ServisFirst Bancshares, Inc.
Form 10-Q
April 30, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2019

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

For the transition period from _______to_______

Commission file number 001-36452

SERVISFIRST BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**26-0734029**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*

2500 Woodcrest Place, Birmingham, Alabama	**35209**
(Address of Principal Executive Offices)	*(Zip Code)*

(205) 949-0302

(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common stock, par value $.001 per share	SFBS	The NASDAQ Stock Market LLC

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

None

(Title of Class)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or Section 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a small reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “non-accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller 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 Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Class	Outstanding as of April 26, 2019
Common stock, $.001 par value	53,511,182

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PART 1. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

SERVISFIRST BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	March 31, 2019 (Unaudited)	December 31, 2018 (1)
ASSETS		
Cash and due from banks	$71,058	$97,516
Interest-bearing balances due from depository institutions	547,036	360,534
Federal funds sold	181,435	223,845
Cash and cash equivalents	799,529	681,895
Available for sale debt securities, at fair value	631,696	590,184
Held to maturity debt securities (fair value of $250 at March 31, 2019)	250	–
Mortgage loans held for sale	1,223	120
Loans	6,659,908	6,533,499
Less allowance for loan losses	(70,207)	(68,600)
Loans, net	6,589,701	6,464,899
Premises and equipment, net	57,664	57,822
Accrued interest and dividends receivable	26,998	24,070
Deferred tax assets, net	26,209	27,277
Other real estate owned and repossessed assets	5,480	5,169
Bank owned life insurance contracts	131,411	130,649
Goodwill and other identifiable intangible assets	14,381	14,449
Other assets	26,294	10,848
Total assets	$8,310,836	$8,007,382
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	$1,572,703	$1,557,341
Interest-bearing	5,510,963	5,358,367
Total deposits	7,083,666	6,915,708
Federal funds purchased	373,378	288,725
Other borrowings	64,675	64,666
Accrued interest payable	11,476	10,381

Other liabilities	32,055	12,699
Total liabilities	7,565,250	7,292,179
Stockholders' equity:		
Preferred stock, par value $0.001 per share; 1,000,000 authorized and undesignated at March 31, 2019 and December 31, 2018	–	–
Common stock, par value $0.001 per share; 100,000,000 shares authorized; 53,495,208 shares issued and outstanding at March 31, 2019, and 53,375,195 shares issued and outstanding at December 31, 2018	53	53
Additional paid-in capital	218,147	218,521
Retained earnings	527,853	500,868
Accumulated other comprehensive loss	(969)	(4,741)
Total stockholders' equity attributable to ServisFirst Bancshares, Inc.	745,084	714,701
Noncontrolling interest	502	502
Total stockholders' equity	745,586	715,203
Total liabilities and stockholders' equity	$8,310,836	$8,007,382

(1) Derived from audited financial statements.

See Notes to Consolidated Financial Statements.

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SERVISFIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except share and per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Interest income:		
Interest and fees on loans	$85,524	$69,674
Taxable securities	3,746	2,745
Nontaxable securities	446	656
Federal funds sold	1,219	551
Other interest and dividends	2,764	383
Total interest income	93,699	74,009
Interest expense:		
Deposits	22,145	9,621
Borrowed funds	2,776	1,952
Total interest expense	24,921	11,573
Net interest income	68,778	62,436
Provision for loan losses	4,885	4,139
Net interest income after provision for loan losses	63,893	58,297
Noninterest income:		
Service charges on deposit accounts	1,702	1,585
Mortgage banking	575	518
Credit card income	1,576	1,255
Securities gains (losses)	–	4
Increase in cash surrender value life insurance	762	777
Other operating income	327	276
Total noninterest income	4,942	4,415
Non-interest expenses:		
Salaries and employee benefits	14,265	13,296
Equipment and occupancy expense	2,259	1,954
Professional services	994	805
FDIC and other regulatory assessments	1,019	1,133
Other real estate owned expense	22	316
Other operating expenses	6,767	5,554
Total non-interest expenses	25,326	23,058
Income before income taxes	43,509	39,654
Provision for income taxes	8,499	7,051
Net income	35,010	32,603
Dividends on preferred stock	–	–

Net income available to common stockholders	$35,010	$32,603
Basic earnings per common share	$0.65	$0.61
Diluted earnings per common share	$0.65	$0.60

See Notes to Consolidated Financial Statements.

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SERVISFIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Net income	$35,010	$32,603
Other comprehensive income (loss), net of tax:		
Unrealized holding gains (losses) arising during period from securities available for sale, net of tax of $1,002 and $(1,340) for 2019 and 2018, respectively	3,772	(4,910)
Reclassification adjustment for net gains on sale of securities, net of tax of $1 for 2018	–	3
Other comprehensive income (loss), net of tax	3,772	(4,907)
Comprehensive income	$38,782	$27,696

See Notes to Consolidated Financial Statements.

SERVISFIRST BANCSHARES, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Three Months Ended March 31, 2019 and 2018

(In thousands, except share amounts)

(Unaudited)

	Preferred Stock	**Common Stock**	**Additional Paid-in Capital**	**Retained Earnings**	Accumulated Other Comprehensive Income	**Noncontrolling Interest**	**Total Stockholders' Equity**
Balance, January 1, 2018	$ –	$ 53	$ 217,693	$ 389,554	$ (198)	$ 502	$ 607,604
Common dividends declared, $0.11 per share	–	–	–	(5,846)	–	–	(5,846)
Issue 143,833 shares of common stock upon exercise of stock options	–	–	852	–	–	–	852
30,003 shares of common stock withheld in net settlement upon exercise of stock options	–	–	(1,247)	–	–	–	(1,247)
Stock-based compensation expense	–	–	238	–	–	–	238
Other comprehensive income, net of tax	–	–	–	–	(4,907)	–	(4,907)
Net income	–	–	–	32,603	–	–	32,603
Balance, March 31, 2018	$ –	$ 53	$ 217,536	$ 416,311	$ (5,105)	$ 502	$ 629,297
Balance, January 1, 2019	$ –	$ 53	$ 218,521	$ 500,868	$ (4,741)	$ 502	$ 715,203
Common dividends declared, $0.15 per share	–	–	–	(8,025)	–	–	(8,025)
Issue 117,313 shares of common stock upon exercise of stock options	–	–	797	–	–	–	797
45,187 shares of common stock withheld in net settlement upon exercise of stock options	–	–	(1,453)	–	–	–	(1,453)
Stock-based compensation expense	–	–	282	–	–	–	282
Other comprehensive loss, net of tax	–	–	–	–	3,772	–	3,772
Net income	–	–	–	35,010	–	–	35,010
Balance, March 31, 2019	$ –	$ 53	$ 218,147	$ 527,853	$ (969)	$ 502	$ 745,586

See Notes to Consolidated Financial Statements.

