

*2018 Annual
Report*



Atlantic Capital



Atlantic Capital

945 East Paces Ferry Rd. NE.
Suite 1600
Atlanta, GA 30326

www.atlanticcapitalbank.com

To our Shareholders:

Atlantic Capital substantially improved its operating results in 2018 with continued growth in our core Atlanta and national commercial businesses and the beneficial effect of higher interest rates on our net interest margin. In a decisive strategic move to enhance future operating performance and to direct resources to our most successful businesses, we reached an agreement in November of 2018 to divest our Tennessee and northwest Georgia operations and completed this transaction in April of 2019.

Spurred by corporate tax rate reduction and regulatory reform, the US economy expanded at a strong pace in 2018. Growth in employment, consumer spending, and business investment accelerated above recent trend lines. Loan demand moderated compared to 2017 and competition for deposits intensified throughout the year. The Federal Reserve continued its gradual course of normalization of monetary policy with four increases of 25 basis points each in the federal funds rate.

With the divestiture of our Tennessee and northwest Georgia business, our financial reporting for 2018 and prior periods now classifies this business as discontinued operations. Accordingly, discussion of 2018 results and comparison of those results to prior periods in this letter will focus on continuing operations.

For 2018, we reported net income of \$28.5 million, or \$1.09 per diluted share, compared to a net loss of \$3.7 million, or a diluted loss per share of \$0.15, for 2017. Net income from continuing operations was \$28.1 million, or \$1.07 per diluted share, for 2018. Since the Tax Cuts and Jobs Act of 2017 increased tax expense in 2017 and decreased tax expense in 2018, we believe income from continuing operations before taxes is a more comparable basis for analyzing year-to-year growth. On that basis, income from continuing operations before taxes increased 81% year over year to \$34.4 million in 2018 from \$19 million in 2017.

Improved Operating Results

During 2018, net interest income from continuing operations grew 20% compared to 2017. Over 85% of Atlantic Capital's revenue is comprised of net interest income, and as a result, loan and deposit growth, loan and other earning asset yields, deposit and wholesale funding costs, and credit quality are key variables in our earnings equation.

Atlantic Capital bankers are experts at providing sound and creative financing and treasury management solutions for our clients and drove strong loan and deposit growth in 2018. Loans held for investment increased 14% year over year. Loans to commercial and business banking clients grew 20% for the year and loans to commercial real estate developers and investors were up 8% from 2017. Atlantic Capital ranked first or second in Georgia by dollar volume throughout 2018 in Small Business Administration loans.

Average deposits from continuing operations in the fourth quarter of 2018 were 11% higher than the average in the fourth quarter of 2017. Non-interest bearing demand deposits increased 17% over the same period and were 34% of total deposits at December 31, 2018.

Growth in core client deposits was sustained and strengthened by the introduction of our next generation treasury management platforms — *Atlantic Capital Exchange (or ACE) for Treasury* for corporate clients in late 2017, and *Atlantic Capital Exchange (or ACE) for Business* for small business clients early in 2018. These innovative electronic banking capabilities enable us to provide high-touch depository and treasury management services anywhere in the United States without a large network of branch offices. Atlantic Capital again ranked in the top 50 among banks processing Automated Clearing House (ACH) transactions in 2018.

Four increases in the federal funds rate during 2018 resulted in a 73 basis point increase in the yield on loans from continuing operations to 5.01% and the yield on all earning assets from continuing operations increased 64 basis points to 4.34%. The cost of interest-bearing deposits and liabilities from continuing operations rose 42 basis points during the year. The result of these rate movements was a net interest margin from continuing operations of 3.50% for 2018 compared to 3.07% in 2017.

Best in class credit quality has been an Atlantic Capital hallmark since inception, and we again posted excellent credit quality metrics. Net charge-offs were 0.02% of loans held for investment during 2018 and non-performing assets were 0.20% of total assets at December 31, 2018.

A Sharper Strategic Focus

In April of 2019, we completed the previously-announced sale of our 14 offices in Tennessee and northwest Georgia and our retail mortgage business to FirstBank, the third largest bank headquartered in Tennessee. In June of 2018 we completed the divestiture of our trust business to its management team. We believe that these sales will allow us to build on the strength of our Atlanta and national commercial businesses and focus resources on opportunities for growth in those markets.

Atlanta is the ninth largest metropolitan market in the US with a population of 5.9 million, more than 221,000 business enterprises, and an estimated gross domestic product of over \$385 billion. Among the top ten metropolitan markets in the US, Atlanta ranked fourth in net job creation in 2016-17 and ranks second in expected population growth through 2020.

Over the last 12 months, seven Atlanta-based banks have announced agreements to sell to companies headquartered elsewhere. After the consummation of these mergers, Atlantic Capital will be the largest publicly held banking company headquartered in metropolitan Atlanta. In the wake of these announcements and subsequent integration efforts, we anticipate an exceptional period of turmoil and movement among bankers and their commercial clients. As Atlanta's hometown business bank, Atlantic Capital is advantageously positioned to benefit from this turmoil with strong market presence, aggressive hiring plans, and relentless business development efforts.

Atlantic Capital has built successful businesses in several national commercial client niches, including Small Business Administration lending, franchise finance, and operating services for high transaction volume payments and financial technology companies. Continued investment in these core businesses is expected to provide geographic balance and sustain strong growth in loans and deposits.

2019 Board Changes

In January 2019, we appointed Shan Cooper to our Board of Directors. We are excited to welcome Shan to Atlantic Capital and believe that her extensive management, business and board experience will prove invaluable as we continue to implement our Atlanta-based strategy. Shan has been a force in the development of the Atlanta business and economic community for years, and we are fortunate to have her on our Board.

In addition, Larry Mauldin intends to retire at the conclusion of his current term to focus on other business endeavors. His current term will end at our annual meeting of shareholders on May 16, 2019. We extend our appreciation to Larry for his continued support of and contributions to the pursuit of our strategic goals, and for the role he has played in our success. His presence in our board room will be missed. We wish him the best in his future endeavors.

Priorities and Outlook for 2019

Our priorities for 2019 are to:

- Redirect resources following the divestiture of our Tennessee and northwest Georgia business;
- Invest in growth capacity for our Atlanta and national commercial businesses;
- Focus on deposit growth by building treasury management services-based relationships; and
- Maintain best in class credit quality.

We also expect to continue our capital management initiatives, including share repurchases under the \$85 million program announced in November of 2018.

As mentioned, we sold our Tennessee and northwest Georgia business to focus capital, expense dollars, and management energy on our Atlanta and national commercial businesses. Accordingly, we plan to hire new bankers for our Atlanta commercial and private banking teams, establish a new private banking office in Atlanta's Buckhead community, convert our Athens loan production office to a limited service branch, and open a Cobb County loan production office this year.

With planned expansion of our banking teams in Small Business Administration lending, franchise finance, payments and financial technology banking, and treasury management services, we should sustain strong growth in loans, deposits, and non-interest income from these national businesses.

Our mission is to build multi-dimensional banking relationships with our clients to include depository and treasury management services, commercial credit, private banking, and, where needed, interest rate risk management and foreign exchange services. Particular focus on building depository and treasury management-based relationships is expected to help us balance loan and core deposit growth, maintain appropriate balance sheet liquidity, and enhance franchise value.

We think that our loan portfolio is well diversified by industry sector and property type and, as indicated by results, our borrowers are performing well. We believe our loan portfolio is positioned appropriately for a contraction in economic activity when it occurs.

We expect the economic expansion to continue, likely at a slower pace, through 2019. Our clients and prospects are optimistic about the future and confident about their prospects for continued strong performance. We expect solid loan demand in our markets, tempered by late cycle competitive behavior which will likely make us somewhat more selective, and continued intense competition for deposits. We anticipate stable monetary policy in 2019 as the Federal Reserve has indicated a likely pause in interest rate increases and curtailment of its balance sheet reduction program.

While the year ahead will be one of transition and transformation for our company, we expect solid growth and further improvement in profitability as we continue our mission to fuel our clients' prosperity. Thank you for your support and trust. As always, we welcome your questions, comments, and suggestions.

Sincerely,

A handwritten signature in black ink, reading "Douglas L. Williams". The signature is written in a cursive style with a large initial "D" and "W".

Douglas L. Williams
President and Chief Executive Officer

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



Atlantic Capital

FORM 10-K

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

For the fiscal year ended December 31, 2018

COMMISSION FILE NO. 001-37615

ATLANTIC CAPITAL BANCSHARES, INC.
(Exact Name of Registrant as Specified in its Charter)

Georgia

20-5728270

(State of Incorporation)

(I.R.S. Employer Identification No.)

945 East Paces Ferry Road NE, Suite 1600 Atlanta, Georgia

30326

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (404) 995-6050

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

Name of each exchange on which registered

Title of each class

The NASDAQ Stock Market LLC

Common Stock, no par value

(NASDAQ Global Select Market)

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 Section 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 and 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 (Section 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, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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 Exchange Act). Yes No

As of June 29, 2018 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the common stock held by non-affiliates of the registrant was \$427.5 million based upon the closing sale price as reported on NASDAQ. See Part II, Item 5 of this Annual Report on Form 10-K for additional information.

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

Class

Outstanding at March 7, 2019

Common Stock, no par value per share

24,821,995 shares

DOCUMENTS INCORPORATED BY REFERENCE

The registrant has incorporated by reference into Part III of this report certain portions of its Proxy Statement for its 2019 Annual Meeting of Shareholders, which is expected to be filed pursuant to Regulation 14A within 120 days after the end of the registrant's fiscal year ended December 31, 2018.

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Atlantic Capital Bancshares, Inc.

Form 10-K

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PART I

ITEM 1. BUSINESS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of section 27A of the Securities Act and 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as “may,” “should,” “could,” “predict,” “potential,” “believe,” “will likely result,” “expect,” “continue,” “will,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “projection,” “would” and “outlook,” or the negative version of those words or other comparable of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and 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. 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. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

The following risks, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- the cost savings from our exit of the Tennessee and northwest Georgia markets may not be fully realized or may take longer to realize than expected;
- the funding impact from the loss of deposits following the sale of our Tennessee and northwest Georgia branches;
- our strategic decision to focus on the greater Atlanta market may not positively impact our financial condition in the expected timeframe, or at all;
- costs associated with our growth initiatives in the Atlanta market area;
- changes in asset quality and credit risk;
- risks associated with increased geographic concentration, borrower concentration and concentration in commercial real estate and commercial and industrial loans resulting from our exit of the Tennessee and northwest Georgia markets;
- the cost and availability of capital;
- customer acceptance of our products and services;
- customer borrowing, repayment, investment and deposit practices;
- the introduction, withdrawal, success and timing of business initiatives;
- the impact, extent, and timing of technological changes;
- severe catastrophic events in our geographic area;
- a weakening of the economies in which we conduct operations may adversely affect our operating results;
- the U.S. legal and regulatory framework, including those associated with the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), could adversely affect the operating results of the company;
- the interest rate environment may compress margins and adversely affect net interest income;
- changes in trade, monetary and fiscal policies of various governmental bodies and central banks could affect the economic environment in which we operate;

- our ability to determine accurate values of certain assets and liabilities;
- adverse developments in securities, public debt, and capital markets, including changes in market liquidity and volatility;
- our ability to anticipate or respond to interest rate changes correctly and manage interest rate risk presented through unanticipated changes in our interest rate risk position and/or short- and long-term interest rates;
- the impact of the transition from LIBOR and our ability to adequately manage such transition;
- unanticipated changes in our liquidity position, including but not limited to our ability to enter the financial markets to manage and respond to any changes to our liquidity position;
- adequacy of our risk management program;
- increased competitive pressure due to consolidation in the financial services industry;
- risks related to security breaches, cybersecurity attacks and other significant disruptions in our information technology systems;
- the effect of changes in tax law, such as the effect of the Tax Cuts and Jobs Act that was enacted on December 22, 2017; and
- other risks and factors identified in this Form 10-K under the heading “Risk Factors.”

Background

Atlantic Capital Bancshares, Inc. (“we,” “us,” “Atlantic Capital,” or the “Company”), a Georgia corporation organized in 2006 and headquartered in Atlanta, Georgia, is the parent of Atlantic Capital Bank, N.A. (the “Bank”). We provide a competitive array of credit, treasury management, capital markets, electronic banking and deposit products and services through dedicated and experienced banking teams.

In 2015, we acquired First Security Group, Inc. and FSG Bank, N.A. (“First Security”), a Tennessee-based financial institution with approximately \$1.14 billion in assets. Since 2016, we have steadily refocused our efforts on key geographic markets, ultimately developing a strategy focused on Atlanta and the surrounding market areas as well as select national client segments. From 2016 to 2018, we completed the sale of eight branches and the consolidation of two additional branches in Tennessee, closed our loan production office in Charlotte, North Carolina, and sold our trust and wealth management division, which primarily operated in the Tennessee and northwest Georgia markets. During 2018, we decided to exit the Tennessee and northwest Georgia markets and the residential mortgage banking business, and on November 14, 2018, we entered into an agreement to sell the remaining 11 branches in Tennessee and three branches in northwest Georgia to FirstBank (the “Branch Sale”). The Branch Sale is expected to close in the second quarter of 2019. We are currently in the process of opening a loan production office in Cobb County, Georgia, and have submitted applications to establish a branch in Atlanta’s Buckhead Community and to convert our Athens, Georgia loan production office to a branch. The new branches and the loan production office are expected to open in the second or third quarter of 2019.

Although we expect to incur expenses in connection with these transactions in the short term, we expect our recent strategic changes to have a positive impact on our financial results, including long-term cost savings, the reallocation of resources to the Atlanta market and in high-growth businesses, improved capital to support our strategic initiatives, and improved returns on average assets. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Our Business Strategy

Our objective is to build Atlantic Capital as Atlanta’s premier hometown business bank.

We are a team of talented, experienced and entrepreneurial bankers focused on serving commercial and not-for-profit enterprises, commercial real estate developers and individual clients that value high-touch relationships and deep expertise.

We believe our strengths differentiate us from our competitors and allow us to address the financial needs of our clients. We also believe that these clients will present us with opportunities to originate loans and utilize our treasury management expertise. We will continue to focus on maintaining industry diversity in our target client base in order to mitigate our loan portfolio risk, increase market presence and leverage the diverse industry experience of our corporate and business banking teams.

We recognize that the success of our franchise depends upon the success of our bankers. We are focused on hiring and retaining experienced bankers, providing them with the business development and client service tools they need to build and maintain long-term banking relationships through a deep understanding of each client's business. We also construct client service teams with the range of expertise necessary to provide collaborative and seamless high-touch service across product lines. We are committed to continued investment through recruiting and employee development as well as product innovation, both in our core business of commercial and private banking and in high-growth businesses, including Small Business Administration ("SBA") lending, franchise lending, payments and technology banking and treasury management. We continually evaluate our product offerings, and we rely heavily on input from our bankers as we refine our products to provide creative financial solutions tailored to the evolving needs of our clients.

To support our strategic initiatives, we focus on maintaining a balance sheet with strong capital levels and excellent credit quality, which we believe enable us to not only nimbly expand our teams of service providers as hiring opportunities arise, but also to originate larger loans, invest in specialty financing and other high-growth business lines, and attract deposits from high transaction volume payments and financial technology businesses.

We continually evaluate the profitability and viability of our existing lines of business, the strategic advantages associated with investment in the organic development or acquisition of lines of business that better serve our core banking customers, and the termination of under-used or unprofitable lines of business.

Commercial and Not-for-Profit Banking

We offer a full range of commercial and business banking products to fund our Georgia-based clients' strategic growth, capital expenditures, working capital requirements and strategic corporate finance activities. Our solutions include working capital and equipment loans, loans supported by owner-occupied real estate and strategic corporate financing funded through revolving lines of credit, term loans and letters of credit, as well as cash and treasury management services.

We focus on banking commercial companies with revenues in excess of \$10 million and small businesses with revenues of \$1 million to \$10 million based in Georgia. In addition, we offer SBA loans and franchise finance programs to small businesses and franchisees across a wide range of industries in the southeast and nationally through a dedicated team of bankers with expertise in these specialized forms of lending.

The terms of our commercial and not-for-profit enterprises and business banking loans vary by purpose and by the underlying collateral. The vast majority of these loans are secured by assets of the borrower; however, we periodically make unsecured loans to our most credit worthy clients when circumstances support such activity. Loans to support working capital typically have terms not exceeding one year and are usually fully-secured by accounts receivable and inventory, as well as by personal guarantees of the principals or owners of the business. For loans secured by accounts receivable or inventory, the principal balance is repaid as the assets securing the loan are converted into cash. For loans secured with other types of collateral, the principal balance generally amortizes over the term of the loan. The quality of the commercial borrower's management and its ability to both properly evaluate and respond to changes affecting its business operations and operating environment are significant factors we evaluate with respect to a commercial borrower's creditworthiness.

Specialty Corporate Financial Services

Through our highly experienced specialty corporate financial services team, we provide an array of specialty commercial lending, treasury management, payment processing, deposit, and capital markets services.

Our specialty corporate financial services are tailored to the needs of clients in particular industries, such as payroll services, financial technology, financial services and banking. Our corporate treasury management services are designed to improve our clients' financial efficiency by facilitating domestic and international collection and disbursement of funds and other transactions with real time online execution and reporting capabilities. Our electronic payments services are designed to assist high transaction volume clients with payment processing through the FedWire and Automated Clearing House (ACH) systems as well as transaction risk monitoring and management. We offer money market deposit accounts that allow financial institution clients to earn a higher return than that available on other short term investment or on balances at the Federal Reserve Bank. In addition, we offer capital markets services, including interest rate swaps and foreign exchange transactions, designed to assist clients in managing financial risk exposure.

Private Banking

Through our private banking business team, we offer personal credit products, an array of checking and savings products and online and mobile banking services.

Our private banking credit products include loans to individuals and professional services businesses for personal and investment purposes, such as secured installment and term loans and home equity lines of credit. Repayment of these loans is often primarily dependent upon the borrower's financial profile and is more likely to be adversely affected by personal hardships as compared to other types of loans. Credit decisions are based on a review of a borrower's credit and debt history, past income levels and cash flow to assess the ability of the borrower to make future payments. Home equity lines of credit are underwritten based upon our assessment of the borrower's credit profile and ability to repay the entirety of the obligation.

Commercial Real Estate Finance

Through our commercial real estate team, we offer a wide variety of loan products, including secured construction loans, secured mini-permanent loans and, less frequently, secured or unsecured lines of credit. A large majority of our commercial real estate loan portfolio is secured by a first mortgage security interest in the property financed. Our primary focus is providing loans for our core commercial real estate property types: multifamily (primarily for-rent) housing, office, industrial and retail properties. We occasionally extend unsecured credit to public real estate investment trusts and to certain other commercial real estate clients, which we believe to have exceptional credit quality. The majority of our commercial real estate customers and the largest proportion of our commercial real estate collateral are located in the Atlanta area. We have occasionally extended credit to select clients in markets outside our primary markets, and expect to continue to do this in certain circumstances. In addition, we will retain select loans to borrowers with collateral located in the Tennessee and northwest Georgia markets following the Branch Sale.

The majority of our commercial real estate loans finance stabilized income producing assets of our borrowers. We also extend loans for construction and development purposes and lines of credit. We seek to actively manage and balance our commercial real estate loan portfolio across various property types and industries to assure appropriate diversification and to manage our exposure to market conditions. We have arranged and participated in syndicated commercial real estate loans to diversify and mitigate our client concentration risk and to support our loan growth goals, and we may continue both in the future.

Competition

We face substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and may have more financial resources than we do. Such competitors primarily include national, regional, and Internet banks within the various markets in which we operate. We also face competition from many other types of financial institutions, including, without limitation, savings and loan associations, credit unions, finance companies, brokerage firms, insurance companies, and other financial intermediaries.

The financial services industry could become even more competitive as a result of legislative, regulatory, and technological changes and continued consolidation. Banks, securities firms, and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance agency and underwriting, and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of our non-bank competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than we can.

As of June 30, 2018, there were approximately 80 banks and thrifts operating in metropolitan Atlanta. Large national, super-regional and regional banks may lack the consistency of decision-making authority and local focus necessary to provide superior service to our target clients. Conversely, smaller community banks typically lack the sophisticated products, capital and management experience to provide the level of service that our target clients demand. We believe that our product offerings are more robust than those offered by community banks and more tailored to suit our clients' needs than those offered by large regional and national competitors. In addition, we believe that our collaborative team approach, the decision-making authority vested in our seasoned bankers and our streamlined credit approval process allow us to provide high-touch service at a level not offered by any of our competitors.

Employees

As of December 31, 2018, we employed 340 individuals (334 of whom were full-time equivalent employees). Most of our employees are only employees of the Bank. We are not a party to a collective bargaining agreement, and we consider our relations with employees to be good.

Additional Information

Our principal internet address is www.atlanticcapitalbank.com. The information contained on, or that can be accessed through, our website is not incorporated by reference into this Annual Report on Form 10-K. We have included our website address as a factual reference and do not intend it as an active link to our website. We provide our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, and all amendments to those reports, free of charge on www.atlanticcapitalbank.com, as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission.

Supervision and Regulation

Bank holding companies and national banks are extensively regulated under both federal and state law. The following is a brief summary of certain statutes and rules and regulations that affect or will affect the Company and the Bank. This summary is not intended to be an exhaustive description of the statutes or regulations applicable to their respective businesses. Supervision, regulation and examination of the Company and the Bank by regulatory agencies are intended primarily for the protection of depositors rather than shareholders of the Company. The Company cannot predict whether or in what form any proposed statute or regulation will be adopted or the extent to which the business of the Company and the Bank may be affected by a statute or regulation. The discussion is qualified in its entirety by reference to applicable laws and regulations. Changes in such laws and regulations may have a material effect on the Company's and the Bank's business and prospects.

Bank Holding Company Regulation and Structure

As a bank holding company, the Company is subject to regulation under the Bank Holding Company Act of 1956, as amended (the "BHCA") and to the regulation, supervision, and examination by the Federal Reserve. The Bank is chartered by the Office of the Comptroller of the Currency ("OCC") and thus is subject to regulation, supervision and examination by the OCC.

The BHCA requires every bank holding company to obtain the prior approval of the Federal Reserve before:

- it may acquire substantially all of the assets of any other bank holding company, or direct or indirect ownership or control of voting shares of any other bank holding company if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the voting shares of the other bank holding company;
- it may acquire substantially all of the assets of any other bank, or direct or indirect ownership or control of voting shares of any bank if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the voting shares of the bank;
- it or any of its subsidiaries, other than a bank, may acquire all or substantially all of the assets of any bank; or
- it may merge or consolidate with any other bank holding company.

The BHCA further provides that the Federal Reserve may not approve any transaction that would result in a monopoly or that would substantially lessen competition in the banking business, unless the public interest in meeting the needs of the communities to be served outweighs the anti-competitive effects. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks involved and the convenience and needs of the communities to be served. Consideration of financial resources generally focuses on capital adequacy and consideration of convenience and needs issues, which focuses, in part, on the performance under the Community Reinvestment Act of 1977 (the "CRA").

Subject to various exceptions, the BHCA and the Change in Bank Control Act, together with related regulations, require Federal Reserve approval prior to any person or company acquiring "control" of a bank holding company.

Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of a bank holding company. Control is also presumed to exist, although rebuttable, if a person or company acquires 10% or more, but less than 25%, of any class of voting securities and either:

- the bank holding company has registered securities under Section 12 of the Exchange Act; or
- no other person owns a greater percentage of that class of voting securities immediately after the transaction.

Our common stock is registered under Section 12 of the Exchange Act. The regulations provide a procedure for challenging rebuttable presumptions of control.

The BHCA generally prohibits a bank holding company from engaging in, or acquiring 5% or more of the voting stock of a company engaged in, activities other than banking; managing or controlling banks or other permissible subsidiaries and performing servicing activities for subsidiaries; and engaging in any activities other than activities that the Federal Reserve has determined by order or regulation are so closely related to banking as to be a proper incident included thereto under the BHCA. In determining whether a particular activity is permissible, the Federal Reserve considers whether performing the activity can be expected to produce benefits to the public that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices. The Federal Reserve has the power to order a bank holding company or its subsidiaries to terminate any activity or control of any subsidiary when the continuation of the activity or control constitutes a serious risk to the financial safety, soundness or stability of any bank subsidiary of that bank holding company.

Under the BHCA, a bank holding company may file an election with the Federal Reserve to be treated as a financial holding company and engage in an expanded list of financial activities. The election must be accompanied by a certification that the Company's insured depository institution subsidiary is "well capitalized" and "well managed." Additionally, the CRA rating of each subsidiary bank must be satisfactory or better. The Company has not elected to be treated as a financial holding company.

We are required to act as a source of financial strength for the Bank and to commit resources to support the Bank. This support may be required at times when the Company might not be inclined to provide it. In addition, any capital loans made by the Company to the Bank will be repaid only after the Bank's deposits and various other obligations are repaid in full.

Bank Merger Act

Section 18(c) of the Federal Deposit Insurance Act, commonly known as the "Bank Merger Act," requires the prior written approval of the OCC before any national bank may (i) merge or consolidate with, (ii) purchase or otherwise acquire the assets of, or (iii) assume the deposit liabilities of, another bank if the resulting institution is to be a national bank.

The Bank Merger Act prohibits the OCC from approving any proposed merger transaction that would result in a monopoly or would further a combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States. Similarly, the Bank Merger Act prohibits the OCC from approving a proposed merger transaction whose effect in any section of the country may be to lessen competition substantially, or to tend to create a monopoly, or which in any other manner would be in restraint of trade. An exception may be made in the case of a merger transaction whose effect would be to substantially lessen competition, tend to create a monopoly, or otherwise restrain trade, if the OCC finds that the anticompetitive effects of the proposed transaction are clearly outweighed by the probable effect of the transaction in meeting the convenience and needs of the community to be served.

In every proposed merger transaction, the OCC must also consider the financial and managerial resources and future prospects of the existing and resulting institutions, the convenience and needs of the communities to be served, and the effectiveness of each insured depository institution involved in the proposed merger transaction in combating money-laundering activities, including in overseas branches.

Capital Adequacy

The final rule adopted by the federal banking regulators in 2013 implementing the Basel III regulatory capital reforms established new prompt corrective action requirements for all banks and includes a new common equity Tier 1 risk-based capital measure. The risk-based capital and leverage capital requirements under the final rule are set forth in the table that follows.

Requirement	Total Risk Based Capital Ratio	Tier 1 Risk Based Capital Ratio	CET1 Risk Based Capital Ratio	Leverage Ratio
Well Capitalized	≥ 10%	≥ 8%	≥ 6.5%	≥ 5%
Adequately Capitalized	≥ 8%	≥ 6%	≥ 4.5%	≥ 4%
Undercapitalized	≥ 8%	≥ 6%	≥ 4.5%	≥ 4%
Significantly Undercapitalized	≥ 6%	≥ 4%	≥ 3%	≥ 3%
Critically Undercapitalized	Tangible equity to total assets ≤ 2			

The final rule also sets forth a capital ratio phase-in schedule. The phase-in provisions for banks with \$250 billion or less in total assets are set forth in the following table.

Effective as of January 1,	2016	2017	2018	2019
Minimum Leverage Ratio	4.0%	4.0%	4.0%	4.0%
Minimum Common Equity Tier 1 Risk Based Capital Ratio	4.5%	4.5%	4.5%	4.5%
Capital Conservation Buffer ⁽¹⁾	0.625%	1.25%	1.875%	2.5%
Minimum Common Equity Tier 1 Risk Based Capital Ratio with Capital Conservation Buffer	5.125%	5.75%	6.375%	7.0%
Minimum Tier 1 Risk Based Capital Ratio	6.0%	6.0%	6.0%	6.0%
Minimum Tier 1 Risk Based Capital Ratio with Capital Conservation Buffer	6.625%	7.25%	7.875%	8.5%
Minimum Total Risk Based Capital Ratio	8.0%	8.0%	8.0%	8.0%
Minimum Total Risk Based Capital Ratio with Capital Conservation Buffer	8.625%	9.25%	9.875%	10.5%

(1) The capital conservation buffer must be maintained in order for a banking organization to avoid being subject to limitations on capital distributions, including dividend payments, and discretionary bonus payments to executive officers.

The final rule includes comprehensive guidance with respect to the measurement of risk-weighted assets. For residential mortgages, Basel III retains the risk-weights contained in the current capital rules which assign a risk-weight of 50% to most first-lien exposures and 100% to other residential mortgage exposures. The final rule increased the risk-weights associated with certain on-balance sheet assets, such as high volatility commercial real estate loans, and loans that are more than 90 days past due or in nonaccrual status. Capital requirements were also increased for certain off-balance sheet exposures including, for example, loan commitments with an original maturity of one year or less.

Under the final rule, certain banking organizations, including the Company and the Bank, are permitted to make a one-time election to continue the current treatment of excluding from regulatory capital most accumulated other comprehensive income (“AOCI”) components, including amounts relating to unrealized gains and losses on available-for-sale debt securities and amounts attributable to defined benefit post-retirement plans. Institutions that elect to exclude most AOCI components from regulatory capital under Basel III will be able to avoid volatility that would otherwise be caused by things such as the impact of fluctuations in interest rates on the fair value of available-for-sale debt securities. The Company and the Bank elected to exclude AOCI components from regulatory capital under Basel III.

Under the Economic Growth, Regulatory Relief, and Consumer Protection Act, enacted in 2018, federal banking agencies are required to develop a new Community Bank Leverage Ratio for banks with assets of less than \$10 billion. Banks that exceed this ratio will be deemed to be in compliance with all other capital and leverage requirements. The federal banking agencies will be permitted to consider an institution’s risk profile in determining whether the institution qualifies as a “community bank” for purposes of this requirement. The federal banking agencies have not developed the Community Bank Leverage Ratio.

Liquidity

In December 2010, the Basel Committee published “Basel III: International Framework for Liquidity Risk Measurement, Standards and Monitoring” and in January 2013 published a revised liquidity coverage ratio (collectively referred to as the “Liquidity Standard”). The Liquidity Standard includes: (1) a liquidity coverage ratio to ensure that sufficient high quality liquid resources are available in case of a liquidity crisis; (2) a net stable funding ratio to promote liquidity resiliency over longer time horizons by creating incentives for banks to fund their activities with stable sources of funding on an ongoing basis; and (3) additional liquidity monitoring metrics focused on maturity mismatch, concentration of funding and available unencumbered assets. The Liquidity Standard would be phased-in through 2019. On September 3, 2014, the U.S. banking agencies issued a final liquidity rule that establishes for the first time a standardized minimum liquidity requirement. The final rule applies to large and internationally active banking organizations and is not applicable to the Bank. The U.S. banking agencies have not adopted or proposed rules to implement a quantitative liquidity requirement for banks such as the Bank with less than \$50 billion in total assets, and it is uncertain whether such a requirement will be established.

Failure to meet capital guidelines could subject a bank to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting brokered deposits and certain other restrictions on its business. As described below, the FDIC can impose substantial additional restrictions upon FDIC-insured depository institutions that fail to meet applicable capital requirements as set forth above.

The Federal Deposit Insurance Act (the “FDI Act”) requires the federal regulatory agencies to take “prompt corrective action” if a depository institution does not meet minimum capital requirements as set forth above. Generally, a receiver or conservator for a bank that is “critically undercapitalized” must be appointed within specific time frames. The regulations also provide that a capital restoration plan must be filed within 45 days of the date a bank is deemed to have received notice that it is “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized.” Any holding company for a bank required to submit a capital restoration plan must guarantee the lesser of (i) an amount equal to 5% of the bank’s assets at the time it was notified or deemed to be undercapitalized by regulator, or (ii) the amount necessary to restore the bank to adequately capitalized status. This guarantee remains in place until the bank is notified that it has maintained adequately capitalized status for specified time periods. Additional measures with respect to undercapitalized institutions include a prohibition on capital distributions, growth limits and restrictions on activities.

