by years to maturity as of December 31, 2019:

	December 31, 2019		
(dollars in thousands)	**Amount**	**% of total**	**Weighted average interest rate (%)**
Maturing Within:			
December 31, 2020	$ 123,745	41%	1.67%
December 31, 2021	—	—%	—%
December 31, 2022	—	—%	—%
December 31, 2023	—	—%	—%
December 31, 2024	—	—%	—%
Thereafter	180,930	59%	1.94%
Total	$ 304,675	100%	1.83%

Securities sold under agreements to repurchase and federal funds purchased

We enter into agreements with certain customers to sell certain securities under agreements to repurchase the security the following day. These agreements are made to provide customers with comprehensive treasury management programs a short-term return for their excess funds. Securities sold under agreements to repurchase totaled $23.7 million and $15.1 million at December 31, 2019 and December 31, 2018, respectively.

The Bank maintains lines with certain correspondent banks that provide borrowing capacity in the form of federal funds purchased in the aggregate amount of $305.0 million and $240.0 million as of December 31, 2019 and 2018, respectively. There were no borrowings against the line at December 31, 2019 or 2018.

Federal Home Loan Bank advances

As a member of the FHLB Cincinnati, the Bank receives advances from the FHLB pursuant to the terms of various agreements that assist in funding its mortgage and loan portfolio balance sheet. Under the agreements, we pledge qualifying residential mortgages of $413.0 million and qualifying commercial mortgages of $545.5 million as collateral securing a line of credit with a total borrowing capacity of $760.6 million as of December 31, 2019. As of December 31, 2018, we pledged qualifying residential mortgages of $619.0 million and qualifying commercial mortgages of $608.7 million as collateral securing a line of credit with a total borrowing capacity of $737.0 million.

Borrowings against our line totaled $250.0 million and $181.8 million as of December 31, 2019 and 2018, respectively. The FHLB advances as of December 31, 2019 includes two long-term advances with putable features totaling $150.0 million. These two long-term advances of $100.0 million and $50.0 million carry maximum final terms of 10 years and 7 years, respectively. However, the FHLB owns the option to cancel the advances after one year and quarterly thereafter at predeterminable fixed rates of 1.24% and 1.37%, respectively. Long-term advances of $1.8 million as of December 31, 2018, contain no such putable features. There were no overnight cash management advances (CMAs) as of December 31, 2019 and $80.0 million as of December 31, 2018, respectively. In addition, a letter of credit with FHLB of $75.0 million and $100.0 million was pledged to secure public funds that required collateral at December 31, 2019 and 2018, respectively. Included in total FHLB advances is $100.0 million borrowed during the third quarter of 2017 as part of the funding strategy for the Clayton Banks merger. These advances have 90 day fixed rate repricing terms. An additional line of $800.0 million has been secured with the FHLB for overnight borrowing; however, additional collateral may be needed to draw on the line. The maximum amount of FHLB borrowing outstanding at any month end was $250.0 million and $388.1 million for the years ended December 31, 2019 and 2018, respectively. The weighted average interest rate on FHLB borrowings was 1.51% and 1.93% at December 31, 2019 and 2018.

Additionally, the Bank maintains a line with the Federal Reserve Bank through the Borrower-in-Custody program. As of December 31, 2019 and 2018, $1.41 billion and $1.34 billion of qualifying loans and $5.0 million and $8.6 million of investment securities were pledged to the Federal Reserve Bank, securing a line of credit of $1,013.2 million and $934.7 million, respectively.

Subordinated debt

We have two wholly-owned subsidiaries that are statutory business trusts (“Trusts”). The Trusts were created for the sole purpose of issuing 30-year capital trust preferred securities to fund the purchase of junior subordinated debentures issued by the Company. As of December 31, 2019 and 2018, our $0.9 million investment in the Trusts was included in other assets in the accompanying consolidated balance sheets, and our $30.0 million obligation is reflected as junior subordinated debt, respectively. The junior subordinated debt bears interest at floating interest rates based on a spread over 3-month LIBOR plus 315 basis points (5.10% and 5.97% at December 31, 2019 and 2018, respectively) for the $21.7 million debenture and 3-month LIBOR plus 325 basis points (5.19% and 5.65% at December 31, 2019 and December 31, 2018, respectively) for the remaining $9.3 million. The $9.3 million debenture may be redeemed prior to the 2033 maturity date upon the occurrence of a special event, and the $21.7 million debenture may be redeemed prior to 2033 at our option.

Liquidity and capital resources

Bank liquidity management

We are expected to maintain adequate liquidity at the Bank to meet the cash flow requirements of clients who may be either depositors wishing to withdraw funds or borrowers needing assurance that sufficient funds will be available to meet their credit needs. Our Liquidity and Interest Rate Risk Policy is intended to cause the Bank to maintain adequate liquidity and, therefore, enhance our ability to raise funds to support asset growth, meet deposit withdrawals and lending needs, maintain reserve requirements and otherwise sustain our operations. We accomplish this through management of the maturities of our interest-earning assets and interest-bearing liabilities. We believe that our present position is adequate to meet our current and future liquidity needs.

We continuously monitor our liquidity position to ensure that assets and liabilities are managed in a manner that will meet all of our short-term and long-term cash requirements. We manage our liquidity position to meet the daily cash flow needs of clients, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives of our shareholder. We also monitor our liquidity requirements in light of interest rate trends, changes in the economy and the scheduled maturity and interest rate sensitivity of the investment and loan portfolios and deposits.

As part of our liquidity management strategy, we are also focused on minimizing our costs of liquidity and attempt to decrease these costs by growing our noninterest-bearing and other low-cost deposits and replacing higher cost funding including time deposits and borrowed funds. While we do not control the types of deposit instruments our clients choose, we do influence those choices with the rates and the deposit specials we offer. As a result of these strategies, we have been able to maintain a relatively low cost of funds.

Our investment portfolio is another alternative for meeting liquidity needs. These assets generally have readily available markets that offer conversions to cash as needed. Securities within our investment portfolio are also used to secure certain deposit types and short-term borrowings. At December 31, 2019 and 2018, securities with a carrying value of $373.7 million and $326.2 million, respectively, were pledged to secure government, public, trust and other deposits and as collateral for short- term borrowings, letters of credit and derivative instruments. Additionally, we have FHLB line of credit to secure public funds totaling $75.0 million at December 31, 2019.

Additional sources of liquidity include federal funds purchased, FHLB borrowings, and lines of credit. Interest is charged at the prevailing market rate on federal funds purchased and FHLB advances. Funds and advances obtained from the FHLB are used primarily to meet day to day liquidity needs, particularly when the cost of such borrowing compares favorably to the rates that we would be required to pay to attract deposits. There were no outstanding overnight CMAs at December 31, 2019 and $80.0 million at December 31, 2018. During the third quarter of 2017, $100.0 million of 90 day fixed-rate advances were borrowed as part of the funding strategy for the merger with the Clayton Banks as described in management’s discussion and analysis on lines of credit and other borrowings. At December 31, 2019 and 2018, the balance of our outstanding additional long-term advances with the FHLB were $150.0 million and $1.8 million, respectively. The remaining balance available with the FHLB was $435.6 million and $455.2 million at December 31, 2019 and 2018. We also maintain lines of credit with other commercial banks totaling $305.0 million and $240.0 million as of December 31, 2019 and 2018. These are unsecured, uncommitted lines of credit typically maturing at various times within the next twelve months. There were no borrowings against the lines at December 31, 2019 and at December 31, 2018.

See discussion of deposit composition and seasonality in management's discussion and analysis of deposits.

Holding company liquidity management

The Company is a corporation separate and apart from the Bank and, therefore, it must provide for its own liquidity. The Company's main source of funding is dividends declared and paid to it by the Bank. Statutory and regulatory limitations exist that affect the ability of the Bank to pay dividends to the Company. Management believes that these limitations will not impact the Company's ability to meet its ongoing short-term cash obligations. For additional information regarding dividend restrictions, see the "Item 1. Business - Supervision and regulation," "Item 1A. Risk Factors - Risks related to our business" and " Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities - Dividend Policy," each of which is set forth in our Annual Report.

Due to state banking laws, the Bank may not declare dividends in any calendar year in an amount exceeding the total of its net income for that year combined with its retained net income of the preceding two years, without the prior approval of the Tennessee Department of Financial Institutions ("TDFI"). Based upon this regulation, as of December 31, 2019 and 2018, $223.7 million and $164.9 million of the Bank's retained earnings were available for the payment of dividends without such prior approval. In addition, dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements. No cash dividends from the Bank to the Company were paid during the years ended December 31, 2019 or 2018.

During the year ended December 31, 2019, the Company declared dividends of $0.32 per share, or $ 10.2 million, respectively. Subsequent to December 31, 2019, the Company declared its fourth quarter dividend in the amount of $0.09 per share, or $2.9 million payable to stockholders of record as of February 15, 2020 on March 2, 2020. The Company will continue to maintain cash balances on deposit with the Bank for ongoing corporate needs and may receive dividends in future from the Bank to fund such future dividends.

The Company is party to a registration rights agreement with its former majority shareholder entered into in connection with the 2016 IPO, under which the Company is responsible for payment of expenses (other than underwriting discounts and commissions) relating to sales to the public by the shareholder of shares of the Company's common stock beneficially owned by him. Such expenses include registration fees, legal and accounting fees, and printing costs payable by the Company and expensed when incurred. During the year ended December 31, 2018, the Company paid $0.7 million under this agreement. No such expenses were incurred for the year ended December 31, 2019.

Subsequent to the year ended December 31, 2019, the Company obtained a line of credit for $20.0 million, of which $15.0 million was borrowed to fund the cash consideration paid in connection with the Farmers National merger.

Capital management and regulatory capital requirements

Our capital management consists of providing adequate equity to support our current and future operations. We are subject to various regulatory capital requirements administered by state and federal banking agencies, including the TDFI, Federal Reserve and the FDIC. Failure to meet minimum capital requirements may prompt certain actions by regulators that, if undertaken, could have a direct material adverse effect on our financial condition and results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components of capital, risk weightings and other factors.

The Federal Reserve and the FDIC have issued guidelines governing the levels of capital that banks must maintain. Those guidelines specify capital tiers, which include the classifications set forth in the following table. As of December 31, 2019 and December 31, 2018, we exceeded all capital ratio requirements under prompt corrective action and other regulatory requirements, as detailed in the table below:

(dollars in thousands)	Actual		Required for capital adequacy purposes(1)		To be well capitalized under prompt corrective action provision	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
December 31, 2019						
Total capital (to risk weighted assets)						
FB Financial Corporation	$ 633,549	12.2%	$ 415,442	8.0%	N/A	N/A
FirstBank	$ 623,432	12.1%	$ 412,186	8.0%	$ 515,233	10.0%
Tier 1 capital (to risk weighted assets)						
FB Financial Corporation	$ 602,410	11.6%	$ 311,591	6.0%	N/A	N/A
FirstBank	$ 592,293	11.5%	$ 309,022	6.0%	$ 412,030	8.0%
Tier 1 Capital (to average assets)						
FB Financial Corporation	$ 602,410	10.1%	$ 238,578	4.0%	N/A	N/A
FirstBank	$ 592,293	9.9%	$ 239,310	4.0%	$ 299,138	5.0%
Common Equity Tier 1 (CET1)						
FB Financial Corporation	$ 572,410	11.1%	$ 232,058	4.5%	N/A	N/A
FirstBank	$ 592,293	11.5%	$ 231,767	4.5%	$ 334,774	6.5%
December 31, 2018						
Total capital (to risk weighted assets)						
FB Financial Corporation	$ 582,945	13.0%	$ 358,735	8.0%	N/A	N/A
FirstBank	$ 561,327	12.5%	$ 359,249	8.0%	$ 449,062	10.0%
Tier 1 capital (to risk weighted assets)						
FB Financial Corporation	$ 554,013	12.4%	$ 268,071	6.0%	N/A	N/A
FirstBank	$ 532,395	11.9%	$ 268,434	6.0%	$ 357,913	8.0%
Tier 1 Capital (to average assets)						
FB Financial Corporation	$ 554,013	11.4%	$ 194,391	4.0%	N/A	N/A
FirstBank	$ 532,395	10.9%	$ 195,374	4.0%	$ 244,218	5.0%
Common Equity Tier 1 (CET1)						
FB Financial Corporation	$ 524,013	11.7%	$ 201,543	4.5%	N/A	N/A
FirstBank	$ 532,395	11.9%	$ 201,326	4.5%	$ 290,804	6.5%

(1) Minimum ratios presented exclude the capital conservation buffer.

We also have outstanding junior subordinated debentures with a carrying value of $30.0 million at December 31, 2019 and 2018, which are included in our Tier 1 capital.

The Federal Reserve Board issued rules in March 2005 providing stricter quantitative limits on the amount of securities that, similar to our junior subordinated debentures, are includable in Tier 1 capital. This guidance, which became fully effective in March 2009, did not impact the amount of debentures we include in Tier 1 capital. While our existing junior subordinated debentures are unaffected and are included in our Tier 1 capital, the Dodd-Frank Act specifies that any such securities issued after May 19, 2010 may not be included in Tier 1 capital.

In July 2013, the Federal Reserve and the FDIC approved the implementation of the U.S. Basel III Capital Rules affecting certain changes required by the Dodd-Frank Act, that called for broad and comprehensive revision of regulatory capital standards for U.S. banking organizations. The U.S. Basel III Capital Rules implemented a new minimum CET1 Capital requirement, a higher minimum Tier 1 capital requirement and other items that impact the calculation of the numerator of a banking organization’s risk-based capital ratios. Additionally, U.S. Basel III Capital Rules apply limits to a banking organization’s capital distributions and certain discretionary bonus payments if the banking organization does not hold a specified amount of CET1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements.

When fully implemented on January 1, 2019, the CET1 Capital ratio includes common equity as defined under GAAP and does not include any other type of non-common equity under GAAP. With U.S. Basel III Capital Rules fully effective in 2019, banks are required to have CET1 Capital of 4.5% of average assets, Tier 1 capital of 6% of risk-weighted assets, and total capital of 8% of risk-weighted assets to be categorized as adequately capitalized.

The U.S. Basel III Capital Rules do not require the phase-out of trust preferred securities as Tier 1 capital of bank holding companies whose asset size is under $15 billion.

Further, the U.S. Basel III Capital Rules changed the agencies’ general risk-based capital requirements for determining risk-weighted assets, which affect the calculation of the denominator of a banking organization’s risk-based capital ratios. The U.S. Basel III Capital Rules have revised the agencies’ rules for calculating risk-weighted assets to enhance risk sensitivity and incorporate certain international capital standards of the Basel Committee on Banking Supervision set forth in the standardized approach of the “International Convergence of Capital Measurement and Capital Standards: A Revised Framework”.

The calculation of risk-weighted assets in the denominator of the U.S. Basel III capital ratios is adjusted to reflect the higher risk of certain types of loans.

Specifically, as applicable to the Company and the Bank:

- Commercial mortgages: 150% risk weight for certain high volatility commercial real estate acquisition, development and construction loans.

- Nonperforming loans: 150% risk weight for loans, other than residential mortgages, that are 90 days past due or on nonaccrual status.

- Securities pledged to overnight repurchase agreements: 20% risk weight for repurchase agreements secured by mortgage back securities.

- Unfunded lines of credit: 20% or higher based on risk category of collateral or guarantee for unfunded lines of credit maturing in one year or less.

Calculations under the new rules related to deductions from capital have been fully phased-in. Under the prior rules, the Bank deducted 10% of the value of MSRs (net of deferred tax) from Tier 1 capital ratios. However, under the U.S. Basel III Capital Rules, the Bank and the Company deduct a much larger portion of the value of MSRs from Tier 1 capital.

- MSRs net of deferred tax in excess of 10% of Tier 1 capital before threshold based deductions must be deducted from common equity at 80%.

- In addition, the combined balance of MSRs and deferred tax assets is limited to approximately 15% of the Bank's and the Company's common equity Tier 1 capital. These combined assets must be deducted from common equity to the extent that they exceed the 15% threshold.

- Any portion of the Bank's and the Company's MSRs that are not deducted from the calculation of common equity Tier 1 is subject to a 100% risk weight.

As of December 31, 2019 and 2018, the Bank and Company met all capital adequacy requirements to which it is subject. Also, as of September 30, 2018, the date of the most recent FDIC examination, the Bank was well capitalized under the regulatory framework for prompt corrective action.

There are no conditions or events since that notification that management believes have changed the Bank’s category. As part of our ongoing balance sheet and capital management during the year ended December 31, 2019, the Company sold $29.2 million of mortgage servicing rights on $2.03 billion of serviced mortgages. There was not a material gain or loss recognized in this transaction; however, the sale provided approximately $9.2 million in regulatory capital relief to support continued growth in the Banking segment of our business.

On December 21, 2018, federal banking agencies issued a joint final rule to revise their regulatory capital rules to (i) address the upcoming implementation of the CECL accounting standard under GAAP; (ii) provide an optional three-year phase-in period for the day-one adverse regulatory capital effects that banking organizations are expected to experience upon adopting CECL; and (iii) require the use of CECL in stress tests beginning with the 2020 capital planning and stress testing cycle for certain banking organizations. See "Part II - Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional discussion.

In September 2019, the federal banking agencies adopted a final rule to simplify the regulatory capital requirements for eligible banks and holding companies with less than $10 billion in consolidated assets that opt into the Community Bank Leverage Ratio (“CBLR”) framework, as required by the Regulatory Relief Act. A qualifying community banking organization that elects the CBLR framework and maintains a leverage ratio of greater than 9% will be considered to have satisfied the generally applicable risk-based and leverage capital requirements and will be considered to have met the well-capitalized ratio requirements. Currently, we do not plan to opt into the CBLR framework.

On July 9, 2019, the federal banking agencies issued a final rule to simplify certain aspects of the Regulatory Capital Rules for standardized approach banking organizations. The final rule simplifies, for these banking organizations, the regulatory capital requirements for mortgage servicing assets, certain deferred tax assets arising from temporary differences, and investments in the capital of unconsolidated financial institutions. The final rule replaces multiple deduction thresholds with a single 25% deduction threshold for each of these categories and requires that a 250% risk weight be applied to mortgage servicing assets and deferred tax assets that are not deducted from capital. The final rule also simplifies the calculation of the amount of capital issued by a consolidated subsidiary of a banking organization and held by third parties that is permitted to be included in regulatory capital. In addition, the final rule makes certain technical amendments to the Regulatory Capital Rules that are applicable to standardized approach banking organizations as well as advanced approaches banking organizations. The technical amendments were effective on October 1, 2019, and the simplification changes are effective on April 1, 2020. Early adoption is permitted for non-advanced approaches institutions as of January 1, 2020. The Company does not expect the new guidance to have a material impact on capital amounts or ratios.

Capital Expenditures

As of December 31, 2019, we had capital commitments amounting to $1.8 million to be paid over the next twelve months. Additionally, we plan on investing an additional $1.5 million in branch improvements across our markets over the next twelve months.

Shareholders' equity

Our total shareholders' equity was $762.3 million at December 31, 2019 and $671.9 million, at December 31, 2018. Book value per share was $24.56 at December 31, 2019 and $21.87 at December 31, 2018. The growth in shareholders' equity was attributable to earnings retention and changes in accumulated other comprehensive income offset by declared dividends and activity related to equity-based compensation.

Off-balance sheet arrangements

We enter into loan commitments and standby letters of credit in the normal course of our business. Loan commitments are made to accommodate the financial needs of our clients. Standby letters of credit commit us to make payments on behalf of clients when certain specified future events occur. Both arrangements have credit risk essentially the same as that involved in extending loans to clients and are subject to our normal credit policies. Collateral (e.g., securities, receivables, inventory, equipment, etc.) is obtained based on management's credit assessment of the client.

Loan commitments and standby letters of credit do not necessarily represent our future cash requirements because while the borrower has the ability to draw upon these commitments at any time, these commitments often expire without being drawn upon. Our unfunded loan commitments and standby letters of credit outstanding at the dates indicated were as
follows:

	December 31, 2019	December 31, 2018
Commitments to extend credit, excluding interest rate lock commitments	$ 1,086,173	$ 1,032,390
Standby letters of credit	19,569	19,024

We closely monitor the amount of our remaining future commitments to borrowers in light of prevailing economic conditions and adjust these commitments as necessary. We will continue this process as new commitments are entered into or existing commitments are renewed.

For more information about our off-balance sheet arrangements, see "Part II. Item 8. Financial Information - Notes to Consolidated Financial Statements - Note 16 - Commitments and contingencies" in this this Report.

Contractual obligations

The following tables present, as of December 31, 2019, our significant fixed and determinable contractual obligations to third parties by payment date. These contractual obligations are discussed in more detail within in the Notes to Consolidated Financial Statements contained in this Annual Report.

	As of December 31, 2019 payments due in:				
(dollars in thousands)	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Operating Leases	$ 4,417	$ 7,428	$ 5,604	$ 18,076	$ 35,525
Time Deposits[(1)]	814,908	290,964	85,893	88	1,191,853
Securities sold under agreements to repurchase[(1)]	23,745	—	—	—	23,745
FHLB Advances[(1)]	100,000	—	—	150,000	250,000
Junior Subordinated Debt[(1)]	—	—	—	30,930	30,930
Total	$ 943,070	$ 298,392	$ 91,497	$ 199,094	$ 1,532,053

(1) Excludes interest

ITEM 7A — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate sensitivity

Our market risk arises primarily from interest rate risk inherent in the normal course of lending and deposit-taking activities. Management believes that our ability to successfully respond to changes in interest rates will have a significant impact on our financial results. To that end, management actively monitors and manages our interest rate risk exposure.

The Asset Liability Management Committee ("ALCO"), which is authorized by our board of directors, monitors our interest rate sensitivity and makes decisions relating to that process. The ALCO's goal is to structure our asset/liability composition to maximize net interest income while managing interest rate risk so as to minimize the adverse impact of changes in interest rates on net interest income and capital in either a rising or declining interest rate environment. Profitability is affected by fluctuations in interest rates. A sudden and substantial change in interest rates may adversely impact our earnings because the interest rates borne by assets and liabilities do not change at the same speed, to the same extent or on the same basis.

We monitor the impact of changes in interest rates on our net interest income and economic value of equity ("EVE") using rate shock analysis. Net interest income simulations measure the short-term earnings exposure from changes in market rates of interest in a rigorous and explicit fashion. Our current financial position is combined with assumptions regarding future business to calculate net interest income under varying hypothetical rate scenarios. EVE measures our long-term earnings exposure from changes in market rates of interest. EVE is defined as the present value of assets minus the present value of liabilities at a point in time. A decrease in EVE due to a specified rate change indicates a decline in the long-term earnings capacity of the balance sheet assuming that the rate change remains in affect over the life of the current balance sheet.

The following analysis depicts the estimated impact on net interest income and EVE of immediate changes in interest rates at the specified levels for the periods presented:

Change in interest rates	Percentage change in: Net interest income(1)			
	Year 1		Year 2	
(in basis points)	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
+400	8.4 %	9.7 %	9.7 %	12.3 %
+300	6.4 %	7.4 %	7.6 %	9.4 %
+200	4.4 %	5.1 %	5.4 %	6.6 %
+100	2.2 %	2.5 %	2.9 %	3.3 %
-100	(4.9)%	(5.9)%	(6.6)%	(7.7)%
-200	(8.5)%	(14.2)%	(11.6)%	(18.1)%

Change in interest rates	Percentage change in: Economic value of equity(2)	
(in basis points)	December 31, 2019	December 31, 2018
+400	(3.8)%	(3.0)%
+300	(2.4)%	(1.9)%
+200	(1.0)%	(0.6)%
+100	(0.1)%	(0.1)%
-100	(4.7)%	(2.6)%
-200	(14.5)%	(11.8)%

(1) The percentage change represents the projected net interest income for 12 months and 24 months on a flat balance sheet in a stable interest rate environment versus the projected net income in the various rate scenarios.

(2) The percentage change in this column represents our EVE in a stable interest rate environment versus EVE in the various rate scenarios.

The results for the net interest income simulations as of December 31, 2019 and December 31, 2018 resulted in an asset sensitive position. The primary influence of our asset sensitivity is the floating rate structure in many of our loans held for investment as well as the composition of our liabilities which is primarily core deposits. Non-interest bearing deposits continue be a strong source of funding which also increases asset sensitivity. Beta assumptions on loans and deposits were consistent for both time periods.

The preceding measures assume no change in the size or asset/liability compositions of the balance sheet. Thus, the measures do not reflect the actions the ALCO may undertake in response to such changes in interest rates. The scenarios assume instantaneous movements in interest rates in increments of 100, 200, 300 and 400 basis points. Furthermore, it has been the Federal Reserve's policy to adjust the target federal funds rate incrementally over time. As interest rates are adjusted over a period of time, it is our strategy to proactively change the volume and mix of our balance sheet in order to mitigate our interest rate risk. The computation of the prospective effects of hypothetical interest rate changes requires numerous assumptions regarding characteristics of new business and the behavior of existing positions. These business assumptions are based upon our experience, business plans and published industry experience. Key assumptions employed in the model include asset prepayment speeds, competitive factors, the relative price sensitivity of certain assets and liabilities and the expected life of non-maturity deposits. Because these assumptions are inherently uncertain, actual results may differ from simulated results.