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SERVISFIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)

	Three Months Ended March 31, 2019	2018
OPERATING ACTIVITIES		
Net income	$35,010	$32,603
Adjustments to reconcile net income to net cash provided by		
Deferred tax expense	1,068	1,554
Provision for loan losses	4,885	4,139
Depreciation	917	832
Accretion on acquired loans	(91)	(72)
Amortization of core deposit intangible	68	67
Net amortization of debt securities available for sale	626	623
(Increase) decrease in accrued interest and dividends receivable	(2,928)	400
Stock-based compensation expense	282	238
Increase in accrued interest payable	1,095	2,852
Proceeds from sale of mortgage loans held for sale	15,581	24,720
Originations of mortgage loans held for sale	(16,109)	(24,265)
Net gain on sale of debt securities available for sale	–	(4)
Gain on sale of mortgage loans held for sale	(575)	(518)
Net loss on sale of other real estate owned and repossessed assets	2	–
Write down of other real estate owned and repossessed assets	20	254
Operating losses of tax credit partnerships	35	29
Increase in cash surrender value of life insurance contracts	(762)	(777)
Net change in other assets, liabilities, and other operating activities	2,550	(3,790)
Net cash provided by operating activities	41,674	38,885
INVESTMENT ACTIVITIES		
Purchase of securities available for sale	(65,507)	(54,666)
Proceeds from maturities, calls and paydowns of securities available for sale	28,469	20,376
Proceeds from sale of debt securities available for sale	–	5,100
Purchase of debt securities held to maturity	(250)	–
Increase in loans	(129,977)	(78,664)
Purchase of premises and equipment	(759)	(556)
Proceeds from sale of other real estate owned and repossessed assets	48	874
Net cash used in investing activities	(167,976)	(107,536)
FINANCING ACTIVITIES		
Net increase (decrease) in non-interest-bearing deposits	15,362	(32,734)
Net increase (decrease) in interest-bearing deposits	152,596	(81,553)
Net increase in federal funds purchased	84,653	24,602
Repayment of Federal Home Loan Bank advances	–	(100)

Proceeds from exercise of stock options	797	852
Taxes paid in net settlement of tax obligation upon exercise of stock options	(1,453)	(1,247)
Dividends paid on common stock	(8,019)	(2,650)
Net cash provided by (used in) financing activities	243,936	(92,830)
Net increase (decrease) in cash and cash equivalents	117,634	(161,481)
Cash and cash equivalents at beginning of period	681,895	477,586
Cash and cash equivalents at end of period	$799,529	$316,105
SUPPLEMENTAL DISCLOSURE		
Cash paid for:		
Interest	$23,826	$8,721
Income taxes	1,533	2,902
NONCASH TRANSACTIONS		
Other real estate acquired in settlement of loans	$381	$175
Dividends declared	8,025	5,846

See Notes to Consolidated Financial Statements.

SERVISFIRST BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

(Unaudited)

NOTE 1 - GENERAL

The accompanying consolidated financial statements in this report have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission, including Regulation S-X and the instructions for Form 10-Q, and have not been audited. These consolidated financial statements do not include all of the information and footnotes required by U.S. generally accepted accounting principles ("U.S. GAAP") for complete financial statements. In the opinion of management, all adjustments necessary to present fairly the consolidated financial position and the consolidated results of operations for the interim periods have been made. All such adjustments are of a normal nature. The consolidated results of operations are not necessarily indicative of the consolidated results of operations which ServisFirst Bancshares, Inc. (the "Company") may achieve for future interim periods or the entire year. For further information, refer to the consolidated financial statements and footnotes included in the Company's Form 10-K for the year ended December 31, 2018.

All reported amounts are in thousands except share and per share data.

Leases

The Company leases certain office space and equipment under operating leases. Accounting Standards Update 2016-02, "*Leases (Topic 842)*" requires that operating leases in effect as of date of adoption, January 1, 2019 for the Company, be recognized as a liability to make lease payments and as an asset representing the right to use the asset during the lease term, or "lease liability" and "right-of-use asset", respectively. The lease liability is measured by the present value of remaining lease payments, discounted at the Company's incremental borrowing rate.

Certain of the leases include one or more renewal options that extend the initial lease term one to five years. The exercise of lease renewal options is typically at the Company's sole discretion; therefore, a majority of renewals to extend lease terms are not included in the right-of-use assets and lease liabilities as they are not reasonably certain to be exercised. Renewal options are regularly evaluated and when they are reasonably certain to be exercised, are included in lease terms.

None of the Company’s leases provide an implicit rate. The Company uses its incremental collateralized borrowing rate based on the information available at the lease commencement date in determining the present value of the lease payments. The present value of all existing operating leases was determined using the incremental collateralized borrowing rate on January 1, 2019.

The Company has made an accounting policy election to not apply the recognition requirements in ASU 2016-02 to short-term leases. The Company has also elected to use the practical expedients allowed by the new standard as follows: 1) forego an assessment of whether any existing contracts are or contain leases, 2) forego an assessment of the classification of existing leases as to whether they are operating leases or capital leases, and 3) forego an assessment of direct costs for any existing leases.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash on hand, cash items in process of collection, amounts due from banks, and federal funds sold are included in cash and cash equivalents.

NOTE 3 - EARNINGS PER COMMON SHARE

Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock options.