An institution may be downgraded to, or deemed to be in, a capital category that is lower than is indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. As of December 31, 2018, the Bank had capital levels that qualify as “well capitalized” under such regulations.

The FDI Act generally prohibits an FDIC-insured bank from making a capital distribution (including payment of a dividend) or paying any management fee to its holding company if the bank would thereafter be “undercapitalized.” “Undercapitalized” banks are subject to growth limitations and are required to submit a capital restoration plan. The federal regulators may not accept a capital plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the bank’s capital. In addition, for a capital restoration plan to be acceptable to regulators, the bank’s parent holding company must guarantee that the institution will comply with such capital restoration plan. The aggregate liability of the parent holding company is limited to the lesser of: (i) an amount equal to 5% of the bank’s total assets at the time it became “undercapitalized”; and (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a bank fails to submit an acceptable plan, it is treated as if it is “significantly undercapitalized.”

“Significantly undercapitalized” insured banks may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become “adequately capitalized,” requirements to reduce total assets and the cessation of receipt of deposits from correspondent banks. “Critically undercapitalized” institutions are subject to the appointment of a receiver or conservator. A bank that is not “well capitalized” is also subject to certain limitations relating to brokered deposits.

For further detail on capital and capital ratios see the discussion under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” section, “Liquidity and Capital Resources,” contained in Item 7.

FDIC Insurance Assessments

The FDIC, through the Deposit Insurance Fund (“DIF”), insures the deposits of the Bank up to prescribed limits for each depositor (currently, \$250,000 per depositor). The assessment paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other factors. Specifically, the assessment rate is based on the institution’s capitalization risk category and supervisory subgroup category. The deposit insurance assessment is calculated on the average total consolidated assets of insured depository institutions during the assessment period, less the average tangible equity of the institution during the assessment period as opposed to solely bank deposits at an institution. An institution’s capitalization risk category is based on the FDIC’s determination of whether the institution is well capitalized, adequately capitalized or less than adequately capitalized. The Bank’s insurance assessments during 2018, 2017, and 2016 were \$745,000, \$966,000, and \$1.6 million, respectively.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

The FDIC also collects a deposit-based assessment from insured financial institutions on behalf of the Financing Corporation (the “FICO”). The funds from these assessments are used to service debt issued by FICO in its capacity as a financing vehicle for the Federal Savings & Loan Insurance Corporation, which formerly insured savings and loan associations. These assessments will continue until the debt matures in 2019.

Payment of Dividends and Other Restrictions

The Company is a legal entity that is separate and distinct from the Bank. While there are various legal and regulatory limitations under federal and state law governing the extent to which banks can pay dividends or otherwise supply funds to holding companies, the principal source of cash revenues for the Company are dividends from the Bank. The relevant federal regulatory agencies also have authority to prohibit a national bank or bank holding company from engaging in conduct that, in the opinion of such regulatory agency, constitutes an unsafe or unsound practice in conducting its business. The payment of dividends could, depending upon the financial condition of a bank, be deemed to constitute an unsafe or unsound practice in conducting its business.

Insured depository institutions, such as the Bank, are prohibited from making capital distributions, including the payment of dividends, if, after making such distribution, the institution would become “undercapitalized” (as such term is defined in the applicable law and regulations). In addition, capital rules limit capital distributions, including dividends, if the depository institution does not have a “capital conservation buffer.” See further details above under “Capital Adequacy.”

National banks are required by federal law to obtain the prior approval of the OCC in order to declare and pay dividends if the total of all dividends declared in any calendar year would exceed the total of (1) such bank’s net profits (as defined and interpreted by regulation) for that year plus (2) its retained net profits (as defined and interpreted by regulation) for the preceding two calendar years, less any required transfers to surplus. In addition, these banks may only pay dividends to the extent that retained net profits (including the portion transferred to surplus) exceed bad debts (as defined by regulation).

The Federal Reserve has issued a policy statement that a bank holding company should pay cash dividends only to the extent that the holding company’s net income for the past year is sufficient to cover both the cash dividends and a rate of earning retention that is consistent with the holding company’s capital needs, asset quality and overall financial condition. The Federal Reserve also indicated that it would be inappropriate for a holding company experiencing serious financial problems to borrow funds to pay dividends. Furthermore, under the prompt corrective action regulations adopted by the Federal Reserve, the Federal Reserve may prohibit a bank holding company from paying any dividends if one or more of the holding company’s bank subsidiaries are classified as undercapitalized.

A bank holding company is required to give the Federal Reserve prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of its consolidated net worth. The Federal Reserve may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, Federal Reserve order or any condition imposed by, or written agreement with, the Federal Reserve. In addition, the Federal Reserve has indicated that bank holding companies should review their dividend policies, and has discouraged dividend payment ratios that are at maximum allowable levels unless both asset quality and capital levels are strong.

Transactions with Affiliates

Federal laws strictly limit the ability of banks to engage in transactions with their affiliates, including their bank holding companies. Regulations promulgated by the Federal Reserve limit the types and amounts of these transactions (including extensions of credit from their bank subsidiaries) that may take place and generally require those transactions to be on an arm's-length basis. In general, these regulations require that any "covered transactions" between a subsidiary bank and its parent company or the nonbank subsidiaries of the bank holding company be limited to 10% of the bank subsidiary's capital and surplus and, with respect to such parent company and all such nonbank subsidiaries, to an aggregate of 20% of the bank subsidiary's capital and surplus. Further, loans and extensions of credit to affiliates generally are required to be secured by eligible collateral in specified amounts.

Interstate Banking and Branching

The Dodd-Frank Act relaxed previous restrictions on interstate branching and national banks and state banks are able to establish branches in any state if that state would permit the establishment of the branch by a state bank chartered in that state. The Federal Deposit Insurance Act (the "FDIA"), requires that the OCC review (1) any merger with an insured bank into a national bank, or (2) any establishment of branches by an insured bank. See "-Bank Merger Act."

Loans to Directors, Executive Officers and Principal Shareholders

The authority of the Bank to extend credit to its directors, executive officers and principal shareholders, including their immediate family members, corporations and other entities that they control, is subject to substantial restrictions and requirements under the Federal Reserve Act and Regulation O promulgated thereunder, as well as the Sarbanes-Oxley Act. These statutes and regulations impose specific limits on the amount of loans that the Bank may make to directors and other insiders, and specified approval procedures must be followed in making loans that exceed certain amounts. In addition, all loans the Bank makes to directors and other insiders must satisfy the following requirements:

- the loans must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not affiliated with the Bank;
- the Bank must follow credit underwriting procedures at least as stringent as those applicable to comparable transactions with persons who are not affiliated with the Bank; and
- the loans must not involve a greater than normal risk of non-payment or include other features not favorable to the Bank.

Furthermore, the Bank must periodically report all loans made to directors and other insiders to the bank regulators, and these loans are closely scrutinized by the regulators for compliance with Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O. Each loan to directors or other insiders must be pre-approved by the Bank's board of directors with the interested director abstaining from voting.

Community Reinvestment Act

The CRA requires the federal bank regulatory agencies to encourage financial institutions to meet the credit needs of low and moderate-income areas and borrowers in their local communities. An institution's size and business strategy determines the type of examination that it will receive. Large, retail-oriented institutions are examined using a performance-based lending, investment and service test. Small institutions are examined using a streamlined approach. All institutions may opt to be evaluated under a strategic plan formulated with community input and pre-approved by the bank regulatory agency.

The CRA regulations provide for certain disclosure obligations. Each institution must post a notice advising the public of its right to comment to the institution and its regulator on the institution's CRA performance and to review the institution's CRA public file. Each lending institution must maintain for public inspection a file that includes a listing of branch locations and services, a summary of lending activity, a map of its communities and any written comments from the public on its performance in meeting community credit needs. The CRA requires public disclosure of a financial institution's written CRA evaluations. This requirement promotes enforcement of CRA principles by providing the public with the status of a particular institution's community reinvestment record.

The Gramm-Leach-Bliley Act made various changes to the CRA. Among other changes, CRA agreements with private parties must be disclosed. A bank holding company will not be permitted to become a financial holding company

and no new activities authorized under the Gramm-Leach-Bliley Act may be commenced by a holding company or by a bank financial subsidiary if any of its bank subsidiaries received less than a satisfactory CRA rating in its latest examination. In its last CRA examination, the Bank received a “Satisfactory” rating which was disclosed in its CRA Performance Evaluation dated October 3, 2016.

Consumer Laws and Regulations

The Bank is also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. While the following list 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 Equal Credit Opportunity Act, The Fair and Accurate Credit Transactions Act, The Real Estate Settlement Procedures Act and the Fair Housing Act, among others. These laws and regulations, among other things, prohibit discrimination on the basis of race, gender or other designated characteristics and mandate various disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. These and other laws also limit finance charges or other fees or charges earned in the Bank’s activities.

Technology Risk Management and Consumer Privacy

Banks are generally expected to prudently manage technology-related risks as part of their comprehensive risk management policies by identifying, measuring, monitoring and controlling risks associated with the use of technology. Under Section 501 of the Gramm-Leach-Bliley Act, the federal banking agencies have established appropriate standards for financial institutions regarding the implementation of safeguards to ensure the security and confidentiality of customer records and information, protection against any anticipated threats or hazards to the security or integrity of such records and protection against unauthorized access to or use of such records or information in a way that could result in substantial harm or inconvenience to a customer. Among other matters, the rules require each bank to implement a comprehensive written information security program that includes administrative, technical and physical safeguards relating to customer information.

Under the Gramm-Leach-Bliley Act, a financial institution must also provide its customers with a notice of privacy policies and practices and may not disclose nonpublic personal information about a customer to nonaffiliated third parties unless the institution satisfies various notice and opt-out requirements and the customer has not elected to opt out of the disclosure. All banks are also required to develop initial and annual privacy notices which describe in general terms the bank’s information sharing practices. Banks that share nonpublic personal information about customers with nonaffiliated third parties must also provide customers with an opt-out notice and a reasonable period of time for the customer to opt out of any such disclosure (with certain exceptions). Limitations are placed on the extent to which a bank can disclose an account number or access code for credit card, deposit or transaction accounts to any nonaffiliated third party for use in marketing.

UDAP and UDAAP

Recently, banking regulatory agencies have increasingly used a general consumer protection statute to address “unethical” or otherwise “bad” business practices that may not necessarily fall directly under the purview of a specific banking or consumer finance law. The law of choice for enforcement against such business practices has been Section 5 of the Federal Trade Commission Act, referred to as the FTC Act, which is the primary federal law that prohibits unfair or deceptive acts or practices, referred to as UDAP, and unfair methods of competition in or affecting commerce. “Unjustified consumer injury” is the principal focus of the FTC Act. Prior to the Dodd-Frank Act, there was little formal guidance to provide insight to the parameters for compliance with UDAP laws and regulations. However, UDAP laws and regulations have been expanded under the Dodd-Frank Act to apply to “unfair, deceptive or abusive acts or practices,” referred to as UDAAP, which have been delegated to the CFPB for supervision.

Monitoring and Reporting Suspicious Activity

Under the Bank Secrecy Act (the “BSA”), financial institutions are required to monitor and report unusual or suspicious account activity that might signify money laundering, tax evasion or other criminal activities, as well as transactions involving the transfer or withdrawal of amounts in excess of prescribed limits. The BSA is sometimes referred to as an “anti-money laundering” (“AML”) law. Several AML statutes, including provisions in Title III of the USA PATRIOT Act of 2001, have been enacted to amend the BSA. Under the USA PATRIOT Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and “know your customer” standards in their dealings with financial institutions and foreign customers. Under the

USA PATRIOT Act, financial institutions are also required to establish anti-money laundering programs. The USA PATRIOT Act sets forth minimum standards for these programs, including:

- the development of internal policies, procedures, and controls;
- the designation of a compliance officer;
- an ongoing employee training program; and
- an independent audit function to test the programs.

In addition, under the USA PATRIOT Act, the Secretary of the U.S. Department of the Treasury (the “Treasury”), has adopted rules addressing a number of related issues, including increasing the cooperation and information sharing between financial institutions, regulators, and law enforcement authorities regarding individuals, entities and organizations engaged in, or reasonably suspected based on credible evidence of engaging in, terrorist acts or money laundering activities. Any financial institution complying with these rules will not be deemed to violate the privacy provisions of the Gramm-Leach-Bliley Act that are discussed below. Finally, under the regulations of the Office of Foreign Asset Control (the “OFAC”), we are required to monitor and block transactions with certain “specially designated nationals” who OFAC has determined pose a risk to U.S. national security.

The Sarbanes-Oxley Act

The Sarbanes-Oxley Act mandates for public companies, such as the Company, a variety of reforms intended to address corporate and accounting fraud and provides for the establishment of the Public Company Accounting Oversight Board (the “PCAOB”), which enforces auditing, quality control and independence standards for firms that audit SEC-reporting companies. The Sarbanes-Oxley Act imposes higher standards for auditor independence and restricts the provision of consulting services by auditing firms to companies they audit and requires that certain audit partners be rotated periodically. The law also requires chief executive officers and chief financial officers, or their equivalents, to certify the accuracy of periodic reports filed with the SEC, subject to civil and criminal penalties if they knowingly or willfully violate this certification requirement, and increases the oversight and authority of audit committees of publicly traded companies.

Annual Disclosure Statement

This Annual Report on Form 10-K also serves as the annual disclosure statement of Atlantic Capital pursuant to Part 350 of the FDIC’s rules and regulations. This statement has not been reviewed or confirmed for accuracy or relevance by the FDIC.

ITEM 1A. RISK FACTORS

Risks Related to the Company and its Banking Operations

Our strategic realignment may not have the anticipated results, exposes us to additional operational risks, and may be negatively perceived in the markets.

We have recently implemented a strategic realignment, including the pending Branch Sale, the exit of the Tennessee and northwest Georgia markets, the exit of the mortgage business and trust and wealth management business, and the proposed addition of branches and loan production offices in Atlanta and the surrounding areas. We may not fully realize the anticipated benefits of our strategic realignment if the negative impacts on our business, including the loss of deposits as a source of funding, the loss of customers and revenue from the affected branches and the lines of business we have decided to exit, outweigh the anticipated benefits. In addition, the implementation of our strategic realignment is expected to result in an increased geographic concentration as well as increased reliance on large lending and deposit relationships. Accordingly, we will be increasingly subject to negative conditions affecting the Atlanta area, including property values, occupancy rates for commercial real estate and general business and economic conditions in the Atlanta area. In addition, our strategic realignment may not be viewed positively by shareholders and analysts, which may cause our stock price to decline or become volatile.

If we are unable to complete the pending Branch Sale, our ability to implement our strategic realignment will be negatively impacted.

The consummation of the Branch Sale is subject to a number of conditions, including receipt of necessary regulatory approvals and other customary closing conditions. If we are unable to consummate the Branch Sale, then we will not derive the expected benefits to our results of operations and financial condition that we anticipate as a result of the Branch Sale. In addition, our strategic exit of the Tennessee and northwest Georgia markets and the mortgage business will be delayed if we are required to solicit other strategic partners, we may not be able to reach agreement with third parties on terms as favorable as the pending Branch Sale, and we will incur additional expenses in connection with pursuing transactions with other parties.

Our exit of the Tennessee and northwest Georgia markets will result in a significant loss of deposits and increased geographic and customer concentration, which could negatively impact our ability to maintain asset quality at a level sufficient to support our balance sheet, maintain liquidity through deposits and operate profitably.

Following the completion of the Branch Sale, we expect an increase in the percentage of our loan portfolio that involved borrowers or collateral located in the Atlanta metropolitan area. In addition, following the completion of the Branch Sale, our reliance on large borrowers and large depositors will increase. Accordingly, in the event of adverse changes affecting the Atlanta market generally or our larger borrowers specifically we will be exposed to risks related to increases in loan delinquencies, increases in problem assets and foreclosures, decreases in the demand for our products and services, decreases in the value of collateral for loans, especially real estate, and related decreases in customers' borrowing power. Any decline in our credit quality, which could be disproportionately impacted by deterioration of one or more large individual credit exposures, could require us to record increased allowance for loan losses, restructure loans or suffer credit losses.

In connection with the Branch Sale, we expect to transfer approximately \$585 million of deposits and \$373 million of loans to FirstBank, which will decrease our liquidity available for making loans. We will also become more dependent on large deposit customers, and a significant deterioration of our financial condition could have an adverse impact on the Bank's capitalization and liquidity. As a result, we may be required to raise interest rates on deposits in an effort to increase deposits and thus incur increased interest expense. All of these risks associated with geographic and customer concentration could have a material adverse impact on our operating results and financial condition.

A key focus of our strategy is originating commercial real estate and commercial and industrial loans. Because our loan portfolio consists largely of these types of loans, our portfolio carries a higher degree of risk than would a portfolio with larger amounts of other types of loans. These loans involve credit risks that could adversely affect our financial condition and results of operations.

We offer commercial real estate and commercial and industrial loans, and as of December 31, 2018, we had \$794.8 million of commercial real estate loans and \$645.4 million of commercial and industrial loans outstanding, representing 38% and 31%, respectively, of our total loan portfolio. We expect our concentrations in these loans to increase as a result of the Branch Sale and our exit of the mortgage business and as a result of implementing our strategic realignment. These types of loans have historically driven the growth in our loan portfolio and we intend to continue our lending efforts for commercial real estate and commercial and industrial products.

Commercial real estate and commercial and industrial loans may present a greater risk of non-payment by a borrower than other types of loans. They typically involve larger loan balances and are particularly sensitive to economic conditions. Unlike residential mortgage loans, which generally are made on the basis of the borrowers' ability to make repayment from their employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial loans typically are made on the basis of the borrowers' ability to make repayment from the cash flow of the related commercial venture. If the cash flow from business operations is reduced, the borrower's ability to repay the loan may be impaired. Due to the larger average size of a commercial loan in comparison to other loans such as residential loans, as well as the collateral which is generally less readily-marketable, losses incurred on a small number of commercial loans could have a material adverse impact on our financial condition and results of operations. In addition, commercial loan customers often have the ability to fund current interest payments through additional borrowings, and as a result the actual credit risk associated with these customers may be worse than anticipated. In addition, some of our commercial borrowers have more than one loan outstanding with us, which means that an adverse development with respect to one loan or one credit relationship can expose us to significantly greater risk of loss. In the case of commercial and industrial loans, collateral often consists of accounts receivable,

inventory and equipment, which may not yield substantial recovery of principal losses incurred, and is susceptible to deterioration or other loss in advance of liquidation of such collateral. These loans may lack standardized terms and may include a balloon payment feature. The ability of a borrower to make or refinance a balloon payment may be affected by a number of factors, including the financial condition of the borrower, prevailing economic conditions and prevailing interest rates.

We offer land acquisition and development and construction loans for builders and developers, and as of December 31, 2018, we had \$156.2 million in such loans outstanding, representing 9% of total loans outstanding. Similar to commercial and industrial and commercial real estate loans, land acquisition and development and construction loans are more risky than other types of loans. The primary credit risks associated with land acquisition and development and construction lending are underwriting and project risks. Project risks include cost overruns, borrower credit risk, project completion risk, general contractor credit risk, and environmental and other hazard risks. Market risks are risks associated with rental or sale of the completed projects. They include affordability risk, which means the risk that borrowers cannot obtain affordable financing or that renters cannot afford rents at the projects, product design risk, and risks posed by competing projects.

Because of the risks associated with commercial real estate, commercial and industrial and acquisition and development and construction loans, we may experience higher rates of default than a portfolio more heavily weighted towards smaller or residential mortgage loans. Losses in our commercial real estate, commercial and industrial, or construction and land loan portfolio could exceed our reserves, which would adversely impact our capital and earnings.

Future strategic initiatives may not be implemented successfully. We may not realize the benefits of our strategic initiatives in the anticipated timeline or at all, and the implementation of our strategy may result in costs or loss of revenue that could adversely impact our results of operations.

Implementation of our strategy may involve organic growth initiatives, hiring individual bankers or groups of bankers, developing new product lines, engaging in marketing initiatives, acquiring other financial institutions, or expanding our branch network. Strategic transactions and other initiatives involve additional expense and also put a strain on our management, financial, operational and technical resources. In addition, strategic initiatives involve a number of risks, which could have a material adverse effect on our business, financial condition and results of operations, including:

- there may be a substantial lag time between the time we incur the expenses associated with implementing strategic initiatives and the time when we realize the anticipated benefits of the initiative;
- expenses and diversion of management's attention in connection with product development, evaluation, market studies and roll-out;
- new products or services that are ultimately not utilized by customers, or do not attract other business from customers utilizing them, may not be profitable;
- declines in the business conditions impacting clients in industries that are targets of strategic initiatives;
- the use of inaccurate estimates and judgments in evaluating credit, operations, management and market risks with respect to any target institution or assets;
- the diligence we conduct with respect to any expansion opportunity may not be sufficient to properly evaluate the prospects and risks of any such opportunity;
- diluting our existing shareholders in an acquisition;
- the time associated with negotiating a transaction or working on strategic plans, resulting in management's attention being diverted from our existing business;
- the time and expense of obtaining required regulatory approvals for any transaction and complying with the terms and conditions of regulatory approvals, which may require us to dispose of acquired branches, sell certain segments of acquired loan portfolios, or impose other restrictions on our operations;
- negotiations for any transaction generally may be terminated by either party for a variety of reasons resulting in sunk costs associated with the particular transaction;

- the time and expense of integrating new operations and personnel resulting from any transaction or branch expansion opportunity;
- our lack of market expertise in new geographic markets that we may enter could negatively impact our ability to successfully grow our operations there, or cause us to incur unforeseen expenses in the growth of our operations;
- the possible loss of key employees and customers of an acquired institution as a result of expansion into a new market, elimination or consolidation of branches, or an acquisition that is poorly conceived and executed;
- our asset quality could decline if we are not able to attract quality loan customers in new markets or if high-quality customers are lost in connection with a market exit;
- the loss of customer deposits in connection with a branch closure, sale or consolidation eliminates a relatively inexpensive source of funding that we may not be able to replace without incurring additional expense;
- the loss of loan customers in connection with a branch closure, sale or consolidation could result in a decrease in interest income that we may not be able to replace;
- the elimination of a line of business could result in a greater than anticipated losses of customers, including customers who turn to one of our competitors to replace the products or services we no longer offer as well as traditional banking services; and
- reputational damage associated with strategic initiatives, particularly closing or selling branches or exiting lines of business.

We may be unable to successfully implement our strategic plan or meet our goals. The occurrence of any of the foregoing risks, or other risks not mentioned above, could have a material adverse impact on our financial condition and results of operations.

Regulatory changes related to widely used reference interest rates could adversely affect our revenue, expenses, the value of our loans and other financial instruments, and our interest rate risk.

The London Interbank Offered Rate (“LIBOR”) and certain other “benchmarks” are the subject of recent national, international, and other regulatory guidance and proposals for reform. These reforms may cause such benchmarks to perform differently than in the past or have other consequences which cannot be predicted. Although alternative reference rates have been proposed, the scope of acceptance of any such reference rate and the impact on calculated rates, pricing and the ability to manage risk, including through derivatives, remain uncertain. We have a significant number of floating rate obligations, loans, deposits, derivatives and other financial instruments that are directly or indirectly dependent on LIBOR. If LIBOR ceases to exist, if the methods of calculating LIBOR change from current methods or if we are required to utilize alternative reference rates, interest rates on, and revenue and expenses associated with, those financial instruments may be adversely affected. Additionally, timing differences and different definitions of any new benchmark could create mismatches which would negatively impact interest income, interest rate risk management, liquidity. Our management of the transition from LIBOR may prompt changes in accounting treatment, risk and pricing models, valuation tools, hedging strategy and product design and offerings, all of which could cause us to incur significant expense. Reliance on “fallback” provisions also could result in customer uncertainty and disputes regarding how variable rates should be calculated, and negotiations with customers and counterparties regarding the calculation of interest will cause us to incur significant expense. If we are unable to successfully negotiate calculations, amend loans on terms that are satisfactory to our customers, or are unable to adequately hedge risks related to certain customers, we could experience a loss of customers and reputational damage. Any of these risks, and our failure to adequately manage the transition from LIBOR generally, could have a material adverse impact on our financial condition and results of operations.

An economic downturn in the commercial loan market, the commercial real estate industry, and/or in our markets generally could adversely affect our financial condition, results of operations or cash flows.

If the communities in which the Bank operates do not grow, or if prevailing economic conditions locally or nationally are unfavorable, our business may not succeed. An economic recession over a prolonged period or other economic problems in our market areas could have a material adverse impact on the quality of the loan portfolio and the demand for our products and services. Future adverse changes in the economies in our market areas may have a material

adverse effect on our financial condition, results of operations or cash flows. Further, the banking industry is affected by general economic conditions such as inflation, recession, unemployment and other factors beyond our control. If market conditions deteriorate, our non-performing assets may increase and we may need to take valuation adjustments on our loan portfolios and real estate owned.

We may experience increased delinquencies and credit losses, which could have a material adverse effect on our capital, financial condition and results of operations.

Like other lenders, we face the risk that our customers will not repay their loans in full. A customer's failure to repay us is usually preceded by missed monthly payments. In some instances, however, a customer may declare bankruptcy prior to missing payments, and, following a borrower filing bankruptcy, a lender's recovery of the credit extended is often limited. Since many of our loans are secured by collateral, we may attempt to seize the collateral when and if customers default on their loans. However, the value of the collateral may not equal the amount of the unpaid loan, and we may be unsuccessful in recovering the remaining balance from our customers. Elevated levels of delinquencies and bankruptcies in our market area generally and among our customers specifically can be precursors of future charge-offs and may require us to increase our allowance for loan losses. Higher charge-off rates and an increase in our allowance for loan losses may hurt our overall financial performance if we are unable to increase revenue to compensate for these losses.

Our allowance for loan losses may not be adequate to cover actual losses, and we may be required to materially increase our allowance, which may adversely affect our capital, financial condition and results of operations.

We maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expenses that represents management's best estimate of probable credit losses that have been incurred within the existing portfolio of loans. The allowance for loan losses and our methodology for calculating the allowance are fully described in Note 1 to our consolidated financial statements for the year ended December 31, 2018 under "Allowance for Loan Losses," and in the "Management's Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies-Allowance for Loan Losses" section. In general, an increase in the allowance for loan losses results in a decrease in net income, and possibly risk-based capital, and may have a material adverse effect on our capital, financial condition and results of operations.

The allowance, in the judgment of management, is established to reserve for estimated loan losses and risks inherent in the loan portfolio. The determination of the appropriate level of the allowance for loan losses involves a high degree of subjectivity and requires us to make significant estimates of current credit risks using existing qualitative and quantitative information, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans, and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for loan losses or the recognition of additional loan charge-offs, based on judgments that are different than those of management. As we are continually adjusting our loan portfolio and underwriting standards to reflect current market conditions, we can provide no assurance that our methodology will not change, which could result in a charge to earnings.

We continually reassess the creditworthiness of our borrowers and the sufficiency of our allowance for loan losses as part of the Bank's credit functions. Any significant amount of additional non-performing assets, loan charge-offs, increases in the provision for loan losses or any inability by us to realize the full value of underlying collateral in the event of a loan default, will negatively affect our business, financial condition, and results of operations. Our allowance for loan losses may not be sufficient to cover future credit losses.

If the value of real estate in our core markets declines, a significant portion of our loan portfolio could become under-collateralized, which could have a material adverse effect on us.

In addition to considering the financial strength and cash flow characteristics of borrowers, we often secure loans with real estate collateral. At December 31, 2018, approximately 63% of the Bank's loans had real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower but may deteriorate in value during the time the credit is extended. If the value of real estate in our core markets were to decline further, a significant portion of our loan portfolio could become under-collateralized. As a result, if we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected.

Our use of appraisals in deciding whether to make a loan on or secured by real property or how to value such loan in the future may not accurately describe the net value of the real property collateral that we can realize.

In considering whether to make a loan secured by real property, we generally require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made, and, as real estate values in our market area have experienced changes in value in relatively short periods of time, this estimate might not accurately describe the net value of the real property collateral after the loan has been closed. If the appraisal does not reflect the amount that may be obtained upon any sale or foreclosure of the property, we may not realize an amount equal to the indebtedness secured by the property. The valuation of the property may negatively impact the continuing value of such loan and could adversely affect our operating results and financial condition.

We depend on the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information. We also rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to customers, we may assume that a customer's audited financial statements conform to accounting principles generally accepted in the United States ("GAAP"), and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. Our earnings and our financial condition could be negatively impacted to the extent the information furnished to us by and on behalf of borrowers is not correct or complete or is noncompliant with GAAP.

We will realize additional future losses if the proceeds we receive upon liquidation of non-performing assets are less than the fair value of such assets.

We have a strategy to manage our non-performing assets aggressively, a portion of which may not be currently identified. Non-performing assets are recorded on our financial statements at fair value, as required under GAAP, unless these assets have been specifically identified for liquidation, in which case they are recorded at the lower of cost or estimated net realizable value. In current market conditions, we are likely to realize additional future losses if the proceeds we receive upon dispositions of non-performing assets are less than the recorded fair value of such assets.

Changes in the policies of monetary authorities and other government action could materially adversely affect our profitability.

The Bank's results of operations are affected by policies of the Federal Reserve. The instruments of monetary policy employed by the Federal Reserve include open market operations in U.S. government securities, changes in the discount rate or the federal funds rate on bank borrowings and changes in reserve requirements against bank deposits. In view of changing conditions in the national economy and in the money markets and the economic and political situations in certain parts of the world, we cannot predict with certainty possible future changes in interest rates, deposit levels, loan demand or our business and earnings. Furthermore, the actions of the U.S. government and other governments in responding to such terrorist attacks or events in these or other regions may result in currency fluctuations, exchange controls, market disruption and other adverse effects.

We are subject to risks in the event of certain borrower defaults, which could have an adverse impact on our liquidity position and results of operations.

We may be required to repurchase mortgage loans or indemnify mortgage loan purchasers as a result of certain borrower defaults, which could adversely affect our liquidity position, results of operations, and financial condition. When we sell mortgage loans, we are required to make customary representations and warranties to the purchaser about the mortgage loans and the manner in which the loans were originated. In the event of a breach of any of the representations and warranties related to a loan sold, we could be liable for damages to the investor up to and including a "make whole" demand that involves, at the investor's option, either reimbursing the investor for actual losses incurred on the loan or repurchasing the loan in full. Our maximum exposure to credit loss in the event of a make whole loan repurchase claim would be the unpaid principal balance of the loan to be repurchased along with any premium paid by the investor when the loan was purchased and other collection cost reimbursements. If repurchase demands increase, our liquidity position, results of operations, and financial condition could be adversely affected.

The requirements of being a public company may strain our resources, divert management’s attention and affect our ability to attract and retain executive management and qualified board members.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”), the Dodd-Frank Act, and other applicable securities rules and regulations. Compliance with these rules and regulations increases our legal and financial compliance costs, makes some activities more difficult, time-consuming or costly and increases demand on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management’s attention may be diverted from other business concerns, which could adversely affect our business and operating results. We may need to hire more employees in the future or engage outside consultants, which will increase our costs and expenses. In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management’s time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business may be adversely affected.

The fact that we are a public company has increased the costs of our director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage in the future. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit and compensation committees, and qualified executive officers.

We may need to rely on the financial markets to provide needed capital.

Our common stock is listed and traded on The NASDAQ Global Select Market under the symbol “ACBI”. Although we anticipate that our capital resources will be adequate for the foreseeable future to meet our capital requirements, at times we may depend on the liquidity of the Nasdaq market to raise equity capital. If the market should fail to operate, or if conditions in the capital markets are adverse, we may be constrained in raising capital. Downgrades in the opinions of the analysts that follow us may cause our stock price to fall and significantly limit our ability to access the markets for additional capital requirements. Should these risks materialize, our ability to further expand our operations through internal growth or acquisition may be limited.