We utilize derivative financial instruments as part of an ongoing effort to mitigate interest rate risk exposure to interest rate fluctuations and facilitate the needs of our customers.

The Company enters into derivative instruments that are not designated as hedging instruments to help its commercial customers manage their exposure to interest rate fluctuations. To mitigate the interest rate risk associated with customer contracts, the Company enters into an offsetting derivative contract. The Company manages its credit risk, or potential risk of default by its commercial customers through credit limit approval and monitoring procedures.

The Company has entered into interest rate swap contracts to hedge interest rate exposure on short term liabilities, as well as interest rate swap contracts to hedge interest rate exposure on subordinated debentures. These interest rate swaps are all accounted for as cash flow hedges, with the Company receiving a variable rate of interest and paying a fixed rate of interest.

The Company enters into rate lock commitments and forward loan sales contracts as part of our ongoing efforts to mitigate our interest rate risk exposure inherent in our mortgage pipeline and held for sale portfolio. Under the interest rate lock commitments, interest rates for a mortgage loan are locked in with the client for a period of time, typically 30 days. Once an interest rate lock commitment is entered into with a client, we also enter into a forward commitment to sell the residential mortgage loan to secondary market investors. Forward loan sale contracts are contracts for delayed sale and delivery of mortgage loans to a counter party. We agree to deliver on a specified future date, a specified instrument, at a specified price or yield. The credit risk inherent to us arises from the potential inability of counterparties to meet the terms of their contracts. In the event of non-acceptance by the counterparty, we would be subject to the credit and inherent (or market) risk of the loans retained.

Additionally, the Company enters into forward commitments, options and futures contracts that are not designated as hedging instruments, which serve as economic hedges of the change in fair value of its MSRs.

For more information about our derivative financial instruments, see Note 17, "Derivative Instruments," in the notes to our consolidated financial statements.

Quarterly Results of Operations

Summarized unaudited quarterly operating results for the Company for the year ending December 31, 2019 and 2018 are as follows:

	2019			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest income	$ 65,933	$ 71,719	$ 73,242	$ 71,643
Interest expense	12,917	14,696	14,937	13,951
Net interest income	53,016	57,023	58,305	57,692
Provision for loan losses	1,391	881	1,831	2,950
Net interest income after provision for loan losses	51,625	56,142	56,474	54,742
Noninterest income	29,039	32,979	38,145	35,234
Noninterest expense	55,101	64,119	62,935	62,686
Income tax expense	5,975	6,314	7,718	5,718
Net income	$ 19,588	$ 18,688	$ 23,966	$ 21,572
Weighted average common shares outstanding:				
Basic	30,786,684	30,859,596	30,899,583	30,934,092
Fully diluted	31,349,198	31,378,018	31,425,573	31,470,565
Earnings per share				
Basic	$ 0.63	$ 0.60	$ 0.77	$ 0.69
Fully diluted	$ 0.62	$ 0.59	$ 0.76	$ 0.68

	2018			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest income	$ 54,848	$ 59,043	$ 62,612	$ 63,068
Interest expense	6,419	7,526	9,857	11,701
Net interest income	48,429	51,517	52,755	51,367
Provision for loan losses	317	1,063	1,818	2,200
Net interest income after provision for loan losses	48,112	50,454	50,937	49,167
Noninterest income	33,275	35,763	34,355	27,249
Noninterest expense	56,151	56,358	57,213	53,736
Income tax expense	5,482	7,794	6,702	5,640
Net income	$ 19,754	$ 22,065	$ 21,377	$ 17,040
Weighted average common shares outstanding:				
Basic	30,613,284	30,678,732	30,692,668	30,717,008
Fully diluted	31,421,830	31,294,044	31,339,628	31,344,949
Earnings per share				
Basic	$ 0.65	$ 0.72	$ 0.69	$ 0.55
Fully diluted	$ 0.63	$ 0.70	$ 0.68	$ 0.54

ITEM 8 – FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report on Management's Assessment of Internal Control over Financial Reporting

The management of FB Financial Corporation (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of the financial statements. No matter how well designed, internal control over financial reporting has inherent limitations, including the possibility that a control can be circumvented or overridden, and misstatements due to error or fraud may occur and not be detected. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013).

Based on this assessment management has determined that, as of December 31, 2019, the Company's internal control over financial reporting is effective based on the specified criteria.

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors
FB Financial Corporation
Nashville, Tennessee

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of FB Financial Corporation (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Crowe LLP

We have served as the Company's auditor since 2018.

Franklin, Tennessee
March 13, 2020

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of FB Financial Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows of FB Financial Corporation and its subsidiaries (the Company) for the year ended December 31, 2017, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the results of the Company's operations and its cash flows for the year ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ RSM US LLP

We served as the Company's auditor from 2015 to 2017.

Jacksonville, Florida
March 16, 2018

FB Financial Corporation and subsidiaries
Consolidated balance sheets
(Amounts are in thousands except share and per share amounts)

	December 31, 2019	December 31, 2018
ASSETS		
Cash and due from banks	$ 48,806	$ 38,381
Federal funds sold	131,119	31,364
Interest-bearing deposits in financial institutions	52,756	55,611
Cash and cash equivalents	232,681	125,356
Investments:		
Available-for-sale debt securities, at fair value	688,381	655,698
Equity securities, at fair value	3,295	3,107
Federal Home Loan Bank stock, at cost	15,976	13,432
Loans held for sale, at fair value	262,518	278,815
Loans	4,409,642	3,667,511
Less: allowance for loan losses	31,139	28,932
Net loans	4,378,503	3,638,579
Premises and equipment, net	90,131	86,882
Other real estate owned, net	18,939	12,643
Operating lease right-of-use assets	32,539	—
Interest receivable	17,083	14,503
Mortgage servicing rights, at fair value	75,521	88,829
Goodwill	169,051	137,190
Core deposit and other intangibles, net	17,589	11,628
Other assets	122,714	70,102
Total assets	$ 6,124,921	$ 5,136,764
LIABILITIES		
Deposits		
Noninterest-bearing	$ 1,208,175	$ 949,135
Interest-bearing checking	1,014,875	863,706
Money market and savings	1,520,035	1,239,131
Customer time deposits	1,171,502	1,016,638
Brokered and internet time deposits	20,351	103,107
Total deposits	4,934,938	4,171,717
Borrowings	304,675	227,776
Operating lease liabilities	35,525	—
Accrued expenses and other liabilities	87,454	65,414
Total liabilities	5,362,592	4,464,907
SHAREHOLDERS' EQUITY		
Common stock, $1 par value per share; 75,000,000 shares authorized; 31,034,315 and 30,724,532 shares issued and outstanding at December 31, 2019 and December 31, 2018, respectively	31,034	30,725
Additional paid-in capital	425,633	424,146
Retained earnings	293,524	221,213
Accumulated other comprehensive income (loss), net	12,138	(4,227)
Total shareholders' equity	762,329	671,857
Total liabilities and shareholders' equity	$ 6,124,921	$ 5,136,764

See accompanying notes to consolidated financial statements.

FB Financial Corporation and subsidiaries
Consolidated statements of income
(Amounts are in thousands except share and per share amounts)

	Year Ended December 31,		
	2019	2018	2017
Interest income:			
Interest and fees on loans	$ 260,458	$ 221,001	$ 153,969
Interest on securities			
Taxable	13,223	12,397	10,084
Tax-exempt	4,805	4,047	4,006
Other	4,051	2,126	1,554
Total interest income	282,537	239,571	169,613
Interest expense:			
Deposits	51,568	29,536	13,031
Borrowings	4,933	5,967	3,311
Total interest expense	56,501	35,503	16,342
Net interest income	226,036	204,068	153,271
Provision for loan losses	7,053	5,398	(950)
Net interest income after provision for loan losses	218,983	198,670	154,221
Noninterest income:			
Mortgage banking income	100,916	100,661	116,933
Service charges on deposit accounts	9,479	8,502	7,426
ATM and interchange fees	12,161	10,013	8,784
Investment services and trust income	5,244	5,181	3,949
Gain (loss) from securities, net	57	(116)	285
Gain (loss) on sales or write-downs of other real estate owned	545	(99)	774
(Loss) gain from other assets	(104)	328	(664)
Other income	7,099	6,172	4,094
Total noninterest income	135,397	130,642	141,581
Noninterest expenses:			
Salaries, commissions and employee benefits	152,084	136,892	130,005
Occupancy and equipment expense	15,641	13,976	13,010
Legal and professional fees	7,486	7,903	5,737
Data processing	10,589	9,100	6,488
Merger costs	5,385	1,594	19,034
Amortization of core deposit and other intangibles	4,339	3,185	1,995
Advertising	9,138	13,139	12,957
Other expense	40,179	37,669	33,091
Total noninterest expense	244,841	223,458	222,317
Income before income taxes	109,539	105,854	73,485
Income tax expense	25,725	25,618	21,087
Net income	$ 83,814	$ 80,236	$ 52,398
Earnings per common share			
Basic	$ 2.70	$ 2.60	$ 1.90
Fully diluted	2.65	2.55	1.86

See accompanying notes to consolidated financial statements.

FB Financial Corporation and subsidiaries
Consolidated statements of comprehensive income
(Amounts are in thousands)

	Year Months Ended December 31,		
	2019	**2018**	**2017**
Net income	$ 83,814	$ 80,236	$ 52,398
Other comprehensive income (loss), net of tax:			
Net change in unrealized gain (loss) in available-for-sale securities, net of taxes of $6,227, $2,025, and $493	17,693	(5,439)	1,162
Reclassification adjustment for loss (gain) on sale of securities included in net income, net of taxes of $24, $9,and $112	67	44	(173)
Net change in unrealized (loss) gain in hedging activities, net of taxes of $322, $366 and $442	(914)	1,039	685
Reclassification adjustment for gain on hedging activities, net of taxes of $170, $45, and $0	(481)	(128)	—
Total other comprehensive income (loss), net of tax	16,365	(4,484)	1,674
Comprehensive income	$ 100,179	$ 75,752	$ 54,072

See accompanying notes to consolidated financial statements.

FB Financial Corporation and subsidiaries
Consolidated statements of changes in shareholders' equity
(Amounts are in thousands except per share amounts)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income, net	Total shareholders' equity
Balance at January 1, 2017	$ 24,108	$ 213,480	$ 93,784	$ (874)	$ 330,498
Initial fair value election on mortgage servicing rights, net of taxes of $396	—	—	615	—	615
Net income	—	—	52,398	—	52,398
Other comprehensive income, net of taxes	—	—	—	1,674	1,674
Reclassification of the income tax effects of the Tax Cuts and Jobs Act to Retained earnings (Note 14)	—	—	652	(652)	—
Common stock issued, net of offering costs	4,807	147,914	—	—	152,721
Common stock issued in conjunction with acquisition of the Clayton Banks	1,521	50,763	—	—	52,284
Stock based compensation expense	18	6,742	—	—	6,760
Restricted stock units vested and distributed, net of shares withheld	63	(919)	—	—	(856)
Shares issued under employee stock purchase program	19	616	—	—	635
Balance at December 31, 2017	$ 30,536	$ 418,596	$ 147,449	$ 148	$ 596,729
Initial adoption of ASU 2016-01 (See Note 1)	—	—	(109)	109	—
Net income	—	—	80,236	—	80,236
Other comprehensive loss, net of taxes	—	—	—	(4,484)	(4,484)
Stock based compensation expense	17	7,190	—	—	7,207
Restricted stock units vested and distributed, net of shares withheld	143	(2,807)	—	—	(2,664)
Shares issued under employee stock purchase program	29	1,167	—	—	1,196
Dividends declared ($0.20 per share)	—	—	(6,363)	—	(6,363)
Balance at December 31, 2018	$ 30,725	$ 424,146	$ 221,213	$ (4,227)	$ 671,857
Initial adoption of ASU 2016-02 (See Note 1)	—	—	(1,309)	—	(1,309)
Net income	—	—	83,814	—	83,814
Other comprehensive income, net of taxes	—	—	—	16,365	16,365
Stock based compensation expense	12	7,077	—	—	7,089
Restricted stock units vested and distributed, net of shares withheld	274	(6,371)	—	—	(6,097)
Shares issued under employee stock purchase program	23	781	—	—	804
Dividends declared ($0.32 per share)	—	—	(10,194)	—	(10,194)
Balance at December 31, 2019	$ 31,034	$ 425,633	$ 293,524	$ 12,138	$ 762,329

See accompanying notes to consolidated financial statements.

FB Financial Corporation and subsidiaries
Consolidated statements of cash flows
(Amounts are in thousands)

	Year Ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income	$ 83,814	$ 80,236	$ 52,398
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	5,176	4,334	4,316
Amortization of core deposit and other intangibles	4,339	3,185	1,995
Capitalization of mortgage servicing rights	(42,151)	(54,913)	(58,984)
Net change in fair value of mortgage servicing rights	26,299	2,763	4,023
Stock-based compensation expense	7,089	7,207	6,760
Provision for loan losses	7,053	5,398	(950)
Provision for mortgage loan repurchases	362	174	810
Accretion of yield on purchased loans	(8,556)	(7,608)	(5,419)
Accretion of discounts and amortization of premiums on securities, net	3,026	2,768	2,693
(Gain) loss from securities, net	(57)	116	(285)
Originations of loans held for sale	(4,540,652)	(5,958,066)	(6,331,458)
Repurchases of loans held for sale	(9,919)	(12,232)	—
Proceeds from sale of loans held for sale	4,662,728	6,260,532	6,408,198
Gain on sale and change in fair value of loans held for sale	(100,228)	(88,743)	(107,189)
Loss on sale of mortgage servicing rights	—	—	249
Net (gain) loss or write-downs of other real estate owned	(545)	99	(774)
Loss (gain) on other assets	104	(328)	664
Relief of goodwill	100	—	—
Provision for deferred income taxes	(1,916)	6,359	6,458
Changes in:			
Other assets and interest receivable	(45,180)	(22,966)	6,478
Accrued expenses and other liabilities	13,019	(16,107)	47,627
Net cash provided by operating activities	63,905	212,208	37,610
Cash flows from investing activities:			
Activity in available-for-sale securities:			
Sales	24,498	2,742	94,743
Maturities, prepayments and calls	113,018	73,066	83,344
Purchases	(151,425)	(203,844)	(81,353)
Net increase in loans	(364,975)	(491,774)	(241,379)
Purchases of FHLB stock	(2,544)	(2,020)	—
Proceeds from sale of mortgage servicing rights	29,160	39,428	11,686
Purchases of premises and equipment	(6,812)	(10,144)	(4,545)
Proceeds from the sale of premises and equipment	1,275	357	39
Proceeds from the sale of other real estate owned	3,860	4,819	5,438
Proceeds from the sale of other assets	—	869	—
Net cash received (paid) in business combination (See Note 2)	171,032	—	(135,141)
Net cash used in investing activities	(182,913)	(586,501)	(267,168)
Cash flows from financing activities:			
Net increase in demand deposits	249,348	75,906	14,682
Net (decrease) increase in time deposits	(75,004)	431,416	(1,367)
Net increase in securities sold under agreements to repurchase and federal funds purchased	(908)	788	(7,268)
Net increase (decrease) in FHLB advances	68,235	(120,607)	53,579
Share based compensation witholding payment	(6,097)	(2,664)	—
Net proceeds from sale of common stock	804	1,196	153,356
Dividends paid	(10,045)	(6,137)	—
Net cash provided by financing activities	226,333	379,898	212,982

Net change in cash and cash equivalents		107,325		5,605		(16,576)
Cash and cash equivalents at beginning of the period		125,356		119,751		136,327
Cash and cash equivalents at end of the period	$	232,681	$	125,356	$	119,751
Supplemental cash flow information:						
Interest paid	$	55,051	$	31,992	$	15,470
Taxes paid		25,920		24,387		22,292
Supplemental noncash disclosures:						
Transfers from loans to other real estate owned	$	5,487	$	2,138	$	3,605
Transfers from premises and equipment to other real estate owned at fair value		4,290		—		3,466
Loans provided for sales of other real estate owned		166		1,019		256
Transfers from loans to loans held for sale		7,891		11,888		—
Transfers from loans held for sale to loans		12,259		14,732		11,706
Rebooked GNMA loans under optional repurchase program		—		—		43,035
Derecognition of rebooked GNMA delinquent loans		—		43,035		—
Stock consideration paid in business combination		—		—		52,284
Trade date payable - securities		—		2,120		348
Dividends declared not paid on restricted stock units		149		226		—
Decrease to retained earnings for adoption of new accounting standards (See Note 1)		1,309		109		—
Right-of-use assets obtained in exchange for operating lease liabilities		37,916		—		—
Fair value election of mortgage servicing rights		—		—		1,011

See accompanying notes to consolidated financial statements.

Note (1)—Basis of presentation:

(A) Organization and Company overview:

FB Financial Corporation (the “Company”) is a bank holding company headquartered in Nashville, Tennessee. The Company operates through its wholly-owned subsidiary, FirstBank (the "Bank"), with 68 full-service branches throughout Tennessee, north Alabama, and north Georgia, and a national online mortgage business with office locations across the Southeast, which primarily originates mortgage loans to be sold in the secondary market. See Note 2, "Mergers and acquisitions" for information related to the impact of the Company's 2019 branch acquisition, subsequent acquisition, and subsequent definitive merger agreement.

The Bank is subject to competition from other financial services companies and financial institutions. The Company and the Bank are also subject to the regulations of certain federal and state agencies and undergo periodic examinations by those regulatory authorities. See "Supervision and regulation" in part 1, item 1, for more details regarding regulatory oversight.

On May 26, 2017, the Company entered into Securities Purchase Agreements with accredited investors, pursuant to which the Company agreed to sell an aggregate of 4,806,710 shares of the Company’s common stock at a purchase price of $33.00 per share. Total proceeds received from such sale, net of placement agent and other offering costs of $5,901, were approximately $152,721.

Prior to May 31, 2018, the Company was considered a "controlled company" and was controlled by the Company's Executive Chairman and former majority shareholder, James W. Ayers. During the second quarter of 2018, the Company completed a secondary offering of 3,680,000 shares of common stock pursuant to the Company's effective registration statement on Form S-3 whereby James W. Ayers was the seller. As a result of this transaction, the Company ceased to qualify as a "controlled company" as the selling shareholder's ownership was reduced below 50% of the voting power of the Company's issued and outstanding shares of common stock.

The Company continues to qualify as an emerging growth company as defined by the "Jumpstart Our Business Startups Act" ("JOBS Act").

(B) Basis of presentation:

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and general banking industry. In preparing the 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 the reported results of operations for the year then ended. Actual results could differ significantly from those estimates.

The consolidated financial statements include the accounts of the Company, the Bank, and its’ wholly-owned subsidiaries, FirstBank Insurance, Inc. and Investors Title Company. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current period presentation without any impact on the reported amounts of net income or shareholders’ equity.

(C) Cash flows:

For purposes of reporting consolidated cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold and interest earning deposits in other financial institutions with maturities of less than 90 days at the date of purchase. These amounts are reported in the consolidated balance sheets caption “Cash and cash equivalents.” Net cash flows are reported for loans held for investment, deposits and borrowings.

(D) Cash and cash equivalents:

The Company considers all highly liquid unrestricted investments with a maturity of three months or less when purchased to be cash equivalents.

(E) Investment securities:

Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available-for-sale when they might be sold before maturity. Available-for-sale debt securities are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of applicable taxes.

Equity securities with readily determinable market values are carried at fair value on the balance sheet with any periodic changes in value made through adjustments to the statement of income. Equity securities without readily determinable market values are carried at cost less impairment and included in other assets on the balance sheet.

Interest income includes the amortization and accretion of purchase premium and discount. Premiums and discounts on securities are amortized on the level-yield method anticipating prepayments based upon the prior three month average monthly prepayments when available. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

The Company evaluates available-for-sale securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. For securities in an unrealized loss position, consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer’s financial condition, the Company considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer’s financial condition.

When OTTI is determined to have occurred, the amount of the OTTI recognized in earnings depends on the Company's intention to sell the security or if it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If the Company intends to sell the security or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the OTTI recognized in earnings is equal to the entire difference between its amortized cost basis and its fair value at the date it was determined to be OTTI. If the Company does not intend to sell the security and it is not more likely than not to be required to sell the security before recovery of its amortized cost basis, the OTTI is separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized as a charge to earnings. The amount of the OTTI related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment. During the years ended December 31, 2019, 2018 and 2017, the Company did not record any OTTI on the available-for-sale portfolio; however, during the year ended December 31, 2017, the Company recognized impairment of $945 on one of its equity securities without a readily determinable market value as discussed in Note 4. There were no such impairment charges taken during the years ended December 31, 2019 or 2018.

(F) Federal Home Loan Bank (FHLB) stock:

The Bank accounts for its investments in FHLB stock in accordance with FASB ASC Topic 942-325 "Financial Services-Depository and Lending-Investments-Other." FHLB stock are equity securities that do not have a readily determinable fair value because its ownership is restricted and lacks a market. FHLB stock is carried at cost and evaluated for impairment.

(G) Loans held for sale:

Loans originated and intended for sale in the secondary market, primarily mortgage loans, are carried at fair value as permitted under the guidance in ASC 825, “Financial Instruments” (“ASC 825”). Net (losses) gains of $(2,861), $(4,539), and $9,111 resulting from fair value changes of these mortgage loans were recorded in income during the years ended December 31, 2019, 2018 and 2017, respectively. The amount does not reflect changes in fair values of related derivative instruments used to hedge exposure to market-related risks associated with these mortgage loans. The change in fair value of both mortgage loans held for sale and the related derivative instruments are recorded in “Mortgage banking income” in the Consolidated Statements of Income. Gains and losses are recognized in Mortgage banking income on the consolidated statements of income at the time the loan is closed. Pass through origination costs and related loan fees are also included in “Mortgage banking income”.

Periodically, the Bank will transfer mortgage loans originated for sale in the secondary markets into the loan portfolio based on current market conditions, the overall secondary marketability of the loan and the status of the loan. During 2019, 2018, and 2017, the Bank transferred $12,259, $14,732, and $11,706, respectively, of residential mortgage loans into its portfolio. The loans are transferred into the portfolio at fair value at the date of transfer. On occasion, the Bank is able to restructure and sell certain of these mortgage loans previously originated to sell in the secondary market that were included in the Bank's loans held for investment portfolio. At the time of transfer, loans are marked to fair value through adjustment to the allowance for loan losses and reclassified to loans held for sale. During the year ended December 31, 2018, the Company transferred

$11,888 of loans held for investment to loans held for sale, resulting in an adjustment to the allowance for loan losses of $349. There were no such transfers during the years ended December 31, 3019 or 2017.

Government National Mortgage Association (GNMA) optional repurchase programs allow financial institutions to buy back individual delinquent mortgage loans that meet certain criteria from the securitized loan pool for which the institution provides servicing and was the original transferor. At the servicer's option and without GNMA's prior authorization, the servicer may repurchase such a delinquent loan for an amount equal to 100 percent of the remaining principal balance of the loan. Under FASB ASC Topic 860, "Transfers and Servicing," this buy-back option is considered a conditional option until the delinquency criteria are met, at which time the option becomes unconditional. When the Company is deemed to have regained effective control over these loans under the unconditional buy-back option, the loans can no longer be reported as sold and must be brought back onto the balance sheet as loans held for sale, regardless of whether the Company intends to exercise the buy-back option if the buyback option provides the transferor a more-than-trivial benefit. As of December 31, 2019 and 2018, there were $51,705 and $ 67,362, respectively, of delinquent GNMA loans that had previously been sold; however, the Company determined there not to be a "more-than-trivial benefit" based on an analysis of interest rates and assessment of potential reputational risk associated with these loans. As such, the Company did not rebook any GNMA loans as of December 31, 2019 or 2018.

(H) Loans (excluding purchased credit impaired loans):

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are stated at the principal amount outstanding less any purchase accounting discount net of any accretion recognized to date. Interest on loans is recognized as income by using the simple interest method on daily balances of the principal amount outstanding plus any accretion of purchase accounting discounts.

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Accrual of interest is discontinued on loans past due 90 days or more unless the credit is well secured and in the process of collection. Also, a loan may be placed on nonaccrual status prior to becoming past due 90 days if management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of principal or interest is doubtful. The decision to place a loan on nonaccrual status prior to becoming past due 90 days is based on an evaluation of the borrower's financial condition, collateral liquidation value, economic and business conditions and other factors that affect the borrower's ability to pay. When a loan is placed on nonaccrual status, the accrued but unpaid interest is charged against current period operations. Thereafter, interest on nonaccrual loans is recognized only as received if future collection of principal is probable. If the collectability of outstanding principal is doubtful, interest received is applied as a reduction of principal. A loan may be restored to accrual status when principal and interest are no longer past due or it otherwise becomes both well secured and collectability is reasonably assured.