	Three Months Ended March 31,	
	2019	2018
	(In Thousands, Except Shares and Per Share Data)	
Earnings per common share		
Weighted average common shares outstanding	53,465,091	53,082,322
Net income available to common stockholders	$35,010	$32,603
Basic earnings per common share	$0.65	$0.61
Weighted average common shares outstanding	53,465,091	53,082,322
Dilutive effects of assumed conversions and exercise of stock options and warrants	611,447	1,101,078

Weighted average common and dilutive potential common shares outstanding	54,076,538	54,183,400
Net income available to common stockholders	$35,010	$32,603
Diluted earnings per common share	$0.65	$0.60

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NOTE 4 - SECURITIES

The amortized cost and fair value of available-for-sale and held-to-maturity securities at March 31, 2019 and December 31, 2018 are summarized as follows:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
March 31, 2019	(In Thousands)			
Available for sale debt securities				
U.S. Treasury and government sponsored agencies	$74,285	$ 126	$ (330)	$74,081
Mortgage-backed securities	330,444	1,392	(2,460)	329,376
State and municipal securities	96,438	280	(250)	96,468
Corporate debt	131,802	508	(539)	131,771
Total	$632,969	$ 2,306	$ (3,579)	$631,696
Held to maturity debt securities				
State and municipal securities	$250	$ –	$ –	$250
Total	$250	$ –	$ –	$250
December 31, 2018				
Available for sale debt securities				
U.S. Treasury and government sponsored agencies	$77,534	$ 78	$ (619)	$76,993
Mortgage-backed securities	309,244	591	(5,531)	304,304
State and municipal securities	106,465	208	(679)	105,994
Corporate debt	102,982	668	(757)	102,893
Total	$596,225	$ 1,545	$ (7,586)	$590,184

The amortized cost and fair value of debt securities as of March 31, 2019 and December 31, 2018 by contractual maturity are shown below. Actual maturities may differ from contractual maturities of mortgage-backed securities since the mortgages underlying the securities may be called or prepaid with or without penalty. Therefore, these securities are not included in the maturity categories along with the other categories of debt securities.

	March 31, 2019		December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Available for sale debt securities				
Due within one year	$35,222	$35,168	$38,343	$38,225
Due from one to five years	170,094	169,701	167,873	166,380
Due from five to ten years	94,404	94,605	77,811	78,276

Due after ten years	2,805	2,846	2,954	2,999
Mortgage-backed securities	330,444	329,376	309,244	304,304
	$632,969	$631,696	$596,225	$590,184
Held to maturity debt securities				
Due from one to five years	$250	$250	$–	$–
	$250	$250	$–	$–

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All mortgage-backed securities are with government-sponsored enterprises (GSEs) such as Federal National Mortgage Association, Government National Mortgage Association, Federal Home Loan Bank, and Federal Home Loan Mortgage Corporation.

The following table identifies, as of March 31, 2019 and December 31, 2018, the Company's investment securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months. At March 31, 2019, 328 of the Company's 752 debt securities had been in an unrealized loss position for 12 or more months. The Company does not intend to sell these securities, and it is more likely than not that the Company will not be required to sell the securities before recovery of their amortized cost, which may be maturity; accordingly, the Company does not consider these securities to be other-than-temporarily impaired at March 31, 2019. Further, the Company believes any deterioration in value of its current investment securities is attributable to changes in market interest rates and not credit quality of the issuer.

	Less Than Twelve Months		Twelve Months or More		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In Thousands)					
March 31, 2019						
U.S. Treasury and government sponsored agencies	$(5)	$1,003	$(325)	$47,913	$(330)	$48,916
Mortgage-backed securities	(203)	40,066	(2,257)	187,872	(2,460)	227,938
State and municipal securities	(24)	4,394	(226)	41,231	(250)	45,625
Corporate debt	(238)	33,466	(301)	25,191	(539)	58,657
Total	$(470)	$78,929	$(3,109)	$302,207	$(3,579)	$381,136
December 31, 2018						
U.S. Treasury and government sponsored agencies	$(8)	$1,001	$(611)	$50,878	$(619)	$51,880
Mortgage-backed securities	(539)	67,721	(4,992)	204,260	(5,531)	271,981
State and municipal securities	(101)	20,821	(578)	52,190	(679)	73,011
Corporate debt	(315)	36,245	(442)	13,474	(757)	49,718
Total	$(963)	$125,788	$(6,623)	$320,802	$(7,586)	$446,590

The carrying value of investment securities pledged to secure public funds on deposit and for other purposes as required by law was $314.4 million and $291.6 million as of March 31, 2019 and December 31, 2018, respectively.

NOTE 5 – LOANS

The following table details the Company's loans at March 31, 2019 and December 31, 2018:

	March 31, 2019	December 31, 2018
	(Dollars In Thousands)	
Commercial, financial and agricultural	$2,522,136	$2,513,225
Real estate - construction	556,219	533,192
Real estate - mortgage:		
Owner-occupied commercial	1,500,595	1,463,887
1-4 family mortgage	629,285	621,634
Other mortgage	1,394,611	1,337,068
Subtotal: Real estate - mortgage	3,524,491	3,422,589
Consumer	57,062	64,493
Total Loans	6,659,908	6,533,499
Less: Allowance for loan losses	(70,207)	(68,600)
Net Loans	$6,589,701	$6,464,899

Commercial, financial and agricultural	37.87 %	38.47 %
Real estate - construction	8.35 %	8.16 %
Real estate - mortgage:		
Owner-occupied commercial	22.53 %	22.41 %
1-4 family mortgage	9.45 %	9.51 %
Other mortgage	20.94 %	20.46 %
Subtotal: Real estate - mortgage	52.92 %	52.38 %
Consumer	0.86 %	0.99 %
Total Loans	100.00 %	100.00 %

The credit quality of the loan portfolio is summarized no less frequently than quarterly using categories similar to the standard asset classification system used by the federal banking agencies. The following table presents credit quality indicators for the loan loss portfolio segments and classes. These categories are utilized to develop the associated allowance for loan losses using historical losses adjusted for current economic conditions defined as follows:

- Pass – loans which are well protected by the current net worth and paying capacity of the obligor(s) or by the fair value, less cost to acquire and sell, of any underlying collateral.
- Special Mention – loans with potential weakness that may, if not reversed or corrected, weaken the credit or inadequately protect the Company's position at some future date. These loans are not adversely classified and do not expose an institution to sufficient risk to warrant an adverse classification.
- Substandard – loans that exhibit well-defined weakness or weaknesses that presently jeopardize debt repayment. These loans are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
- Doubtful – loans that have all the weaknesses inherent in loans classified substandard, plus the added characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions, and values highly questionable and improbable.