Negative publicity about financial institutions, generally, or about our Company or the Bank, specifically, could damage our reputation and adversely impact our liquidity, business operations or financial results.

Reputation risk, or the risk to our business from negative publicity, is inherent in our business. Negative publicity can result from the actual or alleged conduct of financial institutions, generally, or our Company or the Bank, specifically, in any number of activities, including leasing and lending practices, corporate governance, and actions taken by government regulators in response to those activities. Negative publicity can adversely affect our ability to keep and attract customers and can expose us to litigation and regulatory action, any of which could negatively affect our liquidity, business operations or financial results.

Increases in our expenses and other costs could adversely affect our financial results.

Our expenses and other costs, such as operating expenses and hiring new employees, directly affect our earnings results. In light of the extremely competitive environment in which we operate, and because the size and scale of many of our competitors provides them with increased operational efficiencies, it is important that we are able to successfully manage such expenses. We are aggressively managing our expenses in the current economic environment, but as our business develops, changes or expands, and as we hire additional personnel, additional expenses can arise. Other factors that can

affect the amount of our expenses include legal and administrative cases and proceedings, which can be expensive to pursue or defend. In addition, changes in accounting policies can significantly affect how we calculate expenses and earnings.

Fluctuations in interest rates could reduce our profitability.

Our earnings are significantly dependent on our net interest income, as we realize income primarily from the difference between interest earned on loans and investments and the interest paid on deposits and borrowings. We are unable to predict future fluctuations in interest rates, which are affected by many factors, including inflation, economic growth, employment rates, fiscal and monetary policy and disorder and instability in domestic and foreign financial markets. Our net interest income is affected not only by the level and direction of interest rates, but also by the shape of the yield curve and relationships between interest sensitive instruments and key interest driver rates, as well as balance sheet growth, customer loan and deposit preferences and the timing of changes in these variables. Our net interest income also may decline based on our exposure to a difference in short-term and long-term interest rates. A relatively high cost for securing deposits, combined with lower interest rates that can be charged on customer loans, will place downward pressure on our net interest income. Our asset-liability management strategy may not be effective in preventing changes in interest rates from having a material adverse effect on our business, financial condition and results of operations.

Certain changes in interest rates, inflation, deflation or the financial markets could affect demand for our products and our results of operations and cash flows.

Loan originations, and potentially loan revenues, could be materially adversely impacted by sharply rising interest rates. Conversely, sharply falling rates could increase prepayments within our securities portfolio and fixed rate loans lowering interest earnings. An unanticipated increase in inflation could cause our operating costs related to salaries and benefits, technology and supplies to increase at a faster pace than revenues.

The fair market value of our securities portfolio and the investment income from these securities also fluctuate depending on general economic and market conditions. In addition, actual net investment income and/or cash flows from investments that carry prepayment risk, such as mortgage-backed and other asset-backed securities, may differ from those anticipated at the time of investment as a result of interest rate fluctuations.

Interest rate increases often result in larger payment requirements for our borrowers, which increase the potential for default and could result in a decrease in the demand for loans. At the same time, the marketability of the property securing a loan may be adversely affected by any reduced demand resulting from higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on loans as borrowers refinance their loans at lower rates. In addition, in a low interest rate environment, loan customers often pursue long-term fixed rate credits, which could adversely affect our earnings and net interest margin if rates increase. Changes in interest rates also can affect the value of our loans and other assets. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to increases in nonperforming assets, charge-offs and delinquencies, further increases to the allowance for loan losses, and a reduction of income recognized, among others, which could have a material adverse effect on our results of operations and cash flows.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.

Liquidity is essential to the orderly function of our business. An inability to raise funds through deposits, borrowings and other sources could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities on terms that are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. Factors that could negatively impact our access to liquidity sources include a decrease in the level of our business activity as a result of an economic downturn in the markets in which our loans are concentrated, adverse regulatory action against us, or our inability to attract and retain deposits. Our ability to borrow could be impaired by factors that are not specific to us or our region, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry.

Our use of brokered deposits may be limited or discouraged by bank regulators, which could adversely affect our liquidity.

We use brokered deposits to fund a portion of our operations. Our liquidity and our funding costs may be negatively affected if this funding source experiences reduced availability due to regulatory restrictions, loss of investor confidence or a move to other investments or as a result of increased Federal Deposit Insurance Corporation (“FDIC”) insurance costs for these deposits. As of December 31, 2018, 4% of the Bank’s total deposits were composed of brokered deposits. These deposits

are a mix between short-term brokered certificates of deposit and brokered money market accounts. Depositors that invest in brokered deposits are generally interest rate sensitive and well-informed about alternative markets and investments. Consequently, these types of deposits may not provide the same stability to our deposit base or provide the same enterprise value as traditional local retail deposit relationships. Brokered deposits are also considered wholesale funding by bank regulators and a dependence on wholesale funding may warrant increased regulatory review and higher FDIC insurance costs. Banks that are no longer “well capitalized” for bank regulatory purposes are limited in accepting or renewing brokered deposits. In addition, our costs of funds and profitability are likely to be adversely affected to the extent we have to rely upon higher cost borrowings from other institutional investors or brokers to fund loan demand and origination needs.

We face strong competition from larger, more established competitors that may inhibit our ability to compete and expose us to greater lending risks.

The banking business is highly competitive, and we experience strong competition from many other financial institutions. We compete with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds and other financial institutions, which operate in our primary market areas and elsewhere.

We compete with these institutions in attracting deposits, making loans and providing private banking services. In addition, we have to attract our customer base from other existing financial institutions and from new residents. Many of our competitors are well-established and much larger financial institutions. Many of our competitors have fewer regulatory constraints and may have lower cost structures. We may face a competitive disadvantage as a result of our smaller size and relative lack of geographic diversification.

Our relatively small geographic footprint limits our ability to diversify macro-economic risk. We lend primarily to privately held small and mid-sized businesses, not for profit institutions, institutional caliber commercial real estate developers and investors, and individuals in the Metropolitan Atlanta area which may expose us to greater lending risks than those of banks lending to larger, better capitalized businesses with longer operating histories. Following the Branch Sale, we expect to lend primarily to entities and individuals in the Metropolitan Atlanta area, and as a result will be less able to spread the risk of unfavorable local economic conditions than larger or more regional banks. Moreover, we cannot give any assurance that we will benefit from any market growth or favorable economic conditions in our primary market area if they do occur.

Unpredictable economic conditions or a natural disaster in our market areas may have a material adverse effect on our financial performance.

Substantially all of our borrowers and depositors are individuals and businesses located and doing business in our markets. Therefore, our success will depend on the general economic conditions in the Metropolitan Atlanta area. As a result, our operations and profitability may be more adversely affected by a local economic downturn or natural disaster in such markets than those of larger, more geographically diverse competitors. Accordingly, any regional or local economic downturn, or natural or man-made disaster, that affects any of the markets in which we operate, including existing or prospective property or borrowers in such markets may affect us and our profitability more significantly and more adversely than our more geographically diversified competitors, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

The soundness of other financial institutions with which we do business could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness 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, including counterparties in the financial industry, such as commercial banks and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions will expose us to credit risk in the event of default of a counterparty or client. In addition, this credit risk may be exacerbated when the collateral we hold cannot be realized upon liquidation or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due to us. There is no assurance that any such losses would not materially and adversely affect our results of operations.

The costs and effects of litigation, investigations or similar matters, or adverse facts and developments related thereto, could materially affect our business, operating results and financial condition.

We may be involved from time to time in a variety of litigation, investigations or similar matters arising out of our business. Our insurance may not cover all claims that may be asserted against it and indemnification rights to which we are entitled may not be honored, 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 and results of operations. In addition, premiums for insurance covering the financial and banking sectors are rising. We may not be able to obtain appropriate types or levels of insurance in the future, nor may we be able to obtain adequate replacement policies with acceptable terms or at historic rates, if at all.

We are subject to various taxing jurisdictions where we conduct business. We assess the appropriate tax treatment of transactions and filing positions after considering statutes, regulations, judicial precedent and other pertinent information and maintain tax accruals consistent with our evaluation. This evaluation incorporates assumptions and estimates that involve a high degree of judgment and subjectivity. Changes in the results of these evaluations could have a material impact on our operating results.

Environmental liability associated with lending activities could result in losses.

In the course of our business, we may foreclose on and take title to properties securing our loans. If hazardous substances are discovered on any of these properties, we may be liable to governmental entities or third parties for the costs of remediation of the hazard, as well as for personal injury and property damage. Many environmental laws impose liability regardless of whether we knew of, or were responsible for, the contamination. In addition, if we arrange for the disposal of hazardous or toxic substances at another site, we may be liable for the costs of cleaning up and removing those substances from the site, even if we neither own nor operate the disposal site. Environmental laws may require us to incur substantial expenses and may materially limit the use of properties that we acquire through foreclosure, reduce their value or limit our ability to sell them in the event of a default on the loans they secure. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Our loan policies requiring certain due diligence of high risk industries and properties may not be effective in reducing the risks of environmental liability resulting from non-performing loan and/or foreclosed property.

We may not be able to retain, attract and motivate qualified individuals.

Our success depends on our ability to retain, attract and motivate qualified individuals in key positions throughout the organization. Competition for qualified individuals in most activities in which we are engaged can be intense, and we may not be able to hire or retain the people we want and/or need. Although we have entered into employment agreements with certain key employees, and have incentive compensation plans aimed, in part, at long-term employee retention, the unexpected loss of services of one or more of our key personnel could still occur, and such events may have a material adverse impact on our business because of the loss of the employee's skills, knowledge of our market, and years of industry experience and the difficulty of promptly finding qualified replacement personnel. If we are unable to retain, attract and motivate qualified individuals in key positions, our business and results of operations could be adversely affected.

A failure in or breach of our operational or security systems, or those of our third party service providers, including as a result of cyber-attacks, could disrupt our business, result in unintentional disclosure or misuse of confidential or proprietary information, or damage our reputation.

As a financial institution, our operations rely heavily on the secure processing, storage and transmission of confidential and other information on our computer systems and networks. Any failure, interruption or breach in security or operational integrity of these systems could result in failures or disruptions in our Internet banking system, treasury management products, check and document imaging, remote deposit capture systems, general ledger, deposit, loan and other systems.

There has been an increase in the number and sophistication of criminal cyber-security attacks against companies where customer and other sensitive information has been compromised. The financial services industry has experienced an increase in the number and severity of cyber-attacks, including efforts to hack or breach security measures in order to access, obtain or misuse information, misappropriate financial assets, corrupt or destroy data, disrupt operations, or

install viruses, “ransomware” or other malware. Although we devote significant resources to maintaining the integrity of our systems, we are not able to anticipate or implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently and because attacks can originate from a wide variety of sources. The protective policies and procedures we currently have in place or which we implement in the future may not be sufficient as the nature and sophistication of such threats continue to evolve. We may be required to expend significant additional resources in the future to modify and enhance our protective measures.

In addition, our business operations rely on third party vendors to provide services such as exchanges, clearing houses or other financial intermediaries, data processing, recording and monitoring transactions, online banking interfaces and services, Internet connections and network access. Some of these parties have in the past been the target of security breaches and cyber-attacks, and because the transactions involve third parties and environments such as the point of sale that we do not control or secure, future security breaches or cyber-attacks affecting any of these third parties could impact us through no fault of our own, and in some cases we may have exposure and suffer losses for breaches or attacks relating to them. Such parties could also be the source of an attack on, or breach of, our operational systems. The cyber-security, information and operational risks that our third party service providers face may be different than the risks we face, and we do not directly control any of such service providers’ information security operations, including the efforts that they may take to mitigate risks or the level of cyber/privacy liability insurance that they may carry. Any problems caused or experienced by these third parties, including cyber-attacks and security breaches, could adversely affect our ability to deliver products and services to our customers and otherwise conduct our business. Furthermore, our vendors could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints. Replacing these third party vendors could also create significant delay and expense.

Any failures, interruptions or security breaches in our information systems, or the systems operated by our third party service providers, could damage our reputation, result in a loss of customer business, impair our ability to provide our services or maintain availability of our systems to customers, result in a violation of privacy or other laws, subject us to regulatory enforcement or other actions, or expose us to remediation costs, increased insurance premiums, civil litigation, fines, penalties or losses not covered by insurance. Any of these events could have a material adverse effect on our financial condition or results of operations.

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

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. We depend in part upon our ability to address the needs of our customers by using technology to provide products and services that satisfy their operational needs. Many of our competitors have substantially greater resources to invest in technological improvements and third-party support. There can be no assurance that we will effectively implement new technology-driven products and services or successfully market these products and services to our customers. We also rely on our computer systems. For example, we rely on our computer systems to accurately track and record our assets and liabilities. If our computer systems become unreliable, fail or experience a breach of security, our ability to maintain accurate financial records may be impaired, which could materially affect our business, financial condition and results of operations.

Impairment of our investment securities could require charges to earnings, which could result in a negative impact on our results of operations.

In assessing the impairment of investment securities, we consider the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuers, whether the decline in market value was affected by macroeconomic conditions and whether we have the intent to sell the security or will be required to sell the security before its anticipated recovery. Future declines in the market value or our investment securities may result in other-than-temporary impairment of these securities, which could lead to charges that could have a material adverse effect on our net income and capital levels.

The value of our goodwill and other intangible assets may decline in the future.

As of December 31, 2018, we had \$26.1 million of goodwill and other intangible assets. A significant decline in our financial condition, a significant adverse change in the business climate, slower growth rates or a significant and sustained decline in the price of our common stock may necessitate taking charges in the future related to the impairment of our goodwill and other intangible assets. If we were to conclude that a future write-down of goodwill

and other intangible assets is necessary, we would record the appropriate charge, which could have a material adverse effect on our financial condition and results of operations.

Risks Related to Legislative and Regulatory Events

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

The Dodd-Frank Act created a new agency, the CFPB, with power to promulgate and enforce consumer protection laws. Smaller depository institutions, including those with \$10 billion or less in assets, are subject to the CFPB's rule-writing authority, and existing depository institution regulatory agencies retain examination and enforcement authority for such institutions. The Dodd-Frank Act also established a Financial Stability Oversight Council chaired by the Secretary of the Treasury with authority to identify institutions and practices that might pose a systemic risk and, among other things, includes provisions affecting:

- corporate governance and executive compensation of all companies whose securities are registered with the SEC;
- FDIC insurance assessments;
- interchange fees for debit cards, which would be set by the Federal Reserve under a restrictive "reasonable and proportional cost" per transaction standard, and;
- minimum capital levels for bank holding companies, subject to a grandfather clause for financial institutions with less than \$15 billion in assets.

The CFPB has broad powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks, including the authority to prohibit unfair, deceptive or abusive acts and practices. In addition, the Dodd-Frank Act enhanced the regulation of mortgage banking and gave to the CFPB oversight of many of the core laws which regulate the mortgage industry and the authority to implement mortgage regulations. New regulations adopted and anticipated to be adopted by the CFPB impact consumer mortgage lending and servicing.

The CFPB's "ability-to-repay" and "qualified mortgage" rules could have a negative impact on our loan origination process and foreclosure proceedings.

The CFPB has adopted rules that impact our residential mortgage lending practices, and the residential mortgage market generally including rules that implement the "ability-to-repay" requirement and provide protection from liability for "qualified mortgages," as required by the Dodd-Frank Act. The ability-to-repay rule requires lenders to consider, among other things, income, employment status, assets, payment amounts, and credit history before approving a mortgage, and provides a compliance "safe harbor" for lenders that issue certain "qualified mortgages." The rules define a "qualified mortgage" to have certain specified characteristics, and generally prohibit loans with negative amortization, interest-only payments, balloon payments, or terms exceeding 30 years from being qualified mortgages. The rule also establishes general underwriting criteria for qualified mortgages, including that monthly payments be calculated based on the highest payment that will apply in the first five years of the loan and that the borrower have a total debt-to-income ratio that is less than or equal to 43%. Although the new "qualified mortgage" rules may provide better definition and more certainty regarding regulatory requirements, the rules may also increase our compliance burden and reduce our lending flexibility and discretion, which could negatively impact our ability to originate new loans and the cost of originating new loans. Any loans that we make outside of the "qualified mortgage" criteria could expose us to an increased risk of liability and reduce or delay our ability to foreclose on the underlying property. Additionally, qualified "higher priced mortgages" only provide a rebuttable presumption of compliance and thus may be more susceptible to challenges from borrowers.

The CFPB continues to reshape consumer financial laws through rulemaking and enforcement of unfair, deceptive or abusive practices, which may directly impact the business operations of depository institutions offering consumer financial products or services including the Bank.

Banking regulatory agencies have increasingly used a general consumer protection statute to address "unethical" or otherwise "bad" business practices that may not necessarily fall directly under the purview of a specific banking or consumer finance law.

The law of choice for enforcement against such business practices generally has been Section 5 of the Federal Trade Commission Act—the primary federal law that prohibits unfair or deceptive acts or practices and unfair methods of competition in or affecting commerce (“UDAP” or “FTC Act”). “Unjustified consumer injury” is the principal focus of the FTC Act. Prior to the Dodd-Frank Act, there was little formal guidance to provide insight to the parameters for compliance with the UDAP law. However, the UDAP provisions were expanded under the Dodd-Frank Act to apply to “unfair, deceptive or abusive acts or practices” (“UDAAP”), which has been delegated to the CFPB for supervision. The CFPB has published and periodically updates its first Supervision and Examination Manual that addresses compliance with and the examination of UDAAP and has enacted a number of regulations governing the conduct of consumer lending activities. The CFPB has broad rulemaking and enforcement authority with respect to UDAAP and any future regulations adopted or practices targeted for enforcement by the CFPB could have wide-ranging implications on the operations of financial institutions offering consumer financial products or services, including the Bank.

The Federal Reserve has adopted capital requirements for financial institutions that may require us to retain or raise additional capital and/or reduce dividends.

The Federal Reserve adopted increased regulatory capital requirements that implemented changes required by the Dodd-Frank Act and portions of the Basel III regulatory capital reforms. In the future, the capital requirements for bank holding companies may require us to retain or raise additional capital, restrict our ability to pay dividends and repurchase shares of our common stock, and restrict our ability to provide certain forms of discretionary executive compensation and/or require other changes to our strategic plans. The rules could restrict our ability to grow and implement our future business strategies, which could have an adverse impact on our results of operations.

We could be subject to adverse changes in tax laws, regulations and interpretations or challenges to our tax positions.

From time to time, changes in tax laws or regulations may be proposed or enacted that could adversely affect our overall tax liability. For example, the Tax Cuts and Jobs Act of 2017, which was enacted on December 22, 2017, represented a significant overhaul of the U.S. federal tax code. This tax legislation significantly reduced the U.S. statutory corporate tax rate and made other changes impacting our overall U.S. federal tax liability. However, the tax legislation also included a number of provisions, including, but not limited to, the limitation or elimination of various deductions or credits (including for interest expense and for performance-based compensation under Section 162(m), the imposition of taxes on certain cross-border payments or transfers, the changing of the timing of the recognition of certain income and deductions or their character, and the limitation of asset basis under certain circumstances, that could significantly and adversely affect our U.S. federal income tax position. As previously disclosed, the reduction of the federal corporate tax rate to 21%, caused our net deferred tax asset to be revalued in 2017. The legislation also made significant changes to the tax rules applicable to insurance companies and other entities with which we do business. Additional guidance may be issued by the Internal Revenue Service, the Department of Treasury, or other governing bodies that may significantly differ from our interpretation of the law, which may result in a material adverse effect on our business, cash flow, results of operations or financial conditions. There can be no assurance that changes in tax laws or regulations, both within the U.S. and the other jurisdictions in which we operate, will not materially and adversely affect our effective tax rate, tax payments, financial condition and results of operations. Similarly, changes in tax laws and regulations that impact our customers and counterparties or the economy generally may also impact our financial condition and results of operations.

In addition, tax laws and regulations are complex and subject to varying interpretations, and any significant failure to comply with applicable tax laws and regulations in all relevant jurisdictions could give rise to substantial penalties and liabilities. Any changes in enacted tax laws (such as the recent U.S. tax legislation), rules or regulatory or judicial interpretations; any adverse outcome in connection with tax audits in any jurisdiction; or any change in the pronouncements relating to accounting for income taxes could materially and adversely impact our effective tax rate, tax payments, business, operating results and financial condition.

A new accounting standard may require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.

The measure of our allowance for loan losses is dependent on the adoption and interpretation of accounting standards. The Financial Accounting Standards Board has issued a new credit impairment model, the Current Expected Credit Loss, or CECL model, which will become effective for interim and annual reporting periods beginning after December 15, 2019 (effective for the calendar year beginning January 1, 2020). Under the CECL model, we will be required to present certain financial assets carried at amortized cost at the net amount expected to be collected.

The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount, which will require us to increase the types of data we collect and review to determine the appropriate level of the allowance for loan losses. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the “incurred loss” model currently required under GAAP, which delays recognition until it is probable a loss has been incurred. Accordingly, regardless of any actual changes to the composition or performance of our loan portfolio, the new accounting standard may require an increase in our allowance for loan losses or expenses incurred to determine the appropriate level of the allowance for loan losses. Moreover, the CECL model may create more volatility in the level of our allowance for loan losses. If we are required to materially increase our level of allowance for loan losses for any reason, such increase could adversely affect our business, financial condition and results of operations.

Changes in accounting standards and management’s selection of accounting methods, including assumptions and estimates, could materially impact our financial statements.

From time to time the Securities and Exchange Commission and the Financial Accounting Standards Board (“FASB”) update GAAP, which govern the preparation of our consolidated financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in changes to previously reported financial results, or a cumulative charge to retained earnings. In addition, management is required to use certain assumptions and estimates in preparing our financial statements, including determining the fair value of certain assets and liabilities, among other items. Incorrect assumptions or estimates may have a material adverse effect on our financial condition and results of operations.

We are subject to regulation by various federal and state entities.

We are subject to the regulations of the Securities and Exchange Commission, the OCC, the Federal Reserve, and the FDIC. New regulations issued by these agencies may adversely affect our ability to carry on our business activities. We are subject to various federal and state laws and certain changes in these laws and regulations may adversely affect our operations. Noncompliance with certain of these regulations may impact our business plans, including our ability to branch, offer certain products or execute existing or planned business strategies.

We are also subject to the accounting rules and regulations of the Securities and Exchange Commission and the FASB. Changes in accounting rules could materially adversely affect the reported financial statements or our results of operations and may also require extraordinary efforts or additional costs to implement. Any of these laws or regulations may be modified or changed from time to time, and we cannot be assured that such modifications or changes will not adversely affect us.

Regulators periodically examine our business and we may be required to remediate adverse examination findings.

The Federal Reserve and the OCC periodically examine our business, including our compliance with laws and regulations, and we may become subject to other regulatory agency examinations in the future. If, as a result of an examination, a federal banking agency 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, it may require us to take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin “unsafe or unsound” practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth by preventing us from acquiring other financial institutions or limiting our ability to expand our business by engaging in new activities, to change the asset composition of our portfolio or balance sheet, to assess civil monetary penalties against our officers or directors, to remove officers and directors and, 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 action against us could have a material adverse effect on our business, financial condition and results of operations.

Regulations relating to privacy, information security and data protection could increase our costs, affect or limit how Atlantic Capital collects and uses personal information and adversely affect our business opportunities.

Atlantic Capital is subject to various privacy, information security and data protection laws, including requirements concerning security breach notification, and we could be negatively impacted by them. For example, certain of our

business is subject to the Gramm-Leach-Bliley Act (“GLBA”) and implementing regulations and guidance. Among other things, the GLBA:

- imposes certain limitations on the ability of financial institutions to share consumers’ nonpublic personal information with nonaffiliated third parties;
- requires that financial institutions provide certain disclosures to consumers about their information collection, sharing and security practices and affords customers the right to “opt out” of the institution’s disclosure of their personal financial information to nonaffiliated third parties (with certain exceptions); and
- requires financial institutions to develop, implement and maintain a written comprehensive information security program containing safeguards that are appropriate to the financial institution’s size and complexity, the nature and scope of the financial institution’s activities, and the sensitivity of customer information processed by the financial institution as well as plans for responding to data security breaches.

Moreover, various United States federal banking regulatory agencies, states and foreign jurisdictions have enacted data security breach notification requirements with varying levels of individual, consumer, regulatory and/or law enforcement notification in certain circumstances in the event of a security breach. Many of these requirements also apply broadly to businesses that accept our payment. In many countries that have yet to impose data security breach notification requirements, regulators have increasingly used the threat of significant sanctions and penalties by data protection authorities to encourage voluntary notification and discourage data security breaches.

Furthermore, legislators and/or regulators in the United States are increasingly adopting or revising privacy, information security and data protection laws that potentially could have a significant impact on our current and planned privacy, data protection and information security-related practices, our collection, use, sharing, retention and safeguarding of consumer and/or employee information, and some of our current or planned business activities. This could also increase our costs of compliance and business operations and could reduce income from certain business initiatives. This includes increased privacy-related enforcement activity at the federal level, by the Federal Trade Commission, as well as at the state level, such as with regard to mobile applications.

Compliance with current or future privacy, data protection and information security laws (including those regarding security breach notification) affecting customer and/or employee data to which we are subject could result in higher compliance and technology costs and could restrict our ability to provide certain products and services, which could materially and adversely affect our profitability. Our failure to comply with privacy, data protection and information security laws could result in potentially significant regulatory and/or governmental investigations and/or actions, litigation, fines, sanctions, and damage to our reputation and brand.

Anti-money laundering and anti-terrorism financing laws could have significant adverse consequences for the Company.

We maintain an enterprise-wide program designed to enable us to comply with applicable anti-money laundering and anti-terrorism financing laws and regulations, including the Bank Secrecy Act and the USA PATRIOT ACT. This program includes policies, procedures, processes and other internal controls designed to identify, monitor, manage and mitigate the risk of money laundering or terrorist financing posed by our products, services, customers and geographic locale. These controls include procedures and processes to detect and report suspicious transactions, perform customer due diligence, respond to requests from law enforcement, and meet all recordkeeping and reporting requirements related to particular transactions involving currency or monetary.

Risks Related to Ownership of Our Common Stock

Limited trading in our common stock may impact the ability of shareholders to sell their shares and the price of our common stock.

Trading activity in our common stock may be limited. If an active market for our common stock is not sustained, the market price of our common stock may be adversely impacted. This may make it difficult for our shareholders to sell their shares at a favorable price or to sell their shares at all. In addition, any negative impact on the price or liquidity of our common stock may impair our ability to raise capital to continue to fund our operations by offering and selling additional shares and our ability to use our common stock as consideration in future acquisitions.

Sales of a significant number of shares of our common stock in the public markets, or the perception of such sales, could depress the market price of our common stock.

Sales of a substantial number of shares of our common stock in the public markets and the availability of those shares for sale could adversely affect the market price of our common stock. In addition, future issuances of equity securities, including pursuant to outstanding options, could dilute the interests of our existing shareholders and could cause the market price of our common stock to decline. We may issue such additional equity or convertible securities to raise additional capital. Depending on the amount offered and the levels at which we offer the stock, issuances of common or preferred stock could be substantially dilutive to shareholders of our common stock. Moreover, to the extent that we issue restricted stock, phantom shares, stock appreciation rights, options or warrants to purchase our common stock in the future and those stock appreciation rights, options or warrants are exercised or as shares of the restricted stock vest, our shareholders may experience further dilution. Holders of our shares of common stock have no preemptive rights that entitle holders to purchase their pro-rata share of any offering of shares of any class or series and, therefore, such sales or offerings could result in increased dilution to our shareholders. We cannot predict with certainty the effect that future sales of our common stock would have on the market price of our common stock.

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.

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”), and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including, but not limited to, not 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 may cease to be an emerging growth company earlier under certain circumstances, including if, before the end of such five years, we are deemed to be a large accelerated filer under the rules of the Securities and Exchange Commission (which depends on, among other things, having a market value of common stock held by non-affiliates in excess of \$700 million) or if our total annual gross revenues equal or exceed \$1 billion in a fiscal year. We cannot predict if investors will find our common stock less attractive because we rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

Our stock repurchase program may not enhance long-term stockholder value and stock repurchases, if any, could increase the volatility of the price of our common stock and will diminish our cash reserves.

In November 2018, our Board of Directors authorized a stock repurchase program pursuant to which the Company may purchase up to \$85 million of its issued and outstanding common stock. The timing and actual number of shares repurchased depend on a variety of factors including the timing of open trading windows, price, corporate and regulatory requirements, available cash, and other market conditions. The program may be suspended or discontinued at any time without prior notice. Repurchases pursuant to our stock repurchase program could affect our stock price and increase its volatility. The existence of a stock repurchase program could also cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock. Additionally, repurchases under our stock repurchase program will diminish our cash reserves, which impacts our ability to pursue possible future strategic opportunities and acquisitions, support our operations, invest in securities and pay dividends and could result in lower overall returns on our cash balances. Stock repurchases may not enhance shareholder value because the market price of our common stock may decline below the levels at which we repurchased shares of stock, and short-term stock price fluctuations could reduce the program’s effectiveness.

A number of factors could cause the price of our common stock to be volatile or to decline.

The trading price of our common stock may fluctuate widely as a result of a number of factors, many of which are outside our control. In addition, the stock market is subject to fluctuations in the share prices and trading volumes that affect the market prices of the shares of many companies. These broad market fluctuations have adversely affected and may continue to adversely affect the market price of our common stock. Among the factors that could affect our stock price are:

- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts or actions taken by rating agencies with respect to our securities or those of other financial institutions;
- failure to meet analysts' revenue or earnings estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- actions by institutional shareholders;
- fluctuations in the stock price and operating results of our competitors;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- proposed or adopted regulatory changes or developments;
- anticipated or pending investigations, proceedings or litigation that involve or affect us or the financial services industry; or
- domestic and international economic factors unrelated to our performance.

The holders of our subordinated notes have rights that are senior to those of our shareholders.

As of December 31, 2018, we had \$50 million of subordinated notes outstanding. The subordinated notes are senior to shares of our common stock. As a result, we must make payments on the subordinated notes before any dividends can be paid on our common stock and, in the event of bankruptcy, dissolution, or liquidation, the holders of the subordinated notes must be satisfied before any distributions can be made to the holders of the common stock. Our ability to pay future distributions depends upon the earnings of the Bank and the issuance of dividends from the Bank to the Company, which may be inadequate to service the obligations.

The amount of interest payable on our 6.25% Fixed to Floating Rate Subordinated Notes due 2025 will vary after September 19, 2020.

The interest rate on our 6.25% Fixed to Floating Rate Subordinated Notes due 2025 will vary after September 29, 2020. From and including the issue date of such notes but excluding September 30, 2020, the notes will bear interest at a fixed rate of 6.25% per year. From September 30, 2020 to the maturity date, the notes will bear interest at an annual floating rate equal to the three-month LIBOR plus 468 basis points for any interest period. If interest rates rise, the cost of our subordinated notes may increase, negatively affecting our net income. For additional information regarding the subordinated notes, see "Note 11 – Other Borrowings and Long Term Debt" in Item 8, "Financial Statements and Supplementary Data."

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

In the future, we may attempt to increase our capital resources by entering into debt or debt-like financing that is unsecured or secured by all or up to all of our assets, or by issuing additional debt or equity securities, which could include issuances of secured or unsecured commercial paper, medium-term notes, senior notes, subordinated notes, preferred stock, common stock, or securities convertible into or exchangeable for equity securities. In the event of our

liquidation, our lenders and holders of our debt and preferred securities would receive a distribution of our available assets before distributions to the holders of our common stock. Because our decision to incur debt and issue securities in our future offerings will depend on market conditions and other factors beyond our control, we cannot predict or estimate with certainty the amount, timing or nature of our future offerings and debt financings. Further, market conditions could require us to accept less favorable terms for the issuance of our securities in the future. In addition, the borrowing of funds or the issuance of debt would increase our leverage and decrease our liquidity, and the issuance of additional equity securities would dilute the interests of our existing shareholders.