(I) Allowance for loan losses:

The allowance for loan losses is a valuation allowance for probable incurred credit losses. 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. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Commercial and commercial real estate loans over $250 are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer, residential real estate loans, commercial and commercial real estate loans less than $250 are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings ("TDRs") and classified as impaired. TDRs are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent 5 years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

The following portfolio segments have been identified:

Commercial and industrial loans. The Company provides a mix of variable and fixed rate commercial and industrial loans. Commercial and industrial loans are typically made to small- and medium-sized manufacturing, wholesale, retail and service businesses for working capital and operating needs and business expansions, including the purchase of capital equipment and loans made to farmers relating to their operations. This category also includes loans secured by manufactured housing receivables. Commercial and industrial loans generally include lines of credit and loans with maturities of five years or less. The loans are generally made with operating cash flows as the primary source of repayment, but may also include collateralization by inventory, accounts receivable, equipment and/or personal guarantees. The ability of the borrower to collect accounts receivable, and to turn inventory into sales are risk factors in the repayment of the loan.

Construction loans. Construction loans include commercial construction, land acquisition and land development loans and single-family interim construction loans to small- and medium-sized businesses and individuals. These loans are generally secured by the land or the real property being built and are made based on our assessment of the value of the property on an as-completed basis. We expect to continue to make construction loans at a similar pace so long as demand continues and the market for and values of such properties remain stable or continue to improve in our markets. These loans can carry risk of repayment when projects incur cost overruns, have an increase in the price of building materials, encounter zoning and environmental issues, or encounter other factors that may affect the completion of a project on time and on budget. Additionally, repayment risk may be negatively impacted when the market experiences a deterioration in the value of real estate.

Residential real estate 1-4 family mortgage loans. The Company's residential real estate 1-4 family mortgage loans are primarily made with respect to and secured by single family homes, which are both owner-occupied and investor owned and include manufactured homes with real estate. The Company intends to continue to make residential 1-4 family housing loans at a similar pace, so long as housing values in our markets do not deteriorate from current prevailing levels and we are able to make such loans consistent with our current credit and underwriting standards. First lien residential 1-4 family mortgages may be affected by unemployment or underemployment and deteriorating market values of real estate.

Residential line of credit loans. The Company's residential line of credit loans are primarily revolving, open-end lines of credit secured by 1-4 residential properties. The Company intends to continue to make home equity loans if housing values in our markets do not deteriorate from current prevailing levels and we are able to make such loans consistent with our current credit and underwriting standards. Second lien residential 1-4 family mortgages may be affected by unemployment or underemployment and deteriorating market values of real estate.

Multi-family residential loans. The Company's multi-family residential loans are primarily secured by multi-family properties, such as apartments and condominium buildings. These loans also may be affected by unemployment or underemployment and deteriorating market values of real estate.

Commercial real estate loans. The Company's commercial real estate owner-occupied loans include loans to finance commercial real estate owner occupied properties for various purposes including use as offices, warehouses, production facilities, health care facilities, retail centers, restaurants, churches and agricultural based facilities. Commercial real estate owner-occupied loans are typically repaid through the ongoing business operations of the borrower, and hence are dependent on the success of the underlying business for repayment and are more exposed to general economic conditions.

Commercial real estate non-owner occupied loans. The Company's commercial real estate non-owner occupied loans include loans to finance commercial real estate non-owner occupied investment properties for various purposes including use as offices, warehouses, health care facilities, hotels, mixed-use residential/commercial, manufactured housing communities, retail centers, assisted living facilities and agricultural based facilities. Commercial real estate non-owner occupied loans are typically repaid with the funds received from the sale of the completed property or rental proceeds from such property, and are therefore more sensitive to adverse conditions in the real estate market, which can also affected by general economic conditions.

Consumer and other loans. The Company's consumer and other loans include loans to individuals for personal, family and household purposes, including car, boat and other recreational vehicle loans, manufactured homes without real estate, and personal lines of credit. Consumer loans are generally secured by vehicles and other household goods. The collateral securing consumer loans may depreciate over time. The company seeks to minimize these risks through its underwriting standards. Other loans also include loans to states and political subdivisions in the U.S. These loans are generally subject to the risk that the borrowing municipality or political subdivision may lose a significant portion of its tax base or that the project for which the loan was made may produce inadequate revenue.

As discussed more fully under the subheading "Newly issued not yet effective accounting standards, the Company adopted Accounting Standards Update 2016-13, "Financial Instruments- Credit Losses: Measurement of Credit Losses on Financial Instruments" effective January 1, 2020, which replaces the incurred loss model described above with a model that estimates current expected losses of the loan portfolio over its lifetime.

(J) Business combinations and accounting for acquired loans with credit deterioration:

Business combinations are accounted for by applying the acquisition method in accordance with ASC 805, "Business Combinations" ("ASC 805"). Under the acquisition method, identifiable assets acquired and liabilities assumed and any non-controlling interest in the acquiree at the acquisition date are measured at their fair values as of that date. Any excess of the purchase price over fair value of net assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including any other identifiable intangible assets, exceed the purchase price, a bargain purchase gain is recognized. Results of operations of acquired entities are included in the Consolidated Statements of Income from the date of acquisition.

Loans acquired in business combinations with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be credit-impaired. Purchased credit-impaired loans ("PCI" loans) are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality, in accordance with ASC 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality" ("ASC 310-30"), and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Increases in expected cash flows to be collected on these loans are recognized as an adjustment of the loan's yield over its remaining life, while decreases in expected cash flows are recognized as an impairment. As a result, related discounts are recognized subsequently through accretion based on the expected cash flow of the acquired loans or through adjustment to the allowance for loan loss for any impairment identified subsequent to acquisitions.

(K) Premises and equipment:

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Provisions for depreciation are computed principally on the straight-line method and are charged to occupancy expense over the estimated useful lives of the assets. Maintenance agreements are amortized to expense over the period of time covered by the agreement. Costs of major additions, replacements or improvements are capitalized while expenditures for maintenance and repairs are charged to expense as incurred.

For financial statement purposes, the estimated useful life for premises is forty years, for furniture and fixtures the estimated useful life is seven to ten years, for leasehold improvements the estimated useful life is the lesser of twenty years or the term of the lease and for equipment the estimated useful life is three to seven years.

(L) Other real estate owned:

Real estate acquired through, or in lieu of, loan foreclosure is initially recorded at fair value less the estimated cost to sell at the date of foreclosure which may establish a new cost basis. Other real estate owned may also include excess facilities and properties held for sale as described in Note 7. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan. After initial measurement, valuations are periodically performed by management and the asset is carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses from operations are included in other noninterest income and noninterest expenses. Losses due to the valuation of the property are included in gain (loss) on sales or write-downs of other real estate owned.

(M) Leases:

The Company leases certain banking, mortgage and operations locations. Effective January 1, 2019, the Company records leases on the balance sheet in the form of a lease liability for the present value of future minimum payments under the lease terms and a right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, incentive liabilities, leasehold intangibles and any impairment of the right-of-use asset. In determining whether a contract contains a lease, management conducts an analysis at lease inception to ensure an asset was specifically identified and the Company has control of use of the asset. For contracts determined to be leases entered into after January 1, 2019, the Company performs additional analysis to determine whether the lease should be classified as a finance or operating lease. The Company considers a lease to be a finance lease if future minimum lease payments amount to greater than 90% of the asset's fair value or if the lease term is equal to or greater than 75% of the asset's estimated economic useful life. As of December 31, 2019, the Company did not have any leases that were determined to be finance leases. The Company does not record leases on the consolidated balance sheets that are classified as short term (less than one year). Additionally, the Company has not recorded equipment leases or leases in which the Company is the lessor on the consolidated balance sheets as these are not material to the Company.

At lease inception, the Company determines the lease term by adding together the minimum lease term and all optional renewal periods that it is reasonably certain to renew. This determination is at management's full discretion and is made through consideration of the asset, market conditions, competition and entity based economic conditions, among other factors. The lease term is used in the economic life test and also to calculate straight-line rent expense. The depreciable life of leasehold improvements is limited by the estimated lease term, including renewals.

Operating leases are expensed on a straight-line basis over the life of the lease beginning when the lease commences. Rent expense and variable lease expense are included in occupancy and equipment expense on the Company's Consolidated statements of income. The Company's variable lease expense include rent escalators that are based on the Consumer Price Index or market conditions and include items such as common area maintenance, utilities, parking, property taxes, insurance and other costs associated with the lease.

There are no residual value guarantees or restrictions or covenants imposed by leases that will impact the Company's ability to pay dividends or cause the Company to incur additional expenses. The discount rate used in determining the lease liability is based upon incremental borrowing rates the Company could obtain for similar loans as of the date of commencement or renewal.

(N) Mortgage servicing rights:

The Company retains the right to service certain mortgage loans that it sells to secondary market investors. The retained mortgage servicing right is initially recorded at the fair value of future net cash flows expected to be realized for performing servicing activities. Fair value is determined using an income approach with various assumptions including expected cash flows, prepayment speeds, market discount rates, servicing costs, and other factors. These mortgage servicing rights are recognized as a separate asset on the date the corresponding mortgage loan is sold.

As of January 1, 2017, the Company elected to account for its mortgage servicing rights under the fair value option as permitted under ASC 860-50-35, "Transfers and Servicing". The change in accounting policy resulted in a one-time adjustment to retained earnings of $615 for the after-tax increase in fair value above book value at the time of adoption. Subsequent changes in fair value, including the write downs due to pay offs and paydowns, are recorded in earnings in Mortgage banking income.

(O) Transfers of financial assets:

Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

(P) Goodwill and other intangibles:

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Goodwill impairment testing is performed annually or more frequently if events or circumstances indicate possible impairment. Goodwill is assigned to the Company's reporting units, Banking or Mortgage as applicable. Goodwill is evaluated for impairment by either performing a qualitative evaluation or a two-step quantitative test. The qualitative evaluation is an assessment of factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If an entity does a qualitative assessment and determines that it is not more likely than not the fair value of a reporting unit is less than its carrying amount, then goodwill of the reporting unit is not considered impaired, and it is not necessary to continue to the two-step goodwill impairment test. If the estimated implied fair value of goodwill is less than the carrying amount, an impairment loss would be recognized in noninterest expense to reduce the carrying amount to the estimated implied fair value which could be material to our operating results for any particular reporting period. No impairment was identified through the qualitative annual assessments for impairment performed as of December 31, 2019 and 2018. A quantitative assessment was performed for the year ended December 31, 2017 which also indicated no impairment.

Other intangible assets consist of core deposit intangible assets arising from whole bank and branch acquisitions in addition to both a customer trust intangible and manufactured housing loan servicing intangible. All intangible assets are initially measured at fair value and then amortized over their estimated useful lives. See Note 8 for additional information on other intangibles.

(Q) Income taxes:

Income tax expense is the total of the current year income tax due and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Company's policy is to recognize interest and penalties on uncertain tax positions in "Income tax expense" in the Consolidated Statements of Income. There were no amounts related to interest and penalties recognized for the years ended December 31, 2019, 2018 or 2017.

(R) Long-lived assets:

Premises and equipment, core deposit intangible assets, and other long-lived assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. No long-lived assets were deemed to be impaired at December 31, 2019 and 2018.

(S) Off-balance sheet financial instruments:

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded, unless considered derivatives.

(T) Derivative financial instruments and hedging activities:

All derivative financial instruments are recorded at their fair values in other assets or other liabilities in the consolidated balance sheets in accordance with ASC 815, *"Derivatives and Hedging."* If derivative financial instruments are designated as hedges of fair values, both the change in the fair value of the hedge and the hedged item are included in current earnings. If derivative financial instruments are not designated as hedges, only the change in the fair value of the derivative instrument is included in current earnings.

Cash flow hedges are utilized to mitigate the exposure to variability in expected future cash flows or other types of forecasted transactions. For the Company's derivatives designated as cash flow hedges, changes in the fair value of cash flow hedges are, to the extent that the hedging relationship is effective, recorded as other comprehensive income and are subsequently recognized in earnings at the same time that the hedged item is recognized in earnings. The ineffective portions of the changes in fair value of the hedging instruments are immediately recognized in earnings. The assessment of the effectiveness of the hedging relationship is evaluated under the hypothetical derivative method.

The Company also utilizes derivative instruments that are not designated as hedging instruments. The Company enters into interest rate cap and/or floor agreements with its customers and then enters into an offsetting derivative contract position with other financial institutions to mitigate the interest rate risk associated with these customer contracts. Because these derivative instruments are not designated as hedging instruments, changes in the fair value of the derivative instruments are recognized currently in earnings.

The Company also enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate-lock commitments). Rate-lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Accordingly, such commitments, along with any related fees received from potential borrowers, are recorded at fair value in other assets or liabilities, with changes in fair value recorded in the line item “Mortgage banking income” on the Consolidated Statements of Income. Fair value is based on fees currently charged to enter into similar agreements, and for fixed-rate commitments, the difference between current levels of interest rates and the committed rates is also considered.

The Company utilizes forward loan sale contracts and forward sales of residential mortgage-backed securities to mitigate the interest rate risk inherent in the Company’s mortgage loan pipeline and held-for-sale portfolio. Forward sale contracts are contracts for delayed delivery of mortgage loans or a group of loans pooled as mortgage-backed securities. The Company agrees to deliver on a specified future date, a specified instrument, at a specified price or yield. However, the contract may allow for cash settlement. The credit risk inherent to the Company arises from the potential inability of counterparties to meet the terms of their contracts. In the event of non-acceptance by the counterparty, the Company would be subject to the credit and inherent (or market) risk of the loans retained. Such contracts are accounted for as derivatives and, along with related fees paid to investor are recorded at fair value in derivative assets or liabilities, with changes in fair value recorded in the line item “Mortgage banking income” on the Consolidated Statements of Income. Fair value is based on the estimated amounts that the Company would receive or pay to terminate the commitment at the reporting date.

The Company utilizes two methods to deliver mortgage loans sold to an investor. Under a “best efforts” sales agreement, the Company enters into a sales agreement with an investor in the secondary market to sell the loan when an interest rate-lock commitment is entered into with a customer, as described above. Under a “best efforts” sales agreement, the Company is obligated to sell the mortgage loan to the investor only if the loan is closed and funded. Thus, the Company will not incur any liability to an investor if the mortgage loan commitment in the pipeline fails to close. The Company also utilizes “mandatory delivery” sales agreements. Under a mandatory delivery sales agreement, the Company commits to deliver a certain principal amount of mortgage loans to an investor at a specified price and delivery date. Penalties are paid to the investor should the Company fail to satisfy the contract. Mandatory commitments are recorded at fair value in the Company’s Consolidated Balance Sheets. Gains and losses arising from changes in the valuation of these commitments are recognized currently in earnings and are reflected under the line item “Mortgage banking income” on the Consolidated Statements of Income.

(U) Lender risk account:

During 2018, the Company began selling qualified mortgage loans to FHLB-Cincinnati via the Mortgage Purchase Program (“MPP”). All mortgage loans purchased from members through the MPP are held on the FHLB’s balance sheet. FHLB does not securitize MPP loans for sale to other investors. They mitigate their credit risk exposure through their underwriting and pool composition requirements and through the establishment of the Lender Risk Account (“LRA”) credit enhancement. The LRA protects the FHLB against possible credit losses by setting aside a portion of the initial purchase price into a performance based escrow account that can be used to offset possible loan losses. The LRA amount is established as a percentage applied to the sum of the initial unpaid principal balance of each mortgage in the aggregated pool at the time of the purchase of the mortgage as determined by the FHLB-Cincinnati and is funded by the deduction from the proceeds of sale of each mortgage in the aggregated pool to the FHLB-Cincinnati. As of December 31, 2019 and 2018, the Company had on deposit with the FHLB-Cincinnati $11,225 and $5,225, respectively, in these LRA’s. Additionally, as of December 31, 2019 and 2018, the Company estimated the guaranty account to be $5,546 and $2,646, respectively. The Company bears the risk of receiving less than 100% of its LRA contribution in the event of losses, either by the Company or other members selling mortgages in the aggregated pool. Any losses will be deducted first from the individual LRA contribution of the institution that sold the mortgage of which the loss was incurred. If losses incurred in the aggregated pool are greater than the member’s LRA contribution, such losses will be deducted from the LRA contribution of other members selling mortgages in that aggregated pool. Any portion of the LRA not used to pay losses will be released over a thirty year period and will not start until the end of five years after the initial fill-up period.

(V) Comprehensive income:

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on available-for-sale securities and derivatives designated as cash flow hedges, net of taxes.

(W) Loss contingencies:

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are such matters that will have a material effect on the financial statements.

(X) Securities sold under agreements to repurchase:

The Company routinely sells securities to certain customers and then repurchases the securities the next business day. Securities sold under agreements to repurchase are recorded on the consolidated balance sheets at the amount of cash received in connection with each transaction in the line item "Borrowings". These are secured liabilities and are not covered by the Federal Deposit Insurance Corporation ("FDIC"). See Note 13, "Borrowings" in the Notes to the consolidated financial statements for additional details regarding securities sold under agreements to repurchase.

(Y) Advertising expense:

Advertising costs, including costs related to internet mortgage marketing, lead generation, and related costs, are expensed as incurred. For the years ended December 31, 2019, 2018 and 2017, advertising costs were $9,138, $13,139 and $12,957, respectively.

(Z) Earnings per common share:

Basic earnings per common share ("EPS") excludes dilution and is computed by dividing earnings attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS includes the dilutive effect of additional potential common shares issuable under the restricted stock units granted but not yet vested and distributable. Diluted EPS is computed by dividing earnings attributable to common shareholders by the weighted average number of common shares outstanding for the year, plus an incremental number of common-equivalent shares computed using the treasury stock method.

Unvested share-based payment awards, which include the right to receive non-forfeitable dividends or dividend equivalents, are considered to participate with common shareholders in undistributed earnings for purposes of computing EPS. Companies that have such participating securities, including the Company, are required to calculate basic and diluted EPS using the two-class method. Certain restricted stock awards granted by the Company include non-forfeitable dividend equivalents and are considered participating securities. Calculations of EPS under the two-class method (i) exclude from the numerator any dividends paid or owed on participating securities and any undistributed earnings considered to be attributable to participating securities and (ii) exclude from the denominator the dilutive impact of the participating securities.

The following is a summary of the basic and diluted earnings per common share calculation for each of the periods presented:

(Dollar amounts are in thousands, except share and per share amounts)

	Year Ended December 31,		
	2019	2018	2017
Basic earnings per common share calculation:			
Net income	$ 83,814	$ 80,236	$ 52,398
Dividends paid on and undistributed earnings allocated to participating securities	(447)	(428)	—
Earnings attributable to common shareholders	$ 83,367	$ 79,808	$ 52,398
Weighted-average basic shares outstanding	30,870,474	30,675,755	27,627,228
Basic earnings per common share	$ 2.70	$ 2.60	$ 1.90
Diluted earnings per common share:			
Earnings attributable to common shareholders	83,367	79,808	52,398
Weighted-average basic shares outstanding	30,870,474	30,675,755	27,627,228
Weighted-average diluted shares contingently issuable	532,423	639,226	580,374
Weighted-average diluted shares outstanding	31,402,897	31,314,981	28,207,602
Diluted earnings per common share	$ 2.65	$ 2.55	$ 1.86

(AA) Segment reporting:

The Company's Mortgage division represents a distinct reportable segment which differs from the Company's primary business of Banking. Accordingly, a reconciliation of reportable segment revenues, expenses and profit to the Company's consolidated total has been presented in Note 20.

(BB) Stock-based compensation:

Stock-based compensation expense is recognized in accordance with ASC 718-20, "*Compensation – Stock Compensation Awards Classified as Equity*". Expense is recognized based on the fair value of the portion of stock-based payment awards that are ultimately expected to vest, reduced for forfeitures based on grant-date fair value. The restricted stock unit awards and related expense are amortized over the required service period, if any.

Recently adopted accounting standards:

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." The update requires lessees to recognize right-of-use assets and lease liabilities for all leases not considered short term leases. The provisions of the update also include (a) defining direct costs to only include those incremental costs that would not have been incurred if the lease had not been entered into, (b) circumstances under which the transfer contract in a sale-leaseback transaction should be accounted for as the sale of an asset by the seller-lessee and the purchase of an asset by the buyer-lessor, and (c) additional disclosure requirements. The provisions of this update became effective for the Company on January 1, 2019.

In July 2018, the FASB issued ASU 2018-10, "Codification Improvements to Topic 842, Leases" and 2018-11, "Leases (Topic 842): Targeted Improvements". ASU No. 2018-10 provides improvements related to ASU No. 2016-02 to provide corrections or improvements to a number of areas within FASB Accounting Standards Codification ("ASC") Topic 842 and provides additional and optional transition method to adopt the new lease standard. ASU No. 2018-11 allows entities to initially apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. ASU 2018-11 also allows lessors to not separate non-lease components from the associated lease component if certain conditions are met. The amendments in these updates became effective for the Company on January 1, 2019.

The Company elected the optional transition method permitted by ASU 2018-11. Under this method, an entity shall recognize and measure leases that exist at the application date and prior comparative periods are not adjusted. Additionally, the Company elected to adopt the practical expedients allowed under the updates and therefore did not reassess 1) whether any expired or existing contract contain leases, 2) the lease classification for any expired or existing leases, or 3) initial direct costs for any existing leases.

On January 1, 2019, the Company adopted these updates and recognized a right of use asset ("ROU") and lease liability of $32,545 and $34,876, respectively, and recorded a cumulative effect adjustment to retained earnings of $1,309, net of deferred taxes of $461, in addition to adjustments to leasehold improvements of $1,022 and a reclassification from a previously-recognized lease intangible asset for $460. The difference between the asset and liability amounts represents lease incentive liabilities, deferred rent and a lease intangible asset that was reclassified to the ROU asset upon adoption. This adoption did not have a significant impact on the Company's consolidated statements of income and did not have an impact on the Company's cash flows. Disclosures required by the update are presented in Note 7, "Leases" in the notes to the consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, “Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities." The amendments in this ASU shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount, which continue to be amortized to maturity. Public business entities were required to prospectively apply the amendments in this ASU to annual periods beginning after December 15, 2018, including interim periods. The adoption of this update did not have an impact on the Company's consolidated financial statements.

In July 2019, the FASB issued ASU No. 2019-07, “Codification Updates to SEC Sections-Amendments to SEC Paragraphs Pursuant to SEC Final Rule Release No. 33-10532, Disclosure Update and Simplification, and Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization, and Miscellaneous Updates.” These amendments modify FASB Codification to reflect previously issued SEC rules for disclosure updates and simplification and investment company reporting modernization. The SEC adopted these rules to improve its regulations on financial reporting and disclosure. Other miscellaneous updates were made to agree to the electronic Code of Federal Regulations. The amendments in this update became effective upon issuance on July 26, 2019. This update did not significantly impact the consolidated financial statements.

Newly issued not yet effective accounting standards:

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” ASU 2016-13 and its subsequent amendments require the measurement of all current expected credit losses ("CECL") for financial assets (including off-balance sheet credit exposures) held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The update requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. Additionally, disclosure of credit quality indicators related to the amortized cost of financing receivables will be further disaggregated by year of origination (or vintage).

The new model requires institutions to calculate all probable and estimable losses that are expected to be incurred through the financial asset's entire life through a provision for credit losses, including certain loans obtained as a result of any acquisition. The Update eliminates the existing guidance for PCI loans, but requires an allowance for purchased financial assets with more than insignificant deterioration since origination to be determined in a manner similar to that of other financial assets measured at amortized cost; however, the initial allowance will be added to the purchase price rather than recorded as provision expense.

ASU 2016-13 became effective for the Company on January 1, 2020 and management is in the process of finalizing qualitative factors and conducting a thorough review of the calculation and documentation supporting the allowance for credit losses ("ACL") and updating its policy documents and internal controls accordingly. The Company will continue to analyze and modify the calculation throughout the first quarter of 2020, however the Company is currently expecting the impact of adoption of ASU 2016-13 to result in an increase in reserve from the allowance for loan losses reported at December 31, 2019. The Company will record a cumulative effect adjustment for the increase, net of taxes, to retained earnings as of January 1, 2020, which will be included in the Company's quarterly report on From 10-Q for the period ended March 31, 2020.

In December 2018, the Office of the Comptroller of the Currency ("OCC"), the Board of Governors of the Federal Reserve System, and the FDIC approved a final rule to address changes to credit loss accounting under GAAP; including banking organizations' implementation of CECL. The final rule provides banking organizations the option to phase in over a three-year period the day-one adverse effects on regulatory capital that may result from the adoption of the new accounting standard. The Company has adopted this transitional guidance to reduce the impact of the initial adoption on regulatory capital.

In January 2017, the FASB issued ASU 2017-04, “Intangibles – Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment.” ASU 2017-04 eliminates step two from the goodwill impairment test. Instead, an entity will perform only step one of its quantitative goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and then recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity will still have the option to perform a qualitative assessment for a reporting unit to determine if the quantitative step one impairment test is necessary. ASU 2017-04 became effective for interim and annual periods beginning after December 15, 2019. The adoption of this standard did not have any impact on the Company's consolidated financial statements or disclosures.