Loans by credit quality indicator as of March 31, 2019 and December 31, 2018 were as follows:

March 31, 2019	Pass	Special Mention	Substandard	Doubtful	Total
	(In Thousands)				
Commercial, financial and agricultural	$2,456,885	$47,075	$ 18,176	$ –	$2,522,136
Real estate - construction	548,656	6,944	619	–	556,219
Real estate - mortgage:					
Owner-occupied commercial	1,470,108	26,929	3,558	–	1,500,595
1-4 family mortgage	625,458	1,976	1,851	–	629,285
Other mortgage	1,368,451	14,781	11,379	–	1,394,611
Total real estate - mortgage	3,464,017	43,686	16,788	–	3,524,491
Consumer	57,013	49	–	–	57,062
Total	$6,526,571	$97,754	$ 35,583	$ –	$6,659,908

December 31, 2018	Pass	Special Mention	Substandard	Doubtful	Total
	(In Thousands)				
Commercial, financial and agricultural	$2,447,052	$47,754	$ 18,419	$ –	$2,513,225
Real estate - construction	525,021	6,749	1,422	–	533,192

Real estate - mortgage:					
Owner-occupied commercial	1,431,982	28,547	3,358	–	1,463,887
1-4 family mortgage	616,884	2,703	2,047	–	621,634
Other mortgage	1,309,101	16,506	11,461	–	1,337,068
Total real estate - mortgage	3,357,967	47,756	16,866	–	3,422,589
Consumer	64,444	–	49	–	64,493
Total	$6,394,484	$102,259	$ 36,756	$ –	$6,533,499

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Loans by performance status as of March 31, 2019 and December 31, 2018 were as follows:

March 31, 2019	Performing	Nonperforming	Total
	(In Thousands)		
Commercial, financial and agricultural	$2,510,619	$ 11,517	$2,522,136
Real estate - construction	555,981	238	556,219
Real estate - mortgage:			
Owner-occupied commercial	1,497,037	3,558	1,500,595
1-4 family mortgage	627,435	1,850	629,285
Other mortgage	1,384,611	10,000	1,394,611
Total real estate - mortgage	3,509,083	15,408	3,524,491
Consumer	57,050	12	57,062
Total	$6,632,733	$ 27,175	$6,659,908

December 31, 2018	Performing	Nonperforming	Total
	(In Thousands)		
Commercial, financial and agricultural	$2,502,117	$ 11,108	$2,513,225
Real estate - construction	532,195	997	533,192
Real estate - mortgage:			
Owner-occupied commercial	1,460,529	3,358	1,463,887
1-4 family mortgage	619,465	2,169	621,634
Other mortgage	1,327,038	10,030	1,337,068
Total real estate - mortgage	3,407,032	15,557	3,422,589
Consumer	64,385	108	64,493
Total	$6,505,729	$ 27,770	$6,533,499

Loans by past due status as of March 31, 2019 and December 31, 2018 were as follows:

March 31, 2019	Past Due Status (Accruing Loans)						
	30-59 Days	60-89 Days	90+ Days	Total Past Due	Non-Accrual	Current	Total Loans
	(In Thousands)						
Commercial, financial and agricultural	$6,868	$2,115	$31	$9,014	$ 11,486	$2,501,636	$2,522,136
Real estate - construction	–	–	–	–	238	555,981	556,219
Real estate - mortgage:							
Owner-occupied commercial	122	–	–	122	3,558	1,496,915	1,500,595
1-4 family mortgage	600	649	–	1,249	1,850	626,186	629,285
Other mortgage	37	–	4,978	5,015	5,022	1,384,574	1,394,611
Total real estate - mortgage	759	649	4,978	6,386	10,430	3,507,675	3,524,491
Consumer	41	12	12	65	–	56,997	57,062

Total	$7,668	$2,776	$5,021	$15,465	$ 22,154	$6,622,289	$6,659,908

December 31, 2018	Past Due Status (Accruing Loans)						
	30-59 Days	60-89 Days	90+ Days	Total Past Due	Non-Accrual	Current	Total Loans
	(In Thousands)						
Commercial, financial and agricultural	$1,222	$48	$605	$1,875	$ 10,503	$2,500,847	$2,513,225
Real estate - construction	–	1,352	–	1,352	997	530,843	533,192
Real estate - mortgage:							
Owner-occupied commercial	412	–	–	412	3,358	1,460,117	1,463,887
1-4 family mortgage	534	235	123	892	2,046	618,696	621,634
Other mortgage	1,174	–	5,008	6,182	5,022	1,325,864	1,337,068
Total real estate - mortgage	2,120	235	5,131	7,486	10,426	3,404,677	3,422,589
Consumer	58	123	108	289	–	64,204	64,493
Total	$3,400	$1,758	$5,844	$11,002	$ 21,926	$6,500,571	$6,533,499

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, economic conditions, and other risks inherent in the portfolio. Allowances for impaired loans are generally determined based on collateral values or the present value of the estimated cash flows. The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for losses on loans. Such agencies may require the Company to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination.

The methodology utilized for the calculation of the allowance for loan losses is divided into four distinct categories. Those categories include allowances for non-impaired loans (ASC 450), impaired loans (ASC 310), external qualitative factors, and internal qualitative factors. A description of each category of the allowance for loan loss methodology is listed below.