Our ability to pay dividends to our shareholders is limited.

Our primary source of cash is dividends we receive from the Bank. Therefore, our ability to pay dividends to our shareholders depends on the Bank's ability to pay dividends to us. Atlantic Capital has not historically paid dividends to shareholders and did not pay dividends in 2018, 2017, or 2016. Additionally, banks and bank holding companies are subject to significant regulatory restrictions on the payment of cash dividends. Our future dividend policy will depend on our earnings, capital requirements, financial condition, regulatory requirements and other factors that the boards of directors of the Company and the Bank consider relevant.

We may not be able to raise additional capital on terms favorable to us or at all.

In the future, should we need additional capital to support our business, expand our operations or maintain our minimum capital requirements, we may not be able to raise additional funds. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial performance at that time. We cannot provide assurance that such financing will be available to us on acceptable terms or at all. If we borrow money to provide capital to the Bank, we must obtain prior regulatory approvals, and we may not be able to pay this debt and could default. We cannot provide assurance that funds will be available to us on favorable terms or at all.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The executive office of Atlantic Capital Bancshares, Inc., is located at 945 East Paces Ferry Road NE, Suite 1600, Atlanta, Fulton County, Georgia. The headquarters of Atlantic Capital Bank, N.A. is located at 1110 Market Street, #300, Chattanooga, Hamilton County, Tennessee. Both properties are leased. Atlantic Capital provides services or performs operational functions at 16 additional locations, of which 8 are owned and 8 are leased. These offices are located in Fulton, Whitfield and Oconee County, Georgia, and Hamilton, Union, Jefferson, Knox, and Loudon County, Tennessee.

We believe that our banking offices are in good condition, and are suitable to our needs. We are not aware of any environmental problems with the properties that we own or lease that would be material, either individually, or in the aggregate, to our operations or financial condition.

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business, the Company is involved in routine litigation and various legal proceedings related to the Company's operations. Currently, there is no pending litigation or proceedings that management believes will have a material adverse effect, either individually or in the aggregate, on the Company's business, financial condition and results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is listed on the Nasdaq Global Select Market (“Nasdaq”) trading under the symbol “ACBI.” The last reported sale price of our common stock on Nasdaq on March 7, 2019 was \$18.65 per share.

Holdings

At March 1, 2019, there were 321 record shareholders. We estimate the number of beneficial shareholders to be much higher as many of our shares are held by brokers or dealers for their customers in street name.

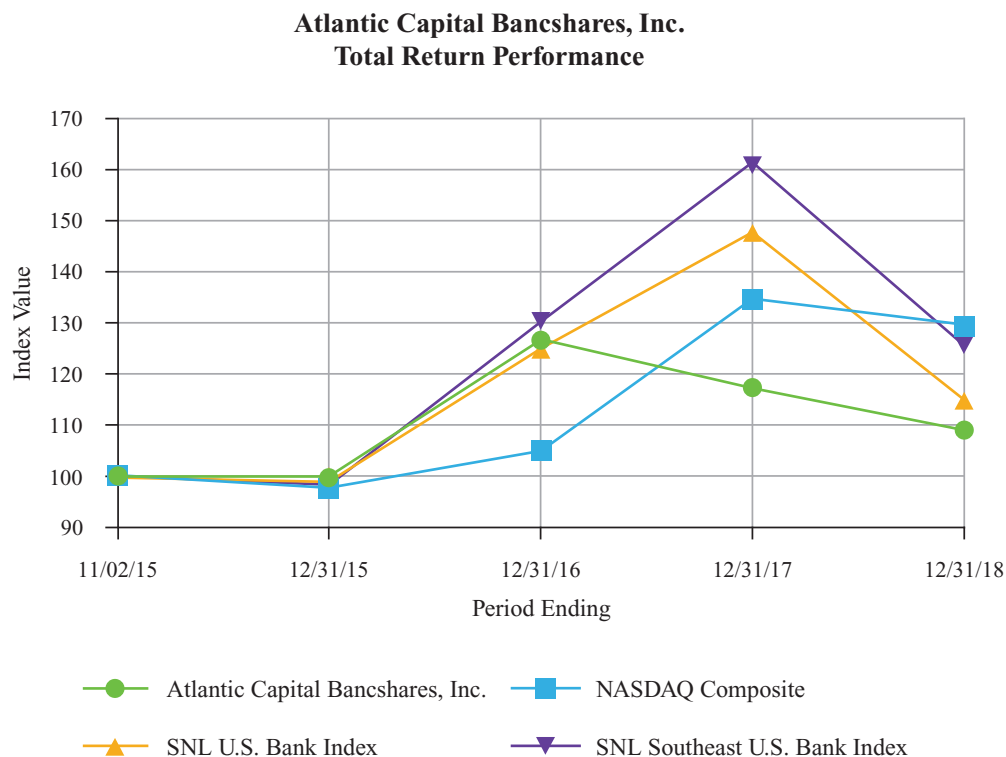
Dividend Policy

We did not pay any dividends in fiscal 2018 or fiscal 2017.

The declaration, amount and payment of any future dividends on shares of our common stock will be at the sole discretion of our Board. Additionally, banks and bank holding companies are subject to significant regulatory restrictions on the payment of cash dividends. Our future dividend policy will depend on our earnings, capital requirements, financial condition, regulatory requirements and other factors that the boards of directors of the Company and the Bank consider relevant. See “Item 1. Business - Supervision and Regulation - Payment of Dividends and Other Restrictions” above for regulatory restrictions which limit our ability to pay dividends.

Performance Graph

Set forth below is a line graph, which was prepared by SNL Financial LC (“SNL”) comparing the yearly percentage change in the cumulative total shareholder return on Atlantic Capital’s common stock against the cumulative total return on the Nasdaq Stock Market (U.S. Companies) Index, the SNL U.S. Bank Index and the SNL Southeast U.S. Bank Index, commencing November 2, 2015 (when our shares began trading) and ending on December 31, 2018.



Issuer Repurchases of Equity Securities

On November 14, 2018, the Company announced that the Board of Directors authorized a stock repurchase program pursuant to which the Company may purchase up to \$85 million of its issued and outstanding common stock. The repurchase program commenced immediately with respect to \$40 million of stock, and the remaining \$45 million is subject to regulatory approval of a dividend from the Bank to Atlantic Capital. The timing and amounts of any repurchases will depend on certain factors, including but not limited to market conditions and prices, available funds and alternative uses of capital. The stock repurchase program may be carried out through open-market purchases, block trades, negotiated private transactions and pursuant to a trading plan adopted in accordance with Rule 10b-18 or Rule 10b5-1 under the Securities Exchange Act of 1934. The stock repurchase program may be suspended or discontinued at any time and will automatically expire on November 14, 2020. Any repurchased shares will constitute authorized but unissued shares.

During the fourth quarter of 2018, the Company repurchased \$14.2 million, or 822,100 shares of common stock. The following table presents information with respect to repurchases of our common shares during the periods indicated:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
October 1 – 31, 2018	—	\$ —	—	\$ —
November 1 – 30, 2018	195,200	18.01	195,200	81,484,015
December 1 – 31, 2018	626,900	17.00	626,900	70,823,010
Total	822,100	\$ 17.27	822,100	\$ 70,823,010

ITEM 6. SELECTED FINANCIAL DATA

ATLANTIC CAPITAL BANCSHARES, INC.⁽¹⁾

<i>(in thousands, except share and per share data)</i>	For the Years Ended December 31,				
	2018	2017	2016	2015	2014
INCOME SUMMARY					
Interest income	\$ 94,760	\$ 75,818	\$ 63,273	\$ 43,546	\$ 36,542
Interest expense	18,513	12,986	9,554	4,600	3,449
Net interest income	76,247	62,832	53,719	38,946	33,093
Provision for loan losses	1,946	3,218	3,816	8,035	488
Net interest income after provision for loan losses	74,301	59,614	49,903	30,911	32,605
Noninterest income	10,047	12,179	11,981	8,664	5,342
Noninterest expense	49,991	52,834	50,099	42,435	26,574
Income from continuing operations before income taxes	34,357	18,959	11,785	(2,860)	11,373
Income tax expense	6,307	23,715	4,221	(117)	3,857
Net income (loss) from continuing operations	28,050	(4,756)	7,564	(2,743)	7,516
Income from discontinued operations, net of tax	482	1,030	5,831	1,424	—
Net income (loss)	\$ 28,532	\$ (3,726)	\$ 13,395	\$ (1,319)	\$ 7,516
PER SHARE DATA					
Basic earnings (loss) per share – continuing operations	\$ 1.08	\$ (0.19)	\$ 0.31	\$ (0.18)	\$ 0.56
Basic earnings (loss) per share – discontinued operations	0.02	0.04	0.24	0.09	—
Basic earnings (loss) per share	<u>\$ 1.10</u>	<u>\$ (0.15)</u>	<u>\$ 0.54</u>	<u>\$ (0.09)</u>	<u>\$ 0.56</u>
Diluted earnings (loss) per share – continuing operations	\$ 1.07	\$ (0.19)	\$ 0.30	\$ (0.18)	\$ 0.55
Diluted earnings (loss) per share – discontinued operations	0.02	0.04	0.23	0.09	—
Diluted earnings (loss) per share	<u>\$ 1.09</u>	<u>\$ (0.15)</u>	<u>\$ 0.53</u>	<u>\$ (0.09)</u>	<u>\$ 0.55</u>
Book value per share	12.80	11.99	12.10	11.79	10.48
Dividends declared	—	—	—	—	—
PERFORMANCE MEASURES					
Return on average equity	9.05%	(1.17)%	4.44%	(0.77)%	5.54%
Return on average assets	1.03	(0.14)	0.49	(0.08)	0.61
Taxable equivalent net interest margin – continuing operations	3.50	3.07	2.76	2.76	2.86
Efficiency ratio – continuing operations	57.93	70.44	76.25	89.13	69.14
Equity to assets	10.95	10.67	11.13	10.91	10.72
Dividend payout ratio	—	—	—	—	—
ASSET QUALITY					
Allowance for loan losses to loans held for investment ⁽²⁾	1.03%	1.00%	1.04%	1.06%	1.10%
Net charge-offs	\$ 342	\$ 4,469	\$ 2,126	\$ 551	\$ (118)
Net charge-offs to average loans	0.02%	0.23%	0.11%	0.05%	(0.01)%
NPAs to total assets	0.20	0.14	0.13	0.40	0.12

(1) On November 14, 2018, the Bank entered into an agreement with FirstBank to sell its Tennessee and northwest Georgia banking operations, including 14 branches and the mortgage business. The banking business and branches to be sold to FirstBank are reported as discontinued operations. Discontinued operations have been reported retrospectively for all periods presented.

(2) The December 31, 2018 ratio is calculated on a continuing operations basis. Prior period ratios have not been retrospectively adjusted for the impact of discontinued operations.

ATLANTIC CAPITAL BANCSHARES, INC.⁽¹⁾

<i>(in thousands, except share and per share data)</i>	For the Years Ended December 31,				
	2018	2017	2016	2015	2014
AVERAGE BALANCES					
Loans and loans held for sale	\$ 1,977,014	\$ 1,936,109	\$ 1,986,482	\$ 1,192,103	\$ 918,959
Investment securities	455,099	447,775	357,054	165,796	143,727
Total assets	2,780,571	2,719,658	2,709,138	1,581,687	1,227,230
Deposits	2,238,292	2,146,852	2,146,984	1,296,763	983,772
Shareholders' equity	315,253	318,805	301,443	170,675	135,687
Number of common shares – basic	25,947,038	25,592,731	24,763,522	15,283,437	13,445,122
Number of common shares – diluted	26,111,755	25,822,085	25,186,680	15,663,865	13,641,882
AT PERIOD END					
Total loans	\$ 2,106,992	\$ 1,935,326	\$ 2,016,549	\$ 1,886,134	\$ 1,039,713
Investment securities	402,486	449,117	347,705	346,221	133,437
Total assets	2,955,440	2,891,421	2,727,543	2,638,780	1,314,859
Deposits	2,537,943	2,450,665	2,237,580	2,262,218	1,105,845
Shareholders' equity	323,653	308,425	303,658	287,992	140,929
Number of common shares outstanding	25,290,419	25,712,909	25,093,135	24,425,546	13,453,820

(1) On November 14, 2018, the Bank entered into an agreement with FirstBank to sell its Tennessee and northwest Georgia banking operations, including 14 branches and the mortgage business. The banking business and branches to be sold to FirstBank are reported as discontinued operations. Discontinued operations have been reported retrospectively for all periods presented.

Non-GAAP Financial Measures

Statements included in this annual report include non-GAAP financial measures and should be read along with the accompanying tables, which provide a reconciliation of non-GAAP financial measures to GAAP financial measures. Atlantic Capital management uses non-GAAP financial measures, including: (i) taxable equivalent interest income; (ii) taxable equivalent net interest income; (iii) taxable equivalent net interest margin; (iv) operating net income; (v) diluted earnings per share - operating; and (vi) interest income on investment securities.

Management believes that non-GAAP financial measures provide a greater understanding of ongoing performance and operations, and enhance comparability with prior periods. Non-GAAP financial measures should not be considered as an alternative to any measure of performance or financial condition as determined in accordance with GAAP, and investors should consider Atlantic Capital's performance and financial condition as reported under GAAP and all other relevant information when assessing the performance or financial condition of the Company. Non-GAAP financial measures have limitations as analytical tools, and investors should not consider them in isolation or as a substitute for analysis of the results or financial condition as reported under GAAP. Non-GAAP financial measures may not be comparable to non-GAAP financial measures presented by other companies.

Non-GAAP Performance Measures Reconciliation

<i>(in thousands, except per share data)</i>	For the Years Ended December 31,				
	2018	2017	2016	2015	2014
Operating net income reconciliation					
Net income (loss) – GAAP	\$ 28,532	\$ (3,726)	\$ 13,395	\$ (1,319)	\$ 7,516
Merger related expenses, net of income tax	—	—	1,685	5,625	—
Divestiture expenses, net of income tax	—	—	187	—	—
Gain on sale of branches, net of income tax	—	—	(2,385)	—	—
Provision for acquired non PCI FSG loans, net of income tax	—	—	—	4,153	—
Revaluation of net deferred tax asset	—	17,398	—	—	—
Operating net income	<u>\$ 28,532</u>	<u>\$ 13,672</u>	<u>\$ 12,882</u>	<u>\$ 8,459</u>	<u>\$ 7,516</u>
Operating diluted earnings per share reconciliation					
Diluted earnings (loss) per share – GAAP	\$ 1.09	\$ (0.15)	\$ 0.53	\$ (0.09)	\$ 0.55
Merger related expenses	—	—	0.06	0.63	—
Net gain on sale of branches	—	—	(0.08)	—	—
Revaluation of net deferred tax asset	—	0.68	—	—	—
Diluted earnings per share – operating	<u>\$ 1.09</u>	<u>\$ 0.53</u>	<u>\$ 0.51</u>	<u>\$ 0.54</u>	<u>\$ 0.55</u>
Interest income on investment securities reconciliation					
Interest income on investment securities – GAAP . .	\$ 10,912	\$ 9,181	\$ 5,698	\$ 3,301	\$ 3,109
Taxable equivalent adjustment	395	906	484	63	39
Interest income on investment securities – taxable equivalent	<u>\$ 11,307</u>	<u>\$ 10,087</u>	<u>\$ 6,182</u>	<u>\$ 3,364</u>	<u>\$ 3,148</u>
Interest income reconciliation					
Interest income – GAAP	\$ 94,760	\$ 75,818	\$ 63,273	\$ 43,546	\$ 36,542
Taxable equivalent adjustment	395	906	484	63	39
Interest income – taxable equivalent	<u>\$ 95,155</u>	<u>\$ 76,724</u>	<u>\$ 63,757</u>	<u>\$ 43,609</u>	<u>\$ 36,581</u>
Net interest income reconciliation					
Net interest income – GAAP	\$ 76,247	\$ 62,832	\$ 53,719	\$ 38,946	\$ 33,093
Taxable equivalent adjustment	395	906	484	63	39
Net interest income – taxable equivalent	<u>\$ 76,642</u>	<u>\$ 63,738</u>	<u>\$ 54,203</u>	<u>\$ 39,009</u>	<u>\$ 33,132</u>
Taxable equivalent net interest margin reconciliation					
Net interest margin – GAAP	3.48%	3.03%	2.74%	2.75%	2.85%
Impact of taxable equivalent adjustment	0.02	0.04	0.02	0.01	0.01
Net interest margin – taxable equivalent	<u>3.50%</u>	<u>3.07%</u>	<u>2.76%</u>	<u>2.76%</u>	<u>2.86%</u>

ATLANTIC CAPITAL BANCSHARES, INC.⁽¹⁾

<i>(in thousands, except share and per share data)</i>	2018				2017			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
INCOME SUMMARY								
Interest income	\$26,628	\$24,017	\$22,836	\$ 21,279	\$ 20,170	\$19,527	\$19,157	\$16,964
Interest expense	5,560	4,720	4,392	3,841	3,454	3,500	3,312	2,720
Net interest income	21,068	19,297	18,444	17,438	16,716	16,027	15,845	14,244
Provision for loan losses	502	845	(173)	772	282	322	1,980	634
Net interest income after provision for loan losses	20,566	18,452	18,617	16,666	16,434	15,705	13,865	13,610
Noninterest income	164	2,255	4,466	3,162	2,748	2,574	3,958	2,899
Noninterest expense	12,208	11,872	12,623	13,288	15,333	12,531	12,445	12,525
Income from continuing operations before income taxes	8,522	8,835	10,460	6,540	3,849	5,748	5,378	3,984
Income tax expense	1,039	1,837	2,082	1,349	19,157	1,815	1,534	1,209
Net income (loss) from continuing operations	7,483	6,998	8,378	5,191	(15,308)	3,933	3,844	2,775
Income (loss) from discontinued operations, net of tax	1,347	(485)	(227)	(153)	(29)	119	485	455
Net income (loss)	\$ 8,830	\$ 6,513	\$ 8,151	\$ 5,038	\$(15,337)	\$ 4,052	\$ 4,329	\$ 3,230
PER SHARE DATA								
Basic earnings (loss) per share – continuing operations	\$ 0.29	\$ 0.27	\$ 0.32	\$ 0.20	\$ (0.60)	\$ 0.16	\$ 0.15	\$ 0.11
Basic earnings (loss) per share – discontinued operations	0.05	(0.02)	(0.01)	(0.01)	—	—	0.02	0.02
Basic earnings (loss) per share	<u>\$ 0.34</u>	<u>\$ 0.25</u>	<u>\$ 0.31</u>	<u>\$ 0.19</u>	<u>\$ (0.60)</u>	<u>\$ 0.16</u>	<u>\$ 0.17</u>	<u>\$ 0.13</u>
Diluted earnings (loss) per share – continuing operations	\$ 0.29	\$ 0.27	\$ 0.32	\$ 0.20	\$ (0.60)	\$ 0.16	\$ 0.15	\$ 0.11
Diluted earnings (loss) per share – discontinued operations	0.05	(0.02)	(0.01)	(0.01)	—	—	0.02	0.02
Diluted earnings (loss) per share	<u>\$ 0.34</u>	<u>\$ 0.25</u>	<u>\$ 0.31</u>	<u>\$ 0.19</u>	<u>\$ (0.60)</u>	<u>\$ 0.16</u>	<u>\$ 0.17</u>	<u>\$ 0.13</u>
Book value per share	12.80	12.27	12.14	11.91	11.99	12.63	12.45	12.18
PERFORMANCE MEASURES								
Return on average equity	10.90%	8.07%	10.46%	6.66%	(18.66)%	4.96%	5.48%	4.19%
Return on average assets	1.21	0.92	1.20	0.76	(2.24)	0.60	0.63	0.48
Taxable equivalent net interest margin – continuing operations	3.66	3.48	3.51	3.39	3.23	3.12	3.07	2.94
Efficiency ratio – continuing operations	57.50	55.09	55.10	64.50	78.78	67.37	62.84	73.06
Equity to assets	10.95	11.11	11.77	11.29	10.67	12.31	11.82	11.10
ASSET QUALITY								
Allowance for loan losses to loans held for investment ⁽²⁾	1.03%	1.00%	1.01%	1.01%	1.00%	0.99%	1.11%	1.05%
Net charge-offs	\$ (3)	\$ (15)	\$ 129	\$ 231	\$ (192)	\$ 3,322	\$ 49	\$ 1,290
Net charge-offs to average loans ⁽³⁾	—%	—%	0.03%	0.05%	(0.04)%	0.68%	0.01%	0.26%
NPAs to total assets	0.20	0.13	0.14	0.13	0.14	0.23	0.52	0.21

- (1) On November 14, 2018, the Bank entered into an agreement with FirstBank to sell its Tennessee and northwest Georgia banking operations, including 14 branches and the mortgage business. The banking business and branches to be sold to FirstBank are reported as discontinued operations. Discontinued operations have been reported retrospectively for all periods presented.
- (2) The fourth quarter 2018 ratio is calculated on a continuing operations basis. Prior period ratios have not been retrospectively adjusted for the impact of discontinued operations.
- (3) Annualized.

ATLANTIC CAPITAL BANCSHARES, INC.⁽¹⁾

<i>(in thousands, except share and per share data)</i>	2018				2017			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
AVERAGE BALANCES								
Loans	\$ 2,076,853	\$ 1,963,817	\$ 1,927,063	\$ 1,938,953	\$ 1,898,745	\$ 1,934,505	\$ 1,962,374	\$ 1,949,385
Investment securities	450,465	461,348	454,634	453,917	460,269	455,868	455,090	419,335
Total assets	2,891,327	2,805,740	2,718,071	2,704,822	2,720,070	2,701,387	2,762,389	2,694,715
Deposits	2,380,861	2,254,072	2,135,825	2,153,885	2,194,849	2,121,263	2,158,675	2,111,992
Shareholders' equity	321,348	320,090	312,543	306,821	326,059	323,832	316,825	308,261
Number of common shares – basic	25,919,445	26,103,397	26,010,914	25,750,824	25,723,548	25,699,179	25,621,910	25,320,690
Number of common shares – diluted	26,043,799	26,254,772	26,200,026	25,945,773	25,888,064	25,890,779	25,831,281	25,672,286
AT PERIOD END								
Total loans	\$ 2,106,992	\$ 2,040,320	\$ 1,935,923	\$ 1,960,256	\$ 1,935,326	\$ 1,908,706	\$ 1,963,835	\$ 1,930,965
Investment securities	402,486	465,756	453,968	458,730	449,117	447,005	450,273	456,942
Total assets	2,955,440	2,882,721	2,690,674	2,718,665	2,891,421	2,638,412	2,702,575	2,802,078
Deposits	2,544,163	2,379,824	2,066,587	2,096,300	2,450,665	2,103,645	2,113,954	2,203,039
Shareholders' equity	323,653	320,237	316,770	307,059	308,425	324,754	319,435	310,967
Number of common shares outstanding	25,290,419	26,103,666	26,102,217	25,772,208	25,712,909	25,716,418	25,654,521	25,535,013

(1) On November 14, 2018, the Bank entered into an agreement with FirstBank to sell its Tennessee and northwest Georgia banking operations, including 14 branches and the mortgage business. The banking business and branches to be sold to FirstBank are reported as discontinued operations. Discontinued operations have been reported retrospectively for all periods presented.

Non-GAAP Performance Measures Reconciliation

<i>(in thousands, except per share data)</i>	2018				2017			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Operating net income reconciliation								
Net income (loss) – GAAP	\$ 8,830	\$ 6,513	\$ 8,151	\$ 5,038	\$(15,337)	\$ 4,052	\$ 4,329	\$ 3,230
Revaluation of net deferred tax asset	—	—	—	—	17,398	—	—	—
Operating net income	<u>\$ 8,830</u>	<u>\$ 6,513</u>	<u>\$ 8,151</u>	<u>\$ 5,038</u>	<u>\$ 2,061</u>	<u>\$ 4,052</u>	<u>\$ 4,329</u>	<u>\$ 3,230</u>
Operating diluted earnings per share reconciliation								
Diluted earnings (loss) per share – GAAP	\$ 0.34	\$ 0.25	\$ 0.31	\$ 0.19	\$ (0.60)	\$ 0.16	\$ 0.17	\$ 0.13
Revaluation of net deferred tax asset	—	—	—	—	0.68	—	—	—
Diluted earnings per share – operating	<u>\$ 0.34</u>	<u>\$ 0.25</u>	<u>\$ 0.31</u>	<u>\$ 0.19</u>	<u>\$ 0.08</u>	<u>\$ 0.16</u>	<u>\$ 0.17</u>	<u>\$ 0.13</u>
Interest income on investment securities reconciliation								
Interest income on investment securities – GAAP	\$ 2,844	\$ 2,789	\$ 2,687	\$ 2,592	\$ 2,510	\$ 2,298	\$ 2,355	\$ 2,018
Taxable equivalent adjustment	97	97	98	103	213	215	223	255
Interest income on investment securities – taxable equivalent	<u>\$ 2,941</u>	<u>\$ 2,886</u>	<u>\$ 2,785</u>	<u>\$ 2,695</u>	<u>\$ 2,723</u>	<u>\$ 2,513</u>	<u>\$ 2,578</u>	<u>\$ 2,273</u>
Interest income reconciliation								
Interest income – GAAP	\$26,628	\$24,017	\$ 22,836	\$ 21,279	\$ 20,170	\$19,527	\$ 19,157	\$16,964
Taxable equivalent adjustment	97	97	98	103	213	215	223	255
Interest income – taxable equivalent	<u>\$26,725</u>	<u>\$24,114</u>	<u>\$ 22,934</u>	<u>\$ 21,382</u>	<u>\$ 20,383</u>	<u>\$19,742</u>	<u>\$ 19,380</u>	<u>\$17,219</u>
Net interest income reconciliation								
Net interest income – GAAP	\$21,068	\$19,297	\$ 18,444	\$ 17,438	\$ 16,716	\$16,027	\$ 15,845	\$14,244
Taxable equivalent adjustment	97	97	98	103	213	215	223	255
Net interest income – taxable equivalent	<u>\$21,165</u>	<u>\$19,394</u>	<u>\$ 18,542</u>	<u>\$ 17,541</u>	<u>\$ 16,929</u>	<u>\$16,242</u>	<u>\$ 16,068</u>	<u>\$14,499</u>
Taxable equivalent net interest margin reconciliation								
Net interest margin – GAAP	3.64%	3.46%	3.49%	3.37%	3.18%	3.08%	3.02%	2.89%
Impact of taxable equivalent adjustment	0.02	0.02	0.02	0.02	0.05	0.04	0.05	0.05
Net interest margin – taxable equivalent	<u>3.66%</u>	<u>3.48%</u>	<u>3.51%</u>	<u>3.39%</u>	<u>3.23%</u>	<u>3.12%</u>	<u>3.07%</u>	<u>2.94%</u>

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of earnings and related financial data ("MD&A") is presented to assist in understanding the financial condition and results of operations of Atlantic Capital Bancshares, Inc. and its subsidiaries. This MD&A should be read in conjunction with the audited consolidated financial statements and related notes included in this Annual Report on Form 10-K. Intercompany accounts and transactions have been eliminated. On November 14, 2018, the Bank entered into an agreement with FirstBank to sell its Tennessee and northwest Georgia banking operations, including 14 branches and the mortgage business. Current and prior periods' financial information covering income and expense amounts in this MD&A has been retrospectively adjusted for the impact of the discontinued operations for comparative purposes. The financial information for prior periods included in this MD&A also reflects the reclassification of assets and liabilities related to discontinued operations to held for sale. Items included in discontinued operations reflect the pending Branch Sale. Unless otherwise noted, for purposes of this section, "Atlantic Capital" refers to the consolidated financial position and consolidated results of operations for Atlantic Capital Bancshares, Inc.

EXECUTIVE OVERVIEW AND EARNINGS SUMMARY

Atlantic Capital reported net income from continuing operations of \$28.1 million for the year ended December 31, 2018. This compared to a net loss from continuing operations of \$4.8 million for the year ended December 31, 2017. Diluted income per common share from continuing operations was \$1.07 for 2018, compared to (\$0.19) for 2017.

The increase in net income from continuing operations for the year ended December 31, 2018 compared to 2017 was primarily the result of a 73% decrease in provision for income taxes from continuing operations. This was due to a \$17.4 million reduction in the value of Atlantic Capital's net deferred tax asset in 2017 as a result of the tax reform legislation signed into law on December 22, 2017. In addition, net interest income before provision for loan losses increased \$13.4 million, or 21%, from 2017 to 2018, primarily due to a \$15.7 million, or 24%, increase in interest and fee income on loans, and a \$1.2 million, or 12%, increase in interest on investment securities available-for-sale (taxable equivalent).

Net income from continuing operations of \$7.6 million for the year ended December 31, 2016 decreased \$12.3 million to a net loss from continuing operations of \$4.8 million for the year ended December 31, 2017. The decrease in was primarily the result of the previously mentioned \$17.4 million reduction in the value of Atlantic Capital's net deferred tax asset.

Taxable equivalent net interest income from continuing operations was \$76.6 million for 2018, compared to \$63.7 million for 2017. Taxable equivalent net interest margin increased to 3.50% for the year ended December 31, 2018, from 3.07% for 2017. The margin increase was primarily due to increases in the Fed Funds rate.

Taxable equivalent net interest income from continuing operations was \$63.7 million for 2017, compared to \$54.2 million for 2016. Taxable equivalent net interest margin increased to 3.07% for the year ended December 31, 2017, from 2.76% for 2016. The margin increase was primarily due to increases in the Fed Funds rate.

Provision for loan losses from continuing operations for the year ended December 31, 2018 totaled \$1.9 million, a decrease of \$1.3 million, or 40%, from the year ended December 31, 2017, due to lower net charge-offs. The Company recorded negative provision for loan losses in 2018 totaling \$3.1 million included in discontinued operations, primarily due to the classification of \$373 million of loans to held for sale. Provision expense decreased by \$598,000 from \$3.8 million in 2016 to \$3.2 million in 2017, primarily related to a reduction in loan growth

Noninterest income from continuing operations decreased \$2.1 million, or 18%, to \$10.0 million for the year ended December 31, 2018 from the year ended December 31, 2017. The decrease was primarily due to a loss of \$1.9 million on the sale of \$63 million in investment securities to help fund the cash owed to the buyer at the closing of the upcoming Branch Sale. In addition, there was an \$896,000 decrease in gains on sales of other assets and a \$789,000 decrease in trust income from 2017 to 2018. These decreases were offset by a \$1.7 million net gain on the sale of Southeastern Trust Company in 2018.

Noninterest income from continuing operations increased \$198,000, or 2%, to \$12.2 million for the year ended December 31, 2017 from the year ended December 31, 2016. Service charges increased \$762,000, or 39%, and SBA lending activities increased \$487,000, or 13% from 2016 to 2017. These increases were offset by a \$1.4 million decrease in TriNet lending activities which is included in other noninterest income. Atlantic Capital closed the TriNet lending division during the third quarter of 2016.

For the year ended December 31, 2018, noninterest expense from continuing operations decreased \$2.8 million, or 5%, compared to 2017. Salary and benefits expense decreased \$1.4 million, or 4%, in 2018 due to severance costs and \$2.0 million in expenses related to the President and Chief Operating Officer's resignation in 2017. Additionally, professional services expense decreased \$1.1 million, or 24%, primarily due to expenses related to the public offering of common stock by a selling stockholder completed during the third quarter of 2017.