In June 2018, FASB issued ASU 2018-07, "Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting", which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. Consistent with the accounting for employee share-based payment awards, nonemployee share-based payment awards will be measured at grant-date fair value of the equity instruments obligated to be issued when the good has been delivered or the service rendered and any other conditions necessary to earn the right to benefit from the instruments have been satisfied. This ASU is effective for all entities for fiscal years beginnings after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The adoption of this standard did not have an impact on the Company's consolidated financial statements or disclosures.

In August 2018, the FASB issued "Accounting Standards Update 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurements." This update is part of the disclosure framework project and eliminates certain disclosure requirements for fair value measurements, requires entities to disclose new information, and modifies existing disclosure requirements. The new disclosure guidance is effective for fiscal years beginning after December 15, 2019. The adoption of of this update did not have a significant impact to the Company's consolidated financial statements or disclosures.

In March 2019, the FASB issued ASU 2019-01, "Leases (Topic 842): Codification Improvements", which align the guidance for fair value of the underlying assets by lessors that are not manufacturers or dealers in Topic 842 with that of existing guidance. As a result, the fair value of the underlying asset at lease commencement is its cost, reflecting any volume or trade discounts that may apply. However, if there has been a significant lapse of time between when the underlying asset is acquired and when the lease commences, the definition of fair value in Topic 820, *Fair Value Measurement* should be applied. ASU No. 2019-01 also requires lessors within the scope of Topic 942, "Financial Services—Depository and Lending", to present all “principal payments received under leases” within investing activities. The amendments in this update became effective for fiscal years beginning after December 15, 2019. This adoption did not have a significant impact to the Company's consolidated financial statements or disclosures.

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes" to simplify various aspects of the current guidance to promote consistent application of the standard among reporting entities by moving certain exceptions to the general principles. The amendments are effective for fiscal years beginning after December 15, 2020, with early adoption permitted. The company does not expect adoption of this update to have a significant impact on the Company's consolidated financial statements or disclosures.

Note (2)—Mergers and acquisitions:

Franklin Financial Network, Inc.

On January 21, 2020, the Company entered into a definitive merger agreement with Franklin Financial Network, Inc ("Franklin"). pursuant to which Franklin will be merged with and and into the Company. Franklin has 15 branches and approximately $3.90 billion in total assets, $2.80 billion in loans, and $3.20 billion in deposits as of December 31, 2019. According to the terms of the merger agreement, Franklin shareholders will receive 0.9650 shares of FB Financial Corporation's common stock and $2.00 in cash for each share of Franklin stock. Based on the Company's closing price on the New York Stock Exchange of $38.23 per share as of January 21, 2020, the implied transaction value is approximately $602,000. The merger is expected to close in the third quarter of 2020 and is subject to regulatory approvals, approval by the Company's and Franklin's shareholders and other customary closing conditions.

FNB Financial Corp. merger

On February 14, 2020, the Company completed its previously announced acquisition of FNB Financial Corp. and its wholly owned subsidiary, Farmers National Bank of Scottsville (collectively, "Farmers National"). Following the acquisition, Farmers National was merged into the Company with FB Financial Corporation continuing as the surviving entity. Prior to closing, Farmers National operated five branches and reported total assets of $255,172, loans of $178,603 and deposits of $205,957 as of December 31, 2019. FNB Financial Corp. shareholders received 954,797 shares of FBK common stock as consideration in connection with the merger, in addition to approximately $15,000 in cash consideration. Based on the closing price of the Company's common stock on the New York Stock Exchange of $36.70 on February 14, 2020, the merger consideration represented approximately $50,042 in aggregate consideration. The Company is currently in the process of determining the approximate fair value of the net assets acquired and will include preliminary purchase accounting estimates in Form 10-Q for the quarterly period ended March 31, 2020.

Atlantic Capital Bank, N.A. branch acquisition

On April 5, 2019, the Bank completed its previously-announced branch acquisition to purchase 11 Tennessee and three Georgia branch locations (the "Branches") from Atlantic Capital Bank, N.A., a national banking association and a wholly owned subsidiary of Atlantic Capital Bancshares, Inc. (collectively, “Atlantic Capital”) in a transaction valued at $36,790, further increasing market share in existing markets and expanding the Company's footprint into new locations. Upon consummation, the Branches were merged with and into FirstBank, consolidating three of the purchased branches across the existing bank footprint. Under the terms of the agreement, the Bank assumed $588,877 in deposits for a premium of 6.25% and acquired $374,399 in loans at 99.32% of principal outstanding.

The acquisition of the Branches was accounted for in accordance with FASB ASC Topic 805 "Business Combinations." Accordingly, the assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition date. For income tax purposes, the transaction was treated as an asset purchase. As such, the values of assets and liabilities are the same for both financial reporting and income tax purposes; therefore, no deferred taxes were recorded at the date of acquisition. Additionally, this treatment allows for the deductibility of recorded intangibles for income tax purposes over 15 years. Goodwill of $31,961 recorded in connection with the transaction resulted from the ongoing business contribution of the Branches. Also, goodwill represents anticipated synergies arising from the combination of certain operational areas of the Branches and the Company. Goodwill is included in the Banking segment as all of the operations resulting from the Branches are in alignment with the Company's core banking business.

The Company incurred $4,778 in merger expenses during the year ended December 31, 2019 in connection with this transaction. These expenses are primarily comprised of professional services and employee-related costs in addition to branch closings and conversion and integration costs.

(Dollar amounts are in thousands, except share and per share amounts)

As of December 31, 2019, the Company finalized its valuation of all assets acquired and liabilities assumed, resulting in insignificant changes to preliminary purchase accounting adjustments. The following tables present the final fair values of assets acquired and liabilities assumed as of the April 5, 2019 acquisition date and an allocation of the consideration to net assets acquired:

	As of April 5, 2019
	As Recorded by FB Financial Corporation[(1)]
Assets	
Cash and cash equivalents[(1)]	$ 207,822
Loans, net of fair value adjustments	374,399
Premises and equipment	9,650
Operating lease right-of-use assets	4,133
Core deposit intangible	10,760
Accrued interest and other assets	1,272
Total assets	$ 608,036
Liabilities	
Deposits	
Noninterest-bearing	$ 118,405
Interest-bearing checking	112,225
Money markey and savings	211,135
Customer time deposits	147,112
Total deposits	588,877
Customer repurchase agreements	9,572
Operating lease liabilities	4,133
Accrued expenses and other liabilities	625
Total liabilities	603,207
Total net assets acquired	$ 4,829

(1) Cash and cash equivalents were reduced in settlement by the deposit premium paid of $36,790 to reflect net cash received of $171,032.

Consideration:		
Deposit premium	$	36,790
Preliminary allocation of consideration:		
Fair value of net assets acquired	$	4,829
Goodwill		31,961
Total consideration	$	36,790

The following table presents the fair value of acquired purchased credit impaired loans accounted for in accordance with ASC 310-30 "Loans and Debt Securities Acquired with Deteriorated Credit Quality" from the Atlantic Capital branch acquisition as of the acquisition date:

		April 5, 2019
Contractually-required principal and interest	$	11,949
Nonaccretable difference		2,200
Best estimate of contractual cash flows expected to be collected		9,749
Accretable yield		1,167
Fair value	$	8,582

(Dollar amounts are in thousands, except share and per share amounts)

The following unaudited pro forma condensed consolidated financial information presents the results of operations for the year ended December 31, 2019 and 2018 as though the merger had been completed as of January 1, 2018. The unaudited estimated pro forma information combines the historical results of the Branches with the Company’s historical consolidated results and includes certain adjustments reflecting the estimated impact of certain fair value adjustments for the periods presented. Merger expenses are reflected in the periods they were incurred. The pro forma information is not indicative of what would have occurred had the acquisition taken place on January 1, 2018 and does not include the effect of all cost-saving or revenue-enhancing strategies.

	Year ended December 31,	
	2019	2018
Net interest income	$ 229,607	$ 220,269
Total revenues	$ 365,794	$ 354,258
Net income	$ 79,923	$ 78,762

The Company's operating results for the year ended December 31, 2019 include the operating results of the acquired assets and assumed liabilities of the Branches subsequent to the acquisition date. Due to the timing of the data conversion and the integration of operations of the Branches onto the Company's existing operations, historical reporting of the acquired Branches is impracticable, and therefore, disclosure of the amounts of revenue and expenses attributable to the acquired Branches since the acquisition date are not available.

Clayton Bank and Trust and American City Bank

On July 31, 2017, the Bank completed its mergers with Clayton Bank and Trust ("CBT") and American City Bank ("ACB" and together with CBT, the "Clayton Banks"), pursuant to the Stock Purchase Agreement with Clayton HC, Inc, a Tennessee corporation ("Seller"), and James L. Clayton, the majority shareholder of Seller, dated February 8, 2017, as amended on May 26, 2017, with a purchase price of approximately $236,484. The Company issued 1,521,200 shares of common stock and paid cash of $184,200 to purchase all outstanding shares of Clayton Banks. At closing, the Clayton Banks merged with and into FirstBank, with FirstBank continuing as the surviving banking entity. Prior to the merger, Clayton Banks operated 18 banking locations across Tennessee. The merger with the Clayton Banks has allowed the Company to further its strategic initiatives by expanding its geographic footprint in Knoxville and other Tennessee markets and accelerates the growth of the Company’s Banking segment.

Goodwill of $90,323 recorded in connection with the transaction resulted primarily from anticipated synergies arising from the combination of certain operational areas of the Clayton Banks and the Company as well as the purchase premium inherent to buying a complete and successful banking operation. Goodwill is included in the Banking segment as substantially all of the operations resulting from the Clayton Banks merger is included in the Banking segment.

In connection with the transaction, the Company incurred $19,034 in merger and conversion expenses during the year ended December 31, 2017. This amount includes $10,000 contributed to a charitable foundation established to invest in the communities across the markets of the Clayton Banks.

For income tax purposes, the merger with the Clayton Banks was treated as an asset purchase. As an asset purchase for income tax purposes, the value of assets and liabilities for the Clayton Banks are the same for both financial reporting and income tax purposes; therefore, no deferred taxes were recorded at the date of acquisition. Additionally, this treatment allows for the deductibility of the goodwill and core deposit intangible for income tax purposes over 15 years.

The Company accounted for the Clayton Banks transaction under the acquisition method under ASC Topic 805. Accordingly, the fair value of the assets acquired and liabilities assumed along with the resulting goodwill was recorded as of the date of the merger. The Company’s operating results for 2017 include the operating results of the acquired assets and assumed liabilities of the Clayton Banks subsequent to the acquisition date.

As of December 31, 2017, the Company finalized its valuation of all assets acquired and liabilities assumed, resulting in no material changes to preliminary purchase accounting adjustments. The following tables present the final estimated fair value of net assets acquired as of the July 31, 2017 acquisition date and the consideration paid and an allocation of the purchase price to net assets acquired:

(Dollar amounts are in thousands, except share and per share amounts)

		As of July 31, 2017
		As Recorded by FB Financial Corporation[1]
Assets		
Cash and cash equivalents	$	49,059
Investment securities		59,493
FHLB stock		3,409
Loans, net of fair value adjustments		1,059,728
Premises and equipment		18,866
Other real estate owned		6,888
Core deposit and other intangibles		12,334
Other assets		5,978
Total assets	$	1,215,755
Liabilities		
Interest-bearing deposits	$	670,054
Noninterest-bearing deposits		309,464
Borrowings		84,831
Accrued expenses and other liabilities		5,245
Total liabilities	$	1,069,594
Net assets acquired (excluding goodwill recognized)	$	146,161

Purchase price:					
Equity consideration					
Common stock issued		1,521,200			
Price per share as of July 31, 2017	$	34.37			
Total equity consideration			$	52,284	
Cash consideration				184,200	(2)
Total consideration paid			$	236,484	
Preliminary allocation of consideration paid:					
Fair value of net assets acquired including identifiable intangible assets			$	146,161	
Goodwill				90,323	
Total consideration paid			$	236,484	

(1) Amounts include certain reclassifications of opening balances to conform to the Company's presentation.
(2) Amounts was deposited into an interest-bearing deposit account with the Bank in the name of the Seller as of July 31, 2017.

The following unaudited pro forma condensed consolidated financial information presents the results of operations for the year ended December 31, 2017 as though the merger had been completed as of January 1, 2016. The unaudited estimated pro forma information combines the historical results of the Clayton Banks with the Company's historical consolidated results and includes certain adjustments reflecting the estimated impact of certain fair value adjustments including loan discount accretion, amortization of core deposit and other intangibles, and amortization of the discount on time deposits for the periods presented. The pro forma information is not indicative of what would have occurred had the acquisition taken place on January 1, 2016 and does not reflect any assumptions regarding cost-savings, revenue enhancements, provision for credit losses or asset dispositions. Actual revenues and earnings of the Clayton Banks since the merger date have not been disclosed as it is not practicable as the Clayton Banks were merged into the Company and separate financial information is not readily available.

(Dollar amounts are in thousands, except share and per share amounts)

	For the year ended,	
	2017	
Net interest income	$	192,633
Total revenues	$	336,404
Net income	$	75,659

Note (3)—Cash and cash equivalents concentrations:

The Bank is required to maintain an average reserve balance with the Federal Reserve Bank or maintain such reserve balance in the form of cash. The required balance at December 31, 2019 was $20,881. The Bank maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Bank has not experienced any losses in such correspondent accounts and believes it is not exposed to any significant credit risk from cash and cash equivalents.

The Bank had cash in the form of Federal funds sold included in cash and cash equivalents of $131,119 and $31,364 as of December 31, 2019 and 2018, respectively.

Note (4)—Investment securities:

The amortized cost of securities and their fair values at December 31, 2019 and December 31, 2018 are shown below:

								December 31, 2019
		Amortized cost		Gross unrealized gains		Gross unrealized losses		Fair Value
Investment Securities								
Available-for-sale debt securities								
Mortgage-backed securities - residential	$	487,101	$	5,236	$	(1,661)	$	490,676
Municipals, tax exempt		181,178		8,287		(230)		189,235
Treasury securities		7,426		22		—		7,448
Corporate securities		1,000		22		—		1,022
Total	$	676,705	$	13,567	$	(1,891)	$	688,381

								December 31, 2018
		Amortized cost		Gross unrealized gains		Gross unrealized losses		Fair Value
Investment Securities								
Available-for-sale debt securities								
U.S. government agency securities	$	1,000	$	—	$	(11)	$	989
Mortgage-backed securities - residential		520,654		1,191		(13,265)		508,580
Municipals, tax exempt		138,994		1,565		(1,672)		138,887
Treasury securities		7,385		—		(143)		7,242
Total	$	668,033	$	2,756	$	(15,091)	$	655,698

As of December 31, 2019 and December 31, 2018, the Company had $3,295 and $3,107 in marketable equity securities recorded at fair value, respectively.

Securities pledged at December 31, 2019 and December 31, 2018 had carrying amounts of $373,674 and $326,215, respectively, and were pledged to secure a Federal Reserve Bank line of credit, public deposits and repurchase agreements.

There were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity during any period presented.

At December 31, 2019 and December 31, 2018, there were $0 and $2,120, respectively, in trade date payables that related to purchases settled after period end.

(Dollar amounts are in thousands, except share and per share amounts)

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2019 and December 31, 2018 are shown below. Maturities may differ from contractual maturities in mortgage-backed securities because the mortgage underlying the security may be called or repaid without any penalties. Therefore, mortgage-backed securities are not included in the maturity categories in the following maturity summary.

	2019		2018	
	Available-for-sale		Available-for-sale	
	Amortized cost	Fair value	Amortized cost	Fair value
Due in one year or less	$ 1,148	$ 1,152	$ 15,883	$ 16,028
Due in one to five years	11,553	11,676	13,806	13,740
Due in five to ten years	18,287	18,887	18,539	18,387
Due in over ten years	158,616	165,990	99,151	98,963
	189,604	197,705	147,379	147,118
Mortgage-backed securities - residential	487,101	490,676	520,654	508,580
Total debt securities	$ 676,705	$ 688,381	$ 668,033	$ 655,698

Sales and other dispositions of available-for-sale securities were as follows:

	Year Months Ended December 31,		
	2019	2018	2017
Proceeds from sales	$ 24,498	$ 2,742	$ 94,743
Proceeds from maturities, prepayments and calls	113,018	73,066	83,344
Gross realized gains	7	9	1,278
Gross realized losses	98	44	48

Additionally, net gains on the change in fair value of equity securities of $148 were recognized during the year ended December 31, 2019. Net losses on the change in fair value of equity securities of $81 were recognized in the year ended December 31, 2018.

The following tables show gross unrealized losses at December 31, 2019 and December 31, 2018, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	December 31, 2019					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized loss
Mortgage-backed securities - residential	$ 47,641	$ (164)	$ 175,730	$ (1,497)	$ 223,371	$ (1,661)
Municipals, tax exempt	15,433	(230)	—	—	15,433	(230)
Total	$ 63,074	$ (394)	$ 175,730	$ (1,497)	$ 238,804	$ (1,891)

	December 31, 2018					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized loss
U.S. government agency securities	$ —	$ —	$ 989	$ (11)	$ 989	$ (11)
Mortgage-backed securities - residential	60,347	(478)	335,769	(12,787)	396,116	(13,265)
Municipals, tax exempt	27,511	(366)	25,343	(1,306)	52,854	(1,672)
Treasury securities	—	—	7,242	(143)	7,242	(143)
Total	$ 87,858	$ (844)	$ 369,343	$ (14,247)	$ 457,201	$ (15,091)

As of December 31, 2019 and December 31, 2018, the Company’s securities portfolio consisted of 365 and 360 securities, 58 and 174 of which were in an unrealized loss position, respectively.

The Company evaluates available-for-sale debt securities with unrealized losses for other-than-temporary impairment ("OTTI") on a quarterly basis and recorded no OTTI for the year ended December 31, 2019 and 2018. During the year ended December 31, 2017, the Company recognized impairment of $945 on one of the equity securities without readily determinable market value. On January 1, 2018, this investment was reclassified to other assets.The Company considers an investment security impaired if the fair value of the security is less than its cost or amortized cost basis. For debt securities, the unrealized losses associated with these investment securities are primarily driven by interest rates and are not due to the credit quality of the securities. The Company currently does not intend to sell those investments with unrealized losses, and it is unlikely that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity.

(Dollar amounts are in thousands, except share and per share amounts)

Note (5)—Loans and allowance for loan losses:

Loans outstanding at December 31, 2019 and 2018, by major lending classification are as follows:

	December 31,	
	2019	2018
Commercial and industrial	$ 1,034,036	$ 867,083
Construction	551,101	556,051
Residential real estate:		
1-to-4 family mortgage	710,454	555,815
Residential line of credit	221,530	190,480
Multi-family mortgage	69,429	75,457
Commercial real estate:		
Owner occupied	630,270	493,524
Non-owner occupied	920,744	700,248
Consumer and other	272,078	228,853
Gross loans	4,409,642	3,667,511
Less: Allowance for loan losses	(31,139)	(28,932)
Net loans	$ 4,378,503	$ 3,638,579

As of December 31, 2019 and 2018, $412,966 and $618,976, respectively, of qualifying residential mortgage loans (including loans held for sale) and $545,540 and $608,735, respectively, of qualifying commercial mortgage loans were pledged to the Federal Home Loan Bank of Cincinnati securing advances against the Bank's line of credit. As of December 31, 2019 and 2018, $1,407,662 and $1,336,092, respectively, of qualifying loans were pledged to the Federal Reserve Bank under the Borrower-in-Custody program.

As of December 31, 2019 and 2018, the carrying value of PCI loans accounted for under ASC 310-30 "Loans and Debt Securities Acquired with Deteriorated Credit Quality", were $57,152 and $68,999, respectively. The following table presents changes in the value of the accretable yield for PCI loans for the periods indicated.

	Year Ended December 31,		
	2019	2018	2017
Balance at the beginning of period	$ (16,587)	$ (17,682)	$ (2,444)
Additions through business combinations	(1,167)	—	(18,868)
Principal reductions and other reclassifications from nonaccretable difference	61	(4,047)	(1,841)
Recoveries	—	—	(23)
Accretion	7,003	9,010	5,299
Changes in expected cash flows	(360)	(3,868)	195
Balance at end of period	$ (11,050)	$ (16,587)	$ (17,682)

Included in the ending balance of the accretable yield on PCI loans at December 31, 2019 and 2018, is a purchase accounting liquidity discount of $292 and $2,436, respectively. There is also a purchase accounting nonaccretable credit discount of $3,537 and $4,355 related to the PCI loan portfolio at December 31, 2019 and 2018, respectively, and an accretable credit and liquidity discount on non-PCI loans of $8,964 and $3,924 as of December 31, 2019 and $7,527 and $2,197, respectively, as of December 31, 2018.

(Dollar amounts are in thousands, except share and per share amounts)

Interest revenue, through accretion of the difference between the recorded investment of the loans and the expected cash flows, is being recognized on all PCI loans. Accretion of interest income amounting to $7,003, $9,010, and $5,299 was recognized on PCI loans during the years ended December 31, 2019, 2018, and 2017, respectively. This includes both the contractual interest income recognized and the purchase accounting contribution through accretion of the liquidity discount for changes in estimated cash flows. The total purchase accounting contribution through accretion excluding contractual interest collected for all purchased loans was $8,556, $7,608, and $5,419 for the years ended December 31, 2019, 2018, and 2017, respectively.

The following provides the changes in the allowance for loan losses by portfolio segment for the years December 31, 2019, 2018, and 2017:

	Commercial and industrial	Construction	1-to-4 family residential mortgage	Residential line of credit	Multi-family residential mortgage	Commercial real estate owner occupied	Commercial real estate non-owner occupied	Consumer and other	Total
Year Ended December 31, 2019									
Beginning balance - December 31, 2018	$ 5,348	$ 9,729	$ 3,428	$ 811	$ 566	$ 3,132	$ 4,149	$ 1,769	$ 28,932
Provision for loan losses	2,251	454	(175)	112	(22)	869	484	3,080	7,053
Recoveries of loans previously charged-off	136	11	79	138	—	108	—	634	1,106
Loans charged off	(2,930)	—	(220)	(309)	—	—	(12)	(2,481)	(5,952)
Ending balance - December 31, 2019	$ 4,805	$ 10,194	$ 3,112	$ 752	$ 544	$ 4,109	$ 4,621	$ 3,002	$ 31,139

	Commercial and industrial	Construction	1-to-4 family residential mortgage	Residential line of credit	Multi-family residential mortgage	Commercial real estate owner occupied	Commercial real estate non-owner occupied	Consumer and other	Total
Year Ended December 31, 2018									
Beginning balance - December 31, 2017	$ 4,461	$ 7,135	$ 3,197	$ 944	$ 434	$ 3,558	$ 2,817	$ 1,495	$ 24,041
Provision for loan losses	1,395	1,459	547	(275)	132	(478)	1,281	1,337	5,398
Recoveries of loans previously charged-off	390	1,164	171	178	—	143	51	550	2,647
Loans charged off	(898)	(29)	(138)	(36)	—	(91)	—	(1,613)	(2,805)
Adjustments for transfers to loans HFS	—	—	(349)	—	—	—	—	—	(349)
Ending balance - December 31, 2018	$ 5,348	$ 9,729	$ 3,428	$ 811	$ 566	$ 3,132	$ 4,149	$ 1,769	$ 28,932

	Commercial and industrial	Construction	1-to-4 family residential mortgage	Residential line of credit	Multi-family residential mortgage	Commercial real estate owner occupied	Commercial real estate non-owner occupied	Consumer and other	Total
Year Ended December 31, 2017									
Beginning balance - December 31, 2016	$ 5,309	$ 4,940	$ 3,197	$ 1,613	$ 504	$ 3,302	$ 2,019	$ 863	$ 21,747
Provision for loan losses	(2,158)	1,138	41	(788)	(70)	483	(848)	1,252	(950)
Recoveries of loans previously charged-off	1,894	1,084	159	395	—	61	1,646	532	5,771
Loans charged off	(584)	(27)	(200)	(276)	—	(288)	—	(1,152)	(2,527)
Ending balance - December 31, 2017	$ 4,461	$ 7,135	$ 3,197	$ 944	$ 434	$ 3,558	$ 2,817	$ 1,495	$ 24,041

(Dollar amounts are in thousands, except share and per share amounts)

The following tables provides the allocation of the allowance for loan losses by loan category broken out between loans individually evaluated for impairment, loans collectively evaluated for impairment and loans acquired with deteriorated credit quality as of December 31, 2019, 2018, and 2017:

									December 31, 2019
	Commercial and industrial	Construction	1-to-4 family residential mortgage	Residential line of credit	Multi-family residential mortgage	Commercial real estate owner occupied	Commercial real estate non-owner occupied	Consumer and other	Total
Amount of allowance allocated to:									
Individually evaluated for impairment	$ 241	$ —	$ 8	$ 9	$ —	$ 238	$ 399	$ —	$ 895
Collectively evaluated for impairment	4,457	10,192	2,940	743	544	3,853	3,909	1,933	28,571
Acquired with deteriorated credit quality	107	2	164	—	—	18	313	1,069	1,673
Ending balance - December 31, 2019	$ 4,805	$ 10,194	$ 3,112	$ 752	$ 544	$ 4,109	$ 4,621	$ 3,002	$ 31,139