Non-Impaired Loans. Non-impaired loans are grouped into the following homogeneous loan pools by loan type: commercial and industrial, construction and development, commercial real estate, second lien home equity lines of credit, and all other loans. Each loan pool is stratified by internal risk rating and multiplied by a loss allocation percentage derived from the loan pool historical loss rate. The historical loss rate is based on an age weighted five year history of net charge-offs experienced by pool, with the most recent net charge-off experience given a greater weighting. This results in the expected loss rate per year, adjusted by a qualitative adjustment factor and a years-to-impairment factor, for each pool of loans to derive the total amount of allowance for non-impaired loans.

Impaired Loans. Loans are considered impaired, when based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. The collection of all amounts due according to contractual terms means that both the contractual interest and principal payments of a loan will be collected as scheduled in the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the rate implicit in the original loan agreement, at the loan's observable market price or the fair value of the underlying collateral. The fair value of collateral, reduced by costs to sell on a discounted basis, is used if a loan is collateral-dependent. Fair value estimates for specifically impaired collateral-dependent loans are derived from appraised values based on the current market value or "as is" value of the property, normally from recently received and reviewed appraisals. Appraisals are obtained from certified and licensed appraisers and are based on certain assumptions, which may include construction or development status and the highest and best use of the property. These appraisals are reviewed by our credit administration department, and values are adjusted downward to reflect anticipated disposition costs. Once this estimated net realizable value has been determined, the value used in the impairment assessment is updated for each impaired loan. As subsequent events dictate and estimated net realizable values decline, required reserves may be established or further adjustments recorded.

External Qualitative Factors. The determination of the portion of the allowance for loan losses relating to external qualitative factors is based on consideration of the following factors: gross domestic product growth rate, changes in prime rate, delinquency trends, peer delinquency trends, year over year loan growth and state unemployment rate trends. Data for the three most recent periods is utilized in the calculation for each external qualitative component. The factors have a consistent weighted methodology to calculate the amount of allowance due to external qualitative factors.

Internal Qualitative Factors. The determination of the portion of the allowance for loan losses relating to internal qualitative factors is based on the consideration of criteria which includes the following: number of extensions and deferrals, single pay and interest only loans, current financial information, credit concentrations and risk grade accuracy. A self-assessment for each of the criteria is made with a consistent weighted methodology used to calculate the amount of allowance required for internal qualitative factors.

The following table presents an analysis of the allowance for loan losses by portfolio segment and changes in the allowance for loan losses for the three months ended March 31, 2019 and March 31, 2018. The total allowance for loan losses is disaggregated into those amounts associated with loans individually evaluated and those associated with loans collectively evaluated.

	Commercial, financial and agricultural	Real estate - construction	Real estate - mortgage	Consumer	Total
	(In Thousands)				
	Three Months Ended March 31, 2019				
Allowance for loan losses:					
Balance at December 31, 2018	$39,016	$ 3,522	$25,508	$554	$68,600
Charge-offs	(3,037)	–	(50)	(218)	(3,305)
Recoveries	12	1	7	7	27
Provision	3,468	72	1,246	99	4,885
Balance at March 31, 2019	$39,459	$ 3,595	$26,711	$442	$70,207
	Three Months Ended March 31, 2018				
Allowance for loan losses:					
Balance at December 31, 2017	$32,880	$ 4,989	$21,022	$515	$59,406
Charge-offs	(1,088)	–	(381)	(88)	(1,557)
Recoveries	4	7	42	9	62
Provision	3,991	(858)	923	83	4,139
Balance at March 31, 2018	$35,787	$ 4,138	$21,606	$519	$62,050
	As of March 31, 2019				
Allowance for loan losses:					
Individually Evaluated for Impairment	$5,192	$ 110	$1,987	$–	$7,289
Collectively Evaluated for Impairment	34,267	3,485	24,724	442	62,918
Loans:					
Ending Balance	$2,522,136	$ 556,219	$3,524,491	$57,062	$6,659,908
Individually Evaluated for Impairment	18,197	656	17,891	49	36,793
Collectively Evaluated for Impairment	2,503,939	555,563	3,506,600	57,013	6,623,115
	As of December 31, 2018				
Allowance for loan losses:					
Individually Evaluated for Impairment	$6,066	$ 126	$1,887	$49	$8,128
Collectively Evaluated for Impairment	32,950	3,396	23,621	505	60,472
Loans:					
Ending Balance	$2,513,225	$ 533,192	$3,422,589	$64,493	$6,533,499
Individually Evaluated for Impairment	18,444	1,461	18,637	49	38,591
Collectively Evaluated for Impairment	2,494,781	531,731	3,403,952	64,444	6,494,908

The following table presents details of the Company’s impaired loans as of March 31, 2019 and December 31, 2018, respectively. Loans which have been fully charged off do not appear in the table.

	March 31, 2019			For the three months ended March 31, 2019	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized in Period
	(In Thousands)				
With no allowance recorded:					
Commercial, financial and agricultural	$5,447	$5,947	$ –	$5,947	$ 49
Real estate - construction	418	421	–	454	7
Real estate - mortgage:					
Owner-occupied commercial	1,096	1,192	–	1,102	16
1-4 family mortgage	597	597	–	622	(1)
Other mortgage	4,978	4,978	–	4,992	61
Total real estate - mortgage	6,671	6,767	–	6,716	76
Consumer	–	–	–	–	–
Total with no allowance recorded	12,536	13,135	–	13,117	132
With an allowance recorded:					
Commercial, financial and agricultural	12,750	22,855	5,192	15,416	30
Real estate - construction	238	238	110	364	–
Real estate - mortgage:					
Owner-occupied commercial	3,558	3,558	106	3,558	(1)
1-4 family mortgage	1,253	1,253	301	1,253	–
Other mortgage	6,409	6,409	1,580	6,409	15
Total real estate - mortgage	11,220	11,220	1,987	11,220	14
Consumer	49	49	–	49	1
Total with allowance recorded	24,257	34,362	7,289	27,049	45
Total Impaired Loans:					
Commercial, financial and agricultural	18,197	28,802	5,192	21,363	79
Real estate - construction	656	659	110	818	7
Real estate - mortgage:					
Owner-occupied commercial	4,654	4,750	106	4,660	15
1-4 family mortgage	1,850	1,850	301	1,875	(1)
Other mortgage	11,387	11,387	1,580	11,401	76
Total real estate - mortgage	17,891	17,987	1,987	17,936	90
Consumer	49	49	–	49	1
Total impaired loans	$36,793	$47,497	$ 7,289	$40,166	$ 177