Noninterest expense from continuing operations totaled \$52.8 million for the year ended December 31, 2017, compared to \$50.1 million for the same period in 2016, an increase of \$2.7 million, or 5%. Salary and benefits expense increased \$4.4 million, or 16%, in 2017 due to severance and resignation costs previously discussed. Additionally, professional services expense increased \$1.7 million, or 61%, from 2016 to 2017, primarily due to expenses related to the public offering of common stock in 2017. These increases were offset by a \$2.4 million, or 89%, decrease in merger and conversion costs from 2016 to 2017 related to the acquisition of First Security.

CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of Atlantic Capital are in accordance with GAAP and conform to general practices within the banking industry. Atlantic Capital's financial position and results of operations are affected by management's application of accounting policies, including judgments made to arrive at the carrying value of assets and liabilities and amounts reported for revenues, expenses and related disclosures. Different assumptions in the application of these policies could result in material changes in Atlantic Capital's consolidated financial position and/or consolidated results of operations. The more critical accounting and reporting policies include Atlantic Capital's accounting for the allowance for loan losses, fair value measurements, and income tax related items. Significant accounting policies are discussed in Note 1 of the consolidated financial statements.

The following is a summary of Atlantic Capital's critical accounting policies that are material to the consolidated financial statements and are highly dependent on estimates and assumptions.

Allowance for loan losses.

The allowance for loan losses ("ALL") is management's estimate of probable credit losses inherent in Atlantic Capital's loan portfolio at the balance sheet date. Atlantic Capital determines the allowance for loan losses based on an ongoing estimation process. This estimation process is inherently subjective, as it requires material estimates, including the amounts and timing of cash flows expected to be received on impaired loans and losses incurred as of the balance sheet date in Atlantic Capital's loan portfolio. Those estimates may be susceptible to significant change. Increases to the allowance for loan losses are made by charges to the provision for loan losses. Loans deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged-off amounts are credited to the allowance for loan losses.

The allowance is the accumulation of various components that are calculated based on an independent estimation process. All components of the allowance for loan losses represent estimates based on data that management believes are most reflective of the underlying credit losses being estimated. This evaluation includes credit quality trends, peer analysis, recent loan loss experience, collateral type, loan volumes, seasoning of the loan portfolio, economic conditions, and the findings of internal credit quality assessments and results from external bank regulatory examinations.

While management uses the best information available to establish the allowance for loan losses, future adjustments may become necessary if conditions differ substantially from the assumptions used in making the estimates. In addition, regulatory examiners may require adjustments to the allowance for loan losses based on their judgments about information available to them at the time of their examination. Such adjustments to original estimates, as necessary, are made and reflected in the financial results in the period in which these factors and other relevant considerations indicate that loss levels may vary from previous estimates.

Management continuously monitors and actively manages the credit quality of the entire loan portfolio and recognizes provision expense to maintain the allowance at an appropriate level. Specific allowances for impaired loans are determined by analyzing estimated cash flows discounted at a loan's original rate or collateral values in situations where Atlantic Capital believes repayment is dependent on collateral liquidation.

Management considers the established ALL adequate to absorb losses that relate to loans outstanding at December 31, 2018, although future additions may be necessary based on deteriorated economic conditions, reduced collateral values, erosion of the borrower's access to liquidity and other factors. If the financial condition of borrowers were to deteriorate, resulting in an impairment of their ability to make payments, Atlantic Capital's estimates would be updated and additions to the ALL may be required.

Fair value measurements.

Atlantic Capital's impaired loans and foreclosed assets may be measured and carried at fair value, the determination of which requires management to make assumptions, estimates and judgments. See Note 18, Fair Value Measurements, in the consolidated financial statements for additional disclosures regarding the fair value of our assets and liabilities.

When a loan is considered individually impaired, a specific valuation allowance is allocated, if necessary, 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. In addition, foreclosed assets are carried at the lower of cost, fair value, less cost to sell, or listed selling price less cost to sell, following foreclosure. Fair value is defined by GAAP as "the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date." GAAP further defines an "orderly transaction" as "a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets. It is not a forced transaction (for example, a forced liquidation or distress sale)." Although management believes its processes for determining the value of impaired loans and foreclosed properties are appropriate and allow Atlantic Capital to arrive at a fair value, the processes require management judgment and assumptions and the value of such assets at the time they are revalued or divested may be significantly different from management's determination of fair value. In addition, because of subjectivity in fair value determinations, there may be grounds for differences in opinions, which may result in disagreements between management and the Bank's regulators, which could cause the Bank to change its judgments about fair value.

The fair values for available-for-sale securities are generally based upon quoted market prices or observable market prices for similar instruments. Atlantic Capital utilizes a third-party pricing service to assist with determining the fair value of its securities portfolio. The pricing service uses observable inputs when available including benchmark yields, reported trades, broker-dealer quotes, issuer spreads, benchmark securities, bids and offers. These values take into account recent market activity as well as other market observable data such as interest rate, spread and prepayment information. When market observable data is not available, which generally occurs due to the lack of liquidity for certain securities, the valuation of the security is subjective and may involve substantial judgment by management. Atlantic Capital periodically reviews available-for-sale securities that are in an unrealized loss position to determine whether other-than-temporary impairment exists. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost-basis. The primary factors Atlantic Capital considers in determining whether impairment is other-than-temporary are long term expectations and recent experience regarding principal and interest payments, and Atlantic Capital's ability and intent to hold the security until the amortized cost basis is recovered.

Atlantic Capital uses derivatives primarily to manage interest rate risk. The fair values of derivative financial instruments are determined based on quoted market prices, dealer quotes and pricing models that are primarily sensitive to observable market data.

Income taxes.

Atlantic Capital recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those

temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies by jurisdiction and entity in making this assessment.

Regulatory risk-based capital rules limit the amount of deferred tax assets that a bank or bank holding company can include in Tier 1 capital. Generally, 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, are excluded from CET1 and Tier 1 capital. Deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of deferred tax liabilities, that exceed certain thresholds are excluded from CET1 and Tier 1 capital.

RESULTS OF OPERATIONS

Net Interest Income and Net Interest Margin

Taxable equivalent net interest income from continuing operations for 2018 totaled \$76.6 million, a \$12.9 million, or 20%, increase from 2017. This increase was primarily driven by an \$18.4 million, or 24%, increase in taxable equivalent interest income from continuing operations. The interest income increase primarily resulted from the following:

- a \$15.7 million, or 24%, increase to \$80.1 million in interest income on loans, resulting from increases in the Fed Funds rate and an increase in average loan balances; and
- a \$1.2 million, or 12%, increase to \$11.3 million in taxable equivalent interest income on investment securities, resulting from a 23 basis point increase in the yield on investment securities; and
- a \$1.3 million, or 145%, increase to \$2.2 million in interest income on deposits in other banks, resulting from increases in the Fed Funds rate.

Interest expense from continuing operations for the year ended December 31, 2018 totaled \$18.5 million, a \$5.5 million, or 43%, increase from 2017, primarily due to a \$4.6 million, or 58%, increase in interest paid on deposits. The rate paid on interest bearing liabilities increased 42 basis points from 2017 to 2018, driven by an increase in interest rates on deposits and other borrowings resulting from increases in the Fed Funds rate.

Taxable equivalent net interest margin from continuing operations increased to 3.50% from 3.07% for the year ended December 31, 2018 compared to the year ended December 31, 2017. The primary reason for the increase in taxable equivalent net interest margin for 2018 compared to 2017 was the higher interest rates on loans resulting from Fed Funds rate increases. Net accretion income on acquired loans discount totaled \$1.4 million for the year ended December 31, 2018, compared to \$2.4 million for the same period in 2017.

Taxable equivalent net interest income from continuing operations increased \$9.5 million, or 18%, from \$54.2 million in 2016 to \$63.7 million in 2017. Taxable equivalent net interest margin increased to 3.07% in 2017 from 2.76% in 2016, primarily due to Fed Funds rate increases and increased investment in non-taxable investment securities.

The following table presents information regarding average balances for assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting average yields and costs. The yields and costs for the periods indicated are derived by dividing the income or expense by the average balances for assets or liabilities, respectively, for the periods presented. Loan fees are included in interest income on loans.

Table 1 — Average Balance Sheets and Net Interest Analysis⁽¹⁾*(Dollars in thousands; taxable equivalent)*

	Twelve months ended December 31,								
	2018			2017			2016		
	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate
Assets									
Interest bearing deposits in other banks	\$ 104,145	\$ 2,244	2.15%	\$ 85,525	\$ 916	1.07%	\$ 92,744	\$ 583	0.63%
Other short-term investments	15,210	426	2.80%	14,266	270	1.89%	23,134	318	1.37%
Investment securities:									
Taxable investment securities	379,035	9,005	2.38%	366,309	7,221	1.97%	310,815	4,755	1.53%
Non-taxable investment securities ⁽²⁾	76,064	2,302	3.03%	81,466	2,866	3.52%	46,239	1,427	3.09%
Total investment securities	455,099	11,307	2.48%	447,775	10,087	2.25%	357,054	6,182	1.73%
Loans – continuing operations	1,600,257	80,110	5.01%	1,507,453	64,436	4.27%	1,472,548	55,837	3.79%
FHLB and FRB stock	17,710	1,068	6.03%	18,528	1,015	5.48%	15,617	837	5.36%
Total interest-earning assets – continuing operations	2,192,421	95,155	4.34%	2,073,547	76,724	3.70%	1,961,097	63,757	3.25%
Loans held for sale – discontinued operations	376,757	18,224	4.84%	428,656	20,453	4.77%	513,934	24,943	4.85%
Total interest-earning assets	2,569,178	113,379	4.41%	2,502,203	97,177	3.88%	2,475,031	88,700	3.58%
Non-earning assets	211,393			217,455			234,107		
Total assets	\$ 2,780,571			\$ 2,719,658			\$ 2,709,138		
Liabilities									
Interest bearing deposits:									
NOW, money market, and savings	1,001,025	10,627	1.06%	868,999	5,921	0.68%	795,175	3,836	0.48%
Time deposits	10,046	115	1.14%	11,345	53	0.47%	14,842	50	0.34%
Brokered deposits	84,105	1,764	2.10%	168,685	1,960	1.16%	207,543	1,574	0.76%
Total interest-bearing deposits	1,095,176	12,506	1.14%	1,049,029	7,934	0.76%	1,017,560	5,460	0.54%
Total borrowings	139,422	2,703	1.94%	175,060	1,758	1.00%	169,621	809	0.48%
Total long-term debt	49,613	3,304	6.66%	49,444	3,294	6.66%	49,275	3,285	6.67%
Total interest-bearing liabilities – continuing operations	1,284,211	18,513	1.44%	1,273,533	12,986	1.02%	1,236,456	9,554	0.77%
Interest-bearing liabilities – discontinued operations	467,101	4,084	0.87%	466,777	2,143	0.46%	576,163	1,955	0.34%
Total interest-bearing liabilities	1,751,312	22,597	1.29%	1,740,310	15,129	0.87%	1,812,619	11,509	0.63%
Demand deposits	538,110			490,495			401,340		
Demand deposits – discontinued operations	137,905			140,551			158,422		
Other liabilities	37,991			29,497			35,314		
Shareholders' equity	315,253			318,805			301,443		
Total liabilities and shareholders' equity	\$ 2,780,571			\$ 2,719,658			\$ 2,709,138		
Net interest spread – continuing operations			2.90%			2.68%			2.48%
Net interest income and net interest margin – continuing operations ⁽³⁾		\$ 76,642	3.50%		\$ 63,738	3.07%		\$ 54,203	2.76%
Net interest income and net interest margin ⁽³⁾		\$ 90,782	3.53%		\$ 82,048	3.28%		\$ 77,191	3.12%

(1) On November 14, 2018, the Bank entered into an agreement with FirstBank to sell its Tennessee and northwest Georgia banking operations, including 14 branches and the mortgage business. The banking business and branches to be sold to FirstBank are reported as discontinued operations. Discontinued operations have been reported retrospectively for all periods presented.

- (2) Interest income on tax-exempt securities has been increased to reflect comparable interest on taxable securities. The rate used was 21% for the year ended December 31, 2018 and 35% for the years ended December 31, 2017 and 2016, reflecting the statutory federal income tax rates.
- (3) Taxable equivalent net interest income divided by total interest-earning assets using the appropriate day count convention based on the type of interest-earning asset. For a reconciliation of Non-GAAP financial measures, see Item 6. Selected Financial Data — Non-GAAP Performance Measures Reconciliation.

The following table shows the relative effect on taxable equivalent net interest income for changes in the average outstanding amounts (volume) of interest-earning assets and interest-bearing liabilities and the rates earned and paid on such assets and liabilities (rate). Variances resulting from a combination of changes in rate and volume are allocated in proportion to the absolute dollar amounts of the change in each category.

Table 2 — Changes in Net Interest Income

(in thousands)

	2018 Compared to 2017			2017 Compared to 2016		
	Increase (decrease) Due to Changes in:			Increase (decrease) Due to Changes in:		
	Volume	Yield/Rate	Total Change	Volume	Yield/Rate	Total Change
Interest earning assets						
Interest bearing deposits in other banks	\$ 401	\$ 927	\$ 1,328	\$ (77)	\$ 410	\$ 333
Other short-term investments	26	130	156	(168)	120	(48)
Investment securities:						
Taxable investment securities	302	1,482	1,784	1,094	1,372	2,466
Non-taxable investment securities ⁽¹⁾	(163)	(401)	(564)	1,239	200	1,439
Total investment securities	139	1,081	1,220	2,333	1,572	3,905
Total loans	4,646	11,028	15,674	1,492	7,107	8,599
FHLB and FRB stock	(49)	102	53	159	19	178
Total interest-earning assets – continuing operations	5,163	13,268	18,431	3,739	9,228	12,967
Loans held for sale – discontinued operations	(2,510)	281	(2,229)	(4,069)	(421)	(4,490)
Total interest-earning assets	2,653	13,549	16,202	(330)	8,807	8,477
Interest bearing liabilities						
Interest bearing deposits:						
NOW, money market, and savings	1,402	3,304	4,706	503	1,582	2,085
Time deposits	(15)	77	62	(16)	19	3
Internet and brokered deposits	(1,774)	1,578	(196)	(452)	838	386
Total interest-bearing deposits	(387)	4,959	4,572	35	2,439	2,474
Total borrowings	(691)	1,636	945	55	894	949
Total long-term debt	11	(1)	10	11	(2)	9
Total interest-bearing liabilities – continuing operations	(1,067)	6,594	5,527	101	3,331	3,432
Interest-bearing liabilities – discontinued operations	3	1,938	1,941	(502)	690	188
Total interest-bearing liabilities	(1,064)	8,532	7,468	(401)	4,021	3,620
Change in net interest income – continuing operations	\$ 6,230	\$ 6,674	\$ 12,904	\$ 3,638	\$ 5,897	\$ 9,535
Change in net interest income	\$ 3,717	\$ 5,017	\$ 8,734	\$ 71	\$ 4,786	\$ 4,857

- (1) Interest income on tax-exempt securities has been increased to reflect comparable interest on taxable securities. The rate used was 21% for the year ended December 31, 2018 and 35% for the years ended December 31, 2017 and 2016, reflecting the statutory federal income tax rates.

Provision for Loan Losses

Management considers a number of factors in determining the required level of the allowance for loan losses and the provision required to achieve what is believed to be appropriate reserve level, including historical loss experience, loan growth, credit risk rating trends, nonperforming loan levels, delinquencies, loan portfolio concentrations and economic and market trends. The provision for loan losses represents management's determination of the amount necessary to be charged against the current period's earnings to maintain the allowance for loan losses at a level that it considered adequate in relation to the estimated losses inherent in the loan portfolio.

The provision for loan losses from continuing operations was \$1.9 million in 2018, a decrease of \$1.3 million, or 40%, compared to 2017, due to lower net charge-offs in 2018. The Company recorded negative provision for loan losses in 2018 totaling \$3.1 million included in discontinued operations, primarily due to the classification of \$373 million of loans to held for sale. The provision for loan losses was \$3.2 million in 2017, a decrease of \$598,000, or 16%, compared to 2016. The decrease from 2016 to 2017 was primarily related to a reduction in loan growth.

At December 31, 2018, nonperforming loans totaled \$5.2 million compared to \$2.9 million at December 31, 2017. The increase was primarily attributable to the inclusion of \$799,000 in nonperforming loans held for sale as of December 31, 2018 which were previously designated as PCI. The Bank also placed an additional \$693,000 in commercial and industrial loans on nonaccrual status as of December 31, 2018 compared to 2017. Net loan charge-offs were 0.02%, 0.23% and 0.11%, respectively, of average loans for the years ended December 31, 2018, 2017, and 2016, respectively. The allowance for loan losses to total loans at December 31, 2018 was 1.03%, compared to 1.00% at December 31, 2017.

Noninterest Income

Noninterest income was \$13.4 million in 2018, compared with \$16.2 million in 2017, and \$21.7 million in 2016. The following table presents the components of noninterest income.

Table 3 — Noninterest Income

(in thousands)

	Twelve months ended December 31,			Change 2018-2017
	2018	2017	2016	
Service charges	\$ 3,215	\$ 2,734	\$ 1,972	\$ 481
Gain (loss) on sales of securities	(1,855)	(63)	44	(1,792)
Gain on sale of other assets	(154)	742	388	(896)
Trust income	1,025	1,814	1,411	(789)
Derivatives income	308	156	260	152
Bank owned life insurance	1,506	1,530	1,610	(24)
SBA lending activities	3,606	4,129	3,642	(523)
Gain on sale of trust business	1,681	—	—	1,681
Other noninterest income	715	1,137	2,654	(422)
Total noninterest income – continuing operations	<u>10,047</u>	<u>12,179</u>	<u>11,981</u>	<u>(2,132)</u>
Noninterest income – discontinued operations	3,347	4,010	9,751	(663)
Noninterest income	<u>\$ 13,394</u>	<u>\$ 16,189</u>	<u>\$ 21,732</u>	<u>\$ (2,795)</u>

Service charges from continuing operations for the year ended December 31, 2018 increased \$481,000, or 18%, from 2017. The increase was primarily due to the increase in deposit balances and improved volume of treasury and payments services. Gain on sales of other assets for the year ended December 31, 2018 decreased \$896,000 compared to 2017 due to a \$323,000, or 84%, decrease in net gains on sales of other real estate owned and a \$426,000 gain on the sale of a tax credit investment during the second quarter of 2017. In addition, the Company recorded a loss on disposition of fixed assets totaling \$170,000 in the second quarter of 2018 related to the relocation of its Atlanta headquarters.

In the fourth quarter of 2018, Atlantic Capital recorded a loss of \$1.9 million on the sale of \$63 million in investment securities to help fund the cash owed to the buyer at the closing of the pending second quarter 2019 Branch Sale. Trust income for the year ended December 31, 2018 decreased \$789,000, or 43%, from 2017 due to the sale of the trust business. Atlantic Capital closed on the sale of the trust business during the second quarter of 2018 and recorded a net gain of \$1.7 million.

Income from SBA lending activities for the year ended December 31, 2018 decreased \$523,000, or 13%, compared to 2017, partly as a result of the decrease in balances of loans sold and the impact on the sale of SBA loans in December 2018 from the federal government shutdown. During the years ended 2018 and 2017, guaranteed portions of 57 and 43 SBA loans with principal balances of \$52.2 million and \$65.0 million, respectively, were sold in the secondary market.

For 2017, noninterest income totaled \$16.2 million compared to \$21.7 million for 2016, a \$5.5 million, or 26%, decrease. The most significant component of the decrease was a \$3.9 million net gain on branch sales in 2016 which is included in noninterest income — discontinued operations. Additionally, the decrease in other noninterest income from continuing operations was due to a \$1.4 million, or 94%, decrease in TriNet lending income from 2016 to 2017 due to Atlantic Capital’s decision to close the TriNet Lending division in the third quarter of 2016.

Noninterest Expense

The following table presents the components of noninterest expense.

Table 4 — Noninterest Expense

(in thousands)

	Twelve months ended December 31,			Change 2018-2017
	2018	2017	2016	
Salaries and employee benefits	\$ 31,766	\$ 33,130	\$ 28,682	\$ (1,364)
Occupancy	2,972	2,516	2,218	456
Equipment and software	2,817	2,341	2,175	476
Professional services	3,511	4,591	2,860	(1,080)
Postage, printing and supplies	166	244	360	(78)
Communications and data processing	2,676	2,625	1,938	51
Marketing and business development	710	798	1,004	(88)
FDIC premiums	562	697	1,037	(135)
Merger and conversion costs	—	304	2,742	(304)
Other noninterest expense	4,811	5,588	7,083	(777)
Total noninterest expense – continuing operations	49,991	52,834	50,099	(2,843)
Noninterest expense – discontinued operations	19,941	20,631	23,181	(690)
Noninterest expense	<u>\$ 69,932</u>	<u>\$ 73,465</u>	<u>\$ 73,280</u>	<u>\$ (3,533)</u>

Noninterest expense was \$69.9 million in 2018 as compared to \$73.5 million in 2017, and \$73.3 million in 2016. The decrease from 2017 to 2018 is primarily the result of lower salaries, employee benefits, and professional services expenses.

Salaries and employee benefits expense from continuing operations for 2018 was \$31.8 million, a decrease of \$1.4 million, or 4%, from 2017. The decrease was due to severance costs and \$2.0 million in expenses related to the President and Chief Operating Officer’s resignation in 2017. Full time equivalent headcount totaled 334 at December 31, 2018 compared to 348 at December 31, 2017, a decrease of 14 full time equivalent positions, primarily due to a reduction in support staff.

Occupancy costs from continuing operations of \$3.0 million for 2018 were up \$456,000, or 18%, compared to 2017, primarily due to higher rent expense from the overlap of leases and related expenses from the relocation of the Company’s Atlanta headquarters.

Equipment and software expense from continuing operations of \$2.8 million for 2018 was up \$476,000, or 20%, compared to 2017, primarily due to higher depreciation expense from the Company's new headquarters and additional investment in software licenses.

Professional services costs from continuing operations of \$3.5 million for 2018 were down \$1.1 million, or 24%, compared to 2017, primarily due to higher legal and accounting fees paid in 2017 related to the public offering of common stock by a selling stockholder completed during the third quarter of 2017.

Merger and conversion costs are included in continuing operations and totaled \$304,000 for the year ended December 31, 2017. These costs include rebranding expenses related to the acquisition of First Security.

Other noninterest expense related to continuing operations for 2018 decreased \$777,000, or 14%, compared to 2017. This decrease includes a \$461,000 decrease in provision for unfunded commitments, primarily related to the classification of \$373 million in loans held for sale.

Noninterest expense totaled \$73.5 million for 2017, a \$185,000, or less than 1%, increase from \$73.3 million in 2016. The slight increase from 2016 to 2017 is primarily the result of higher salaries, employee benefits, and professional services expenses which were partially offset by decreases in merger and conversion costs, and other noninterest expense.

Income Taxes

Atlantic Capital monitors and evaluates the potential impact of current events on the estimates used to establish income tax expenses and income tax liabilities. On a periodic basis, Atlantic Capital evaluates its income tax positions based on current tax law and positions taken by various tax auditors within the jurisdictions where Atlantic Capital is required to file income tax returns.

Income tax expense from continuing operations was \$6.3 million in 2018, compared to income tax expense from continuing operations of \$23.7 million in 2017 and \$4.2 million in 2016. The effective tax rate (as a percentage of pre-tax earnings) for 2018, 2017, and 2016 was 18.4%, 125.1% and 35.8%, respectively. The change in the effective tax rate for 2018 compared to 2017 and 2017 compared to 2016 resulted primarily from a \$17.4 million reduction of the value of Atlantic Capital's net deferred tax asset due to the tax reform legislation signed into law in December 2017.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts and their respective tax basis including operating losses and tax credit carryforwards. Net deferred tax assets (deferred tax assets net of deferred tax liabilities and valuation allowance) are reported in the consolidated balance sheet as a component of total assets.

Accounting Standards Codification Topic 740, Income Taxes, requires that companies assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a "more likely than not" standard. The determination of whether a valuation allowance for deferred tax assets is appropriate is subject to considerable judgment and requires an evaluation of all positive and negative evidence with more weight given to evidence that can be objectively verified. Each quarter, management considers both positive and negative evidence and analyzes changes in near-term market conditions as well as other factors which may impact future operating results.

Based on all evidence considered, as of December 31, 2018 and 2017, management concluded that it was more likely than not that the net deferred tax asset would be realized, except as outlined in the following discussion. At December 31, 2018 and 2017, Atlantic Capital recorded a deferred tax asset valuation allowance totaling \$7.4 million and \$8.5 million, respectively, on certain net operating loss carryforwards due to the fact that certain tax attributes are subject to an annual limitation as a result of the acquisition of First Security, which constituted a change of ownership as defined under Internal Revenue Code Section 382. Management expects to generate future taxable income and believes this will allow for full utilization of Atlantic Capital's remaining net operating loss carryforwards within the statutory carryforward periods.

Additional information regarding income taxes, including a reconciliation of the differences between the recorded income tax provision and the amount of income tax computed by applying the statutory federal income tax rate to income before income taxes, can be found in Note 14, Income Taxes, to the consolidated financial statements.

FINANCIAL CONDITION

Total assets at December 31, 2018 and December 31, 2017 were \$2.96 billion and \$2.89 billion, respectively. Average total assets for 2018 were \$2.78 billion, compared to \$2.72 billion for 2017.

Loans

At December 31, 2018, total loans held for investment increased \$208.1 million, or 14%, compared to December 31, 2017, primarily due to an increase of \$106.3 million, or 20%, in commercial and industrial loans. Details of loans at December 31, 2018, 2017, 2016, 2015, and 2014 are provided in Table 5.

Table 5 — Loans

(in thousands)

	December 31,				
	2018	2017	2016	2015	2014
Loans held for sale					
TriNet loans held for sale	\$ —	\$ —	\$ —	\$ 58,934	\$ —
Branch loans held for sale	—	—	30,917	35,470	—
Loans held for sale – discontinued operations	373,030	415,206	465,946	450,078	—
Other loans held for sale	5,889	1,487	4,302	1,061	—
Total loans held for sale	<u>\$ 378,919</u>	<u>\$ 416,693</u>	<u>\$ 501,165</u>	<u>\$ 545,543</u>	<u>\$ —</u>
Loans held for investment					
Commercial loans:					
Commercial and industrial	\$ 645,374	\$ 539,046	\$ 435,836	\$ 363,866	\$ 365,447
Commercial real estate:					
Owner occupied	298,291	250,588	251,796	168,641	193,892
Non-owner occupied	496,537	503,398	447,296	471,596	245,179
Construction and land	156,232	101,801	174,810	118,766	82,567
Mortgage warehouse loans	27,967	39,981	147,519	84,350	116,939
Total commercial loans	<u>1,624,401</u>	<u>1,434,814</u>	<u>1,457,257</u>	<u>1,207,219</u>	<u>1,004,024</u>
Residential:					
Residential mortgages	32,800	12,960	16,418	77,235	1,320
Home equity	22,822	39,407	6,829	26,034	28,464
Total residential loans	<u>55,622</u>	<u>52,367</u>	<u>23,247</u>	<u>103,269</u>	<u>29,784</u>
Consumer	25,851	21,959	18,882	20,028	9,290
Other	24,712	13,303	19,560	12,531	—
Loans held for investment, gross	1,730,586	1,522,443	1,518,946	1,343,047	1,043,098
Less net deferred fees and other unearned income					
	(2,513)	(3,810)	(3,562)	(2,006)	(3,385)
Less allowance for loan losses					
	(17,851)	(19,344)	(20,595)	(18,905)	(11,421)
Loans held for investment, net	<u>\$ 1,710,222</u>	<u>\$ 1,499,289</u>	<u>\$ 1,494,789</u>	<u>\$ 1,322,136</u>	<u>\$ 1,028,292</u>

The following table sets forth the maturity distribution of loans as of December 31, 2018.

Table 6 — Loan Maturity Distribution and Interest Rate Sensitivity

(in thousands)

	<u>Within One Year</u>	<u>One to Five Years</u>	<u>After Five Years</u>	<u>Total</u>
Loans held for investment:				
Commercial and industrial	\$ 212,547	\$ 286,934	\$ 145,893	\$ 645,374
Commercial real estate	87,944	331,249	375,635	794,828
Construction and land	85,478	45,696	25,058	156,232
Mortgage warehouse loans	27,967	—	—	27,967
Residential mortgages	4,002	1,477	27,321	32,800
Home equity	7,442	6,526	8,854	22,822
Consumer	5,473	18,633	1,745	25,851
Other	3,638	11,304	9,770	24,712
Total loans held for investment	<u>\$ 434,491</u>	<u>\$ 701,819</u>	<u>\$ 594,276</u>	<u>\$ 1,730,586</u>
Loans maturing with:				
Fixed interest rates	\$ 29,272	\$ 201,317	\$ 302,711	\$ 533,300
Floating or adjustable rates	405,219	500,502	291,565	1,197,286
Total loans held for investment	<u>\$ 434,491</u>	<u>\$ 701,819</u>	<u>\$ 594,276</u>	<u>\$ 1,730,586</u>

Nonperforming Assets

Nonperforming assets include nonaccrual loans, accruing loans past due 90 days or more, and other real estate owned. Loans are considered to be past due when payment is not received from the borrower by the contractually specified due date. Interest accruals on loans are discontinued when interest or principal has been in default 90 days or more, unless the loan is secured by collateral that is sufficient to repay the debt in full and the loan is in the process of collection. When a loan is placed on nonaccrual status, interest accrued and not paid in the current accounting period is reversed against current period income. Interest accrued and not paid in prior periods, if significant, is reversed against the allowance for loan losses.

Income on such loans is subsequently recognized on a cash basis as long as the future collection of principal is deemed probable or after all principal payments are received. Commercial loans are placed back on accrual status after sustained performance of timely and current principal and interest payments and it is probable that all remaining amounts due, both principal and interest, are fully collectible according to the terms of the loan agreement. Residential loans and consumer loans are generally placed back on accrual status when they are no longer past due.

Purchased Credit Impaired (“PCI”) loans accounted for under ASC 310-30 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 as 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. PCI loans were not classified as nonaccrual at December 31, 2017 as the carrying value of the respective loan or pool of loans cash flows were considered estimable and collection was probable. 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. As of December 31, 2018, PCI loans were designated as held for sale in the upcoming Branch Sale.

At December 31, 2018, Atlantic Capital’s nonperforming assets totaled \$6.1 million, or 0.20% of assets, compared to \$4.1 million, or 0.14% of assets, at December 31, 2017. The increase was primarily due to the inclusion of \$799,000 in nonperforming loans held for sale as of December 31, 2018 which were previously designated as PCI. Also contributing to the increase, the Bank placed an additional \$693,000 in commercial and industrial loans on nonaccrual status as of December 31, 2018 compared to 2017.

Nonaccrual loans totaled \$4.7 million and \$2.6 million as of December 31, 2018 and 2017, respectively. The increase was due to the same factors contributing to the increase in nonperforming assets. Loans past due 90 days and still

accruing totaled \$479,000 at December 31, 2018 compared to \$298,000 at December 31, 2017. The gross additional interest revenue that would have been earned if the loans classified as nonaccrual had performed in accordance with the original terms in 2018, 2017, and 2016 is immaterial. Table 7 provides details on nonperforming assets and other risk elements at December 31, 2018, 2017, 2016, 2015, and 2014.