									December 31, 2018
	Commercial and industrial	Construction	1-to-4 family residential mortgage	Residential line of credit	Multi-family residential mortgage	Commercial real estate owner occupied	Commercial real estate non-owner occupied	Consumer and other	Total
Amount of allowance allocated to:									
Individually evaluated for impairment	$ 3	$ —	$ 7	$ —	$ —	$ 53	$ 205	$ —	$ 268
Collectively evaluated for impairment	5,247	9,677	3,205	811	566	3,066	3,628	1,583	27,783
Acquired with deteriorated credit quality	98	52	216	—	—	13	316	186	881
Ending balance - December 31, 2018	$ 5,348	$ 9,729	$ 3,428	$ 811	$ 566	$ 3,132	$ 4,149	$ 1,769	$ 28,932

									December 31, 2017
	Commercial and industrial	Construction	1-to-4 family residential mortgage	Residential line of credit	Multi-family residential mortgage	Commercial real estate owner occupied	Commercial real estate non-owner occupied	Consumer and other	Total
Amount of allowance allocated to:									
Individually evaluated for impairment	$ 20	$ —	$ 18	$ —	$ —	$ 120	$ 33	$ —	$ 191
Collectively evaluated for impairment	4,441	7,135	3,179	944	434	3,438	2,784	1,495	23,850
Acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Ending balance- December 31, 2017	$ 4,461	$ 7,135	$ 3,197	$ 944	$ 434	$ 3,558	$ 2,817	$ 1,495	$ 24,041

(Dollar amounts are in thousands, except share and per share amounts)

The following tables provides the amount of loans by loan category broken between loans individually evaluated for impairment, loans collectively evaluated for impairment and loans acquired with deteriorated credit quality as of December 31, 2019, 2018, and 2017:

	December 31, 2019								
	Commercial and industrial	Construction	1-to-4 family residential mortgage	Residential line of credit	Multi-family residential mortgage	Commercial real estate owner occupied	Commercial real estate non-owner occupied	Consumer and other	Total
Loans, net of unearned income									
Individually evaluated for impairment	$ 9,026	$ 2,061	$ 1,347	$ 579	$ —	$ 2,993	$ 7,755	$ 49	$ 23,810
Collectively evaluated for impairment	1,023,326	546,156	689,769	220,878	69,429	621,386	902,792	254,944	4,328,680
Acquired with deteriorated credit quality	1,684	2,884	19,338	73	—	5,891	10,197	17,085	57,152
Ending balance - December 31, 2019	$ 1,034,036	$ 551,101	$ 710,454	$ 221,530	$ 69,429	$ 630,270	$ 920,744	$ 272,078	$ 4,409,642

	December 31, 2018								
	Commercial and industrial	Construction	1-to-4 family residential mortgage	Residential line of credit	Multi-family residential mortgage	Commercial real estate owner occupied	Commercial real estate non-owner occupied	Consumer and other	Total
Loans, net of unearned income									
Individually evaluated for impairment	$ 1,847	$ 1,221	$ 987	$ 245	$ —	$ 2,608	$ 6,735	$ 73	$ 13,716
Collectively evaluated for impairment	863,788	549,075	535,451	190,235	75,457	484,900	677,247	208,643	3,584,796
Acquired with deteriorated credit quality	1,448	5,755	19,377	—	—	6,016	16,266	20,137	68,999
Ending balance - December 31, 2018	$ 867,083	$ 556,051	$ 555,815	$ 190,480	$ 75,457	$ 493,524	$ 700,248	$ 228,853	$ 3,667,511

	December 31, 2017								
	Commercial and industrial	Construction	1-to-4 family residential mortgage	Residential line of credit	Multi-family residential mortgage	Commercial real estate owner occupied	Commercial real estate non-owner occupied	Consumer and other	Total
Loans, net of unearned income									
Individually evaluated for impairment	$ 1,579	$ 1,289	$ 1,262	$ —	$ 978	$ 2,520	$ 1,720	$ 25	$ 9,373
Collectively evaluated for impairment	711,352	439,309	456,229	194,986	61,376	481,390	531,704	192,357	3,068,703
Acquired with deteriorated credit quality	2,144	7,728	23,498	—	20	11,962	18,164	25,319	88,835
Ending balance- December 31, 2017	$ 715,075	$ 448,326	$ 480,989	$ 194,986	$ 62,374	$ 495,872	$ 551,588	$ 217,701	$ 3,166,911

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. The Company uses the following definitions for risk ratings:

Watch. Loans rated as watch includes loans in which management believes conditions have occurred, or may occur, which could result in the loan being downgraded to a worse rated category. Also included in watch are loans rated as special mention, which have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

(Dollar amounts are in thousands, except share and per share amounts)

Substandard. Loans rated as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so rated have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Also included in this category are loans considered doubtful, which have all the weaknesses previously described and management believes those weaknesses may make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above are considered to be pass rated loans.

The following tables show credit quality indicators by portfolio class at December 31, 2019 and 2018:

December 31, 2019	Pass	Watch	Substandard	Total
Loans, excluding purchased credit impaired loans				
Commercial and industrial	$ 946,247	$ 66,910	$ 19,195	$ 1,032,352
Construction	541,201	4,790	2,226	548,217
Residential real estate:				
1-to-4 family mortgage	666,177	11,380	13,559	691,116
Residential line of credit	218,086	1,343	2,028	221,457
Multi-family mortgage	69,366	63	—	69,429
Commercial real estate:				
Owner occupied	576,737	30,379	17,263	624,379
Non-owner occupied	876,670	24,342	9,535	910,547
Consumer and other	248,632	3,304	3,057	254,993
Total loans, excluding purchased credit impaired loans	$ 4,143,116	$ 142,511	$ 66,863	$ 4,352,490
Purchased credit impaired loans				
Commercial and industrial	$ —	$ 1,224	$ 460	$ 1,684
Construction	—	2,681	203	2,884
Residential real estate:				
1-to-4 family mortgage	—	15,091	4,247	19,338
Residential line of credit	—	—	73	73
Multi-family mortgage	—	—	—	—
Commercial real estate:				
Owner occupied	—	4,535	1,356	5,891
Non-owner occupied	—	6,617	3,580	10,197
Consumer and other	—	13,521	3,564	17,085
Total purchased credit impaired loans	$ —	$ 43,669	$ 13,483	$ 57,152
Total loans	$ 4,143,116	$ 186,180	$ 80,346	$ 4,409,642

(Dollar amounts are in thousands, except share and per share amounts)

December 31, 2018	**Pass**	**Watch**	**Substandard**	**Total**
Loans, excluding purchased credit impaired loans				
Commercial and industrial	$ 804,447	$ 52,624	$ 8,564	$ 865,635
Construction	543,953	5,012	1,331	550,296
Residential real estate:				
1-to-4 family mortgage	519,541	8,697	8,200	536,438
Residential line of credit	186,753	1,039	2,688	190,480
Multi-family mortgage	75,381	76	—	75,457
Commercial real estate:				
Owner occupied	456,694	16,765	14,049	487,508
Non-owner occupied	667,447	8,881	7,654	683,982
Consumer and other	204,279	2,763	1,674	208,716
Total loans, excluding purchased credit impaired loans	$ 3,458,495	$ 95,857	$ 44,160	$ 3,598,512
Purchased credit impaired loans				
Commercial and industrial	$ —	$ 964	$ 484	$ 1,448
Construction	—	3,229	2,526	5,755
Residential real estate:				
1-to-4 family mortgage	—	14,681	4,696	19,377
Residential line of credit	—	—	—	—
Multi-family mortgage	—	—	—	—
Commercial real estate:				
Owner occupied	—	4,110	1,906	6,016
Non-owner occupied	—	8,266	8,000	16,266
Consumer and other	—	15,422	4,715	20,137
Total purchased credit impaired loans	$ —	$ 46,672	$ 22,327	$ 68,999
Total loans	$ 3,458,495	$ 142,529	$ 66,487	$ 3,667,511

Nonperforming loans include loans that are no longer accruing interest (nonaccrual loans) and loans past due ninety or more days and still accruing interest. Nonperforming loans and impaired loans are defined differently. Some loans may be included in both categories, whereas other loans may only be included in one category.

PCI loans are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement remains unpaid after the due date of the scheduled payment. However, these loans are considered to be performing, even though they may be contractually past due, as any non-payment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and is included in the resulting recognition of current period covered loan loss provision or future period yield adjustments. As such, PCI loans are excluded from past due disclosures presented below. The accrual and/or accretion of interest is discontinued on PCI loans if management can no longer reliably estimate future cash flows on the loan. No PCI loans were classified as nonaccrual at December 31, 2019 or December 31, 2018 as the present value of the respective loan or pool of loans cash flows were considered estimable and probable of collection. Therefore, interest income, through accretion of the difference between the carrying value of the loans and the expected cash flows, is being recognized on all PCI loans. PCI loans contractually past due 30-89 days amounted to $2,951 and $3,605 as of December 31, 2019 and 2018, respectively, and an additional $751 and $4,076 were contractually past due 90 days or more as of December 31, 2019 and 2018, respectively.

(Dollar amounts are in thousands, except share and per share amounts)

The following tables provide the period-end amounts of loans that are past due thirty to eighty-nine days, past due ninety or more days and still accruing interest, loans not accruing interest and loans current on payments accruing interest by category at December 31, 2019 and 2018:

December 31, 2019	30-89 days past due	90 days or more and accruing interest	Non-accrual loans	Purchased Credit Impaired loans	Loans current on payments and accruing interest	Total
Commercial and industrial	$ 1,918	$ 291	$ 5,587	$ 1,684	$ 1,024,556	$ 1,034,036
Construction	1,021	42	1,087	2,884	546,067	551,101
Residential real estate:						
1-to-4 family mortgage	10,738	3,965	3,332	19,338	673,081	710,454
Residential line of credit	658	412	416	73	219,971	221,530
Multi-family mortgage	63	—	—	—	69,366	69,429
Commercial real estate:						
Owner occupied	1,375	—	1,793	5,891	621,211	630,270
Non-owner occupied	327	—	7,880	10,197	902,340	920,744
Consumer and other	2,377	833	967	17,085	250,816	272,078
Total	$ 18,477	$ 5,543	$ 21,062	$ 57,152	$ 4,307,408	$ 4,409,642

December 31, 2018	30-89 days past due	90 days or more and accruing interest	Non-accrual loans	Purchased Credit Impaired loans	Loans current on payments and accruing interest	Total
Commercial and industrial	$ 999	$ 65	$ 438	$ 1,448	$ 864,133	$ 867,083
Construction	109	—	283	5,755	549,904	556,051
Residential real estate:						
1-to-4 family mortgage	4,919	737	2,704	19,377	528,078	555,815
Residential line of credit	726	957	804	—	187,993	190,480
Multi-family mortgage	—	—	—	—	75,457	75,457
Commercial real estate:						
Owner occupied	407	197	2,423	6,016	484,481	493,524
Non-owner occupied	61	77	6,885	16,266	676,959	700,248
Consumer and other	1,987	1,008	148	20,137	205,573	228,853
Total	$ 9,208	$ 3,041	$ 13,685	$ 68,999	$ 3,572,578	$ 3,667,511

(Dollar amounts are in thousands, except share and per share amounts)

Impaired loans recognized in conformity with ASC 310 at December 31, 2019 and 2018, segregated by class, were as follows:

December 31, 2019	Recorded investment	Unpaid principal	Related allowance
With a related allowance recorded:			
Commercial and industrial	$ 6,080	$ 8,350	$ 241
Residential real estate:			
1-to-4 family mortgage	264	324	8
Residential line of credit	320	320	9
Commercial real estate:			
Owner occupied	756	1,140	238
Non-owner occupied	6,706	6,747	399
Total	$ 14,126	$ 16,881	$ 895
With no related allowance recorded			
Commercial and industrial	$ 2,946	$ 3,074	$ —
Construction	2,061	2,499	—
Residential real estate:			
1-to-4 family mortgage	1,083	1,449	—
Residential line of credit	259	280	—
Commercial real estate:			
Owner occupied	2,237	2,627	—
Non-owner occupied	1,049	1,781	—
Consumer and other	49	49	—
Total	$ 9,684	$ 11,759	$ —
Total impaired loans	$ 23,810	$ 28,640	$ 895

December 31, 2018	Recorded investment	Unpaid principal	Related allowance
With a related allowance recorded:			
Commercial and industrial	$ 618	$ 732	$ 3
Residential real estate:			
1-to-4 family mortgage	145	145	7
Commercial real estate:			
Owner occupied	560	641	53
Non-owner occupied	5,686	5,686	205
Total	$ 7,009	$ 7,204	$ 268
With no related allowance recorded:			
Commercial and industrial	$ 1,229	$ 1,281	$ —
Construction	1,221	1,262	—
Residential real estate:			
1-to-4 family mortgage	842	1,151	—
Residential line of credit	245	249	—
Commercial real estate:			
Owner occupied	2,048	2,780	—
Non-owner occupied	1,049	1,781	—
Consumer and other	73	73	—
Total	$ 6,707	$ 8,577	$ —
Total impaired loans	$ 13,716	$ 15,781	$ 268

(Dollar amounts are in thousands, except share and per share amounts)

Average recorded investment and interest income on a cash basis recognized during the years ended December 31, 2019 2018, and 2017 on impaired loans, segregated by class, were as follows:

	December 31,					
	2019		2018		2017	
	Average recorded investment	Interest income recognized (cash basis)	Average recorded investment	Interest income recognized (cash basis)	Average recorded investment	Interest income recognized (cash basis)
With a related allowance recorded:						
Commercial and industrial	$ 3,349	$ 474	$ 335	$ 121	$ 454	$ 2
Construction	—	—	—	—	—	—
Residential real estate:						
1-to-4 family mortgage	205	13	170	9	149	9
Residential line of credit	160	1	—	—	—	—
Multi-family mortgage	—	—	—	—	—	—
Commercial real estate:						
Owner occupied	658	27	702	43	740	48
Non-owner occupied	6,196	109	2,915	2	648	5
Consumer and other	—	—	—	—	1	—
Total	$ 10,568	$ 624	$ 4,122	$ 175	$ 1,992	$ 64
With no related allowance recorded:						
Commercial and industrial	$ 2,088	$ 201	$ 1,377	$ 70	$ 1,074	$ 38
Construction	1,641	167	1,255	74	1,988	46
Residential real estate:						
1-to-4 family mortgage	963	68	955	74	1,718	63
Residential line of credit	252	1	123	15	156	—
Multi-family mortgage	—	—	489	26	1,003	46
Commercial real estate:						
Owner occupied	2,143	133	1,862	148	1,897	122
Non-owner occupied	1,049	—	1,313	7	1,313	19
Consumer and other	61	5	49	4	26	1
Total	$ 8,197	$ 575	$ 7,423	$ 418	$ 9,175	$ 335
Total impaired loans	$ 18,765	$ 1,199	$ 11,545	$ 593	$ 11,167	$ 399

As of December 31, 2019 and 2018, the Company has a recorded investment in troubled debt restructurings of $12,206 and $6,794, respectively. The modifications included extensions of the maturity date and/or a stated rate of interest to one lower than the current market rate. The Company has allocated $360 and $63 of specific reserves for those loans at December 31, 2019 and 2018, respectively. There were no commitments to lend any additional amounts to these customers for either period end. Of these loans, $5,201 and $2,703 were classified as non-accrual loans as of December 31, 2019 and 2018, respectively.

The following tables present the financial effect of TDRs recorded during the periods indicated.

Year Ended December 31, 2019	Number of loans	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Charge offs and specific reserves
Commercial and industrial	3	$ 3,204	$ 3,204	$ —
Construction	2	1,085	1,085	—
Commercial real estate:				
Owner occupied	2	1,494	1,495	—
Non-owner occupied	1	1,366	1,366	$ 106
Residential real estate:				
1-to-4 family mortgage	2	175	175	—
Residential line of credit	2	333	333	9
Total	12	$ 7,657	$ 7,658	$ 115

(Dollar amounts are in thousands, except share and per share amounts)

Year Ended December 31, 2018	Number of loans	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Charge offs and specific reserves
Commercial and industrial	2	$ 887	$ 887	$ —
Commercial real estate:				
Owner occupied	1	143	143	—
Residential real estate:				
1-4 family mortgage	1	249	249	—
Consumer and other	5	61	61	—
Total	9	$ 1,340	$ 1,340	$ —

Year ended December 31, 2017	Number of loans	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Charge offs and specific reserves
Commercial and industrial	2	$ 627	$ 627	$ —
Commercial real estate:				
Owner occupied	1	377	377	—
Non-owner occupied	2	711	711	68
Residential real estate:				
1-4 family mortgage	1	143	143	8
Consumer and other	1	25	25	—
Total	7	$ 1,883	$ 1,883	$ 76

There were no loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the years ended December 31, 2019 and 2018, and 2017. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

The terms of certain other loans were modified during the years ended December 31, 2019 and 2018, and 2017 that did not meet the definition of a troubled debt restructuring. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the company’s internal underwriting policy.

Note (6)—Premises and equipment:

Premises and equipment and related accumulated depreciation as of December 31, 2019 and 2018, are as follows:

	2019	2018
Land	$ 26,283	$ 25,821
Premises	65,569	60,995
Furniture and fixtures	23,545	23,220
Leasehold improvements	12,989	11,819
Equipment	15,575	13,774
Construction in process	800	869
	144,761	136,498
Less: accumulated depreciation	(54,630)	(49,616)
Total Premises and Equipment	$ 90,131	$ 86,882

Depreciation expense was $5,176, $4,334 and $4,316 for the years ended December 31, 2019, 2018 and 2017, respectively.

(Dollar amounts are in thousands, except share and per share amounts)

Note (7)—Other real estate owned:

The amount reported as other real estate owned includes property acquired through foreclosure in addition to excess facilities held for sale and is carried at fair value less estimated cost to sell the property. The following table summarizes the other real estate owned for the years ended December 31, 2019 and 2018:

			Year Ended December 31,
	2019	2018	2017
Balance at beginning of period	$ 12,643	$ 16,442	$ 7,403
Transfers from loans	5,487	2,138	3,605
Transfers from premises and equipment	4,290	—	3,466
Acquired through merger or acquisition	—	—	6,888
Proceeds from sale of other real estate owned	(3,860)	(4,819)	(5,438)
Gain on sale of other real estate owned	1,058	271	1,080
Loans provided for sales of other real estate owned	(166)	(1,019)	(256)
Write-downs and partial liquidations	(513)	(370)	(306)
Balance at end of period	$ 18,939	$ 12,643	$ 16,442

Foreclosed residential real estate properties included in the table above totaled $4,295 and $2,101 as of December 31, 2019 and 2018, respectively. The recorded investment in residential mortgage loans secured by residential real estate properties for which foreclosure proceedings are in process totaled $82 and $478 at December 31, 2019 and 2018, respectively.

Excess land and facilities held for sale resulting from branch consolidations totaled $8,956 as of December 31, 2019, including $891 acquired in the Atlantic Capital branch acquisition, and $5,381 as of December 31, 2018, respectively.

Note (8)—Goodwill and intangible assets:

The following table summarizes changes in goodwill during the year ended December 31, 2019. There was no such activity during the year ended December 31, 2018.

	Goodwill
Balance at December 31, 2018	$ 137,190
Addition from acquisition of Atlantic Capital branches (see Note 2)	31,961
Relief due to sale of third party origination ("TPO") mortgage delivery channel	(100)
Balance at December 31, 2019	$ 169,051

Goodwill relief of $100 for the year ended December 31, 2019 is related to goodwill assigned to the third party origination channel in the Mortgage segment, which was sold during the year ended December 31, 2019.

Goodwill is tested annually, or more often if circumstances warrant, for impairment. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and is written down to its implied fair value. Subsequent increases in goodwill values are not recognized in the financial statements. No impairment was indicated in the Company's goodwill impairment analysis for the years ended December 31, 2019 or 2018.

(Dollar amounts are in thousands, except share and per share amounts)

Core deposit and other intangibles include core deposit intangibles, customer base trust intangible and manufactured housing servicing intangible. The composition of core deposit and other intangibles as of December 31, 2019 and 2018 are as follows:

	Core deposit and other intangibles		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
December 31, 2019			
Core deposit intangible	$ 49,675	$ (33,861)	$ 15,814
Customer base trust intangible	1,600	(387)	1,213
Manufactured housing servicing intangible	1,088	(526)	562
Total core deposit and other intangibles	$ 52,363	$ (34,774)	$ 17,589
December 31, 2018			
Core deposit intangible	$ 38,915	$ (29,901)	$ 9,014
Leasehold intangible(1)	587	(127)	460
Customer base trust intangible	1,600	(227)	1,373
Manufactured housing servicing intangible	1,088	(307)	781
Total core deposit and other intangibles	$ 42,190	$ (30,562)	$ 11,628

(1) In conjunction with the adoption of ASU 2016-02 "Leases" (Topic 842) on January 1, 2019, the Company reclassified leasehold intangibles from core deposit and other intangibles to operating lease right-of-use assets on the Consolidated balance sheets. See Note 9. Leases for additional discussion.

During the second quarter of 2019, the Company recorded $10,760 of core deposit intangibles resulting from the Atlantic Capital branch acquisition, which is being amortized over a weighted average life of approximately 6 years.

Amortization expense for core deposit and other intangibles for the years ended December 31, 2019, 2018 and 2017 was $4,339, $3,185, and $1,995, respectively.

The estimated aggregate future amortization expense of core deposit and other intangibles is as follows:

December 31, 2020	$ 4,262
December 31, 2021	3,663
December 31, 2022	2,972
December 31, 2023	2,247
December 31, 2024	1,737
Thereafter	2,708
	$ 17,589

Note (9)—Leases:

On January 1, 2019, the Company adopted ASU 2016-02 "Leases" (*Topic 842*) and all subsequent updates that modified Topic 842. For the Company, the adoption primarily affected the accounting treatment for operating lease agreements in which the Company is the lessee.

Substantially all the leases for which the Company is the lessee are comprised of real estate for branches, mortgage, and operations locations. As of December 31, 2019, the Company had 36 operating leases with terms greater than one year to 36 years. Leases with initial terms of less than one year are not recorded on the balance sheet. The Company elected not to include equipment leases and leases in which the Company is the lessor on the consolidated balance sheets as these are not material.

Most leases include one or more options to renew, with renewal terms that can extend the lease up to an additional 20 years or more. Certain lease agreements contain provisions to periodically adjust rental payments for inflation. Renewal options that management is reasonably certain to renew are included in the ROU asset and lease liability.

(Dollar amounts are in thousands, except share and per share amounts)

Information related to the Company's operating leases is presented below:

		December 31, 2019
Right-of-use assets	$	32,539
Lease liabilities		35,525
Weighted average remaining lease term (in years)		14.07
Weighted average discount rate		3.44%

The components of lease expense included in Occupancy and equipment expense were as follows:

		Year Ended December 31, 2019
Operating lease cost [(1)]	$	5,057
Short-term lease cost		365
Variable lease cost		682
Total lease cost	$	6,104

(1) Includes amortization of favorable lease intangible

The Company elected, for all classes of underlying assets, not to separate lease and non-lease components and instead to account for them as a single lease component. Variable lease cost primarily represents variable payments such as common area maintenance, utilities, and property taxes.

Prior to the adoption of ASU 2016-02, lease expense and amortization of the favorable lease intangible included in occupancy and equipment expense during the year ended December 31, 2018 amounted to $5,019 and $90, respectively.

A maturity analysis of operating lease liabilities and a reconciliation of undiscounted cash flows to the total operating lease liability is as follows:

		December 31, 2019
Lease payments due on or before:		
December 31, 2020	$	5,465
December 31, 2021		4,979
December 31, 2022		4,161
December 31, 2023		3,805
December 31, 2024		3,307
Thereafter		24,333
Total undiscounted cash flows		46,050
Discount on cash flows		(10,525)
Total lease liability	$	35,525

(Dollar amounts are in thousands, except share and per share amounts)

Note (10)—Mortgage servicing rights:

Changes in the Company's mortgage servicing rights were as follows for years ended December 31, 2019, 2018, and 2017:

	Year Ended December 31,		
	2019	2018	2017
Carrying value at beginning of period	$ 88,829	$ 76,107	$ 32,070
Fair value impact of change in accounting policy (See Note 1)	—	—	1,011
Carrying value at beginning of period	88,829	76,107	33,081
Capitalization	42,151	54,913	58,984
Sales	(29,160)	(39,428)	(11,686)
Loss on sale	—	—	(249)
Change in fair value:			
Due to pay-offs/pay-downs	(16,350)	(11,062)	(3,104)
Due to change in valuation inputs or assumptions	(9,949)	8,299	(919)
Carrying value at end of period	$ 75,521	$ 88,829	$ 76,107

The following table summarizes servicing income and expense, which are included in mortgage banking income and other noninterest expense, respectively, within the Mortgage Segment operating results for the years ended December 31, 2019, 2018, and 2017:

	Year Ended December 31,		
	2019	2018	2017
Servicing income:			
Servicing income	$ 17,677	$ 20,591	$ 13,168
Change in fair value of mortgage servicing rights	(26,299)	(2,763)	(4,023)
Change in fair value of derivative hedging instruments	9,310	(5,910)	599
Servicing income	688	11,918	9,744
Servicing expenses:			
Loss on sale of mortgage servicing rights, related hedges and transaction costs on sale	—	—	249
Other servicing expenses	6,832	7,675	4,896
Total servicing expenses	6,832	7,675	5,145
Net servicing (loss) income[(1)]	$ (6,144)	$ 4,243	$ 4,599

(1) - Excludes benefit of custodial service related noninterest bearing deposits held by the Bank.