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	December 31, 2018			For the twelve months ended December 31, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized In Period
	(In Thousands)				
With no allowance recorded:					
Commercial, financial and agricultural	$ 6,064	$ 6,064	$ –	$ 6,142	$ 237
Real estate - construction	464	467	–	524	28
Real estate - mortgage:					
Owner-occupied commercial	1,763	1,947	–	2,223	120
1-4 family mortgage	1,071	1,071	–	1,088	21
Other mortgage	5,061	5,061	–	5,133	252
Total real estate - mortgage	7,895	8,079	–	8,444	393
Consumer	–	–	–	–	–
Total with no allowance recorded	14,423	14,610	–	15,110	658
With an allowance recorded:					
Commercial, financial and agricultural	12,380	20,141	6,066	15,918	462
Real estate - construction	997	997	126	997	31
Real estate - mortgage:					
Owner-occupied commercial	3,358	3,358	99	3,364	105
1-4 family mortgage	975	975	208	975	30
Other mortgage	6,409	6,409	1,580	6,598	217
Total real estate - mortgage	10,742	10,742	1,887	10,937	352
Consumer	49	49	49	49	3
Total with allowance recorded	24,168	31,929	8,128	27,901	848
Total Impaired Loans:					
Commercial, financial and agricultural	18,444	26,205	6,066	22,060	699
Real estate - construction	1,461	1,464	126	1,521	59
Real estate - mortgage:					
Owner-occupied commercial	5,121	5,305	99	5,587	225
1-4 family mortgage	2,046	2,046	208	2,063	51
Other mortgage	11,470	11,470	1,580	11,731	469
Total real estate - mortgage	18,637	18,821	1,887	19,381	745
Consumer	49	49	49	49	3
Total impaired loans	$ 38,591	$ 46,539	$ 8,128	$ 43,011	$ 1,506

Troubled Debt Restructurings ("TDR") at March 31, 2019, December 31, 2018 and March 31, 2018 totaled $12.3 million, $14.6 million and $18.8 million, respectively. The portion of those TDRs accruing interest at March 31, 2019, December 31, 2018 and March 31, 2018 totaled $2.7 million, $3.1 million and $15.8 million, respectively. At March 31, 2019, the Company had a related allowance for loan losses of $2.6 million allocated to TDRs, compared to $4.3

million at December 31, 2018 and $5.1 million at March 31, 2018. There were no modifications made to new TDRs or renewals of existing TDRs for the three months ended March 31, 2019 and 2018.

There were two commercial loans totaling $0.3 million which were modified in the previous twelve months (i.e., the twelve months prior to default) which defaulted during the three months ended March 31, 2019. There were no loans which were modified in the previous twelve months that defaulted during the three months ended March 31, 2018. For purposes of this disclosure, default is defined as 90 days past due and still accruing or placement on nonaccrual status.

NOTE 6 – LEASES

The Company leases space under non-cancelable operating leases for several of its banking offices and certain office equipment. The leases have remaining terms up to 10 years. At March 31, 2019, the Company had lease right-of-use assets and lease liabilities totaling $14.7 million, which are reflected in other assets and other liabilities, respectively, in the Company's Consolidated Balance Sheet.

Maturities of operating lease liabilities as of March 31, 2019 are as follows:

	March 31, 2019 (In Thousands)
2019 (remaining)	$ 2,397
2020	3,134
2021	2,487
2022	2,509
2023	2,088
thereafter	3,701
Total lease payments	16,316
Less: imputed interest	(1,637)
Present value of operating lease liabilities	$ 14,679

As of March 31, 2019 the weighted average remaining term of operating leases is 6.2 years and the weighted average discount rate used in the measurement of operating lease liabilities was 5.00%.

An initial right-of-use asset of $15.3 million was recognized as a non-cash asset addition with the adoption of the new lease accounting standard on January 1, 2019. Additional right-of-use assets of $0.4 million were recorded as non-cash asset additions that resulted from new operating lease liabilities during the first quarter 2019. Cash paid for amounts included in the present value of operating lease liabilities was $0.8 million during the first quarter 2019 and is included in operating cash flows.

Operating lease costs were $0.9 million during the first quarter 2019. Variable lease costs were $0.1 million during the first quarter 2019. Short-term lease costs were $7,000 during the first quarter 2019. Prior to the adoption of the new lease accounting standard, we had rent expense of $0.7 million for the first quarter ended 2018.

NOTE 7 - EMPLOYEE AND DIRECTOR BENEFITS

Stock Options

At March 31, 2019, the Company had stock incentive plans as described below. The compensation cost that has been charged to earnings for the plans was approximately $0.3 million and $0.2 million for the three months ended March 31, 2019 and 2018, respectively.

The Company’s 2009 Amended and Restated Stock Incentive Plan authorizes the grant of up to 5,550,000 shares and allows for the issuance of Stock Appreciation Rights, Restricted Stock, Stock Options, Non-stock Share Equivalents, Performance Shares or Performance Units. Both plans allow for the grant of incentive stock options and non-qualified stock options, and option awards are granted with an exercise price equal to the fair market value of the Company’s common stock at the date of grant. The maximum term of the options granted under the plans is ten years.

The Company estimates the fair value of each stock option award using a Black-Scholes-Merton valuation model which incorporates the assumptions noted in the following table. Expected volatilities are based on an index of southeastern United States publicly traded banks. The expected term for options granted is based on the short-cut method and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U. S. Treasury yield curve in effect at the time of grant.

	2019	2018
Expected volatility	40.00 %	23.43 %
Expected dividends	1.76 %	1.07 %
Expected term (in years)	6.3	6.3
Risk-free rate	2.61 %	2.67 %

The weighted average grant-date fair value of options granted during the three months ended March 31, 2019 and 2018 was $12.20 and $10.41, respectively.