Table 7 — Nonperforming assets

(Dollars in thousands)

	December 31,				
	2018	2017	2016	2015	2014
Nonaccrual loans	\$ 4,697	\$ 2,614	\$ 621	\$ 7,772	\$ —
Loans past due 90 days and still accruing . . .	479	298	994	777	—
Total nonperforming loans ⁽¹⁾ (NPLs)	5,176	2,912	1,615	8,549	—
Other real estate owned	874	1,215	1,872	1,982	1,531
Total nonperforming assets (NPAs)	\$ 6,050	\$ 4,127	\$ 3,487	\$ 10,531	\$ 1,531
NPLs as a percentage of total loans	0.25%	0.15%	0.08%	0.45%	—%
NPAs as a percentage of total assets	0.20	0.14	0.13	0.40	0.12

(1) Nonperforming loans as of December 31, 2017, 2016, 2015, and 2014 exclude those loans which are PCI loans. As of December 31, 2018, PCI loans were designated as held for sale in the upcoming Branch Sale. As a result, nonperforming loans held for sale which were previously designated as PCI loans are included in total nonperforming loans as of December 31, 2018.

Troubled Debt Restructurings

Troubled Debt Restructurings (“TDRs”) are selectively made to provide relief to customers experiencing liquidity challenges or other circumstances that could affect their ability to meet their debt obligations. Typical modifications include interest rate reductions, term extensions and other concessions intended to minimize losses. Nonperforming TDRs are not accruing interest and are included as nonperforming assets within nonaccrual loans. TDRs, which are accruing interest based on the restructured terms, are considered performing. The following table summarizes TDRs:

Table 8 — Troubled Debt Restructurings

(in thousands)

	December 31,				
	2018	2017	2016	2015	2014
Accruing TDRs	\$ 8,237	\$ 5,323	\$ 6,602	\$ 4,616	\$ 6,601
Nonaccruing TDRs	—	—	—	4,449	—
Total TDRs	\$ 8,237	\$ 5,323	\$ 6,602	\$ 9,065	\$ 6,601

The gross additional interest income that would have been earned in 2018, 2017, and 2016 had performing TDRs performed in accordance with the original terms is immaterial.

Potential Problem Loans

Management identifies and maintains a list of potential problem loans. These are loans that are internally risk graded special mention or below but which are not included in nonaccrual status and are not past due 90 days or more. A loan is added to the potential problem list when management becomes aware of information about possible credit problems of the borrower which raises serious doubts as to the ability of such borrower to comply with the current loan repayment terms. Potential problem loans totaled \$58.2 million and \$54.6 million, respectively, as of December 31, 2018 and December 31, 2017. As a percentage of total loans excluding PCI loans, potential problem loans were 2.8% as of December 31, 2018 and 2017. The potential problem loan balance at December 31, 2017 does not include PCI loans of \$11.8 million which had a remaining purchase discount of \$2.4 million. At December 31, 2018, PCI loans were not significant due to reclassification of a majority of these loans to held for sale. As a number of potential problem loans are real estate secured, management closely tracks the current values of real estate collateral when assessing the collectability of these loans.

Allowance for Loan Losses

At December 31, 2018, the allowance for loan losses totaled \$17.9 million, or 1.03% of loans, compared to \$19.3 million, or 1.00% of loans, at December 31, 2017. The decrease in the allowance was primarily related to the classification of \$373 million of loans to held for sale.

Net charge-offs during 2018 and 2017 were \$342,000 and \$4.5 million, respectively. The decrease was primarily due to a \$3.3 million charge-off of a commercial and industrial relationship in 2017. Table 9 provides details concerning the allowance for loan losses during the past five years.

Table 9 — Allowance for Loan Losses (ALL)

(Dollars in thousands)

	December 31,				
	2018	2017	2016	2015	2014
Allowance for loan losses at beginning of period	\$ 19,344	\$ 20,595	\$ 18,905	\$ 11,421	\$ 10,815
Provision for loan losses	1,991	3,239	3,742	8,035	488
Provision for loan losses (negative provision) – discontinued operations	(3,097)	—	—	—	—
Provision for PCI loan losses	(45)	(21)	74	—	—
Charge-offs:					
Commercial and industrial	126	4,073	1,531	—	—
Commercial real estate	50	132	342	500	—
Construction and land	—	16	—	—	—
Residential mortgages	75	46	2	—	—
Home equity	160	39	32	—	—
Consumer	16	409	402	128	—
Other	—	—	5	—	—
Total charge-offs	<u>427</u>	<u>4,715</u>	<u>2,314</u>	<u>628</u>	<u>—</u>
Recoveries:					
Commercial and industrial	19	200	4	—	—
Commercial real estate	28	2	5	—	81
Construction and land	—	16	27	29	37
Residential mortgages	4	1	5	—	—
Home equity	—	1	2	—	—
Consumer	34	26	143	48	—
Other	—	—	2	—	—
Total recoveries	<u>85</u>	<u>246</u>	<u>188</u>	<u>77</u>	<u>118</u>
Net charge-offs	<u>342</u>	<u>4,469</u>	<u>2,126</u>	<u>551</u>	<u>(118)</u>
Allowance for loan losses at end of period ⁽¹⁾	<u>\$ 17,851</u>	<u>\$ 19,344</u>	<u>\$ 20,595</u>	<u>\$ 18,905</u>	<u>\$ 11,421</u>
Average loans	\$1,977,014	\$1,936,109	\$1,986,482	\$1,192,103	\$ 918,959
Loans at end of period	1,728,073	1,933,839	1,981,330	1,790,669	1,039,713
Ratios					
Net charge-offs to average loans	0.02%	0.23%	0.11%	0.05%	(0.01)%
Allowance for loan losses to total loans ⁽¹⁾	1.03	1.00	1.04	1.06	1.10

(1) The allowance for loan losses has not been adjusted retrospectively for discontinued operations in prior periods.

Table 10 — Allocation of Allowance for Loan Losses*(Dollars in thousands)*

	December 31,									
	2018		2017		2016		2015		2014	
	Allowance for loan losses	Percent of loans to total loans	Allowance for loan losses	Percent of loans to total loans	Allowance for loan losses	Percent of loans to total loans	Allowance for loan losses	Percent of loans to total loans	Allowance for loan losses	Percent of loans to total loans
Allowance for loan losses allocated to:										
Commercial and industrial	\$ 8,360	37%	\$ 8,706	32%	\$ 8,616	27%	\$ 6,186	26%	\$ 4,185	35%
Commercial real estate	6,948	46	8,001	49	7,159	44	8,656	47	5,837	42
Construction and land	2,014	9	1,560	6	2,942	11	1,695	9	945	8
Mortgage warehouse loans	—	2	—	2	—	7	—	5	—	11
Residential mortgages	144	2	409	5	732	5	1,156	6	15	—
Home equity	148	1	393	4	686	4	825	5	332	3
Consumer	237	3	275	2	460	2	387	2	107	1
Total allowance for loan losses . . .	<u>\$ 17,851</u>	<u>100%</u>	<u>\$ 19,344</u>	<u>100%</u>	<u>\$ 20,595</u>	<u>100%</u>	<u>\$ 18,905</u>	<u>100%</u>	<u>\$ 11,421</u>	<u>100%</u>

Investment Securities

Investment securities available-for-sale totaled \$402.5 million at December 31, 2018, compared to \$449.1 million at December 31, 2017. Available-for-sale securities are reported at their aggregate fair value, and unrealized gains and losses are included as a component of other comprehensive income, net of deferred taxes. As of December 31, 2018, investment securities available-for-sale had a net unrealized loss of \$11.8 million, compared to a net unrealized loss of \$5.6 million as of December 31, 2017. Market changes in interest rates and credit spreads will result in temporary unrealized losses as the market price of securities fluctuate. After evaluating the securities with unrealized losses, management concluded that no other than temporary impairment existed as of December 31, 2018.

Changes in the amount of Atlantic Capital's investment securities portfolio result primarily from balance sheet trends including loans, deposit balances and short-term borrowings. When inflows arising from deposits and short-term borrowings exceed loan demand, Atlantic Capital invests excess funds in the securities portfolio or in short-term investments. Conversely, when loan demand exceeds growth in deposits and short-term borrowings, Atlantic Capital allows interest-bearing balances with other banks to decline and uses proceeds from maturing securities to fund loan demand. During the fourth quarter of 2018, Atlantic Capital sold securities totaling approximately \$63 million to provide funding for the upcoming Branch Sale. Details of investment securities at December 31, 2018, December 31, 2017, and December 31, 2016 are provided in Table 11.

Table 11 — Investment Securities*(in thousands)*

Available-for-Sale Securities	December 31, 2018		December 31, 2017		December 31, 2016	
	Amortized	Fair Value	Amortized	Fair Value	Amortized	Fair Value
	Cost		Cost		Cost	
U.S. Government agencies	\$ 27,259	\$ 26,849	\$ 34,699	\$ 34,111	\$ 21,485	\$ 21,152
U.S. states and political divisions . .	91,864	84,834	92,169	90,001	96,908	90,172
Trust preferred securities	4,781	4,400	4,754	4,650	4,727	4,525
Corporate debt securities	12,855	12,363	12,948	12,622	19,928	19,231
Residential mortgage-backed securities	277,524	274,040	310,129	307,733	214,297	212,625
Total available-for-sale	<u>\$ 414,283</u>	<u>\$ 402,486</u>	<u>\$ 454,699</u>	<u>\$ 449,117</u>	<u>\$ 357,345</u>	<u>\$ 347,705</u>

The following table presents the contractual maturity of investment securities by maturity date and average yields based on amortized cost. The composition and maturity / repricing distribution of the securities portfolio is subject to change depending on rate sensitivity, capital and liquidity needs.

Table 12 — Investment Securities

(Dollars in thousands)

	2018				2017			
	Amortized cost	Fair Value	Weighted Average Maturity	Weighted Average Yield ⁽¹⁾	Amortized cost	Fair Value	Weighted Average Maturity	Weighted Average Yield ⁽¹⁾
U.S. Government agencies								
1 to 5 years	\$ 18,588	\$ 18,294	4.70	2.38%	\$ 9,414	\$ 9,260	3.99	1.99%
5 to 10 years	2,883	2,906	5.97	3.02	18,502	18,191	5.70	2.39
More than 10 years	5,788	5,649	4.80	2.28	6,783	6,660	5.25	2.28
	<u>27,259</u>	<u>26,849</u>	4.87	2.36	<u>34,699</u>	<u>34,111</u>	5.02	2.23
U.S. states and political subdivisions								
Within 1 year	125	125	0.49	3.48	65	65	0.16	2.98
1 to 5 years	1,281	1,253	4.19	2.29	3,131	3,091	3.55	2.09
5 to 10 years	24,023	23,225	7.60	2.07	21,134	20,941	7.61	2.09
More than 10 years	66,435	60,231	16.07	2.36	67,839	65,904	16.28	2.30
	<u>91,864</u>	<u>84,834</u>	13.20	2.28	<u>92,169</u>	<u>90,001</u>	13.41	2.24
Trust preferred securities								
5 to 10 years	4,781	4,400	8.17	3.99	4,754	4,650	9.17	2.82
	<u>4,781</u>	<u>4,400</u>	8.17	3.99	<u>4,754</u>	<u>4,650</u>	9.17	2.82
Corporate debt securities								
1 to 5 years	12,855	12,363	3.22	2.68	9,619	9,652	4.07	2.82
5 to 10 years	—	—	—	—	3,329	2,970	5.37	0.34
	<u>12,855</u>	<u>12,363</u>	3.22	2.68	<u>12,948</u>	<u>12,622</u>	4.22	2.54
Residential mortgage-backed securities								
Residential mortgage-backed securities	277,524	274,040	5.40	2.59	310,129	307,733	4.80	2.43
Total	<u>\$ 414,283</u>	<u>\$ 402,486</u>			<u>\$ 454,699</u>	<u>\$ 449,117</u>		

(1) Weighted average yields are not presented in this table on a fully taxable equivalent basis.

Goodwill and Other Intangible Assets

Atlantic Capital's core deposit intangible representing the value of the acquired deposit base, is an amortizing intangible asset that is required to be tested for impairment only when events or circumstances indicate that impairment may exist. There were no events or circumstances that led management to believe that any impairment existed at December 31, 2018 in Atlantic Capital's other intangible assets.

Goodwill represents the premium paid for acquired companies above the fair value of the assets acquired and liabilities assumed, including separately identifiable intangible assets. Atlantic Capital evaluates its goodwill annually, or more frequently if necessary, to determine if any impairment exists. Factors that management considers in this assessment includes macroeconomic conditions, industry and market considerations, overall financial performance of the Company and changes in the composition or carrying amount of net assets. Management concluded that the 2018 annual qualitative impairment assessment indicated that it is more likely than not that the estimated fair value exceeded the carrying value (including goodwill).

On November 14, 2018, the Bank entered into an agreement to sell all 14 of its bank branches located in Tennessee and northwest Georgia, including its mortgage banking business, to FirstBank. In accordance with U.S. GAAP, Atlantic Capital allocated a proportionate share of its goodwill balance to the discontinued operations on a relative fair value basis and performed an impairment test for the goodwill allocated to continuing operations. This goodwill impairment analysis of continuing operations resulted in no impairment. The Company monitored events from the date of the assessment through December 31, 2018 and no events or circumstances led management to believe any impairment existed at the balance sheet date.

Deposits

At December 31, 2018, total deposits were \$2.54 billion, an increase of \$87.3 million, or 4%, since December 31, 2017. Interest-bearing checking deposits increased \$49.4 million, or 24%, and money markets increased \$61.6 million, or 7%, from December 31, 2017 to December 31, 2018. This was partially offset by a decrease in brokered deposits of \$29.6 million, or 23%, during the same period. Brokered deposits decreased as a result of growth in core deposits and reduced funding needs. Table 13 provides the average deposit balances as a percentage of total for December 31, 2018, 2017, and 2016.

Table 13 — Average Deposits

(Dollars in thousands)

	December 31,					
	2018	% of total	2017	% of total	2016	% of total
Non-interest bearing demand deposits	\$ 538,110	24%	\$ 490,495	23%	\$ 401,340	19%
Interest-bearing demand deposits	280,037	13	211,385	10	180,446	8
Savings and money market deposits	720,988	32	657,614	31	614,729	29
Time deposits less than \$250,000	3,092	—	3,492	—	4,568	—
Time deposits \$250,000 or greater	6,954	—	7,853	—	10,274	—
Brokered deposits	<u>84,105</u>	<u>4</u>	<u>168,685</u>	<u>8</u>	<u>207,543</u>	<u>10</u>
Deposits from continuing operations	1,633,286	73	1,539,524	72	1,418,900	66
Deposits from discontinued operations	<u>598,559</u>	<u>27</u>	<u>607,328</u>	<u>28</u>	<u>728,084</u>	<u>34</u>
Total deposits	<u>\$ 2,231,845</u>	<u>100</u>	<u>\$ 2,146,852</u>	<u>100</u>	<u>\$ 2,146,984</u>	<u>100</u>

The following table sets forth the scheduled maturities of time deposits of \$250,000 and greater and brokered time deposits from continuing operations as of December 31, 2018.

Table 14 — Maturities of Time Deposits of \$250,000 or More

(in thousands)

Time deposits maturing in:	
Three months or less	\$ 679
Over three through six months	2,284
Over six through twelve months	6,557
Over twelve months	<u>2,571</u>
	<u>\$ 12,091</u>

Short-Term Borrowings

Securities sold under repurchase agreements with commercial checking customers totaled \$6.2 million as of December 31, 2018. There were no securities sold under repurchase agreements with commercial checking customers or balances of federal funds purchased as of December 31, 2017.

As a member of the Federal Home Loan Bank of Atlanta (“FHLB”), Atlantic Capital has the ability to acquire short and long-term advances through a blanket agreement secured by our unencumbered qualifying 1-4 family first mortgage loans and by pledging investment securities or individual, qualified loans, subject to approval of the FHLB. At December 31, 2018 and 2017, Atlantic Capital had FHLB advances of \$0 and \$45.0 million, respectively. The balance of FHLB borrowings decreased due to a decrease in short-term funding needs.

Long-Term Debt

During the third quarter of 2015, Atlantic Capital issued \$50.0 million in 6.25% fixed-to-floating rate subordinated notes due in 2025, all of which was outstanding at December 31, 2018 and 2017.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Risk Management

Liquidity risk is the risk that an institution will be unable to generate or obtain sufficient funding, at a reasonable cost, to meet operational cash needs and to take advantage of revenue producing opportunities as they arise. Other forms of liquidity risk include market constraints on the ability to convert assets into cash at expected levels, an inability to access funding sources at sufficient levels at a reasonable cost, and changes in economic conditions or exposure to credit, market, operational, legal, and reputation risks that can affect an institution’s liquidity risk profile. Liquidity management involves maintaining Atlantic Capital’s ability to meet the daily cash flow requirements of Atlantic Capital’s customers, both depositors and borrowers.

Atlantic Capital utilizes various measures to monitor and control liquidity risk across three different types of liquidity:

- tactical liquidity measures the risk of a negative cash flow position whereby cash outflows exceed cash inflows over a short-term horizon;
- structural liquidity measures the amount by which illiquid assets are supported by long-term funding; and
- contingent liquidity utilizes cash flow stress testing across four crisis scenarios to determine the adequacy of Atlantic Capital’s liquidity.

Atlantic Capital aims to maintain a diverse mix of existing and potential liquidity sources to support the liquidity management function. At its core is a reliance on customer deposits, due to the low costs they offer. Other sources of liquidity include asset-based liquidity in the form of cash and unencumbered securities, as well as access to wholesale funding from external counterparties, primarily advances from the FHLB of Atlanta, Federal Funds lines and other borrowing facilities. Atlantic Capital aims to avoid funding concentrations by diversifying external secured and unsecured funding with respect to maturities, counterparties and nature.

As of December 31, 2018, Atlantic Capital expected to maintain sufficient on-balance sheet liquidity to meet its funding needs.

On November 14, 2018, the Bank entered into an agreement to sell all 14 of its bank branches located in Tennessee and northwest Georgia, including its mortgage banking business, to FirstBank. FirstBank will assume deposits and customer repurchase agreements of approximately \$592 million and purchase approximately \$373 million in loans and \$12.0 million in other assets. Since Atlantic Capital is divesting a larger amount of deposits than assets, it will be required to pay FirstBank the difference in cash upon closing of the transaction. The Company anticipates funding the transaction with a combination of brokered deposits or proceeds from sold securities, which in turn, will decrease its liquidity.

At December 31, 2018, Atlantic Capital had access to \$499.0 million in unsecured borrowings and \$766.4 million in secured borrowings through various sources. Atlantic Capital also has the ability to attract more deposits by offering higher priced rates.

Shareholders’ Equity and Capital Adequacy

Atlantic Capital and the Bank are required to meet minimum requirements imposed by regulatory authorities. Failure to meet certain capital requirements may result in actions by regulatory agencies that could have a material impact on Atlantic Capital’s consolidated financial statements.

Shareholders' equity at December 31, 2018 was \$323.7 million, an increase of \$15.2 million, or 5%, from December 31, 2017. Total equity was reduced by \$14.2 million in 2018 due to the repurchase of 822,100 shares of common stock in conjunction with Atlantic Capital's stock repurchase program. The Bank paid an intercompany dividend totaling \$30.0 million to Atlantic Capital in the fourth quarter of 2018 in order to fund the repurchases.

Accumulated other comprehensive income, which includes unrealized gains and losses on securities available-for-sale and unrealized gains and losses on derivatives qualifying as cash flow hedges, is excluded in the calculation of regulatory capital ratios.

Table 15 — Capital Ratios

(Dollars in thousands)

	<u>Consolidated</u>		<u>Bank</u>		<u>Regulatory Guidelines</u>		
	<u>December 31, 2018</u>	<u>December 31, 2017</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>	<u>Minimum</u>	<u>Well capitalized</u>	<u>Minimum capital plus capital conservation buffer 2019</u>
Risk based ratios:							
Common equity tier 1 capital	11.5%	11.2%	12.3%	12.7%	4.5%	6.5%	7.0%
Tier 1 capital	11.5	11.2	12.3	12.7	6.0	8.0	8.5
Total capital	14.2	14.1	13.0	13.6	8.0	10.0	10.5
Leverage ratio	10.0	9.7	10.6	11.1	4.0	5.0	N/A
Common equity tier 1 capital	\$ 285,250	\$ 259,865	\$ 304,907	\$ 295,629			
Tier 1 capital	285,250	259,865	304,907	295,629			
Total capital	353,458	329,641	323,411	315,870			
Risk weighted assets . . .	2,489,631	2,330,574	2,489,373	2,330,171			
Quarterly average total assets for leverage ratio	2,842,618	2,667,652	2,864,357	2,675,228			

Atlantic Capital continues to exceed minimum capital standards and the Bank remains "well-capitalized" under regulatory guidelines. See "Item 1. Business—Supervision and Regulation—Capital Adequacy" above for additional information.

In July 2013, bank regulatory agencies approved the Basel III capital guidelines, which are aimed at strengthening existing capital requirements for bank holding companies through a combination of higher minimum capital requirements, new capital conservation buffers and more conservative definitions of capital and balance sheet exposure. Atlantic Capital and the Bank became subject to the requirements of Basel III effective January 1, 2015, subject to a transition period for several aspects of the rule.

Under the revised rules, Atlantic Capital's tier 1 common equity ratio was 11.5% at December 31, 2018, compared to the fully phased-in, well-capitalized minimum of 7.0%, which includes the 2.5% minimum conservation buffer. Management continues to monitor Basel III developments and remains committed to managing Atlantic Capital's capital levels in a prudent manner.

Table 16 — Tier 1 Common Equity Under Basel III

(Dollars in thousands)

	<u>December 31, 2018</u>
Tier 1 capital	\$ 285,250
Less: restricted core capital	—
Tier 1 common equity	<u>\$ 285,250</u>
Risk-weighted assets	<u>\$ 2,489,631</u>
Tier 1 common equity ratio	11.5%

Off-Balance Sheet Arrangements

Atlantic Capital makes contractual commitments to extend credit and issues standby letters of credit in the ordinary course of its business activities. These commitments are legally binding agreements to lend money to customers at predetermined interest rates for a specified period of time. In addition to commitments to extend credit, Atlantic Capital also issues standby letters of credit which are assurances to a third party that it will not suffer a loss if the customer fails to meet a contractual obligation to the third party. At December 31, 2018, Atlantic Capital had issued commitments to extend credit of approximately \$715.6 million and standby letters of credit of approximately \$15.7 million through various types of commercial lending arrangements.

Based on historical experience, many of the commitments and letters of credit will expire unfunded. Through its various sources of liquidity, Atlantic Capital believes it will be able to fund these obligations as they arise. Atlantic Capital evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on Atlantic Capital's credit evaluation of the borrower. Collateral varies but may include accounts receivable, inventory, property, plant and equipment, and commercial and residential real estate.

Contractual Obligations

There have been no significant changes in our contractual obligations during the year ended December 31, 2018 as compared to the year ended December 31, 2017. Table 17 sets forth certain information about contractual cash obligations as of December 31, 2018.

Table 17 — Contractual Obligations

(in thousands)

	Payments Due by Period at December 31, 2018				
	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Time deposits ⁽¹⁾	\$ 10,108	\$ 481	\$ 34	\$ —	\$ 10,623
Brokered time deposits	2,527	2,571	—	—	5,098
Deposits without a stated maturity	1,936,793	—	—	—	1,936,793
Operating lease obligations . . .	2,701	5,370	4,768	9,175	22,014
Other borrowings	6,220	—	—	—	6,220
Long-term debt	—	—	—	50,000	50,000
Total contractual cash obligations	<u>\$ 1,958,349</u>	<u>\$ 8,422</u>	<u>\$ 4,802</u>	<u>\$ 59,175</u>	<u>\$ 2,030,748</u>

(1) Time deposits to be assumed in the Branch Sale are not included in this table.

RISK MANAGEMENT

Effective risk management is critical to Atlantic Capital's success. The Dodd-Frank Act requires that bank holding companies with total assets in excess of \$10 billion establish an enterprise-wide risk committee consisting of members of its board of directors. Although Atlantic Capital does not have total assets in excess of \$10 billion, the Bank's board of directors has an Audit and Risk Committee that, among other responsibilities, provides oversight of enterprise-wide risk management activities. The Audit and Risk Committee reviews the Bank's activities in identifying, measuring, and mitigating existing and emerging risks (including credit, liquidity, interest-rate, compliance, operational, strategic, and reputational risks.) The committee monitors management's execution of risk management practices in accordance with the board of directors' risk appetite, reviews supervisory examination reports together with management's response to such examinations and discusses legal matters that may have a material impact on the financial statements or Atlantic Capital's compliance policies. With guidance from and oversight by the Audit and Risk Committee, management continually refines and enhances its risk management policies and procedures to maintain effective risk management programs and processes.

Credit Risk

Credit risk is the risk of not collecting payments pursuant to the contractual terms of loans, leases and investment securities. Atlantic Capital's independent loan review function conducts risk reviews and analyses of loans to help assure compliance with credit policies and to monitor asset quality trends. The risk reviews include portfolio analysis by geographic location, industry, collateral type and product. Atlantic Capital strives to identify potential problem loans as early as possible, to record charge-offs or write-downs as appropriate and to maintain adequate allowances for loan losses that are inherent in the loan portfolio.

Market Risk

Market risk reflects the risk of economic loss resulting from adverse changes in market price and interest rates. This risk of loss can be reflected in diminished current market values and/or reduced potential net interest income in future periods. Atlantic Capital's market risk arises primarily from interest rate risk inherent in Atlantic Capital's lending and deposit-taking activities. The structure of Atlantic Capital's loan and deposit portfolios is such that a significant decline in interest rates may adversely impact net market values and net interest income. Atlantic Capital does not maintain a trading account nor is Atlantic Capital subject to currency exchange risk or commodity price risk.

Interest Rate Risk

Interest rate risk results principally from assets and liabilities maturing or repricing at different points in time, from assets and liabilities repricing at the same point in time but in different amounts and from short-term and long-term interest rates changing in different magnitudes. Market interest rates also have an impact on the interest rate and repricing characteristics of loans that are originated as well as the rate characteristics of interest-bearing liabilities.

Atlantic Capital assesses interest rate risk by forecasting net interest income under various interest rate scenarios and comparing those results to forecasted net interest income assuming stable rates. Atlantic Capital's rate shock simulation, as of December 31, 2018, indicates that, over a 12-month period, net interest income is estimated to increase by 13.52% with rates rising 200-basis points. The increase in net interest income is primarily due to the short-term repricing characteristics of the loan portfolio, combined with a favorable funding mix. Atlantic Capital's loan book consists mainly of floating rate loans. Atlantic Capital's core client deposits are likely to allow Atlantic Capital to lag short term interbank rate indices when pricing deposits. Transaction accounts comprise a significant amount of Atlantic Capital's total deposits.

Table 18 provides the impact on net interest income resulting from various interest rate shock scenarios as of December 31, 2018 and 2017.

Table 18 — Net Interest Income Sensitivity Simulation Analysis

Change in interest rate (basis point)	Estimated increase in net interest income	
	December 31, 2018	December 31, 2017
-200	(19.60)%	(15.61)%
-100	(7.17)	(10.68)
+100	6.92	7.68
+200	13.52	15.64
+300	20.06	23.30

Atlantic Capital also utilizes the market value of equity (MVE) as a tool in measuring and managing interest rate risk. Long-term interest rate risk exposure is measured using the MVE sensitivity analysis to study the impact of long-term cash flows on capital. As of December 31, 2018, the MVE calculated with a 200-basis point shock up in rates increased by 1.68% from the base case MVE value. Table 19 presents the MVE profile as of December 31, 2018 and December 31, 2017.

Table 19 — Market Value of Equity Modeling Analysis

Change in interest rate (basis point)	Estimated % change in MVE	
	December 31, 2018	December 31, 2017
-200	(9.44)%	(3.79)%
-100	(3.73)	(3.09)
+100	1.44	1.31
+200	1.68	1.38
+300	1.41	0.59

Atlantic Capital may utilize interest rate swaps, floors, collars or other derivative financial instruments in an attempt to manage Atlantic Capital's overall sensitivity to changes in interest rates.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is included in Part II, Item 7 of this report under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Management."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Atlantic Capital Bancshares, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Atlantic Capital Bancshares, Inc. and its subsidiary (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

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/ Ernst & Young LLP

We have served as the Company's auditor since 2007.

Atlanta, Georgia
March 14, 2019

Atlantic Capital Bancshares, Inc. and Subsidiary
Consolidated Balance Sheets

<i>(in thousands, except share data)</i>	December 31, 2018	December 31, 2017
ASSETS		
Cash and due from banks ⁽¹⁾	\$ 42,895	\$ 38,086
Interest-bearing deposits in banks	216,040	281,247
Other short-term investments	9,457	10,681
Cash and cash equivalents	268,392	330,014
Securities available-for-sale	402,486	449,117
Other investments	29,236	32,174
Loans held for sale	5,889	1,487
Loans held for sale – discontinued operations ⁽¹⁾	373,030	415,206
Loans held for investment ⁽¹⁾	1,728,073	1,518,633
Less: Allowance for loan losses ⁽²⁾	(17,851)	(19,344)
Loans held for investment, net	1,710,222	1,499,289
Premises held for sale – discontinued operations ⁽¹⁾	7,722	7,958
Premises and equipment, net ⁽¹⁾	9,779	4,096
Bank owned life insurance	65,149	63,667
Goodwill – discontinued operations ⁽¹⁾	4,555	4,555
Goodwill and intangible assets, net ⁽¹⁾	21,523	23,078
Other real estate owned	874	1,215
Other assets	56,583	59,565
Total assets	\$ 2,955,440	\$ 2,891,421
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing demand ⁽¹⁾	\$ 602,252	\$ 596,328
Interest-bearing checking ⁽¹⁾	252,490	203,113
Savings ⁽¹⁾	725	530
Money market ⁽¹⁾	987,183	925,536
Time ⁽¹⁾	10,623	10,812
Brokered deposits	99,241	128,816
Deposits to be assumed – discontinued operations ⁽¹⁾	585,429	585,530
Total deposits	2,537,943	2,450,665
Securities sold under agreements to repurchase – discontinued operations ⁽¹⁾	6,220	—
Federal Home Loan Bank borrowings	—	45,000
Long-term debt	49,704	49,535
Other liabilities	37,920	37,796
Total liabilities	2,631,787	2,582,996
SHAREHOLDERS' EQUITY		
Preferred stock, no par value; 10,000,000 shares authorized; no shares issued and outstanding as of December 31, 2018 and 2017	—	—
Common stock, no par value; 100,000,000 shares authorized; 25,290,419 and 25,712,909 shares issued and outstanding as of December 31, 2018 and 2017, respectively	291,771	299,474
Retained earnings	42,187	12,810
Accumulated other comprehensive (loss) income	(10,305)	(3,859)
Total shareholders' equity	323,653	308,425
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 2,955,440	\$ 2,891,421

- (1) Assets and liabilities related to the sale of Tennessee and northwest Georgia banking operations were classified as held for sale as of December 31, 2018, and prior periods have been adjusted retrospectively.
- (2) The allowance for loan losses has not been adjusted retrospectively in prior periods.

See accompanying notes to consolidated financial statements.