Data and key economic assumptions related to the Company's mortgage servicing rights as of December 31, 2019 and 2018 are as follows:

	December 31,	
	2019	2018
Unpaid principal balance	$ 6,734,496	$ 6,755,114
Weighted-average prepayment speed (CPR)	10.05%	8.58%
Estimated impact on fair value of a 10% increase	$ (2,839)	$ (2,072)
Estimated impact on fair value of a 20% increase	$ (5,474)	$ (4,006)
Discount rate	9.68%	10.45%
Estimated impact on fair value of a 100 bp increase	$ (3,086)	$ (2,505)
Estimated impact on fair value of a 200 bp increase	$ (5,932)	$ (4,807)
Weighted-average coupon interest rate	4.20%	4.21%
Weighted-average servicing fee (basis points)	29	30
Weighted-average remaining maturity (in months)	335	325

The Company hedges the mortgage servicing rights portfolio with various derivative instruments to offset changes in the fair value of the related mortgage servicing rights. See Note 17, "Derivatives" for additional information on these hedging instruments.

(Dollar amounts are in thousands, except share and per share amounts)

From time to time, the Company enters agreements to sell certain tranches of mortgage servicing rights. Upon consummation of the sale, the Company generally continues to subservice the underlying mortgage loans until they can be transferred to the purchaser. During the years ended December 31, 2019, 2018, and 2017, the Company sold $29,160, $39,428, and $11,686 of mortgage servicing rights on $2,034,374, $3,181,483, and $1,086,465 of serviced mortgage loans, respectively. There was not a significant gain or loss recognized in connection with the sales during the years ended December 31, 2019 or 2018. As of December 31, 2019 and 2018, there were no loans being serviced that related to the bulk sale of mortgage servicing rights. As of December 31, 2019 and 2018, mortgage escrow deposits totaled to $92,610 and $53,468, respectively.

Note (11)—Other assets and other liabilities:

Included in other assets are:

	As of December 31,	
Other assets	**2019**	**2018**
Cash surrender value on bank owned life insurance	$ 11,357	$ 11,115
Prepaid expenses	4,575	3,283
Software	1,999	1,313
Mortgage lending receivable	10,765	3,876
Derivatives (See Note 17)	21,981	14,316
FHLB lender risk account receivable (See Note 1)	11,225	5,225
Pledged collateral on derivative instruments	33,616	13,904
Other assets	27,196	17,070
Total other assets	$ 122,714	$ 70,102

Included in other liabilities are:

	As of December 31,	
Other liabilities	**2019**	**2018**
Deferred compensation	$ 1,718	$ 3,836
Accrued payroll	16,517	8,026
Mortgage servicing escrows	4,526	4,441
Mortgage buyback reserve	3,529	3,273
Accrued interest	6,465	5,015
Derivatives (See Note 17)	17,933	11,637
Deferred tax liability (See Note 14)	20,490	16,663
FHLB lender risk account guaranty	5,546	2,646
Other liabilities	10,730	9,877
Total other liabilities	$ 87,454	$ 65,414

(Dollar amounts are in thousands, except share and per share amounts)

Note (12)—Deposits:

The aggregate amount of time deposits with a minimum denomination greater than $250 was $343,756 and $353,134 at December 31, 2019 and 2018, respectively.

At December 31, 2019, the scheduled maturities of time deposits are as follows:

Scheduled maturities of time deposits		
Due on or before:		
December 31, 2020	$	814,908
December 31, 2021		254,840
December 31, 2022		36,124
December 31, 2023		64,610
December 31, 2024		21,283
Thereafter		88
Total	$	1,191,853

At December 31, 2019 and 2018, the Company had $3,487 and $2,738, respectively, of deposit accounts in overdraft status and thus have been reclassified to loans on the accompanying consolidated balance sheets.

Note (13)—Borrowings:

Borrowings include securities sold under agreements to repurchase, lines of credit, Federal Home Loan Bank advances, and subordinated debt.

Securities sold under agreements to repurchase and federal funds purchased

Securities sold under agreements to repurchase are financing arrangements that mature daily. The Company enters into agreements with certain customers to sell certain securities under agreements to repurchase the security the following day. These agreements are made to provide customers with comprehensive treasury management programs and a short-term return for their excess funds. Securities sold under agreements to repurchase totaled $23,745 and $15,081 at December 31, 2019 and 2018, respectively.

Information concerning securities sold under agreements to repurchase is summarized as follows:

		2019		2018
Balance at year end	$	23,745	$	15,081
Average daily balance during the year		22,798		16,128
Average interest rate during the year		0.84%		0.28%
Maximum month-end balance during the year		30,273		19,651
Weighted average interest rate at year-end		0.89%		0.74%

The Bank maintains lines with certain correspondent banks that provide borrowing capacity in the form of federal funds purchased in the aggregate amount of $305,000 and $240,000 as of December 31, 2019 and 2018, respectively. There were no borrowings against at December 31, 2019 or 2018.

Federal Home Loan Bank Advances

As a member of the FHLB Cincinnati, the Bank receives advances from the FHLB pursuant to the terms of various agreements that assist in funding its mortgage and loan portfolio production. Under these agreements, the Company pledged qualifying loans of $958,506 as collateral securing a line of credit with a total borrowing capacity of $760,607 as of December 31, 2019. As of December 31, 2018, the Company pledged qualifying loans of $1,227,711 as collateral securing a line of credit with a total borrowing capacity of $ 736,962. A letter of credit with the FHLB of $75,000 and $100,000 was pledged to secure public funds that require collateralization as of December 31, 2019 and 2018, respectively. Additionally, there was an additional line of $800,000 with the FHLB for overnight borrowing as of December 31, 2019 and 2018; however, additional collateral may be needed to draw on the line.

Borrowings against our line totaled $250,000 and $181,765 as of December 31, 2019 and December 31, 2018, respectively. Total borrowings as of December 31, 2019 comprised $150,000 in long term advances, $0 in overnight cash management advances (CMAs) and $100,000 in 90 day fixed rate advances. The long-term advances as of December 31, 2019 contain putable features and are composed of $100.0 million and $50.0 million carry maximum final terms of 10 years and 7 years, respectively. However, the FHLB owns the option to cancel the advances after one year and quarterly thereafter at predeterminable fixed rates of 1.24% and 1.37%, respectively.

(Dollar amounts are in thousands, except share and per share amounts)

Total borrowings as of December 31, 2018 comprised $1,765 in long term advances, $80,000 in CMAs and $100,000 in 90 day fixed rate advances. The long-term advances as of December 31, 2018 contain no such putable features. FHLB advances includes both fixed and floating rates ranging from 1.24% to 1.86% at December 31, 2019. The weighted average interest rate on outstanding advances at December 31, 2019 was 1.60%.

Maturities of FHLB advances as of December 31, 2019 are as follows:

		FHLB advances
Due on or before:		
December 31, 2020	$	100,000
December 31, 2021		—
December 31, 2022		—
December 31, 2023		—
December 31, 2024		—
Due thereafter		150,000
Total	$	250,000

The Company maintained a line with the Federal Reserve Bank through the Borrower-in-Custody program in 2019 and 2018. As of December 31, 2019 and 2018, $1,407,662 and $ 1,336,092 of qualifying loans and $ 4,963 and $8,569 of investment securities were pledged to the Federal Reserve Bank through the Borrower-in-Custody program securing a line of credit of $1,013,239 and $934,745, respectively.

Subordinated Debt

In 2003, two separate trusts formed by the Company issued $9,000 of floating rate trust preferred securities (“Trust I”) and $21,000 of floating rate trust preferred securities (“Trust II”), respectively, as part of a pooled offering of such securities. The Company issued junior subordinated debentures of $9,280, which included proceeds of common securities purchased by the Company of $280, and junior subordinated debentures of $21,650, which included proceeds of common securities of $650. Both issuances were to the trusts in exchange for the proceeds of the securities offerings, which represent the sole asset of the trusts. Trust I pays interest quarterly based upon the 3-month LIBOR plus 3.25%. Trust II pays interest quarterly based upon the 3-month LIBOR plus 3.15%. Rates for the two issues at December 31, 2019, were 5.19% and 5.10%, respectively. Rates for the two issues at December 31, 2018, were 5.65% and 5.97%, respectively. The Company may redeem the first junior subordinated debenture listed, in whole or in part, on any distribution payment date within 120 days of the occurrence of a special event, at the redemption price. The Company may redeem the second junior subordinated debentures listed, in whole or in part, any time after June 26, 2008, on any distribution payment date, at the redemption price. The junior subordinated debentures must be redeemed no later than 2033. The Company has classified $30,000 of subordinated debt as Tier 1 capital at both December 31, 2019 and 2018.

Note (14)—Income taxes:

An allocation of federal and state income taxes between current and deferred portions is presented below:

	For the Year Ended December 31,					
		2019		2018		2017
Current	$	27,641	$	19,259	$	14,629
Deferred		(1,916)		6,359		6,458
Total	$	25,725	$	25,618	$	21,087

(Dollar amounts are in thousands, except share and per share amounts)

Federal income tax expense differs from the statutory federal rate of 21% for the years ended December 31, 2019 and 2018 and 35% for the year ended December 31, 2017 due to the following:

	For the Year Ended December 31,					
	2019		2018		2017	
Federal taxes calculated at statutory rate	$ 23,003	21.0 %	$ 22,230	21.0 %	$ 25,720	35.0 %
Increase (decrease) resulting from:						
State taxes, net of federal benefit	4,792	4.4 %	4,666	4.4 %	3,053	4.2 %
Revaluation of net deferred tax liability as a result of the Tax Cuts and Jobs Act	—	— %	—	— %	(5,894)	(8.0)%
Benefit of equity based compensation	(1,353)	(1.2)%	(870)	(0.8)%	(310)	(0.4)%
Municipal interest income, net of interest disallowance	(908)	(0.8)%	(837)	(0.8)%	(1,402)	(1.9)%
Bank owned life insurance	(51)	(0.1)%	(51)	— %	(85)	(0.2)%
Merger and stock offering costs	66	0.1 %	141	0.1 %	—	— %
Other	176	0.1 %	339	0.3 %	5	— %
Income tax expense, as reported	$ 25,725	23.5 %	$ 25,618	24.2 %	$ 21,087	28.7 %

The components of the net deferred tax liability at December 31, 2019 and December 31, 2018, are as follows:

	December 31, 2019	December 31, 2018
Deferred tax assets:		
Allowance for loan losses	$ 8,113	$ 7,539
Operating lease liability	9,373	—
Amortization of core deposit intangible	1,386	1,012
Deferred compensation	5,231	5,878
Unrealized loss on debt securities	54	3,278
Unrealized loss on equity securities	60	21
Other	2,388	1,998
Subtotal	26,605	19,726
Deferred tax liabilities:		
FHLB stock dividends	(550)	(550)
Operating lease - right of use asset	(8,641)	—
Depreciation	(5,078)	(4,812)
Unrealized gain on cash flow hedges	(203)	(736)
Unrealized gain on debt securities	(3,051)	—
Mortgage servicing rights	(19,678)	(23,146)
Goodwill	(8,859)	(6,583)
Other	(1,035)	(562)
Subtotal	(47,095)	(36,389)
Net deferred tax liability	$ (20,490)	$ (16,663)

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was signed into law, among other things permanently reducing the corporate tax rate from 35 percent to 21 percent, effective for tax years beginning January 1, 2018. Under the guidance of ASC 740, "Income Taxes" ("ASC 740"), the Company revalued its net deferred tax assets on the date of enactment based on the reduction in the overall future tax benefit expected to be realized at the lower tax rate implemented by the new legislation. After reviewing the Company's inventory of deferred tax assets and liabilities on the date of enactment and giving consideration to the future impact of the lower corporate tax rates and other provisions of the new legislation, the Company's revaluation of its net deferred tax liabilities resulted in a $5,894 reduction, which was included in "income tax expense" in the Consolidated Statements of Income.

The Company is no longer subject to examination by taxing authorities for tax years before 2016 for federal taxes and before 2015 for various state jurisdictions.

(Dollar amounts are in thousands, except share and per share amounts)

Note (15)—Dividend restrictions:

Due to regulations of the Tennessee Department of Financial Institutions ("TDFI"), the Bank may not declare dividends in any calendar year that exceeds the total of its net income of that year combined with its retained net income of the preceding two years without the prior approval of the TDFI Commissioner. Based upon this regulation, $223,730 and $164,859 was available for payment of dividends without such prior approval at December 31, 2019 and 2018, respectively.

In addition, dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

No cash dividends were declared from the Bank to the Company during the years ended December 31, 2019 or 2018.

Note (16)—Commitments and contingencies:

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates.

Commitments may expire without being used. Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

	December 31,	
	2019	2018
Commitments to extend credit, excluding interest rate lock commitments	$ 1,086,173	$ 1,032,390
Letters of credit	19,569	19,024
Balance at end of period	$ 1,105,742	$ 1,051,414

In connection with the sale of mortgage loans to third party investors, the Bank makes usual and customary representations and warranties as to the propriety of its origination activities. Occasionally, the investors require the Bank to repurchase loans sold to them under the terms of the warranties. When this happens, the loans are recorded at fair value with a corresponding charge to a valuation reserve. The total principal amount of loans repurchased (or indemnified for) was $6,475, $6,646, and$4,704 for the years ended December 31, 2019, 2018, and 2017. The Company has established a reserve associated with loan repurchases. This reserve is recorded in accrued expenses and other liabilities on the consolidated balance sheets.

The following table summarizes the activity in the repurchase reserve:

	For the Year Ended December 31,		
	2019	2018	2017
Balance at beginning of period	$ 3,273	$ 3,386	$ 2,659
Provision for loan repurchases or indemnifications	362	174	810
Recoveries on previous losses	(106)	3	—
Losses on loans repurchased or indemnified	—	(290)	(83)
Balance at end of period	$ 3,529	$ 3,273	$ 3,386

Note (17)—Derivatives:

The Company utilizes derivative financial instruments as part of its ongoing efforts to manage its interest rate risk exposure as well as the exposure for its customers. Derivative financial instruments are included in the Consolidated Balance Sheets line item "Other assets" or "Other liabilities" at fair value in accordance with ASC 815, "Derivatives and Hedging."

The Company enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate-lock commitments). Under such commitments, interest rates for mortgage loans are typically locked in for up to sixty days with the customer. These interest rate lock commitments are recorded at fair value in the Company's Consolidated Balance Sheets. The Company also enters into best effort or mandatory delivery forward commitments to sell residential mortgage loans to secondary market investors. Gains and losses arising from changes in the valuation of the rate-lock commitments and forward commitments are recognized currently in earnings and are reflected under the line item "Mortgage banking income" on the Consolidated Statements of Income.

(Dollar amounts are in thousands, except share and per share amounts)

The Company enters into forward commitments, futures and options contracts that are not designated as hedging instruments as economic hedges to offset the changes in fair value of MSRs. Gains and losses associated with these instruments are included in earnings and are reflected under the line item “Mortgage banking income” on the Consolidated Statements of Income.

Additionally, the Company enters into derivative instruments that are not designated as hedging instruments to help its commercial customers manage their exposure to interest rate fluctuations. To mitigate the interest rate risk associated with customer contracts, the Company enters into an offsetting derivative contract. The Company manages its credit risk, or potential risk of default by its commercial customers through credit limit approval and monitoring procedures.

The Company also maintains two interest rate swap agreements with notional amounts totaling $30,000 used to hedge interest rate exposure on outstanding subordinated debentures included in long-term debt totaling $30,930. Under these agreements, the Company receives a variable rate of interest equal to 3-month LIBOR and pays a weighted average fixed rate of interest of 2.08%. The interest rate swap contracts, which mature in June of 2024, are designated as cash flow hedges with the objective of reducing the variability in cash flows resulting from changes in interest rates. As of December 31, 2019 and 2018, the fair value of these contracts was $(515) and $721, respectively.

In July 2017, the Company entered into three interest rate swap contracts on floating rate liabilities at the Bank level with notional amounts of $30,000, $35,000 and $35,000 for a period of three, four and five years, respectively. These interest rate swaps were designated as cash flow hedges with the objective of reducing the variability of cash flows associated with $100,000 of FHLB borrowings obtained in conjunction with the Clayton Banks acquisition. During the first quarter of 2018, these swaps were canceled, locking in a tax-adjusted gain of $1,564 in other comprehensive income to be accreted over the three, four and five-year terms of the underlying contracts. As of December 31, 2019 and 2018, there was $955 and $1,436, respectively, remaining in the other comprehensive income to be accreted.

Certain financial instruments, including derivatives, may be eligible for offset in the Consolidated Balance Sheets when the “right of setoff” exists or when the instruments are subject to an enforceable master netting agreement, which includes the right of the non-defaulting party or non-affected party to offset recognized amounts, including collateral posted with the counterparty, to determine a net receivable or net payable upon early termination of the agreement. Certain of the Company’s derivative instruments are subject to master netting agreements. The Company has not elected to offset such financial instruments in the Consolidated Balance Sheets.

Most derivative contracts with clients are secured by collateral. Additionally, in accordance with the interest rate agreements with derivatives dealers, the Company may be required to post margin to these counterparties. At December 31, 2019 and 2018, the Company had minimum collateral posting thresholds with certain derivative counterparties and had collateral posted of $33,616 and $13,904, respectively, against its obligations under these agreements. Cash collateral related to derivative contracts is recorded in other assets in the Consolidated Balance Sheets.

The following table provides details on the Company’s derivative financial instruments as of the dates presented:

			December 31, 2019
	Notional Amount	Asset	Liability
Not designated as hedging:			
Interest rate contracts	$ 440,556	$ 14,929	$ 14,929
Forward commitments	684,437	—	866
Interest rate-lock commitments	453,198	7,052	—
Futures contracts	389,000	—	1,623
Option contracts	—	—	—
Total	$ 1,967,191	$ 21,981	$ 17,418

(Dollar amounts are in thousands, except share and per share amounts)

	December 31, 2018		
	Notional Amount	Asset	Liability
Not designated as hedging:			
Interest rate contracts	$ 295,333	$ 6,679	$ 6,679
Forward commitments	474,208	—	4,958
Interest rate-lock commitments	318,706	6,241	—
Futures contracts	166,000	649	—
Options contracts	3,800	26	—
Total	$ 1,258,047	$ 13,595	$ 11,637

	December 31, 2019		
	Notional Amount	Asset	Liability
Designated as hedging:			
Interest rate swaps	$ 30,000	$ —	$ 515

	December 31, 2018		
	Notional Amount	Asset	Liability
Designated as hedging:			
Interest rate swaps	$ 30,000	$ 721	$ —

Gains (losses) included in the Consolidated Statements of Income related to the Company's derivative financial instruments were as follows:

	Year Ended December 31,		
	2019	2018	2017
Not designated as hedging instruments (included in mortgage banking income):			
Interest rate lock commitments	$ (2,112)	$ (527)	$ 340
Forward commitments	12,170	3,864	(11,987)
Futures contracts	(6,723)	(2,981)	315
Option contracts	(47)	(58)	22
Total	$ 3,288	$ 298	$ (11,310)

	Year Ended December 31,		
	2019	2018	2017
Designated as hedging:			
Amount of gain reclassified from other comprehensive income and recognized in interest expense on borrowings, net of taxes of $170, $45, and $0	$ 481	$ 128	$ —
Gain (loss) included in interest expense on borrowings	115	32	(168)
Total	$ 596	$ 160	$ (168)

The following discloses the amount included in other comprehensive income (loss), net of tax, for derivative instruments designated as cash flow hedges for the periods presented:

(Dollar amounts are in thousands, except share and per share amounts)

	Year Ended December 31,		
	2019	2018	2017
Designated as hedging:			
Amount of (loss) gain recognized in other comprehensive income, net of tax	$ (914)	$ 1,039	$ 685

Note (18)—Fair value of financial instruments:

FASB ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820-10 also establishes a framework for measuring the fair value of assets and liabilities according to a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that are derived from assumptions based on management’s estimate of assumptions that market participants would use in pricing the asset or liability based on the best information available under the circumstances.

The hierarchy is broken down into the following three levels, based on the reliability of inputs:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs for assets or liabilities that are derived from assumptions based on management’s estimate of assumptions that market participants would use in pricing the assets or liabilities.

The Company records the fair values of financial assets and liabilities on a recurring and non-recurring basis using the following methods and assumptions:

Investment securities-Investment securities are recorded at fair value on a recurring basis. Fair values for securities are based on quoted market prices, where available. If quoted prices are not available, fair values are based on quoted market prices of similar instruments or are determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the pricing relationship or correlation among other benchmark quoted securities. Investment securities valued using quoted market prices of similar instruments or that are valued using matrix pricing are classified as Level 2. When significant inputs to the valuation are unobservable, the available-for-sale securities are classified within Level 3 of the fair value hierarchy.

Where no active market exists for a security or other benchmark securities, fair value is estimated by the Company with reference to discount margins for other high-risk securities.

Loans held for sale-Loans held for sale are carried at fair value. Fair value is determined using current secondary market prices for loans with similar characteristics, that is, using Level 2 inputs.

Derivatives-The fair value of the interest rate swaps are based upon fair values provided from entities that engage in interest rate swap activity and is based upon projected future cash flows and interest rates. Fair value of commitments is based on fees currently charged to enter into similar agreements, and for fixed-rate commitments, the difference between current levels of interest rates and the committed rates is also considered. These financial instruments are classified as Level 2.

Other real estate owned (“OREO”) - OREO is comprised of commercial and residential real estate obtained in partial or total satisfaction of loan obligations and excess land and facilities held for sale. OREO acquired in settlement of indebtedness is recorded at the lower of the carrying amount of the loan or the fair value of the real estate less costs to sell. Fair value is determined on a nonrecurring basis based on appraisals by qualified licensed appraisers and is adjusted for management's estimates of costs to sell and holding period discounts. The valuations are classified as Level 3.

(Dollar amounts are in thousands, except share and per share amounts)

Mortgage servicing rights ("MSRs") - MSRs are carried at fair value. Fair value is determined using an income approach with various assumptions including expected cash flows, market discount rates, prepayment speeds, servicing costs, and other factors. As such, mortgage servicing rights are considered Level 3.

Impaired loans-Loans considered impaired under FASB ASC 310, "Receivables", are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Fair value adjustments for impaired loans are recorded on a non-recurring basis as either partial write downs based on observable market prices or current appraisal of the collateral. Impaired loans are classified as Level 3.

The following table contains the estimated fair values and the related carrying values of the Company's financial instruments. Items which are not financial instruments are not included.

					Fair Value
December 31, 2019	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and cash equivalents	$ 232,681	$ 232,681	$ —	$ —	$ 232,681
Investment securities	691,676	—	691,676	—	691,676
Loans, net	4,378,503	—	—	4,363,903	4,363,903
Loans held for sale	262,518	—	262,518	—	262,518
Interest receivable	17,083	—	3,282	13,801	17,083
Mortgage servicing rights	75,521	—	—	75,521	75,521
Derivatives	21,981	—	21,981	—	21,981
Financial liabilities:					
Deposits:					
Without stated maturities	$ 3,743,085	$ 3,743,085	$ —	$ —	$ 3,743,085
With stated maturities	1,191,853	—	1,200,145	—	1,200,145
Securities sold under agreement to repurchase and federal funds sold	23,745	23,745	—	—	23,745
Federal Home Loan Bank advances	250,000	—	250,213	—	250,213
Subordinated debt	30,930	—	29,706	—	29,706
Interest payable	6,465	376	6,089	—	6,465
Derivatives	17,933	—	17,933	—	17,933

(Dollar amounts are in thousands, except share and per share amounts)

					Fair Value
December 31, 2018	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:					
Cash and cash equivalents	$ 125,356	$ 125,356	$ —	$ —	$ 125,356
Investment securities	658,805	—	658,805	—	658,805
Loans, net	3,638,579	—	—	3,630,500	3,630,500
Loans held for sale	278,815	—	278,815	—	278,815
Interest receivable	14,503	—	2,848	11,655	14,503
Mortgage servicing rights	88,829	—	—	88,829	88,829
Derivatives	14,316	—	14,316	—	14,316
Financial liabilities:					
Deposits:					
Without stated maturities	$ 3,051,972	$ 3,051,972	$ —	$ —	$ 3,051,972
With stated maturities	1,119,745	—	1,122,076	—	1,122,076
Securities sold under agreement to repurchase and federal funds sold	15,081	15,081	—	—	15,081
Federal Home Loan Bank advances	181,765	—	181,864	—	181,864
Subordinated debt	30,930	—	30,000	—	30,000
Interest payable	5,015	530	4,485	—	5,015
Derivatives	11,637	—	11,637	—	11,637

The balances and levels of the assets measured at fair value on a recurring basis at December 31, 2019 are presented in the following table:

December 31, 2019	**Quoted prices in active markets for identical assets (liabilities) (level 1)**	**Significant other observable inputs (level 2)**	**Significant unobservable inputs (level 3)**	**Total**
Recurring valuations:				
Financial assets:				
Available-for-sale securities:				
Mortgage-backed securities	$ —	$ 490,676	$ —	$ 490,676
Municipals, tax-exempt	—	189,235	—	189,235
Treasury securities	—	7,448	—	7,448
Corporate securities	—	1,022	—	1,022
Equity securities	—	3,295	—	3,295
Total	$ —	$ 691,676	$ —	$ 691,676
Loans held for sale	$ —	$ 262,518	$ —	$ 262,518
Mortgage servicing rights	—	—	75,521	75,521
Derivatives	—	21,981	—	21,981
Financial Liabilities:				
Derivatives	—	17,933	—	17,933

(Dollar amounts are in thousands, except share and per share amounts)

The balances and levels of the assets measured at fair value on a non-recurring basis at December 31, 2019 are presented in the following table:

At December 31, 2019	Quoted prices in active markets for identical assets (liabilities) (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	Total
Non-recurring valuations:				
Financial assets:				
Other real estate owned	$ —	$ —	$ 9,774	$ 9,774
Impaired loans[1]:				
Commercial and industrial	$ —	$ —	$ 6,481	$ 6,481
Residential real estate:				
1-4 family mortgage	—	—	378	378
Residential line of credit	—	—	321	321
Commercial real estate:				
Owner occupied	—	—	951	951
Non-owner occupied	—	—	2,560	2,560
Consumer and other	—	—	—	—
Total	$ —	$ —	$ 10,691	$ 10,691

(1) Includes both impaired non-purchased loans and collateral-dependent PCI loans.