The following table summarizes stock option activity during the three months ended March 31, 2019 and 2018:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (In Thousands)
Three Months Ended March 31, 2019:				
Outstanding January 1, 2019	1,238,748	$ 13.02	5.2	$ 23,355
Granted	6,000	34.09	9.8	(2)
Exercised	(162,500)	4.59	1.7	4,384
Forfeited	–	–	–	–
Outstanding March 31, 2019	1,082,248	14.41	6.3	$ 21,318
Exercisable March 31, 2019	354,800	$ 8.40	4.0	$ 9,356
Three Months Ended March 31, 2018:				
Outstanding January 1, 2018	1,666,834	$ 10.68	5.5	$ 51,377
Granted	10,250	41.21	9.9	(4)
Exercised	(173,836)	4.90	3.4	6,244
Forfeited	(1,000)	25.41	8.5	15
Outstanding March 31, 2018	1,502,248	11.54	5.5	$ 43,978

Exercisable March 31, 2018	672,600	$ 5.48	3.9	$ 23,770

As of March 31, 2019, there was $1.6 million of total unrecognized compensation cost related to non-vested stock options. The cost is expected to be recognized on the straight-line method over the next 1.8 years.

Restricted Stock

The Company periodically grants restricted stock awards that vest upon service conditions. Dividend payments are made during the vesting period. The value of restricted stock is determined to be the current value of the Company's stock, and this total value will be recognized as compensation expense over the vesting period. There were 15,200 shares of restricted stock granted to employees during the first quarter of 2019. There were 10,750 shares of restricted stock granted to employees during the first quarter of 2018. As of March 31, 2019, there was $1.2 million of total unrecognized compensation cost related to non-vested restricted stock. As of March 31, 2019, non-vested restricted stock had a weighted average remaining time to vest of 3.2 years.

NOTE 8 - DERIVATIVES

The Company has entered into agreements with secondary market investors to deliver loans on a "best efforts delivery" basis. When a rate is committed to a borrower, it is based on the best price that day and locked with the investor for the customer for a 30-day period. In the event the loan is not delivered to the investor, the Company has no risk or exposure with the investor. The interest rate lock commitments related to loans that are originated for later sale are classified as derivatives. The fair values of the Company's agreements with investors and rate lock commitments to customers as of March 31, 2019 and December 31, 2018 were not material.

NOTE 9 – RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*. The FASB issued this ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current U.S. GAAP and disclosing key information about leasing arrangements. The amendments in this ASU were effective for the Company on January 1, 2019. The Company elected the three practical expedients allowed by the amendments as follows: 1) forego an assessment of whether any existing contracts are or contain leases, 2) forego an assessment of the classification of existing leases as to whether they are operating leases or capital leases, and 3) forego an assessment of direct costs for any existing leases. Upon adoption on January 1, 2019, the Company recorded right-of-use assets and related lease liabilities of $15.3 million and did not restate comparative periods. There was no impact on the Company's consolidated statements of income or cash flows. See Note 6 – Leases for additional information.

In June 2018, the FASB issued ASU 2018-07, *Compensation – Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting.* These amendments expand the scope of Topic 718, Compensation - Stock Compensation, which only included share-based payments to employees, to include share-based payments issued to nonemployees for goods or services. Consequently, the accounting for share-based payments to nonemployees and employees are now substantially aligned. The ASU superseded Subtopic 505-50, Equity – Equity-Based Payments to Non-Employees. The Company adopted this ASU effective January 1, 2019. However, the amendments did not have an impact on the Company's Consolidated Financial Statements because it does not currently have any stock-based payment awards outstanding to nonemployees.

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 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; the discount continues to be amortized to maturity. The amendments in this ASU were effective for the Company as of January 1, 2019. The amendments in this ASU did not impact the Company's Consolidated Financial Statements, as it has always amortized premiums to the first call date.

NOTE 10 – RECENT ACCOUNTING PRONOUNCEMENTS

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which is essentially the final rule on use of the so-called CECL model, or current expected credit losses. Among other things, the amendments in this ASU require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For SEC filers, the amendments in this ASU are effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2019, with later effective dates for non-SEC registrant public companies and other organizations. Early adoption will be permitted for all organizations for fiscal years and interim periods within those fiscal years beginning after December 15, 2018. The Company has contracted with a third-party provider for enhanced modeling techniques that incorporate the loss measurement requirements in these amendments. The Company is currently working through its implementation plan and will be testing the effectiveness of the new model through analytics and comparison with its existing incurred loss model throughout 2019.

In July 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.* This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, however, entities will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU No. 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted. Entities are also allowed to elect early adoption of the eliminated or modified disclosure requirements and delay adoption of the new disclosure requirements until their effective date. As ASU No. 2018-13 only revises disclosure requirements, it will not have a material impact on the Company’s Consolidated Financial Statements.

NOTE 11 - FAIR VALUE MEASUREMENT

Measurement of fair value under U.S. GAAP establishes a hierarchy that prioritizes observable and unobservable inputs used to measure fair value, as of the measurement date, into three broad levels, which are described below:

Level 1:	Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
Level 2:	Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.
Level 3:	Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and also considers counterparty credit risk in its assessment of fair value.

Debt Securities. Where quoted prices are available in an active market, securities are classified within Level 1 of the hierarchy. Level 1 securities include highly liquid government securities such as U.S. Treasuries and exchange-traded equity securities. For securities traded in secondary markets for which quoted market prices are not available, the Company generally relies on pricing services provided by independent vendors. Such independent pricing services are to advise the Company on the carrying value of the securities available for sale portfolio. As part of the Company’s procedures, the price provided from the service is evaluated for reasonableness given market changes. When a questionable price exists, the Company investigates further to determine if the price is valid. If needed, other market participants may be utilized to determine the correct fair value. The Company has also reviewed and confirmed its determinations in discussions with the pricing source regarding their methods of price discovery. Securities measured with these techniques are classified within Level 2 of the hierarchy and often involve using quoted market prices for similar securities, pricing models or discounted cash flow calculations using inputs observable in the market where available. Examples include U.S. government agency securities, mortgage-backed securities, obligations of states and political subdivisions, and certain corporate, asset-backed and other securities. In cases where Level 1 or Level 2 inputs are not available, securities are classified in Level 3 of the hierarchy.