Atlantic Capital Bancshares, Inc. and Subsidiary
Consolidated Statements of Operations⁽¹⁾

<i>(in thousands, except per share data)</i>	Year Ended December 31,		
	2018	2017	2016
INTEREST INCOME			
Loans, including fees	\$ 80,110	\$ 64,436	\$ 55,837
Investment securities available-for-sale	10,912	9,181	5,698
Interest and dividends on other interest-earning assets	3,738	2,201	1,738
Total interest income	<u>94,760</u>	<u>75,818</u>	<u>63,273</u>
INTEREST EXPENSE			
Interest on deposits	12,506	7,934	5,460
Interest on Federal Home Loan Bank advances	2,399	1,536	558
Interest on federal funds purchased and securities sold under agreements to repurchase	304	222	213
Interest on long-term debt	3,304	3,294	3,285
Other	—	—	38
Total interest expense	<u>18,513</u>	<u>12,986</u>	<u>9,554</u>
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	<u>76,247</u>	<u>62,832</u>	<u>53,719</u>
Provision for loan losses	1,946	3,218	3,816
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>74,301</u>	<u>59,614</u>	<u>49,903</u>
NONINTEREST INCOME			
Service charges	3,215	2,734	1,972
Gains (losses) on sale of securities	(1,855)	(63)	44
Gains (losses) on sale of other assets	(154)	742	388
Trust income	1,025	1,814	1,411
Derivatives income	308	156	260
Bank owned life insurance	1,506	1,530	1,610
SBA lending activities	3,606	4,129	3,642
Gain on sale of trust business	1,681	—	—
Other noninterest income	715	1,137	2,654
Total noninterest income	<u>10,047</u>	<u>12,179</u>	<u>11,981</u>
NONINTEREST EXPENSE			
Salaries and employee benefits	31,766	33,130	28,682
Occupancy	2,972	2,516	2,218
Equipment and software	2,817	2,341	2,175
Professional services	3,511	4,591	2,860
Postage, printing and supplies	166	244	360
Communications and data processing	2,676	2,625	1,938
Marketing and business development	710	798	1,004
FDIC premiums	562	697	1,037
Merger and conversion costs	—	304	2,742
Other noninterest expense	4,811	5,588	7,083
Total noninterest expense	<u>49,991</u>	<u>52,834</u>	<u>50,099</u>
INCOME FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES	<u>34,357</u>	<u>18,959</u>	<u>11,785</u>
Provision for income taxes	6,307	23,715	4,221
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	<u>28,050</u>	<u>(4,756)</u>	<u>7,564</u>
DISCONTINUED OPERATIONS			
Income (loss) from discontinued operations	\$ 643	\$ 1,689	\$ 9,559
Provision (benefit) for income taxes	161	659	3,728
Net income (loss) from discontinued operations	<u>482</u>	<u>1,030</u>	<u>5,831</u>
NET INCOME (LOSS)	<u>\$ 28,532</u>	<u>\$ (3,726)</u>	<u>\$ 13,395</u>
Net Income (Loss) per Common Share – Basic			
Net income (loss) per common share – continuing operations	\$ 1.08	\$ (0.19)	\$ 0.31
Net income (loss) per common share – discontinued operations	0.02	0.04	0.23
Net Income (Loss) per Common Share – Basic	<u>\$ 1.10</u>	<u>\$ (0.15)</u>	<u>\$ 0.54</u>
Net Income (Loss) per Common Share – Diluted			
Net income (loss) per common share – continuing operations	\$ 1.07	\$ (0.19)	\$ 0.30
Net income (loss) per common share – discontinued operations	0.02	0.04	0.23
Net Income (Loss) per Common Share – Diluted	<u>\$ 1.09</u>	<u>\$ (0.15)</u>	<u>\$ 0.53</u>

(1) Discontinued operations have been reported retrospectively for all periods presented.

See accompanying notes to consolidated financial statements.

Atlantic Capital Bancshares, Inc. and Subsidiary
Consolidated Statements of Comprehensive Income (Loss)

<i>(in thousands)</i>	Year Ended December 31,		
	2018	2017	2016
Net income (loss)	\$ 28,532	\$ (3,726)	\$ 13,395
Other comprehensive income (loss)			
Unrealized gains (losses) on available-for-sale securities:			
Unrealized holding gains (losses) arising during the period, net of tax of (\$2,018), \$1,491 and (\$2,403), respectively	(6,052)	2,385	(3,824)
Reclassification adjustment for losses (gains) included in net income net of tax of \$464, \$70 and (\$17), respectively	1,391	111	(27)
Unrealized gains (losses) on available-for-sale securities, net of tax	(4,661)	2,496	(3,851)
Derivatives:			
Net unrealized derivative (losses) gains, net of tax of (\$313), (\$457) and (\$160), respectively	(941)	(730)	(258)
Changes from derivatives	(941)	(730)	(258)
Other comprehensive income (loss), net of tax	(5,602)	1,766	(4,109)
Comprehensive income (loss)	\$ 22,930	\$ (1,960)	\$ 9,286

See accompanying notes to consolidated financial statements.

**Atlantic Capital Bancshares, Inc. and Subsidiary
Consolidated Statements of Shareholders' Equity**

<i>(in thousands, except share data)</i>	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount			
Balance – December 31, 2015	24,425,546	\$ 286,367	\$ 3,141	\$ (1,516)	\$ 287,992
Comprehensive income:					
Net income	—	—	13,395	—	13,395
Change in unrealized gains (losses) on investment securities available-for-sale, net . . .	—	—	—	(3,851)	(3,851)
Change in unrealized gains (losses) on derivatives	—	—	—	(258)	(258)
Total comprehensive income (loss)				(4,109)	(4,109)
Net issuance of restricted stock	89,165	—	—	—	—
Issuance of common stock for option exercises. . . .	512,275	3,947	—	—	3,947
Issuance of common stock for long-term incentive plan	66,149	884	—	—	884
Restricted stock activity	—	612	—	—	612
Stock-based compensation	—	937	—	—	937
Balance – December 31, 2016	<u>25,093,135</u>	<u>\$ 292,747</u>	<u>\$ 16,536</u>	<u>\$ (5,625)</u>	<u>\$ 303,658</u>
Comprehensive (loss) income:					
Net loss	—	—	(3,726)	—	(3,726)
Change in unrealized gains (losses) on investment securities available-for-sale, net . . .	—	—	—	2,496	2,496
Change in unrealized gains (losses) on derivatives	—	—	—	(730)	(730)
Total comprehensive (loss) income				(424)	(424)
Net issuance of restricted stock	71,974	—	—	—	—
Issuance of common stock for option exercises. . . .	486,001	3,567	—	—	3,567
Issuance of common stock for long-term incentive plan	61,799	1,209	—	—	1,209
Restricted stock activity	—	810	—	—	810
Stock-based compensation	—	1,141	—	—	1,141
Balance – December 31, 2017	<u>25,712,909</u>	<u>\$ 299,474</u>	<u>\$ 12,810</u>	<u>\$ (3,859)</u>	<u>\$ 308,425</u>
Comprehensive (loss) income:					
Net income	—	—	28,532	—	28,532
Reclassification of tax effects from AOCI	—	—	844	(844)	—
Change in unrealized gains (losses) on investment securities available-for-sale, net . . .	—	—	—	(4,661)	(4,661)
Change in unrealized gains (losses) on derivatives	—	—	—	(941)	(941)
Total comprehensive (loss) income				(4,762)	(4,762)
Change in accounting principle – revenue recognition	—	—	1	—	1
Net issuance of restricted stock	68,730	—	—	—	—
Issuance of common stock for option exercises. . . .	292,039	4,097	—	—	4,097
Issuance of common stock for long-term incentive plan	38,841	687	—	—	687
Restricted stock activity	—	1,158	—	—	1,158
Stock-based compensation	—	242	—	—	242
Performance share compensation	—	290	—	—	290
Stock repurchases	(822,100)	(14,177)	—	—	(14,177)
Balance – December 31, 2018	<u>25,290,419</u>	<u>\$ 291,771</u>	<u>\$ 42,187</u>	<u>\$ (10,305)</u>	<u>\$ 323,653</u>

See accompanying notes to consolidated financial statements.

Atlantic Capital Bancshares, Inc. and Subsidiary
Consolidated Statements of Cash Flows

<i>(in thousands)</i>	Year Ended December 31,		
	2018	2017	2016
OPERATING ACTIVITIES			
Net income (loss) from continuing operations	\$ 28,050	\$ (4,756)	\$ 7,564
Net income (loss) from discontinued operations, net of tax	482	1,030	5,831
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for loan losses	1,946	3,218	3,816
Depreciation, amortization, and accretion	4,671	5,287	6,017
Amortization of restricted stock/performance share compensation . .	1,448	810	612
Stock option compensation	242	1,141	937
Deferred income tax expense (benefit)	2,226	24,241	3,322
(Gain) loss on sales of securities	1,855	63	(44)
(Gain) loss on sales and disposals of premises and equipment, net . .	214	359	(52)
Net write downs and losses (gains) on sales of other real estate owned	222	(288)	417
Small Business Investment Company (SBIC) impairment	228	—	—
Gain on sale of tax credit	—	(426)	—
Net increase in cash value of bank owned life insurance	(1,482)	(1,507)	(1,561)
Gain on bank owned life insurance	—	—	(27)
Net gains on sale of branches	—	(302)	(3,885)
Net gain on sale of trust business	(1,681)	—	—
Origination of servicing rights	(823)	(1,022)	(1,483)
Proceeds from sales of SBA loans	56,620	47,135	49,507
Net gains on sale of SBA loans	(3,089)	(3,045)	(2,138)
Proceeds from sales of TriNet loans	—	—	133,183
Net gains on sale of TriNet loans	—	—	(1,095)
Changes in operating assets and liabilities –			
Net change in loans held for sale	(776)	9,374	(71,425)
Net (increase) decrease in other assets	6,511	(8,217)	(5,711)
Net increase (decrease) in accrued expenses and other liabilities	720	12,089	2,961
Net cash provided by operating activities	97,584	85,184	126,746
INVESTING ACTIVITIES			
Activity in securities:			
Prepayments	50,380	47,393	43,063
Maturities and calls	365	5,894	27,052
Sales	62,087	19,238	65,103
Purchases	(77,036)	(173,391)	(146,741)
Net change in loans held for investment	(270,097)	(52,266)	(259,853)
Net change in assets held for sale - discontinued operations	42,412	50,774	(17,344)
(Purchases) proceeds of Federal Home Loan Bank stock, net	1,766	2,679	(6,019)
(Purchases) proceeds of Federal Reserve Bank stock, net	(114)	(102)	(3,075)
Proceeds from bank owned life insurance benefits	—	—	36
Proceeds from sales of other real estate	496	1,403	2,002
Net cash received (paid) for branch divestitures	—	5,379	(140,295)
Proceeds from sale of premises and equipment	2	—	5,649
(Purchases) of premises and equipment, net	(7,884)	(2,112)	(1,109)
Net cash used in investing activities	(197,623)	(95,111)	(431,531)

<i>(in thousands)</i>	Year Ended December 31,		
	2018	2017	2016
FINANCING ACTIVITIES			
Net change in deposits	87,379	289,897	177,680
Net change in liabilities to be assumed – discontinued operations	6,119	(54,248)	(24,002)
Proceeds from Federal Home Loan Bank advances	1,435,100	1,734,000	1,490,000
Repayments of Federal Home Loan Bank advances	(1,480,100)	(1,799,000)	(1,380,000)
Proceeds from exercise of stock options	4,096	3,567	3,947
Repurchase of common stock	(14,177)	—	—
Net cash provided by financing activities	38,417	174,216	267,625
NET CHANGE IN CASH AND CASH EQUIVALENTS	(61,622)	164,289	(37,160)
CASH AND CASH EQUIVALENTS – beginning of period	330,014	165,725	202,885
CASH AND CASH EQUIVALENTS – end of period	\$ 268,392	\$ 330,014	\$ 165,725

SUPPLEMENTAL SCHEDULE OF CASH FLOWS

Cash paid during the year for:

Interest	\$ 22,562	\$ 15,212	\$ 11,598
Income taxes	270	898	3,974

See accompanying notes to consolidated financial statements.

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Basis of Presentation

The accounting and financial reporting policies of Atlantic Capital Bancshares, Inc. (“Atlantic Capital”) and its subsidiary conform to accounting principles generally accepted in the United States of America (“GAAP”) and general banking industry practices. All material intercompany balances and transactions have been eliminated.

In management’s opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying financial statements have been made. These adjustments are normal and recurring accruals considered necessary for a fair and accurate presentation. Certain prior period amounts have been reclassified to conform to the current year presentation. As discussed in Note 3 — Divestitures and Discontinued Operations, current and prior periods presented in the consolidated statements of operations as well as the related note disclosures covering income and expense amounts have been retrospectively adjusted for the impact of discontinued operations for comparative purposes. The consolidated balance sheets and related note disclosures for prior periods also reflect the reclassification of certain assets and liabilities related to discontinued operations to held for sale.

Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, interest-bearing deposits in other banks, commercial paper, federal funds sold and reverse repurchase agreements. Generally, cash and cash equivalents have maturities of three months or less and, accordingly, the carrying amount of these instruments is deemed to be a reasonable estimate of fair value. Reverse repurchase agreements are not subject to netting and offset with repurchase agreements.

Investment Securities Available-For-Sale

Investment securities designated as available-for-sale are stated at fair value. Investment securities available-for-sale include securities that may be sold in response to changes in interest rates, changes in prepayment risk, liquidity needs, or for other purposes. Interest income and dividends on securities are recognized in interest income on an accrual basis. Premiums and discounts on debt securities are amortized or accreted over the life of the related security as an adjustment of the yield. Realized gains and losses are included in earnings and the cost of securities sold is derived using the specific identification method. Unrealized gains and losses, net of the related tax effect, are excluded from earnings and are reported as a separate component of shareholders’ equity.

Available-for-sale securities are reviewed for other-than-temporary impairment (“OTTI”). A security is considered to be impaired if the fair value is less than its amortized cost basis at the measurement date. The Company determines whether a decline in fair value below the amortized cost basis is other-than-temporary. The Company determines whether it has the intent to sell the debt security or whether it is more likely than not that it will be required to sell the debt security before the recovery of its amortized cost basis. If either of these conditions is met, the Company must recognize the entire impairment in the Consolidated Statements of Operations and write the debt security down to fair value. For debt securities which the Company does not expect to recover the entire amortized cost basis of the security and which do not meet either condition, an OTTI loss is considered to have occurred. The credit loss portion of impairment is recorded as a realized loss in the Consolidated Statements of Operations and the temporary impairment related to all other factors is recorded in accumulated other comprehensive income, a component of shareholders’ equity.

Federal Home Loan Bank Stock/Federal Reserve Bank Stock

The Company holds stock in the Federal Home Loan Bank of Atlanta (“FHLB”) and Federal Reserve Bank (“FRB”). The Company accounts for the stock based on the industry guidance in Accounting Standard Codification 325-942, *Investments — Other*, which requires the investment be carried at cost and be evaluated for impairment based on the ultimate recoverability of the par value. The Company evaluated its holdings in FHLB and FRB stock at December 31, 2018 and 2017, and believes its holdings in the stock are ultimately recoverable at par.

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ACCOUNTING POLICIES AND BASIS OF PRESENTATION (cont.)

Discontinued Operations

Portions of the Company that will be disposed of by sale, and that represent a strategic shift that will have a major effect on operations and financial results, are accounted for as discontinued operations. Additional information on discontinued operations can be found in Note 3 — Divestitures and Discontinued Operations.

Loans

Loans Held for Investment

Loans are stated at the amount of unpaid principal, net of the allowance for loan losses, deferred income (net of deferred costs) and other unearned income. Interest income on loans is recognized using the effective yield method on the daily balances of the principal amount outstanding. Loan origination fees, net of direct loan origination costs, commitment fees, premiums and discounts are deferred and amortized as an adjustment to yield over the life of the loan, or over the commitment period, as applicable.

Loans are considered to be past due when payment is not received from the borrower by the contractually specified due date. Interest accruals on loans are discontinued when interest or principal has been in default 90 days or more, unless the loan is secured by collateral that is sufficient to repay the debt in full and the loan is in the process of collection. When a loan is placed on nonaccrual status, interest accrued and not paid in the current accounting period is reversed against current period income. Interest accrued and not paid in prior periods, if significant, is reversed against the allowance for loan losses.

Income on such loans is subsequently recognized on a cash basis as long as the future collection of principal is deemed probable or after all principal payments are received. Commercial loans are placed back on accrual status after sustained performance of timely and current principal and interest payments and it is probable that all remaining amounts due, both principal and interest, are fully collectible according to the terms of the loan agreement. Residential loans and consumer loans are generally placed back on accrual status when they are no longer past due.

A loan is considered to be impaired when, based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. A specific allowance is established for individually evaluated impaired loans as needed. Reserves on impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or the observable market price, or the fair value of the underlying collateral of the loan if the loan is collateral dependent.

The Company evaluates loans in accordance with the provisions within the Financial Accounting Standards Board ("FASB") ASC 310-40, *Troubled Debt Restructurings by Creditors*. Troubled debt restructurings ("TDRs") are loans in which the Company has modified the terms and granted an economic concession to a borrower who is experiencing financial difficulties. These modifications may include interest rate reductions, term extensions and other concessions intended to minimize losses. Typically, loans accruing interest at the time of the modification remain on accrual status and are subject to the Company's charge-off and nonaccrual policies. Loans on nonaccrual prior to modification remain on nonaccrual. TDRs may be returned to accrual status as outlined above. Interest income recognition on impaired loans is dependent upon nonaccrual status and loan type as discussed above.

During the year ended December 31, 2015, the Company acquired loans through a business combination. Certain loans showed evidence of credit deterioration (see discussion below). A majority of the acquired loans did not show signs of credit deterioration and were accounted for under ASC 310-20. As such, the difference between the fair value and the unpaid principal balance of loans at acquisition is accreted into interest income over the life of the loan.

In the third quarter of 2012, the Bank entered into a sub-participation agreement with a commercial bank (the participating bank), whereby pursuant to the sub-participation agreement, the Bank purchases participation interests in single-family mortgage loans from the participating bank that has purchased ownership interests from unaffiliated mortgage originators that seek funding to facilitate the origination of single-family residential mortgage loans for

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ACCOUNTING POLICIES AND BASIS OF PRESENTATION (cont.)

sale in the secondary market. The originators underwrite and close mortgage loans consistent with established standards of approved investors and, once the sales close, the originators and the participating bank deliver the loans to the investors. Typically, the participating bank purchases up to an aggregate of a 99% ownership interest with the originators retaining the remaining 1% interest. The Bank typically purchases a 40% or less interest in the mortgage warehouse loans from the participating bank. These loans are held for short periods, usually less than 30 days. These mortgage warehouse loans are classified as held for investment as of December 31, 2018, and 2017.

Loans Held for Sale

The Company maintains loans held-for-sale related to branch divestitures and also, at times, in connection with the mortgage or SBA department. The Company's mortgage department primarily originates long-term loans held-for-sale and uses various correspondent relationships to sell the loans on the secondary market. Loans held-for-sale are carried at lower of cost or market on an individual loan basis. Held-for-investment loans that have been transferred to held-for-sale are carried at lower of cost or fair value. Fair value is determined from observable current market prices. The credit component of any charge-off upon transfer to held-for-sale is reflected in the allowance for loan losses. The mortgage department also originates certain mortgage loans to be retained, which are classified as loans held-for-investment. From time to time, certain of these loans may be transferred to loans held for sale, marketed and sold in order to manage the Company's interest rate risk position and concentration limits.

Purchased Loans With Evidence of Credit Deterioration

During the year ended December 31, 2015, Atlantic Capital purchased loans through a business combination transaction. Some of those purchased loans showed evidence of credit deterioration since origination and are accounted for pursuant to ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. These purchased credit impaired ("PCI") loans are recorded at their estimated fair value at date of purchase.

PCI loans are aggregated into pools of loans based on common risk characteristics such as the type of loan, payment status, or collateral type. Atlantic Capital estimates the amount and timing of expected cash flows for each purchased loan pool and the expected cash flows in excess of the fair value of the loans are recorded as interest income over the remaining life of the pool (accretable yield). The excess of the pool's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference).

At least quarterly and over the life of the loan pool, expected cash flows continue to be estimated. Increases in estimated cash flows are recognized on a prospective basis as interest income over the remaining life of the loan. Decreases in expected cash flows result in the recognition of a provision for loan loss.

Allowance for Loan Losses

The allowance for loan losses is established through the provision for loan losses charged against earnings and is maintained at a level that management considers adequate to absorb losses inherent in the portfolio. The allowance for loan losses framework has two basic elements: specific allowances for loans individually evaluated for impairment and a general allowance for pools of loans with similar characteristics not individually evaluated. This analysis includes the evaluation of impaired loans as prescribed under the Receivables Topic of the FASB ASC, as well as pooled loans as prescribed under the Contingencies Topic of the FASB ASC. Management's evaluation of the allowance considers changes in the nature and volume of the portfolio, historic charge-offs, adequacy of collateral, delinquency trends, loan concentrations, economic conditions, changes in policies and procedures, changes in lending management, changes in loan review system and other factors considered necessary to maintain the allowance at an adequate level. Loans are charged against the allowance for loan losses when management believes that the collection of the principal is unlikely and the loss is quantifiable. Subsequent recoveries, if any, are credited to the allowance in the period received. The allowance for loans losses for acquired performing loans is evaluated at each reporting date subsequent to acquisition and the allowance is determined using a methodology similar to that described above.

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ACCOUNTING POLICIES AND BASIS OF PRESENTATION (cont.)

Management believes that the allowance for loan losses is appropriate and adequate. While management uses available information to estimate the inherent losses at each balance sheet date, future changes to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for losses on loans.

Premises and Equipment, Net

Land is carried at cost. Other premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. In general, estimated lives for buildings and improvements are up to 40 years, furniture and equipment useful lives range from one to ten years, and the lives of leasehold improvements range from ten to eleven years. Expenditures for major improvements of the Company's premises and equipment are capitalized and depreciated over their estimated useful lives. Major additions and improvements are charged to the asset accounts while maintenance and repairs that do not improve or extend the useful lives of the assets are charged to expense as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is reflected in the results of operations for the period.

Goodwill and Other Intangible Assets

Goodwill is an asset representing the future economic benefits from other assets acquired that are not individually identified and separately recognized. Goodwill is measured as the excess of the consideration transferred, net of the fair value of identifiable assets acquired and liabilities assumed at the acquisition date. Goodwill is not amortized, but instead is tested for impairment annually or more frequently if events or circumstances exist that indicate a goodwill impairment test should be performed.

Other intangible assets, which are initially recorded at fair value, consist of core deposit intangible assets resulting from Atlantic Capital's acquisition of First Security. Core deposit intangible assets are amortized on a sum-of-all-months basis over their estimated useful lives. The Company evaluates its other intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable.

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of the loan balance or fair value at the date of foreclosure, less estimated costs to sell. Any difference between the initial cost basis and the carrying value of the loan is charged to the allowance for loan losses at the date of the transfer to other real estate owned. Subsequent to foreclosure, any further declines in value of the assets are recorded as adjustments to the asset's carrying amount and reported in noninterest expense, along with costs related to holding the properties, in the Consolidated Statements of Operations.

Servicing Rights

The Company sells certain loans to third parties. All such transfers are accounted for as sales by the Company. Gains or losses upon sale are recorded in noninterest income. The Company records a separate servicing asset for the loans when the servicing is retained and the expected servicing income is more than adequate compensation for providing the servicing. This asset represents the right or obligation to service the loans and receive a fee in compensation. Servicing assets are initially recorded at their fair value as a component of the sale proceeds. The fair value of the servicing assets is based on an analysis of discounted cash flows that incorporates estimates of (1) market servicing costs, (2) market-based prepayment rates, and (3) market profit margins.

The Company has elected to subsequently measure the servicing assets under the amortization method and measured for impairment on a quarterly basis. The rate of prepayment of loans serviced is the most significant estimate involved in the measurement process. Estimates of prepayment rates are based on market participant's expectations of future prepayment rates, reflecting the Company's historical rate of loan repayments if consistent with market participant

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ACCOUNTING POLICIES AND BASIS OF PRESENTATION (cont.)

assumptions, industry trends, and other considerations. Actual prepayment rates may differ from those projected by management due to changes in a variety of economic factors, including prevailing interest rates and the availability of alternative financing sources to borrowers. If actual prepayments of the loans being serviced were to occur more quickly than projected, an impairment could exist, and the carrying value of servicing assets may require a write-down through a charge to earnings in the current period. Accordingly, the servicing assets actually realized, could differ from the amounts initially recorded.

Bank Owned Life Insurance

The Bank has purchased life insurance policies on certain key personnel. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Segment Reporting

Atlantic Capital considers its operations to be a single business segment as defined in ASC 280, *Segment Reporting*. The Company has determined that its lending divisions meet the aggregation criteria of ASC 280 as the products and services, nature of the production processes, types of customers, methods used to distribute products and services and the regulatory environment are sufficiently similar to aggregate their results.

Income Taxes

The provision for income taxes is based on income and expense reported for financial statement purposes after adjustments for permanent differences. Deferred tax assets and liabilities are recorded for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax benefits, such as net operating loss carryforwards, are recognized to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the assets and liabilities are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date.

A valuation allowance is provided when it is deemed more likely than not that some portion, or all, of the deferred tax asset will not be realized. In assessing the ability to realize the deferred tax assets, management considers the four possible sources of taxable income including future reversals of existing taxable temporary differences, future taxable income, taxable income in prior carryback years and tax-planning strategies that would be implemented to utilize the loss carryforwards prior to expiration.

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 largest amount of tax benefit that is greater than 50% likely of being realized on examination.

Atlantic Capital files its income tax returns on a consolidated basis. For additional information, see, Note 14, Income Taxes.

Stock-Based Compensation

Atlantic Capital sponsors a stock-based compensation plan, which is described more fully in Note 15, Employee and Director Benefit Plans. Compensation cost is recognized for stock options, warrants and restricted stock awards issued to employees and directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options and warrants, while the price of the Company's common stock at the date of grant is used for restricted stock awards. The total cost of the Company's stock-based awards is recognized as expense on a straight-line basis over the vesting periods of the awards.

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ACCOUNTING POLICIES AND BASIS OF PRESENTATION (cont.)

Earnings Per Share

Basic earnings per share are computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during each period. Diluted earnings per share are based on the weighted-average number of common shares outstanding during each period, plus common share equivalents calculated for stock options and warrants outstanding using the treasury stock method. When a net loss is recognized for the period, diluted earnings per share is calculated in the same manner as basic earnings per share.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the financial statements when they are funded.

Fair Value

Certain assets and liabilities are measured at fair value on a recurring basis. Examples of these include available-for-sale securities and derivative instruments. Fair value is used on a nonrecurring basis when assets are evaluated for impairment; the basis for accounting is lower of cost or market or fair value for disclosure purposes. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. For additional information, see Note 18, Fair Value Measurements.

Derivative Financial Instruments

The Company follows the guidance under ASC 815, *Derivatives and Hedging*, and records all derivatives on the Consolidated Balance Sheets at fair value. For derivatives designated as qualifying cash flow hedging relationships, the change in fair value of the effective portion is accounted for in other comprehensive income. For all other derivatives not designated as qualifying hedging relationships, changes in market value are recognized directly into earnings. For additional information, see Note 16, Derivatives and Hedging.

Branch Assets Held for Sale and Liabilities to be Assumed

On November 14, 2018, Atlantic Capital announced the sale of fourteen branches in Tennessee and northwest Georgia, to FirstBank. These branches were acquired from First Security and consist of loans, premises and deposits that are considered to be held for sale as of December 31, 2018. They are carried at the lower of cost or fair value. Prior period balances of the major categories of assets and liabilities to be divested in this sale were retrospectively adjusted for comparative purposes.

Going Concern Assessment

In August 2014, the FASB issued ASU 2014-15, “Presentation of Financial Statements — Going Concern (Subtopic 205-40 - *Disclosure of Uncertainties about and Entity’s Ability to Continue as a Going Concern*.” This guidance requires management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about an entity’s ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued. No conditions or events, considered in the aggregate, raise substantial doubt about Atlantic Capital’s ability to continue as a going concern within one year after the date that the 2018 financial statements are issued or available to be issued.

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 — ACCOUNTING STANDARDS UPDATES AND RECENTLY ADOPTED STANDARDS

Recently Adopted Accounting Pronouncements

In February 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-02, “*Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*.” The guidance gives entities the option to reclassify into retained earnings tax effects related to items in accumulated other comprehensive income (“OCI”) that were stranded in accumulated OCI as a result of tax reform. It is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption in any period is permitted and Atlantic Capital adopted ASU 2018-02 as of January 1, 2018. The adoption of this update resulted in a reclassification of approximately \$844,000 between accumulated OCI and retained earnings, and a net impact of zero to total shareholders’ equity.

In August 2017, the FASB issued ASU 2017-12, “*Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities*.” The purpose of this updated guidance is to better align a company’s financial reporting for hedging activities with the economic objectives of those activities. ASU 2017-12 is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. Atlantic Capital adopted ASU 2017-12 as of January 1, 2018. The guidance requires a modified retrospective transition method resulting in the cumulative effect of the change on the opening balance of each affected component of equity in the statement of financial position as of the date of adoption. Adoption did not have a material impact on Atlantic Capital’s consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, “*Compensation - Stock Compensation (Topic 718): Scope and Modification Accounting*.” The amendments in this ASU provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in accordance with Topic 718. The amendments were effective for interim and annual reporting periods beginning after December 15, 2017. This ASU did not have a material impact on Atlantic Capital’s consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, “*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*,” to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments provide guidance on the following eight specific cash flow issues: 1) debt prepayment or debt extinguishment costs; 2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; 3) contingent consideration payments made after a business combination; 4) proceeds from the settlement of insurance claims; 5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; 6) distributions received from equity method investees; 7) beneficial interests in securitization transactions; and 8) separately identifiable cash flows and application of the predominance principle. The amendments were effective for public companies for fiscal years beginning after December 31, 2017, and interim periods within those fiscal years. This ASU did not have a material impact on the Company’s consolidated financial statements.

In January 2016, the FASB issued ASU 2016-1, “*Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities*.” The guidance in this update requires that equity investments (except those accounting for under the equity method of accounting) be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The guidance also simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. In addition, the guidance requires that public business entities base their fair value disclosures for financial instruments that are not measured at fair value in the financial statements on the exit price notion. For public entities, this update was effective for fiscal years beginning after December 15, 2017 with early application permitted. The adoption of this update did not have a material impact on Atlantic Capital’s consolidated financial statements, however Atlantic Capital changed the disclosure of financial instruments not measured at fair value to reflect the exit price notion.

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 — ACCOUNTING STANDARDS UPDATES AND RECENTLY ADOPTED STANDARDS (cont.)

In May 2014, the FASB issued ASU 2014-09, “*Revenue from Contracts with Customers.*” The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For public companies, this guidance was effective for annual and interim periods beginning after December 15, 2017. Atlantic Capital completed its review of the impact of ASU 2014-09 on components of non-interest income and did not find any significant changes to its methodology of recognizing revenue. Revenue streams impacted by the ASU included service charges, trust income, sales of financed other real estate, and check printing revenue. The Company recorded a cumulative effect adjustment to first quarter 2018 opening retained earnings in an amount of approximately \$1,000, and included newly applicable revenue disclosures.

Recently Issued Accounting Pronouncements Not Yet Adopted

In August 2018, the FASB issued ASU No. 2018-13, “*Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement.*” The amendments in this update modify the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The update is effective for interim and annual periods in fiscal years beginning after December 31, 2019, with early adoption permitted for the removed disclosures and delayed adoption until fiscal year 2020 permitted for new disclosures. The removed and modified disclosures will be adopted on a retrospective basis and the new disclosures will be adopted on a prospective basis. The adoption will not have a material effect on the Company’s 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.*” This guidance shortens the premium amortization period for certain callable debt securities by requiring amortization to the earliest call date. The standard is effective for public companies for annual and interim periods beginning after December 15, 2020. The adoption of this update is not expected to have a material impact on Atlantic Capital’s consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, “*Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,*” which intends to simplify goodwill impairment testing by eliminating the second step of the analysis under which the implied fair value of goodwill is determined as if the reporting unit were being acquired in a business combination. The update instead requires entities to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for any amount by which the carrying amount exceeds the reporting unit’s fair value, to the extent that the loss recognized does not exceed the amount of goodwill allocated to that reporting unit. ASU 2017-04 must be applied prospectively and is effective for the Company on January 1, 2020. Early adoption is permitted. Atlantic Capital does not expect the new guidance to have a material impact on its financial condition or results of operations.