The balances and levels of the assets measured at fair value on a recurring basis at December 31, 2018 are presented in the following table:

At December 31, 2018	Quoted prices in active markets for identical assets (liabilities) (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	Total
Recurring valuations:				
Financial assets:				
Available-for-sale securities:				
U.S. government agency securities	$ —	$ 989	$ —	$ 989
Mortgage-backed securities	—	508,580	—	508,580
Municipals, tax-exempt	—	138,887	—	138,887
Treasury securities	—	7,242	—	7,242
Equity securities	—	3,107	—	3,107
Total	$ —	$ 658,805	$ —	$ 658,805
Loans held for sale	$ —	$ 278,815	$ —	$ 278,815
Mortgage servicing rights	—	—	88,829	88,829
Derivatives	—	14,316	—	14,316
Financial Liabilities:				
Derivatives	—	11,637	—	11,637

(Dollar amounts are in thousands, except share and per share amounts)

The balances and levels of the assets measured at fair value on a non-recurring basis at December 31, 2018 are presented in the following table:

At December 31, 2018	Quoted prices in active markets for identical assets (liabilities) (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	Total
Non-recurring valuations:				
Financial assets:				
Other real estate owned	$ —	$ —	$ 2,266	$ 2,266
Impaired Loans[(1)]:				
Commercial and industrial	$ —	$ —	$ 732	$ 732
Construction	—	—	832	832
Residential real estate:				
1-4 family mortgage	—	—	146	146
Commercial real estate:				
Owner occupied	—	—	87	87
Non-owner occupied	—	—	6,921	6,921
Total	$ —	$ —	$ 8,718	$ 8,718

(1) Includes both impaired non-purchased loans and collateral-dependent PCI loans.

There were no transfers between Level 1, 2 or 3 during the periods presented.

The following table provides a reconciliation for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs, or Level 3 inputs, during the years ended December 31, 2019 and 2018:

	Available-for-sale securities	
	Year Ended December 31,	
	2019	2018
Balance at beginning of period	$ —	$ 3,604
Reclassification of equity securities without a readily determinable fair value to other assets	—	(3,604)
Balance at end of period	$ —	$ —

The following table presents information as of December 31, 2019 about significant unobservable inputs (Level 3) used in the valuation of assets measured at fair value on a nonrecurring basis:

Financial instrument	Fair Value	Valuation technique	Significant Unobservable inputs	Range of inputs
Impaired loans[(1)]	$ 10,691	Valuation of collateral	Discount for comparable sales	0%-30%
Other real estate owned	$ 9,774	Appraised value of property less costs to sell	Discount for costs to sell	0%-15%

(1) Includes both impaired non-purchased loans and collateral-dependent PCI loans.

The following table presents information as of December 31, 2018 about significant unobservable inputs (Level 3) used in the valuation of assets measured at fair value on a nonrecurring basis:

Financial instrument	Fair Value	Valuation technique	Significant Unobservable inputs	Range of inputs
Impaired loans[(1)]	$ 8,718	Valuation of collateral	Discount for comparable sales	0%-30%
Other real estate owned	$ 2,266	Appraised value of property less costs to sell	Discount for costs to sell	0%-15%

(1) Includes both impaired non-purchased loans and collateral-dependent PCI loans.

(Dollar amounts are in thousands, except share and per share amounts)

Loans considered impaired are reserved for at the time the loan is identified as impaired taking into account the fair value of the collateral less estimated selling costs. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on changes in market conditions from the time of valuation and management's knowledge of the client and client's business. Other real estate owned acquired in settlement of indebtedness is recorded at fair value of the real estate less estimated costs to sell. Subsequently, it may be necessary to record nonrecurring fair value adjustments for declines in fair value. Any write-downs based on the asset's fair value at the date of foreclosure are charged to the allowance for loan losses. Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of the lending administrative department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry wide statistics.

Fair value option

The Company elected to measure all loans originated for sale at fair value under the fair value option as permitted under ASC 825. Electing to measure these assets at fair value reduces certain timing differences and better matches the changes in fair value of the loans with changes in the fair value of derivative instruments used to economically hedge them.

Net losses of $2,861 and $4,539 resulting from fair value changes of the mortgage loans were recorded in income during the years ended December 31, 2019 and 2018, respectively. The amount does not reflect changes in fair values of related derivative instruments used to hedge exposure to market-related risks associated with these mortgage loans. The change in fair value of both loans held for sale and the related derivative instruments are recorded in Mortgage Banking Income in the Consolidated Statements of Income. Election of the fair value option allows the Company to reduce the accounting volatility that would otherwise result from the asymmetry created by accounting for the financial instruments at the lower of cost or fair value and the derivatives at fair value.

As of December 31, 2019 and 2018, there was $51,705 and $67,362, respectively, of GNMA loans previously sold that the Company did not record on its Consolidated balance sheets as the Company determined there not to be a more-than-trivial benefit based on an analysis of interest rates and an assessment of potential reputational risk associated with these loans.

The Company’s valuation of loans held for sale incorporates an assumption for credit risk; however, given the short-term period that the Company holds these loans, valuation adjustments attributable to instrument-specific credit risk is nominal. Interest income on loans held for sale measured at fair value is accrued as it is earned based on contractual rates and is reflected in loan interest income in the Consolidated Statements of Income.

The following table summarizes the differences between the fair value and the principal balance for loans held for sale measured at fair value as of December 31, 2019 and December 31, 2018:

December 31, 2019	Aggregate fair value	Aggregate Unpaid Principal Balance	Difference
Mortgage loans held for sale measured at fair value	$ 262,518	$ 254,868	$ 7,650
Past due loans of 90 days or more	—	—	—
Nonaccrual loans	—	—	—
December 31, 2018			
Mortgage loans held for sale measured at fair value	$ 278,418	$ 267,907	$ 10,511
Past due loans of 90 days or more	—	—	—
Nonaccrual loans	397	397	—

(Dollar amounts are in thousands, except share and per share amounts)

Note (19)—Parent company only financial statements:

	As of December 31,	
Balance sheet	**2019**	**2018**
Assets		
Cash and cash equivalents[(1)]	$ 4,673	$ 17,400
Investments in Bank subsidiary[(1)]	782,565	679,097
Other assets	6,292	7,364
Goodwill	29	29
Total assets	793,559	703,890
Liabilities and shareholders' equity		
Liabilities		
Borrowings	$ 30,930	$ 30,930
Accrued expenses and other liabilities	300	1,103
Total liabilities	31,230	32,033
Shareholders' equity		
Common stock	31,034	30,725
Additional paid-in capital	425,633	424,146
Retained earnings	293,524	221,213
Accumulated other comprehensive (loss) income	12,138	(4,227)
Total shareholders' equity	762,329	671,857
Total liabilities and shareholders' equity	$ 793,559	$ 703,890

(1) Eliminates in Consolidation

	For the years ended December 31,		
Income Statements	**2019**	**2018**	**2017**
Income			
Other interest income	$ —	$ —	$ 41
Loss on investments	—	—	(945)
(Loss) gain on other assets	(16)	297	—
Other income	211	—	—
Total income	195	297	(904)
Expenses			
Interest expense	1,638	1,651	1,491
Salaries, legal and professional fees	1,056	1,481	893
Other noninterest expense	120	960	296
Total expenses	2,814	4,092	2,680
Loss before income tax benefit and equity in undistributed earnings of bank subsidiary	(2,619)	(3,795)	(3,584)
Federal and state income tax benefit	(683)	(746)	(1,269)
Loss before equity in undistributed earnings of bank subsidiary	(1,936)	(3,049)	(2,315)
Earnings from Bank subsidiary[(1)]	85,750	83,285	54,713
Net income	$ 83,814	$ 80,236	$ 52,398

(1) Eliminates in Consolidation

(Dollar amounts are in thousands, except share and per share amounts)

	For the years ended December 31,		
Statement of Cash Flows	**2019**	**2018**	**2017**
Operating Activities			
Net income	$ 83,814	$ 80,236	$ 52,398
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed income of subsidiary bank	(85,750)	(83,285)	(54,713)
Loss on investments	—	—	945
Loss (gain) on other assets	16	(297)	—
Stock-based compensation expense	7,089	7,207	—
Decrease (increase) in other assets	1,056	(441)	(2,439)
Decrease in other liabilities	(9,711)	(7,737)	(551)
Net used in operating activities	(3,486)	(4,317)	(4,360)
Investing Activities			
Proceeds from sale of other assets	—	869	—
Net cash provided by investing activities	—	869	—
Financing Activities			
Equity contribution to Bank	—	—	(154,200)
Payment of dividends	(10,045)	(6,137)	—
Net proceeds from sale of common stock	804	1,196	153,356
Net cash used in financing activities	(9,241)	(4,941)	(844)
Net decrease in cash and cash equivalents	(12,727)	(8,389)	(5,204)
Cash and cash equivalents at beginning of year	17,400	25,789	30,993
Cash and cash equivalents at end of year	$ 4,673	$ 17,400	$ 25,789
Supplemental noncash disclosures:			
Dividends declared not paid on restricted stock units	$ 149	$ 226	$ —
Noncash dividend from Bank	—	572	—

Note (20)—Segment reporting:

The Company and the Bank are engaged in the business of banking and provide a full range of financial services. The Company determines reportable segments based on the significance of the segment's operating results to the overall Company, the products and services offered, customer characteristics, processes and service delivery of the segments and the regular financial performance review and allocation of resources by the Chief Executive Officer ("CEO"), the Company's chief operating decision maker. The Company has identified two distinct reportable segments—Banking and Mortgage. The Company's primary segment is Banking, which provides a full range of deposit and lending products and services to corporate, commercial and consumer customers. The Company offers full-service conforming residential mortgage products, including conforming residential loans and services through the Mortgage segment utilizing mortgage offices outside of the geographic footprint of the Banking operations. Additionally, the Mortgage segment includes the servicing of residential mortgage loans and the packaging and securitization of loans to governmental agencies. The residential mortgage products and services originated in our Banking footprint and related revenues and expenses are included in our Banking segment. The Company's mortgage division represents a distinct reportable segment which differs from the Company's primary business of commercial and retail banking.

The financial performance of the Mortgage segment is assessed based on results of operations reflecting direct revenues and expenses and allocated expenses. This approach gives management a better indication of the operating performance of the segment. When assessing the Banking segment's financial performance, the CEO utilizes reports with indirect revenues and expenses including but not limited to the investment portfolio, electronic delivery channels and areas that primarily support the banking segment operations. Therefore these are included in the results of the Banking segment. Other indirect revenue and expenses related to general administrative areas are also included in the internal financial results reports of the Banking segment utilized by the CEO for analysis and are thus included for Banking segment reporting. The Mortgage segment utilizes funding sources from the Banking segment in order to fund mortgage loans that are ultimately sold on the secondary market. The Mortgage segment uses the proceeds from loan sales to repay obligations due to the Banking segment.

(Dollar amounts are in thousands, except share and per share amounts)

During the first quarter of 2019, the Company's Board of Directors approved management's strategic plan to exit its wholesale mortgage delivery channels. On June 7, 2019, the Company completed the sale of its third party origination ("TPO") channel and on August 1, 2019, the Company completed the sale of its correspondent channel. The mortgage segment incurred $1,995 in restructuring and miscellaneous charges during the year ended December 31, 2019 related to these sales.

The following tables provide segment financial information for the years ended December 31, 2019, 2018, and 2017 as follows:

Year Ended December 31, 2019	Banking	Mortgage	Consolidated
Net interest income	$ 226,098	$ (62)	$ 226,036
Provision for loan loss	7,053	—	7,053
Mortgage banking income	30,429	87,476	117,905
Change in fair value of mortgage servicing rights, net of hedging(1)	—	(16,989)	(16,989)
Other noninterest income	34,481	—	34,481
Depreciation and amortization	4,670	506	5,176
Amortization of intangibles	4,339	—	4,339
Other noninterest mortgage banking expense	23,216	65,457	88,673
Other noninterest expense(2)	144,658	1,995	146,653
Income before income taxes	$ 107,072	$ 2,467	$ 109,539
Income tax expense			25,725
Net income			$ 83,814
Total assets	$ 5,795,888	$ 329,033	$ 6,124,921
Goodwill(3)	169,051	—	169,051

(1) Included in mortgage banking income.
(2) Included $5,385 in merger costs in the Banking segment and $1,995 in the Mortgage segment related to mortgage restructuring charges.
(3) Recognized $100 of goodwill relief related to the sale of the third party origination channel in the Mortgage segment. See Note 8. Goodwill and intangible assets.

Year Ended December 31, 2018	Banking	Mortgage	Consolidated
Net interest income	$ 204,517	$ (449)	$ 204,068
Provision for loan loss	5,398	—	5,398
Mortgage banking income	25,460	83,874	109,334
Change in fair value of mortgage servicing rights, net of hedging(1)	—	(8,673)	(8,673)
Other noninterest income	29,981	—	29,981
Depreciation and amortization	3,827	507	4,334
Amortization of intangibles	3,185	—	3,185
Other noninterest mortgage banking expense	21,671	73,068	94,739
Other noninterest expense(2)	121,200	—	121,200
Income before income taxes	$ 104,677	$ 1,177	$ 105,854
Income tax expense			25,618
Net income			$ 80,236
Total assets	$ 4,752,111	$ 384,653	$ 5,136,764
Goodwill	137,090	100	137,190

(1) Included in mortgage banking income.
(2) Included $1,594 in merger costs and $671 in costs related to follow-on secondary offering in the Banking segment.

(Dollar amounts are in thousands, except share and per share amounts)

Year Ended December 31, 2017	**Banking**	**Mortgage**	**Consolidated**
Net interest income	$ 153,018	$ 253	$ 153,271
Provision for loan loss	(950)	—	(950)
Mortgage banking income	26,737	93,620	120,357
Change in fair value of mortgage servicing rights(1)	—	(3,424)	(3,424)
Other noninterest income	24,648	—	24,648
Depreciation and amortization	3,801	515	4,316
Amortization of intangibles	1,995	—	1,995
Loss on sale of mortgage servicing rights	—	249	249
Other noninterest mortgage banking expense	21,714	76,582	98,296
Other noninterest expense(2)	117,461	—	117,461
Income before income taxes	$ 60,382	$ 13,103	$ 73,485
Income tax expense			21,087
Net income			$ 52,398
Total assets	$ 4,130,349	$ 597,364	$ 4,727,713
Goodwill	137,090	100	137,190

(1) Included in mortgage banking income.
(2) Included $19,034 in merger and conversion expenses.

Our Banking segment provides our Mortgage segment with a warehouse line of credit that is used to fund mortgage loans held for sale. The warehouse line of credit, which is eliminated in consolidation, had a prime interest rate of 4.75%, 5.50%, and 4.50% as of December 31, 2019 and 2018, 2017, respectively, and further limited based on interest income earned by the Mortgage segment. The amount of interest paid by our Mortgage segment to our Banking segment under this warehouse line of credit is recorded as interest income to our Banking segment and as interest expense to our Mortgage segment, both of which are included in the calculation of net interest income for each segment. The amount of interest paid by our Mortgage segment to our Banking segment under this warehouse line of credit was $11,183, $16,057, and $16,932 for the December 31, 2019, 2018, and 2017, respectively.

Note (21)—Minimum capital requirements:

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action.

Under regulatory guidance for non-advanced approaches institutions, the Bank and Company are required to maintain minimum amounts and ratios of common equity Tier I capital to risk-weighted assets. Additionally, under U.S. Basel III Capital Rules, the decision was made to opt-out of including accumulated other comprehensive income in regulatory capital. As of December 31, 2019 and 2018, the Bank and Company met all capital adequacy requirements to which they are subject.

Beginning in 2016, an additional conservation buffer was added to the minimum requirements for capital adequacy purposes, subject to a three year phase-in period. As of December 31, 2019 and 2018, the buffer was 2.50% and 1.88%, respectively. The capital conservation buffer was fully phased in on January 1, 2019.

Actual and required capital amounts and ratios are presented below at period-end.

(Dollar amounts are in thousands, except share and per share amounts)

	Actual		For capital adequacy purposes		Minimum Capital adequacy with capital buffer		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2019								
Total Capital (to risk-weighted assets)								
FB Financial Corporation	$ 633,549	12.2%	$ 415,442	8.0%	$ 545,268	10.5%	N/A	N/A
FirstBank	623,432	12.1%	412,186	8.0%	540,995	10.5%	$ 515,233	10.0%
Tier 1 Capital (to risk-weighted assets)								
FB Financial Corporation	$ 602,410	11.6%	$ 311,591	6.0%	$ 441,421	8.5%	N/A	N/A
FirstBank	592,293	11.5%	309,022	6.0%	437,782	8.5%	$ 412,030	8.0%
Tier 1 Capital (to average assets)								
FB Financial Corporation	$ 602,410	10.1%	$ 238,578	4.0%	N/A	N/A	N/A	N/A
FirstBank	592,293	9.9%	239,310	4.0%	N/A	N/A	$ 299,138	5.0%
Common Equity Tier 1 Capital (to risk-weighted assets)								
FB Financial Corporation	$ 572,410	11.1%	$ 232,058	4.5%	$ 360,979	7.0%	N/A	N/A
FirstBank	592,293	11.5%	231,767	4.5%	360,526	7.0%	$ 334,774	6.5%

	Actual		For capital adequacy purposes		Minimum Capital adequacy with capital buffer		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2018								
Total Capital (to risk-weighted assets)								
FB Financial Corporation	$ 582,945	13.0%	$ 358,735	8.0%	$ 442,814	9.9%	N/A	N/A
FirstBank	561,327	12.5%	359,249	8.0%	443,448	9.9%	$ 449,062	10.0%
Tier 1 Capital (to risk-weighted assets)								
FB Financial Corporation	$ 554,013	12.4%	$ 268,071	6.0%	$ 351,843	7.9%	N/A	N/A
FirstBank	532,395	11.9%	268,434	6.0%	352,320	7.9%	$ 357,913	8.0%
Tier 1 Capital (to average assets)								
FB Financial Corporation	$ 554,013	11.4%	$ 194,391	4.0%	N/A	N/A	N/A	N/A
FirstBank	532,395	10.9%	195,374	4.0%	N/A	N/A	$ 244,218	5.0%
Common Equity Tier 1 Capital (to risk-weighted assets)								
FB Financial Corporation	$ 524,013	11.7%	$ 201,543	4.5%	$ 285,520	6.4%	N/A	N/A
FirstBank	532,395	11.9%	201,326	4.5%	285,212	6.4%	$ 290,804	6.5%

Note (22)—Employee benefit plans:

(A)—401(k) plan:

The Bank has a 401(k) Plan (the "Plan") whereby substantially all employees participate in the Plan. Employees may contribute the maximum amount of their eligible compensation subject to certain limits based on the federal tax laws. During the year ended December 31, 2019, the Bank increased the employer match to 50% of participant contributions not to exceed 6% of an employee's total compensation. Prior to 2019, the employer match was 25% of participant contributions not to exceed 6% of an employee's total compensation with an additional discretionary 25% match. Additionally, during 2019, the vesting term of profit sharing contributions was changed to a three-year rateable period from five years in 2018 and 2017. For the years ended December 31, 2019, 2018 and 2017, the matching portions provided by the Bank to this Plan were $2,325 and $2,211 and $2,344 respectively, which includes an additional discretionary contribution of 25% match for 2018 and 2017.

(B)—Acquired supplemental retirement plans:

In prior years, the Company assumed certain nonqualified supplemental retirement plans for certain former employees of acquired entities. At December 31, 2019 and 2018, other liabilities on the consolidated balance sheet included post-retirement benefits payable of $1,315 and $1,260, respectively, related to these plans. For the years ended December 31, 2019, 2018 and 2017, the Company recorded expense of $1, $4 and $4, respectively, related to these plans and payments to the participants were $150, $191 and $191 in 2019, 2018 and 2017, respectively. The Company also acquired single premium life insurance policies on these individuals. At December 31, 2019 and 2018, other assets on the consolidated balance sheet include $11,357 and $11,115 and reported cash value income (net of related insurance premium expense) of $240, $158 and $164 in 2019, 2018 and 2017, respectively.

(C)—Deferred compensation plans and agreements:

2012 EBI Plan— The Bank granted awards ("EBI Units") to certain employees pursuant to the the FirstBank 2012 Equity Based Incentive Plan (the "2012 EBI Plan"). Prior to the initial public offering, awards granted under the 2012 EBI Plan were settled in cash only. Following the initial public offering, participants in the EBI Plans were given the one-time option to elect, for each EBI Unit vested to such participant, either (i) an amount in cash or (ii) a number of shares of Company common stock determined pursuant to a conversion formula that took into account the effect of the initial public offering. Consistent with the terms of the EBI Plans and approved by the Board of Directors, outstanding EBI Units were adjusted to reflect the 100-for-one stock split that was effectuated prior to the IPO. EBI Units granted under the 2012 EBI Plan were fully vested and paid out during the year ended December 31, 2019. No further grants will be made under the 2012 EBI Plan.

Deferred Compensation Agreement—Effective December 31, 2014, the Bank entered into an agreement with the Bank's Chief Executive Officer to reward his prior service, pursuant to which he is entitled to receive a fixed lump sum cash payment equal to $3,000,000 on December 31, 2019 or the earlier occurrence of his separation of service or a change in control of the Company. On August 19, 2016, the Bank entered into an amendment to the deferred compensation agreement, pursuant to which the award was converted to 157,895 deferred stock units, determined by dividing $3,000,000 by $19.00 (the IPO price). On December 31, 2019, the deferred stock units were converted on a 1-for-1 basis into shares of Company common stock and distributed. No other awards have been made under this agreement.

Summary—At December 31, 2018, the accompanying consolidated balance sheets included liabilities for cash-settled awards under the EBI Plans amounting to $993 representing 29,172 units for those employees who elected cash settlement of EBI units. As of January 31, 2019, these cash-settled awards were fully distributed. For the years ended December 31, 2019, 2018, and 2017, the Company incurred expenses related to these plans and agreements totaling $484, $3,787, and $3,685, respectively, which is included in salaries, commissions and employee benefits in the accompanying statement of income. Additionally, payments under the plans totaled $1,191, $1,818 and $5,163 for years ended December 31, 2019, 2018 and 2017, respectively.

(Dollar amounts are in thousands, except share and per share amounts)

Note (23)—Stock-Based Compensation

The Company grants restricted stock units under compensation arrangements for the benefit of employees, executive officers, and directors. Restricted stock unit grants are subject to time-based vesting. The total number of restricted stock units granted represents the maximum number of restricted stock units eligible to vest based upon the service conditions set forth in the grant agreements.

The following table summarizes information about vested and unvested restricted stock units, excluding cash-settled EBI units discussed in Note 22, outstanding at December 31, 2019:

	For the Year Ended	
	2019	
	Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value
Balance at beginning of period	1,140,215	$ 21.96
Grants	168,697	34.08
Released and distributed (vested)	(440,033)	22.55
Forfeited/expired	(42,616)	27.15
Balance at end of period	826,263	$ 23.76

The total fair value of restricted stock units vested and released, excluding cash-settled EBI units, was $9,923, $4,562, and $2,202 for the years ended December 31, 2019, 2018, and 2017, respectively.

The compensation cost related to stock grants and vesting of restricted stock units, excluding cash-settled EBI units, was $7,089, $7,436, and $8,184 for the years ended December 31, 2019, 2018, and 2017, respectively. This included $724, $645 and $551 paid to Company independent directors during the years ended December 31, 2019, 2018 and 2017, respectively, related to independent director grants and compensation elected to be settled in stock. The year ended December 31, 2018 also includes a one-time expense of $249 related to the modification of vesting terms of certain grants.