Impaired Loans. Impaired loans are measured and reported at fair value when full payment under the loan terms is not probable. Impaired loans are carried at the present value of expected future cash flows using the loan’s existing rate in a discounted cash flow calculation, or the fair value of the collateral if the loan is collateral-dependent. Expected cash flows are based on internal inputs reflecting expected default rates on contractual cash flows. This method of estimating fair value follows the exit-price concept of fair value described in Accounting Standards Codification (“ASC”) 820-10. For loans measured using the estimated fair value of collateral less costs to sell, fair value is generally determined based on appraisals performed by certified and licensed appraisers using inputs such as absorption rates, capitalization rates, and market comparables, adjusted for estimated costs to sell. Management modifies the appraised values, if needed, to take into account recent developments in the market or other factors, such as changes in absorption rates or market conditions from the time of valuation, and anticipated sales values considering management's plans for disposition. Such modifications to the appraised values could result in lower valuations of such collateral. Estimated costs to sell are based on current amounts of disposal costs for similar assets. These measurements are classified as Level 3 within the valuation hierarchy. Impaired loans are subject to nonrecurring fair value adjustment upon initial recognition or subsequent impairment. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly based on the same factors identified above. The amount recognized as an impairment charge related to impaired loans that are measured at fair value on a nonrecurring basis was $1.9 million during the three months ended March 31, 2019, and $2.3 million during the three months ended March 31, 2018.

Other Real Estate Owned. Other real estate assets ("OREO") acquired through, or in lieu of, foreclosure are held for sale and are initially recorded at the lower of cost or fair value, less selling costs. Any write-downs to fair value at the time of transfer to OREO are charged to the allowance for loan losses subsequent to foreclosure. Values are derived from appraisals of underlying collateral and discounted cash flow analysis. Appraisals are performed by certified and licensed appraisers. Subsequent to foreclosure, valuations are updated periodically and assets are marked to current fair value, not to exceed the new cost basis. In the determination of fair value subsequent to foreclosure, management also considers other factors or recent developments, such as changes in absorption rates and market conditions from the time of valuation, and anticipated sales values considering management's plans for disposition, which could result in adjustment to lower the property value estimates indicated in the appraisals. These measurements are classified as Level 3 within the valuation hierarchy. A loss on the sale and write-downs of OREO of $22,000 and $254,000 was recognized during the three months ended March 31, 2019 and 2018, respectively. These charges were for write-downs in the value of OREO subsequent to foreclosure and losses on the disposal of OREO. OREO is classified within Level 3 of the hierarchy.

There was one residential real estate loan with a balance of $340,000 foreclosed and classified as OREO as of March 31, 2019. This same loan had a balance of $360,000 as of December 31, 2018.

No residential real estate loans were in the process of being foreclosed as of March 31, 2019 and one residential real estate loan for $173,000 was in the process of being foreclosed as of December 31, 2018. This property was eventually purchased by another buyer at auction.

The following table presents the Company’s financial assets carried at fair value on a recurring basis as of March 31, 2019 and December 31, 2018. There were no liabilities measured at fair value on a recurring basis as of March 31, 2019 and December 31, 2018.

	Fair Value Measurements at March 31, 2019 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets Measured on a Recurring Basis:	(In Thousands)			
Available for sale debt securities:				
U.S. Treasury and government sponsored agencies	$–	$74,081	$ –	$74,081
Mortgage-backed securities	–	329,376	–	329,376
State and municipal securities	–	96,468	–	96,468
Corporate debt	–	125,268	6,503	131,771
Total assets at fair value	$–	$625,193	$ 6,503	$631,696

	Fair Value Measurements at December 31, 2018 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets Measured on a Recurring Basis:	(In Thousands)			
Available for sale debt securities:				

U.S. Treasury and government sponsored agencies	$–	$76,993	$ –	$76,993
Mortgage-backed securities	–	304,304	–	304,304
State and municipal securities	–	105,994	–	105,994
Corporate debt	–	96,375	6,518	102,893
Total assets at fair value	$–	$583,666	$ 6,518	$590,184

The following table presents the Company's financial assets carried at fair value on a nonrecurring basis as of March 31, 2019 and December 31, 2018. There were no liabilities measured at fair value on a non-recurring basis as of March 31, 2019 and December 31, 2018.

	Fair Value Measurements at March 31, 2019 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets Measured on a Nonrecurring Basis:	(In Thousands)			
Impaired loans	$–	$ –	$ 29,504	$29,504
Other real estate owned and repossessed assets	–	–	5,480	5,480
Total assets at fair value	$–	$ –	$ 34,984	$34,984

	Fair Value Measurements at December 31, 2018 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets Measured on a Nonrecurring Basis:	(In Thousands)			
Impaired loans	$–	$ –	$ 30,463	$30,463
Other real estate owned	–	–	5,169	5,169
Total assets at fair value	$–	$ –	$ 35,632	$35,632

The fair value of a financial instrument is the current amount that would be exchanged in a sale between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Current U.S. GAAP excludes certain financial instruments and all nonfinancial instruments from its fair value disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The estimated fair values of the Company's financial instruments not measured at fair value on a recurring or non-recurring basis as of March 31, 2019 and December 31, 2018 were as follows:

	March 31, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial Assets:				
Level 1 inputs:				
Cash and cash equivalents	$618,094	$618,094	$458,050	$458,050
Level 2 inputs:				
Federal funds sold	181,435	181,435	223,845	223,845
Mortgage loans held for sale	1,223	1,251	120	121
Level 3 Inputs:				
Held to maturity debt securities	250	250	–	–
Loans, net	6,589,701	6,555,511	6,464,899	6,398,604
Financial Liabilities:				
Level 2 inputs:				
Deposits	$7,083,666	$7,082,114	$6,915,708	$6,910,176
Federal funds purchased	373,378	373,378	288,725	288,725
Other borrowings	64,675	64,618		