As of December 31, 2019 and 2018, there were $11,449 and $12,371, respectively, of total unrecognized compensation cost related to unvested restricted stock units which is expected to be recognized over a weighted-average period of 2.0 years and 2.2 years, respectively. At December 31, 2019 and 2018, there were $375 and $226, respectively, accrued in other liabilities related to dividends declared to be paid upon vesting and distribution of the underlying RSUs.

Employee Stock Purchase Plan:

The Company maintains an employee stock purchase plan (“ESPP”) under which employees, through payroll deductions, are able to purchase shares of Company common stock. The purchase price is 95% of the lower of the market price on the first or last day of the offering period. The maximum number of shares issuable during any offering period is 200,000 shares and a participant may not purchase more than 725 shares during any offering period (and, in any event, no more than $25,000 worth of common stock in any calendar year). During the years ended December 31, 2019 and 2018, there were 23,171 and 28,609 shares of common stock issues under the ESPP, respectively. As of December 31, 2019 and 2018, there were 2,409,185 and 2,432,356 shares available for issuance under the ESPP, respectively.

(Dollar amounts are in thousands, except share and per share amounts)

Note (24)—Related party transactions:

(A) Loans:

The Bank has made and expects to continue to make loans to the directors, certain management and executive officers of the Company and their affiliates in the ordinary course of business, in compliance with regulatory requirements.

An analysis of loans to executive officers, certain management, and directors of the Bank and their affiliates is presented below:

Loans outstanding at January 1, 2019	$	32,264
New loans and advances		13,370
Change in related party status		(10,067)
Repayments		(4,687)
Loans outstanding at December 31, 2019	$	30,880

Unfunded commitments to certain executive officers, certain management and directors and their associates totaled $19,404 and $15,000 at December 31, 2019 and 2018, respectively.

(B) Deposits:

The Bank held deposits from related parties totaling $238,781 and $287,156 as of December 31, 2019 and 2018, respectively.

(C) Leases:

The Bank leases various office spaces from entities owned by certain directors of the Company under varying terms. The Company had $86 and $116 in unamortized leasehold improvements related to these leases at December 31, 2019 and 2018, respectively. These improvements are being amortized over a term not to exceed the length of the lease. Lease expense for these properties totaled $509, $516, and $504 for the years ended December 31, 2019, 2018, and 2017, respectively.

(D) Aviation time sharing agreement:

The Company is a participant to aviation time sharing agreements with entities owned by a certain director of the Company. During the years ended December 31, 2019, 2018 and 2017, the Company made payments of $266, $208 and $176, respectively, under these agreements.

(E) Registration rights agreement:

The Company is party to a registration rights agreement with its former majority shareholder entered into in connection with the 2016 IPO, under which the Company is responsible for payment of expenses (other than underwriting discounts and commissions) relating to sales to the public by the shareholder of shares of the Company's common stock beneficially owned by him. Such expenses include registration fees, legal and accounting fees, and printing costs payable by the Company and expensed when incurred. During 2018, the Company paid $671 under this agreement. No such expenses were incurred for the year ended December 31, 2019 or 2017.

Note (25)—Subsequent event:

The Company has evaluated subsequent events through March 13, 2020, the date these financial statements were available to be issued.

As disclosed in Note 2, "Mergers and acquisitions," on January 21, 2020, the Company announced entry into a definitive merger agreement with Franklin Financial Network, Inc. pursuant to which Franklin will be merged with and and into FB Financial. The merger is expected to close in the third quarter of 2020 and is subject to regulator approvals, approval by FB Financial's and Franklin's shareholders and other customary closing conditions.

Additionally, on February 14, 2020, the Company completed its previously announced acquisition of FNB Financial Corp. and its wholly owned subsidiary, Farmers National Bank of Scottsville (collectively, "Farmers National"). Following the acquisition, Farmers National was merged into the Company with FB Financial Corporation continuing as the surviving entity.

There were no other subsequent events, other than what was disclosed above, that occurred after December 31, 2019, but prior to the issuance of these financial statements that would have a material impact on the Company's consolidated financial statements.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Act")) as of December 31, 2019 was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and other members of the Company's senior management. The Company's Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2019, the Company's disclosure controls and procedures were effective for ensuring that information the Company is required to disclose in reports that it files or submits under the Act, as amended, 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 the Company's senior management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

The information required to be provided pursuant to this item is set forth under the headings "Report on Management's Assessment of Internal Control over Financial Reporting" in Item 8, Financial Statements and Supplementary Data.

This Annual Report does not include an attestation report from our registered public accounting firm regarding our internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC that permit emerging growth companies, which we are, to provide only Management's Annual Report on Internal Control over Financial Reporting in this Annual Report.

Changes in Internal Controls

There was no change in our internal control over financial reporting that occurred during the fourth quarter ended December 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

The Company's management recognizes that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, errors and instances of fraud, if any, within the Company have been detected.

ITEM 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item will be presented in, and is incorporated herein by reference to, the Company's definitive proxy statement for the 2020 annual meeting of shareholders which will be filed with the SEC within 120 days of December 31, 2019.

Item 11. Executive Compensation

The information required by this Item will be presented in, and is incorporated herein by reference to, the Company's definitive proxy statement for the 2020 annual meeting of shareholders which will be filed with the SEC within 120 days of December 31, 2019.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item will be presented in, and is incorporated herein by reference to, the Company's definitive proxy statement for the 2020 annual meeting of shareholders which will be filed with the SEC within 120 days of December 31, 2019.

Item 13. Certain Relationships, Related Transactions and Director Independence

The information required by this Item will be presented in, and is incorporated herein by reference to, the Company's definitive proxy statement for the 2020 annual meeting of shareholders which will be filed with the SEC within 120 days of December 31, 2019.

Item 14. Principal Accountant Fees and Services

The information required by this Item will be presented in, and is incorporated herein by reference to, the Company's definitive proxy statement for the 2020 annual meeting of shareholders which will be filed with the SEC within 120 days of December 31, 2019.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. Financial Statements

The following consolidated financial statements of FB Financial Corporation and our subsidiaries and related reports of our independent registered public accounting firm are incorporated in this Item 15. by reference from Part II - Item 8. Financial Statements and Supplementary Data of this Report.

Consolidated balance sheets as of December 31, 2019 and 2018

Consolidated statements of income for the years ended December 31, 2019, 2018 and 2017

Consolidated statements of comprehensive income for the years ended December 31, 2019, 2018 and 2017

Consolidated statements of changes in shareholders' equity for the years ended December 31, 2019, 2018 and 2017

Consolidated statements of cash flows for the years ended December 31, 2019, 2018 and 2017

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

2. Financial Statement Schedules

None are applicable because the required information has been incorporated in the consolidated financial statements and notes thereto of FB Financial and our subsidiaries which are incorporated in this Annual Report by reference.

3. Exhibits

The following exhibits are filed or furnished herewith or are incorporated herein by reference to other documents previously filed with the SEC.

EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of January 21, 2020, by and among FB Financial Corporation, Franklin Financial Network, Inc. and Paisley Acquisition Corporation (incorporated by reference to Exhibit 2.1 the Company's Form 8-K filed on January 24, 2020)
3.1	Amended and Restated Charter of FB Financial Corporation (incorporated by reference as Exhibit 3.1 to the Company's Registration Statement on Form S-1/A (File No. 333-213210), filed on September 6, 2016)
3.2	Amended and Restated Bylaws of FB Financial Corporation (incorporated by reference as Exhibit 3.2 to the Company's Form 10-Q for the quarter ended September 30, 2016)
4.1	Registration Rights Agreement (incorporated by reference as Exhibit 4.1 to the Company's Form 10-Q for the quarter ended September 30, 2016)
4.2	Description of Registrant's Securities
10.1	Deferred Compensation Agreement between FB Financial Corporation and Christopher T. Holmes (incorporated by reference as Exhibit 10.3 of the Company's Registration Statement on Form S-1/A (File No. 333-213210), filed on September 6, 2016) †
10.2	Amendment to Deferred Compensation Agreement between FB Financial Corporation and Christopher T. Holmes (incorporated by reference as Exhibit 10.4 to the Company's Registration Statement on Form S-1/A (File No. 333-213210), filed on September 6, 2016) †
10.3	Employment Agreement between FB Financial Corporation and Christopher T. Holmes (incorporated by reference as Exhibit 10.5 to the Company's Registration Statement on Form S-1/A (File No. 333-213210), filed on September 6, 2016) †
10.4	FB Financial Corporation 2016 Incentive Plan (incorporated by reference as Exhibit 10.6 to the Company's Registration Statement on Form S-1/A (File No. 333-213210), filed on September 6, 2016)

10.5	Form of Restricted Stock Unit Award Certificate pursuant to the FB Financial Corporation 2016 Long-Term Incentive Plan (incorporated by reference as Exhibit 10.8 to the Company's Registration Statement on Form S-1/A (File No. 333-213210), filed September 6, 2016) †
10.6	Form of Restricted Stock Unit Award Certificate (2017) pursuant to the FB Financial Corporation 2016 Incentive Plan (incorporated by reference as Exhibit 10.6 to the Company's Form 10-K (File No. 001-37875), for the period ending December 31, 2016) †
10.7	Form of Restricted stock Unit Award Certificate (2018) pursuant to the FB Financial Corporation 2016 Incentive Plan(incorporated by reference as Exhibit 10.8 to the Company's Form 10-K (File No. 001-37975), for the period ending December 31, 2017) †
10.8	Tax Sharing Agreement (incorporated by reference as Exhibit 10.11 to the Company's Form 10-Q for the quarter ended September 30, 2016)
10.9	Shareholder's Agreement (incorporated by reference as Exhibit 10.12 to the Company's Form 10-Q for the quarter ended September 30, 2016)
10.10	First Amendment to Shareholder's Agreement, dated as of January 21, 2020 (incorporated by reference to Exhibit 10.1 the Company's Form 8-K filed on January 24, 2020).
10.11	Securities Purchase Agreement, dated May 26, 2017, by and among FB Financial Corporation and the purchases named therein and their permitted transferees (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 26, 2017)
16	Letter to Securities and Exchange Commission from RSM US LLP (incorporated by reference as Exhibit 16.1 to the Company's Current Report on Form 8-K filed on April 6, 2018)
21	Subsidiaries of FB Financial Corporation*
23.1	Consent of Independent Registered Public Accounting Firm (Crowe LLP)*
23.2	Consent of Independent Registered Public Accounting Firm (RSM US LLP)*
24.1	Powers of Attorney contained on the signature pages of this Annual Report on Form 10-K and incorporated herein by reference
31.1	Rule 13a-14(a) Certification of Chief Executive Officer*
31.2	Rules 13a-14(a) Certification of Chief Financial Officer*
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer**
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

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*	Filed herewith.
**	Furnished herewith.
†	Represents a management contract or a compensatory plan or arrangement.

ITEM 16. FORM 10-K SUMMARY

None.

Signature

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

	FB Financial Corporation
	/s/ James R. Gordon
March 13, 2020	**James R. Gordon** Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Christopher T. Holmes and James R. Gordon and each of them, his or her true and lawful attorney(s)-in-fact and agent(s), with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any or all amendments to this report and to file the same, with all exhibits and schedules thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney(s)-in-fact and agent(s) full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorney(s)-in-fact and agent(s), or their substitute(s), may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
James W. Ayers	Executive Chairman of the Board	March 13, 2020
/s/ Christopher T. Holmes		
Christopher T. Holmes	Director, President and Chief Executive Officer (Principal Executive Officer)	March 13, 2020
/s/ James R. Gordon		
James R. Gordon	Chief Financial Officer (Principal Financial and Accounting Officer)	March 13, 2020
/s/ William F. Andrews		
William F. Andrews	Director	March 13, 2020
/s/ J. Jonathan Ayers		
J. Jonathan Ayers	Director	March 13, 2020
/s/ William F. Carpenter III		
William F Carpenter	Director	March 13, 2020
/s/ Agenia Clark		
Agenia Clark	Director	March 13, 2020
/s/ James L. Exum		
James L. Exum	Director	March 13, 2020
/s/ Orrin H. Ingram		
Orrin H. Ingram	Director	March 13, 2020
/s/ Raja J. Jubran		
Raja J. Jubran	Director	March 13, 2020
/s/ Emily J. Reynolds		
Emily J. Reynolds	Director	March 13, 2020

Exhibit 4.2

DESCRIPTION OF FB FINANCIAL CORPORATION'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

The following description sets forth certain material terms and provisions of FB Financial Corporation's securities that are registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "***Exchange Act***"). As of the date of the Annual Report on Form 10-K of which this exhibit is a part, the registrant has one class of securities registered under Section 12 of the Exchange Act, which is its common stock, par value $1.00 per share.

The following is a description of the common stock of FB Financial Corporation ("***we***", "***us***", "***our***" and the "***Company***") and the material provisions of our amended and restated charter and amended and restated bylaws and other agreements to which we and our shareholders are parties. The following is only a summary does not purport to be complete. The following is qualified by applicable law and by the provisions of our amended and restated certificate of incorporation and amended and restated bylaws and other agreements, which are incorporated by reference to the Annual Report on Form 10-K, of which this exhibit is a part.

General. Our authorized capital stock consists of 75,000,000 shares of common stock, par value $1.00 per share. As of February 15, 2020, there were 31,035,182 shares of common stock outstanding. All outstanding shares of common stock are fully paid and non-assessable.

Voting rights. The holders of common stock are entitled to one vote per share on all matters to be voted upon by the shareholders, and are not entitled to cumulative voting in the election of directors. At any meeting of the shareholders, the holders of a majority of the outstanding stock of the Company then having voting rights, present in person or by proxy, shall constitute a quorum for all purposes. If a quorum exists, action on a matter (other than the election of directors) by a voting group is approved if the votes cast within the voting group favoring the action exceeds the votes cast opposing the action, unless otherwise provided by the charter or bylaws.

Dividend rights. Subject to the rights that may be applicable to any outstanding preferred stock and all other classes of stock at the time outstanding having prior rights as to dividends, the holders of common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the Board of Directors out of funds legally available therefor.

Rights upon liquidation. In the event of liquidation, dissolution or winding up of the Company, either voluntarily or involuntarily, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding.

Other rights. The holders of our common stock have no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. The rights, preferences and privileges of holders of our common stock are subject to, and may be adversely affected by, the rights of holders of our preferred stock.

Election and removal of directors

Our bylaws provide that our board of directors will consist of between one and fifteen directors. Directors are elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present. The exact number of directors will be fixed from time to time by resolution of our board of directors. Our bylaws provide that shareholders may remove any director, with cause only, by the affirmative vote of the holders of a majority of the issued and outstanding stock of the Company then having voting rights at a shareholder meeting called for that purpose.

As of February 15, 2020, James W. Ayers owned approximately 44% of our common stock. In connection with our initial public offering, we entered into a shareholder's agreement with Mr. Ayers, in his capacity as our then-sole shareholder. The shareholder's agreement provides that our board of directors will consist of between five and 13 members (unless otherwise agreed by Mr. Ayers and the Company). Additionally, Mr. Ayers has the right under the shareholder's agreement to designate up to 40% of our directors and at least one member of the nominating and corporate governance committee, and one member of the compensation committee. Mr. Ayers' director designation rights decrease as his percentage ownership of our common stock decreases, in each case rounded up to the nearest whole number of directors, and as set forth in the below table.

Ownership Percentage	Percentage of Directors Designated
More than 40% but less than or equal to 50%	40%
More than 30% but less than or equal to 40%	30%
More than 20% but less than or equal to 30%	20%
More than or equal to 5%, but less than or equal to 20%	10%

In addition, the shareholder's agreement also provides that our Chief Executive Officer shall serve as a member of the board of directors.

If at any time a designee of Mr. Ayers ceases to serve on our board, Mr. Ayers has the right to designate or nominate a successor to fill such vacancy, or, if he loses his right to designate or nominate any successor directors pursuant to the terms of the shareholder's agreement, these positions will be filled in accordance with our charter and bylaws. All other directorships will be filled in accordance with the charter and bylaws.

The shareholder's agreement will terminate upon the earlier of Mr. Ayers' death or permanent disability or when Mr. Ayers holds less than 5% of our outstanding shares of common stock.

Limitation of liability of directors and officers

The Tennessee Business Corporation Act, or TBCA, provides that a corporation may indemnify any of its directors and officers against liability incurred in connection with a proceeding if: (a) such person acted in good faith; (b) in the case of conduct in an official capacity with the corporation, he reasonably believed such conduct was in the corporation's best interests; (c) in all other cases, he reasonably believed that his conduct was at least not opposed to the best interests of the corporation; and (d) in connection with any criminal proceeding, such person had no reasonable cause to believe his conduct was unlawful. In actions brought by or in the right of the corporation, however, the TBCA provides that no indemnification may be made if the director or officer was adjudged to be liable to the corporation. The TBCA also provides that in connection with any proceeding charging improper personal benefit to an officer or director, no indemnification may be made if such officer or director is adjudged liable on the basis that such personal benefit was improperly received. In cases where the director or officer is wholly successful, on the merits or otherwise, in the defense of any proceeding instigated because of his or her status as a director or officer of a corporation, the TBCA mandates that the corporation indemnify the director or officer against reasonable expenses incurred in the proceeding. The TBCA provides that a court of competent jurisdiction, unless the corporation's charter provides otherwise, upon application, may order that an officer or director be indemnified for reasonable expenses if, in consideration of all relevant circumstances, the court determines that such individual is fairly and reasonably entitled to indemnification, notwithstanding the fact that (a) such officer or director was adjudged liable to the corporation in a proceeding by or in the right of the corporation; (b) such officer or director was adjudged liable on the basis that personal benefit was improperly received by him; or (c) such officer or director breached his duty of care to the corporation. Our charter provides that the Company shall, to the fullest extent permitted by the TBCA, indemnify its directors and officers, and may indemnify all other person whom it has the power to indemnify under the TBCA. The right of any director or officer of the Company to indemnification conferred in our charter shall also include the right to be paid by the Company the expenses incurred in connection with any such proceeding in advance of its final disposition to the fullest extent authorized by Tennessee law.

Anti-takeover effects of some provisions

Some provisions of our charter and bylaws could make more difficult the removal of our incumbent officers and directors. These provisions, as well as our ability to issue preferred stock, are designed to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with our Board of Directors. We believe that the benefits of increased protection give us the potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us, and that the benefits of this increased protection outweigh the disadvantages of discouraging those proposals, because negotiation of those proposals could result in an improvement of their terms.

Our charter provides that our Board of Directors may issue "blank check" preferred stock without shareholder approval. Some of the rights and preferences of these shares of preferred stock would be superior to the rights and preferences of shares of our common stock. Accordingly, the issuance of new shares of preferred stock may adversely affect the rights of the holders of shares of our common stock.

Anti-takeover provisions in the TBCA

In addition to certain of the provisions in our charter discussed above, the State of Tennessee has adopted statutes that can have an anti-takeover effect and may delay or prevent a tender offer or takeover attempt that a shareholder might consider in its best interest, including those attempts that might result in a premium over the market price for shares of our common stock.

The Tennessee Control Share Acquisition Act generally provides that, except as stated below, “control shares” will not have any voting rights. Control shares are shares acquired by a person under certain circumstances which, when added to their shares owned, would give such person effective control over one-fifth or more, or a majority of all voting power (to the extent such acquired shares cause such a person to exceed one-fifth or one-third of all voting power) in the election of a Tennessee corporation’s directors. However, voting rights will be restored to control shares by resolutions approved by the affirmative vote of the holders of a majority of the corporation’s voting stock, other than shares held by the owner of the control shares. If voting rights are granted to control shares which give the holder a majority of all voting power in the election of the corporation’s directors, then the corporation’s other shareholders may require the corporation to redeem their shares at fair value.

The Tennessee Control Share Acquisition Act is not applicable to us because our charter does not contain a specific provision “opting in” to the act, as is required.

The Tennessee Investor Protection Act provides that unless a Tennessee corporation’s board of directors has recommended a takeover offer to shareholders, no offeror beneficially owning 5% or more of any class of equity securities of the offeree company, any of which was purchased within the preceding year, may make a takeover offer for any class of equity security of the offeree company if after completion the offeror would be a beneficial owner of more than 10% of any class of outstanding equity securities of the company unless the offeror, before making such purchase: (1) makes a public announcement of his or her intention with respect to changing or influencing the management or control of the offeree company; (2) makes a full, fair and effective disclosure of such intention to the person from whom he or she intends to acquire such securities; and (3) files with the Tennessee Commissioner of Commerce and Insurance, or Commissioner, and the offeree company a statement signifying such intentions and containing such additional information as may be prescribed by the Commissioner.

The offeror must provide that any equity securities of an offeree company deposited or tendered pursuant to a takeover offer may be withdrawn by an offeree at any time within seven days from the date the offer has become effective following filing with the Commissioner and the offeree company and public announcement of the terms or after 60 days from the date the offer has become effective. If the takeover offer is for less than all the outstanding equity securities of any class, such an offer must also provide for acceptance of securities pro rata if the number of securities tendered is greater than the number the offeror has offered to accept and pay for. If such an offeror varies the terms of the takeover offer before its expiration date by increasing the consideration offered to offerees, the offeror must pay the increased consideration for all equity securities accepted, whether accepted before or after the variation in the terms of the offer.

The Tennessee Investor Protection Act does not apply to us, as it does not apply to bank holding companies subject to regulation by a federal agency and does not apply to any offer involving a vote by holders of equity securities of the offeree company.

The Tennessee Business Combination Act, generally prohibits a “business combination” by a company or any of our subsidiaries with an “interested shareholder” within five years after the shareholder becomes an interested shareholder. The company or any of its subsidiaries can, however, enter into a business combination within that period if, before the interested shareholder became such, the company’s board of directors approved the business combination or the transaction in which the interested shareholder became an interested shareholder. After that five-year moratorium, the business combination with the interested shareholder can be consummated only if it satisfies certain fair price criteria or is approved by two-thirds of the other shareholders.

For purposes of these provisions of the Tennessee Business Combination Act, a “business combination” includes mergers, share exchanges, sales and leases of assets, issuances of securities, and similar transactions. An “interested shareholder” is generally any person or entity that beneficially owns 10% or more of the voting power of any outstanding class or series of our stock.

The Tennessee Greenmail Act applies to a Tennessee corporation that has a class of voting stock registered or traded on a national securities exchange or registered with the SEC pursuant to Section 12(g) of the Exchange Act. Under the Tennessee Greenmail Act, a company may not purchase any of its shares at a price above the market value of such shares from any person who holds more than 3% of the class of securities to be purchased if such person has held such shares for less than two years, unless the purchase has been approved by the affirmative vote of a majority of the outstanding shares of each class of voting stock issued by the company or the company makes an offer, or at least equal value per share, to all shareholders of such class.

Listing and trading market for common stock. Our common stock is listed on the NYSE under the symbol FBK.

Transfer agent and registrar. The transfer agent and registrar for the common stock is Computershare Trust Company, N.A.

Exhibit 21

List of Subsidiaries

The following is a list of the subsidiaries of FB Financial Corporation including the name of each subsidiary and its jurisdiction of incorporation:

Name	Jurisdiction Where Organized
FirstBank	Tennessee
FirstBank Insurance, Inc.[1]	Tennessee
Investors Title Company[1]	Tennessee
First South Bancorp Statutory Trust I	Connecticut
First South Bancorp Statutory Trust II	Connecticut

(1) Subsidiary of First Bank

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 333-221149 on Form S-3 and Nos. 333-213703 and 333-228922 on Forms S-8, of FB Financial Corporation of our report dated March 13, 2020 with respect to the consolidated financial statements of FB Financial Corporation, which report appears in this Annual Report on Form 10-K of FB Financial Corporation for the year ended December 31, 2019.

Crowe LLP

Franklin, Tennessee
March 13, 2020

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the registration statements on Form S-3 (333-221149) and Forms S-8 (No. 333-213703 and No. 333-228922) of FB Financial Corporation of our report dated March 16, 2018, relating to the consolidated financial statements of FB Financial Corporation, appearing in this Annual Report on Form 10-K of FB Financial Corporation for the year ended December 31, 2019.

/s/ RSM US LLP

Jacksonville, Florida

March 13, 2020

EXHIBIT 31.1

FB FINANCIAL CORPORATION
CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Christopher T. Holmes, certify that:

1. I have reviewed this annual report on Form 10-K of FB Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 13, 2020

/s/ Christopher T. Holmes

Christopher T. Holmes
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

FB FINANCIAL CORPORATION
CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James R. Gordon, certify that:

1. I have reviewed this annual report on Form 10-K of FB Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 13, 2020

/s/ James R. Gordon

James R. Gordon
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

FB FINANCIAL CORPORATION
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), of FB Financial Corporation (the "Company"), each of the undersigned officers of the Company hereby certify, in their capacity as an executive officer of the Company, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of their knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 13, 2020 /s/ Christopher T. Holmes

Christopher T. Holmes
Chief Executive Officer
(Principal Executive Officer)

Date: March 13, 2020 /s/ James R. Gordon

James R. Gordon
Chief Financial Officer
(Principal Financial Officer)