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 requires an entity to utilize a new impairment model known as the current expected credit loss (“CECL”) model to estimate its lifetime “expected credit loss” and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in more timely recognition of credit losses. ASU 2016-13 also requires new disclosures for financial assets measured at amortized cost, loans and available-for-sale debt securities. ASU 2016-13 is effective for public companies for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Entities will apply the standard’s provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company has established a CECL working group with the expertise needed to implement the guidance, and members of the working group have developed a project task plan and timeline. The Company is implementing a software package supported by a third-party vendor and plans to perform parallel runs of its new methodology in 2019 prior to adoption of the ASU. Atlantic Capital is continuing to evaluate the impact of the adoption of ASU 2016-13 on the Company’s consolidated financial statements and disclosures.

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 — ACCOUNTING STANDARDS UPDATES AND RECENTLY ADOPTED STANDARDS (cont.)

In February 2016, the FASB issued ASU 2016-02, “Leases.” Under the new guidance, leases classified as operating leases under previous GAAP must be recorded on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. In July 2018, the FASB issued ASU No. 2018-10, “Codification Improvements to Topic 842, Leases and ASU No. 2018-11, Leases (Topic 842): Targeted Improvements.” ASU No. 2018-10 provides improvements related to ASU No. 2016-02 to increase stakeholders’ awareness of the amendments and to expedite the improvements. The amendments affect narrow aspects of the guidance issued in ASU No. 2016-02. ASU No. 2018-11 allows entities adopting ASU No. 2016-02 to choose an additional (and optional) transition method, under which an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The amendments in these updates become effective for annual periods and interim periods within those annual periods beginning after December 15, 2018. Based on leases outstanding at December 31, 2018, the impact of adoption on January 1, 2019 was recording a lease liability of approximately \$18.9 million, a right-of-use asset of approximately \$14.5 million, and a cumulative effect adjustment to retained earnings of approximately \$500,000.

NOTE 3 — DIVESTITURES AND DISCONTINUED OPERATIONS

Sale of Southeastern Trust Company (“SETCO”)

On December 14, 2017, the Bank entered into an agreement with the Banc Group, LLC to sell its trust business, a division of the Bank known as Southeastern Trust Company, for approximately \$1.8 million. The Banc Group, LLC, which subsequently changed its name to Southeastern Trust Company, LLC, is controlled by a former director and Chief Operating Officer of the Company. The sale of SETCO closed on June 1, 2018 and Atlantic Capital recorded a gain of \$1.7 million during the second quarter, which was net of goodwill impairment in the amount of \$69,000.

Discontinued Operations

On November 14, 2018, the Bank entered into an agreement to sell all 14 of its bank branches located in Tennessee and northwest Georgia, including its mortgage banking business, to FirstBank. FirstBank will assume deposits and customer repurchase agreements of approximately \$592 million and purchase approximately \$373 million in loans. FirstBank agreed to pay a deposit premium equal to 6.25% of the balance of assumed deposits, less a discount of 0.68% of purchased loans. The income and expenses related to these branches are included in discontinued operations and prior period financial information has been retrospectively adjusted for the impact of discontinued operations. Subject to customary closing conditions, including the receipt of all necessary regulatory approvals, the transaction is expected to be completed during the second quarter of 2019.

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 — DIVESTITURES AND DISCONTINUED OPERATIONS (cont.)

The following table presents results of the discontinued operations for the twelve months ended December 31, 2018, 2017, and 2016:

Components of Net Income from Discontinued Operations

<i>(in thousands)</i>	For the year ended December 31,		
	2018	2017	2016
Net interest income	\$ 14,140	\$ 18,310	\$ 22,989
Provision for loan losses	(3,097)	—	—
Net interest income after provision for loan losses	17,237	18,310	22,989
Service charges	1,922	2,342	3,515
Mortgage income	1,302	1,255	1,917
Gain on sale of branches	—	302	3,885
Other income	123	111	434
Total noninterest income	3,347	4,010	9,751
Salaries and employee benefits	11,714	12,245	13,621
Occupancy	2,016	2,073	2,386
Equipment and software	779	1,108	791
Amortization of intangibles	1,229	1,653	2,445
Communications and data processing	1,529	1,524	1,353
Divestiture expense	825	—	—
Other noninterest expense	1,849	2,028	2,585
Total noninterest expense	19,941	20,631	23,181
Net income before provision for income taxes	643	1,689	9,559
Provision (benefit) for income taxes	161	659	3,728
Net income from discontinued operations	<u>\$ 482</u>	<u>\$ 1,030</u>	<u>\$ 5,831</u>

Assets sold and liabilities assumed by FirstBank include substantially all assets and liabilities associated with the Branches, and were classified as held for sale on the consolidated balance sheets as of December 31, 2018. Prior year balances have been adjusted to conform with current presentation.

The following table summarizes the major categories of assets and liabilities classified as held for sale and intangibles related to discontinued operations in the consolidated balance sheet as of December 31, 2018 and 2017:

Assets and Liabilities from Discontinued Operations

<i>(in thousands)</i>	December 31, 2018	December 31, 2017
Cash	\$ 4,234	\$ 3,647
Loans held for sale – discontinued operations	373,030	415,206
Premises held for sale – discontinued operations	7,722	7,958
Goodwill – discontinued operations	4,555	4,555
Core deposit intangible	1,405	2,634
Total assets	<u>\$ 390,946</u>	<u>\$ 434,000</u>
Deposits to be assumed – discontinued operations	\$ 585,429	\$ 585,530
Securities sold under agreements to repurchase – discontinued operations	6,220	—
Total liabilities	<u>\$ 591,649</u>	<u>\$ 585,530</u>
Net liabilities	<u>\$ (200,703)</u>	<u>\$ (151,530)</u>

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 — BALANCE SHEET OFFSETTING

Atlantic Capital enters into reverse repurchase agreements in order to invest short-term funds. The Company enters into repurchase agreements for short-term financing needs.

The following table presents a summary of amounts outstanding under repurchase agreements, reverse repurchase agreements and derivative financial instruments including those entered into in connection with the same counterparty under master netting agreements as of December 31, 2018 and 2017. While these agreements are typically over-collateralized, U.S. GAAP requires disclosures in this table to limit the amount of such collateral to the amount of the related recognized asset or liability for each counterparty.

(in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance Sheet	Net Asset Balance	Gross Amounts not Offset in the Balance Sheet		
				Financial Instruments	Cash Collateral Received	Net Amount
December 31, 2018						
Reverse repurchase agreements	\$ 9,457	\$ —	\$ 9,457	\$ (9,457)	\$ —	\$ —
Derivatives	1,961	—	1,961	—	—	1,961
Total	\$ 11,418	\$ —	\$ 11,418	\$ (9,457)	\$ —	\$ 1,961
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance Sheet	Net Liability Balance	Gross Amounts not Offset in the Balance Sheet		
				Financial Instruments	Cash Collateral Pledged	Net Amount
Repurchase agreements- discontinued operations	\$ 6,220	\$ —	\$ 6,220	\$ (6,220)	\$ —	\$ —
Derivatives	4,027	—	4,027	(4,027)	—	—
Total	\$ 10,247	\$ —	\$ 10,247	\$ (10,247)	\$ —	\$ —
December 31, 2017						
Reverse repurchase agreements	\$ 10,681	\$ —	\$ 10,681	\$ (10,681)	\$ —	\$ —
Derivatives	3,018	—	3,018	—	—	3,018
Total	\$ 13,699	\$ —	\$ 13,699	\$ (10,681)	\$ —	\$ 3,018
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance Sheet	Net Liability Balance	Gross Amounts not Offset in the Balance Sheet		
				Financial Instruments	Cash Collateral Pledged	Net Amount
Repurchase agreements	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Derivatives	4,023	—	4,023	(2,705)	(1,318)	—
Total	\$ 4,023	\$ —	\$ 4,023	\$ (2,705)	\$ (1,318)	\$ —

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 — SECURITIES

The following table presents the amortized cost, unrealized gains and losses, and fair value of securities available-for-sale at December 31, 2018 and December 31, 2017.

<u>Available-For-Sale</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
		(in thousands)		
December 31, 2018				
Debt securities				
U.S. Government agencies	\$ 27,259	\$ 24	\$ (434)	\$ 26,849
U.S. states and political divisions	91,864	40	(7,070)	84,834
Trust preferred securities	4,781	—	(381)	4,400
Corporate debt securities	12,855	—	(492)	12,363
Residential mortgage-backed securities	277,524	2,726	(6,210)	274,040
Total	<u>\$ 414,283</u>	<u>\$ 2,790</u>	<u>\$ (14,587)</u>	<u>\$ 402,486</u>

December 31, 2017

Debt securities				
U.S. Government agencies	\$ 34,699	\$ 11	\$ (599)	\$ 34,111
U.S. states and political divisions	92,169	237	(2,405)	90,001
Trust preferred securities	4,754	—	(104)	4,650
Corporate debt securities	12,948	60	(386)	12,622
Residential mortgage-backed securities	310,129	2,423	(4,819)	307,733
Total	<u>\$ 454,699</u>	<u>\$ 2,731</u>	<u>\$ (8,313)</u>	<u>\$ 449,117</u>

The following table presents the amortized cost and fair value of debt securities by contractual maturity at December 31, 2018. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Available-For-Sale</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>
	(in thousands)	
Within 1 year	\$ 125	\$ 125
Over 1 year through 5 years	32,724	31,909
5 years to 10 years	31,687	30,531
Over 10 years	72,223	65,881
	<u>136,759</u>	<u>128,446</u>
Residential mortgage-backed securities	277,524	274,040
Total	<u>\$ 414,283</u>	<u>\$ 402,486</u>

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 — SECURITIES (cont.)

The following table summarizes available-for-sale securities in an unrealized loss position as of December 31, 2018 and December 31, 2017.

Available-For-Sale	Less than 12 months		12 months or greater		Totals	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
December 31, 2018						
U.S. Government agencies	\$ 1,487	\$ (19)	\$ 21,849	\$ (415)	\$ 23,336	\$ (434)
U.S. states and political divisions	2,351	(54)	75,234	(7,016)	77,585	(7,070)
Trust preferred securities	—	—	4,400	(381)	4,400	(381)
Corporate debt securities	6,009	(60)	6,354	(432)	12,363	(492)
Residential mortgage-backed securities . .	30,938	(152)	196,745	(6,058)	227,683	(6,210)
Totals	<u>\$ 40,785</u>	<u>\$ (285)</u>	<u>\$304,582</u>	<u>\$ (14,302)</u>	<u>\$345,367</u>	<u>\$ (14,587)</u>
December 31, 2017						
U.S. Government agencies	\$ 22,148	\$ (348)	\$ 9,145	\$ (251)	\$ 31,293	\$ (599)
U.S. states and political divisions	14,009	(183)	58,744	(2,222)	72,753	(2,405)
Trust preferred securities	—	—	4,650	(104)	4,650	(104)
Corporate debt securities	2,989	(27)	2,970	(359)	5,959	(386)
Residential mortgage-backed securities	155,637	(1,344)	126,580	(3,475)	282,217	(4,819)
Totals	<u>\$194,783</u>	<u>\$ (1,902)</u>	<u>\$202,089</u>	<u>\$ (6,411)</u>	<u>\$396,872</u>	<u>\$ (8,313)</u>

At December 31, 2018, there were 271 available-for-sale securities that were in an unrealized loss position. Atlantic Capital does not intend to sell nor believes it will be required to sell securities in an unrealized loss position prior to the recovery of their amortized cost basis. Unrealized losses at December 31, 2018 and December 31, 2017 were attributable to changes in market interest rates.

Management evaluates securities for other-than-temporary impairment on a quarterly basis. 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, among other factors. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. No impairment charges were recognized during the year ended December 31, 2018 or 2017.

Realized gains and losses are derived using the specific identification method for determining the cost of securities sold. The following table summarizes securities sales activity for the years ended December 31, 2018 and 2017.

	Year Ended December 31,	
	2018	2017
	(in thousands)	
Proceeds from sales	\$ 62,087	\$ 19,238
Gross realized gains	\$ —	\$ 313
Gross realized losses	(1,855)	(376)
Net gains on sales of securities	<u>\$ (1,855)</u>	<u>\$ (63)</u>

Investment securities with a carrying value of \$65.3 million and \$93.9 million were pledged to secure public funds and other borrowings at December 31, 2018 and December 31, 2017, respectively.

As of December 31, 2018, Atlantic Capital had investments with a carrying value of \$4.4 million in Small Business Investment Companies ("SBICs") where Atlantic Capital is a limited partner. During the second quarter of 2018, and cumulatively for the year ended December 31, 2018, the Company recorded impairment in the amount of \$228,000 on

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 — SECURITIES (cont.)

these SBICs. The impairment resulted from deterioration in the credit quality of one of the SBICs and their inability to pay distributions until their financial position improves. There have been no upward adjustments, cumulatively or year-to-date, on these investments.

NOTE 6 — LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the loan portfolio as of December 31, 2018 and December 31, 2017, is summarized below.

	December 31, 2018	December 31, 2017
	(in thousands)	
Loans held for sale		
Loans held for sale – discontinued operations	\$ 373,030	\$ 415,206
Loans held for sale	5,889	1,487
Total loans held for sale	\$ 378,919	\$ 416,693
Loans held for investment		
Commercial loans:		
Commercial and industrial	\$ 645,374	\$ 539,046
Commercial real estate	794,828	753,986
Construction and land	156,232	101,801
Mortgage warehouse participations	27,967	39,981
Total commercial loans	1,624,401	1,434,814
Residential:		
Residential mortgages	32,800	12,960
Home equity	22,822	39,407
Total residential loans	55,622	52,367
Consumer	25,851	21,959
Other	24,712	13,303
Total loans	1,730,586	1,522,443
Less net deferred fees and other unearned income	(2,513)	(3,810)
Less allowance for loan losses	(17,851)	(19,344)
Loans held for investment, net	\$ 1,710,222	\$ 1,499,289

At December 31, 2018 and December 31, 2017, loans with a carrying value of \$752.7 million and \$667.2 million, respectively, were pledged as collateral to secure FHLB advances and the Federal Reserve discount window.

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 — LOANS AND ALLOWANCE FOR LOAN LOSSES (cont.)

At December 31, 2018, PCI loans were designated as held for sale in the upcoming Branch Sale. At December 31, 2017, the carrying value and outstanding balance of PCI loans accounted for under ASC 310-30 was \$11.8 million and \$14.1 million, respectively. The following table presents changes in the value of the accretible yield for acquired loans accounted for under ASC 310-30.

	Year Ended December 31, 2018	Year Ended December 31, 2017
	(in thousands)	
Balance at beginning of period	\$ 2,316	\$ 3,467
Accretion.	(970)	(1,503)
Reclassification of nonaccretible discount due to change in expected cash flows	444	82
Other changes, net.	(1,790)	270
Balance at end of period	\$ —	\$ 2,316

In addition to the accretible yield on PCI loans, the fair value adjustments on purchased loans outside the scope of ASC 310-30 are also accreted to interest income over the life of the loans. At December 31, 2018, the unamortized balance of fair value discount on loans acquired through a business combination and not accounted for under ASC 310-30 was \$3.6 million, which includes loans to be sold in the Branch Sale. As of December 31, 2018, PCI loans are designated as held for sale in the upcoming Branch Sale.

The allowance for loan losses represents management’s estimate of probable incurred losses in the loan portfolio as of the end of the period. It is comprised of specific reserves for impaired loans and a general allowance for pools of loans with similar characteristics not individually evaluated. The allowance is regularly evaluated for loan losses to maintain an adequate level to absorb probable current inherent losses in the loan portfolio. Factors contributing to the determination of the allowance include the credit worthiness of the borrower, changes in the value of pledged collateral, and general economic conditions. All loan commitments over \$250,000 rated substandard or worse are specifically reviewed for loss potential. For loans deemed to be impaired, a specific allocation is assigned based on the losses expected to be realized from those loans.

The following table presents the balance and activity in the allowance for credit losses by portfolio segment for the years ended December 31, 2018 and 2017.

Year ended December 31,	2018				2017			
	Commercial	Residential	Consumer	Total	Commercial	Residential	Consumer	Total
	(in thousands)							
Allowance for loan losses:								
Beginning balance	\$ 18,267	\$ 802	\$ 275	\$ 19,344	\$ 18,717	\$ 1,418	\$ 460	\$ 20,595
Provision for loan losses	1,613	374	(41)	1,946	3,553	(533)	198	3,218
Provision for loan losses – discontinued operations	(2,429)	(653)	(15)	(3,097)	—	—	—	—
Loans charged-off.	(176)	(235)	(16)	(427)	(4,221)	(85)	(409)	(4,715)
Recoveries.	47	4	34	85	218	2	26	246
Total ending allowance balance.	\$ 17,322	\$ 292	\$ 237	\$ 17,851	\$ 18,267	\$ 802	\$ 275	\$ 19,344

The general component of the allowance for loan losses is based on the incurred losses inherent in the portfolio. The loss factors are determined through the generation of probabilities of default (“PDs”) and losses given default (“LGDs”) for groups of similar loans with similar credit grades where Loss Factor = PD x LGD. The PDs and LGDs for the loan portfolio are calculated based on Atlantic Capital’s loss history as well as available market-based data. The loss factor for each pool of loans is adjusted based on Qualitative and Environmental factors to account for conditions

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 — LOANS AND ALLOWANCE FOR LOAN LOSSES (cont.)

in the current environment which management believes are likely to cause a difference between the calculated loss based on historical performance and the incurred loss in the existing portfolio. These factors include: changes in policies and procedures, changes in the economy, changes in nature, volume of the portfolio and in the terms of loans, changes in lending management, changes in past dues and credit migration, changes in the loan review system, changes in the value of collateral and concentration risk and changes in external factors, such as competition, legal, regulatory, etc. On a quarterly basis, management evaluates these factors in order to determine an adjustment unique to Atlantic Capital and its market.

Charge-offs are recognized when the amount of the loss is quantifiable and timing is known. Collateral based loan charge-offs are measured based on the difference between the loan's carrying value, including deferred fees, and the estimated net realizable value of the loan. When assessing property value for the purpose of determining a charge-off, a third-party appraisal or an independently derived internal evaluation is generally employed.

A loan is considered to be impaired when, based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered TDRs and classified as impaired. 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 a 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. A specific allowance is established for individually evaluated impaired loans as needed. Reserves on impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or the observable market price, or the fair value of the underlying collateral of the loan if the loan is collateral dependent.

Nonaccrual loans include both homogeneous loans that are collectively evaluated for impairment and individually evaluated impaired loans. Atlantic Capital's policy is to place loans on nonaccrual status, when, in the opinion of management, the principal and interest on a loan is not likely to be repaid in accordance with the loan terms or when the loan becomes 90 days past due and is not well secured and in the process of collection. When a loan is classified on nonaccrual status, interest previously accrued but not collected is reversed against current interest revenue. Principal and interest payments received on a nonaccrual loan are applied to reduce outstanding principal.

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. Loans accounted for under ASC 310-30 were not classified as nonaccrual, 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 (accretable yield), was recognized on all acquired loans accounted for under ASC 310-30.

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 — LOANS AND ALLOWANCE FOR LOAN LOSSES (cont.)

The balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method is presented in the following table as of December 31, 2018 and December 31, 2017.

<u>December 31, 2018</u>	<u>Commercial</u>	<u>Residential</u>	<u>Consumer</u>	<u>Total</u>
	(in thousands)			
Allowance for loan losses:				
Ending allowance balance attributable to loans				
Individually evaluated for impairment	\$ 317	\$ —	\$ —	\$ 317
Collectively evaluated for impairment	17,005	292	237	17,534
Total ending allowance balance	<u>\$ 17,322</u>	<u>\$ 292</u>	<u>\$ 237</u>	<u>\$ 17,851</u>
Loans:				
Loans individually evaluated for impairment	\$ 10,273	\$ 161	\$ —	\$ 10,434
Loans collectively evaluated for impairment	1,614,128	55,461	50,563	1,720,152
Total ending loans balance	<u>\$ 1,624,401</u>	<u>\$ 55,622</u>	<u>\$ 50,563</u>	<u>\$ 1,730,586</u>
<u>December 31, 2017</u>	<u>Commercial</u>	<u>Residential</u>	<u>Consumer</u>	<u>Total</u>
	(in thousands)			
Allowance for loan losses:				
Ending allowance balance attributable to loans				
Individually evaluated for impairment	\$ 306	\$ —	\$ —	\$ 306
Collectively evaluated for impairment	17,918	800	275	18,993
PCI	43	2	—	45
Total ending allowance balance	<u>\$ 18,267</u>	<u>\$ 802</u>	<u>\$ 275</u>	<u>\$ 19,344</u>
Loans:				
Loans individually evaluated for impairment	\$ 6,886	\$ 186	\$ —	\$ 7,072
Loans collectively evaluated for impairment	1,694,948	178,204	45,671	1,918,823
PCI	9,416	2,338	—	11,754
Total ending loans balance	<u>\$ 1,711,250</u>	<u>\$ 180,728</u>	<u>\$ 45,671</u>	<u>\$ 1,937,649</u>

**ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 6 — LOANS AND ALLOWANCE FOR LOAN LOSSES (cont.)

The following table presents information on Atlantic Capital's impaired loans for the years ended December 31, 2018 and 2017:

	For the Year Ended						
	2018			2017			
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Balance of Recorded Investment While Impaired	Interest Income Recognized During Impairment	Average Balance of Recorded Investment While Impaired	Interest Income Recognized During Impairment
(in thousands)							
Impaired loans with no related allowance recorded:							
Commercial and industrial	\$ 4,346	\$ 4,346	\$ —	\$ 4,529	\$ 230	\$ 1,037	\$ 974
Commercial real estate	1,828	1,665	—	1,691	—	1,771	1,608
Construction and land	—	—	—	—	—	—	—
Residential mortgages	207	161	—	173	—	231	186
Home equity	—	—	—	—	—	—	—
Mortgage warehouse	—	—	—	—	—	—	—
Consumer	—	—	—	—	—	—	—
Total	\$ 6,381	\$ 6,172	\$ —	\$ 6,393	\$ 230	\$ 3,039	\$ 2,768
Impaired loans with an allowance recorded:							
Commercial and industrial	\$ 395	\$ 395	\$ 124	\$ 395	\$ —	\$ 3,739	\$ 3,739
Commercial real estate	3,867	3,867	193	4,242	69	565	565
Construction and land	—	—	—	—	—	—	—
Residential mortgages	—	—	—	—	—	—	—
Home equity	—	—	—	—	—	—	—
Mortgage warehouse	—	—	—	—	—	—	—
Consumer	—	—	—	—	—	—	—
Total	\$ 4,262	\$ 4,262	\$ 317	\$ 4,637	\$ 69	\$ 4,304	\$ 4,304
Total impaired loans	\$ 10,643	\$ 10,434	\$ 317	\$ 11,030	\$ 299	\$ 7,343	\$ 7,072
						\$ 306	\$ 306
						\$ 4,481	\$ 4,481
						\$ 7,963	\$ 7,963
							\$ 197
							\$ 577
							\$ 25
							\$ 218
							\$ 56
						\$ 3,482	\$ 3,482

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 — LOANS AND ALLOWANCE FOR LOAN LOSSES (cont.)

Atlantic Capital evaluates loans in accordance with ASC 310-40, *Troubled Debt Restructurings by Creditors*. TDRs are loans in which Atlantic Capital has modified the terms and granted an economic concession to a borrower who is experiencing financial difficulties. These modifications may include interest rate reductions, term extensions and other concessions intended to minimize losses.

As of December 31, 2018 and 2017, the Company had a recorded investment in TDRs of \$8.2 million and \$5.3 million, respectively. The Company had commitments to lend additional funds of \$28,000 and \$26,000 on loans modified as TDRs, as of December 31, 2018 and December 31, 2017, respectively. During the year ended December 31, 2018, the Company extended the interest-only repayment period on a large commercial real estate loan, resulting in its reclassification to a TDR. During the year ended December 31, 2017, a large commercial and industrial borrower's business was sold. As a part of the deficiency agreement, part of the credit relationship was restructured. The restructure included a charge-off and the reclassification of the remaining balance to a TDR of \$980,000. Additionally, during the year ended December 31, 2017, the modification of terms for one home equity loan included a short term extension of the maturity date.

Loans, by portfolio class, modified as TDRs during the years ended December 31, 2018 and 2017, are as follows.

	<u>Number of Loans</u>	<u>Pre-Modification Outstanding Recorded Investment</u> (in thousands)	<u>Post-Modification Outstanding Recorded Investment</u>
December 31, 2018			
Commercial real estate	1	\$ 4,617	\$ 4,617
Total	<u>1</u>	<u>\$ 4,617</u>	<u>\$ 4,617</u>
December 31, 2017			
Commercial and industrial	1	\$ 980	\$ 980
Home equity	1	534	534
Total	<u>2</u>	<u>\$ 1,514</u>	<u>\$ 1,514</u>

The Company did not forgive any principal on TDRs during the years ended December 31, 2018 and 2017, and there were no subsequent defaults of previously identified TDRs.

The Bank conducts transactions with its directors and executive officers, including companies in which such officers or directors have beneficial interests. The following is a summary of activity with respect to related-party loans in 2018 and 2017.

	<u>2018</u>	<u>2017</u>
	(in thousands)	
Balance at January 1,	\$ 1,885	\$ 2,795
Additions	4,362	5,950
Repayments	(6,247)	(6,860)
Balance at December 31,	<u>\$ —</u>	<u>\$ 1,885</u>

Atlantic Capital individually rates loans based on internal credit risk ratings using numerous factors, including thorough analysis of historical and expected cash flows, consumer credit risk scores (FICO scores), rating agency information, LTV ratios, collateral, collection experience, and other internal metrics. Atlantic Capital uses a dual rating system. The likelihood of default of a credit transaction is graded in the Obligor Rating. The risk of loss given default is graded in the Facility Rating. The Obligor Rating is determined through thorough credit analysis. Facility Ratings are used to describe the value to the bank that the collateral represents. Facility Ratings are based on the collateral package or market expectations regarding the value or liquidity of the collateral. Ratings are generally reviewed at least annually or more frequently if there is a material change in creditworthiness. Exceptions to this policy may include well collateralized term loans and loans to individuals with limited exposure or complexity.

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 — LOANS AND ALLOWANCE FOR LOAN LOSSES (cont.)

Atlantic Capital uses the following definitions for risk ratings:

Pass: Loans that are analyzed individually as part of the above described process and that do not meet the criteria of special mention, substandard or doubtful.

Special Mention: Loans classified as special mention have a potential weakness that requires 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.

Substandard: Loans classified 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 classified 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.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

As of December 31, 2018 and December 31, 2017, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows. (Total loans includes loans held for sale - discontinued operations.)

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard Accruing</u>	<u>Substandard Nonaccruing</u>	<u>Doubtful Nonaccruing</u>	<u>Total</u>
	(in thousands)					
December 31, 2018						
Commercial and industrial . . .	\$ 671,992	\$ 6,802	\$ 22,777	\$ 832	\$ —	\$ 702,403
Commercial real estate	946,612	4,754	14,914	126	1,647	968,053
Construction and land	169,687	40	25	—	—	169,752
Residential mortgages	118,265	1,119	1,441	1,138	281	122,244
Home equity	54,707	92	294	499	—	55,592
Mortgage warehouse	22,192	5,775	—	—	—	27,967
Consumer/Other	57,268	66	97	174	—	57,605
Total loans	<u>\$ 2,040,723</u>	<u>\$ 18,648</u>	<u>\$ 39,548</u>	<u>\$ 2,769</u>	<u>\$ 1,928</u>	<u>\$ 2,103,616</u>

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 — LOANS AND ALLOWANCE FOR LOAN LOSSES (cont.)

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard Accruing</u>	<u>Substandard Nonaccruing</u>	<u>Doubtful Nonaccruing</u>	<u>Total</u>
	(in thousands)					
December 31, 2017						
Commercial and industrial	\$ 572,942	\$ 15,643	\$ 21,332	\$ 16	\$ 2	\$ 609,935
Commercial real estate	919,939	6,227	8,906	—	1,592	936,664
Construction and land	115,255	—	—	—	—	115,255
Residential mortgages	100,342	1,075	753	398	321	102,889
Home equity	74,841	64	310	285	—	75,500
Mortgage warehouse	39,981	—	—	—	—	39,981
Consumer/Other	45,422	57	192	—	—	45,671
Total loans, excluding PCI loans	<u>\$ 1,868,722</u>	<u>\$ 23,066</u>	<u>\$ 31,493</u>	<u>\$ 699</u>	<u>\$ 1,915</u>	<u>\$ 1,925,895</u>
Commercial and industrial	\$ —	\$ 3,881	\$ 1,543	\$ —	\$ —	\$ 5,424
Commercial real estate	3,151	212	276	—	112	3,751
Construction and land	222	7	11	—	—	240
Residential mortgages	428	493	674	—	—	1,595
Home equity	34	354	356	—	—	744
Mortgage warehouse	—	—	—	—	—	—
Consumer/Other	—	—	—	—	—	—
Total PCI loans	<u>\$ 3,835</u>	<u>\$ 4,947</u>	<u>\$ 2,860</u>	<u>\$ —</u>	<u>\$ 112</u>	<u>\$ 11,754</u>

Atlantic Capital monitors loans by past due status. The following table presents the aging of the recorded investment in past due loans as of December 31, 2018 and December 31, 2017 by class of loans.

	As of December 31, 2018					
	<u>Accruing Current</u>	<u>30-89 Days Past Due</u>	<u>Accruing 90+ Days Past Due</u>	<u>Nonaccruing</u>	<u>Total</u>	
	(in thousands)					
Loans by Classification						
Commercial and industrial	\$ 692,308	\$ 8,785	\$ 478	\$ 832	\$ 702,403	
Commercial real estate	963,579	2,701	—	1,773	968,053	
Construction and land	169,752	—	—	—	169,752	
Residential mortgages	119,932	893	—	1,419	122,244	
Home equity	54,714	379	—	499	55,592	
Mortgage warehouse	27,967	—	—	—	27,967	
Consumer	57,371	59	1	174	57,605	
Total Loans	<u>\$ 2,085,623</u>	<u>\$ 12,817</u>	<u>\$ 479</u>	<u>\$ 4,697</u>	<u>\$ 2,103,616</u>	

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 — LOANS AND ALLOWANCE FOR LOAN LOSSES (cont.)

	As of December 31, 2017					
	Accruing Current	30-89 Days Past Due	Accruing 90+ Days Past Due	Nonaccruing	PCI Loans	Total
	(in thousands)					
Loans by Classification						
Commercial and industrial	\$ 606,677	\$ 3,239	\$ —	\$ 19	\$ 5,424	\$ 615,359
Commercial real estate	932,916	2,156	—	1,592	3,751	940,415
Construction and land	114,988	267	—	—	240	115,495
Residential mortgages	100,402	1,470	298	719	1,595	104,484
Home equity	75,081	135	—	284	744	76,244
Mortgage warehouse	39,981	—	—	—	—	39,981
Consumer	45,599	72	—	—	—	45,671
Total Loans	\$ 1,915,644	\$ 7,339	\$ 298	\$ 2,614	\$ 11,754	\$ 1,937,649

NOTE 7 — PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

	As of December 31,	
	2018	2017
	(in thousands)	
Land and improvements	\$ 1,902	\$ 2,036
Buildings and improvements	7,402	7,745
Leasehold improvements	7,745	4,064
Equipment and furniture	13,339	10,998
Projects in process	—	736
Premises and equipment-gross	30,388	25,579
Accumulated depreciation	(12,887)	(13,525)
Premises and equipment-net	\$ 17,501	\$ 12,054

Depreciation expense was \$1.9 million, \$1.6 million, and \$2.0 million in 2018, 2017, and 2016, respectively.

Premises and equipment held for sale for discontinued operations as of December 31, 2018 and 2017 totaled \$7.7 million and \$8.0 million, respectively. These balances represent premises and equipment related to the Branch Sale, and the December 31, 2017 balance was adjusted retrospectively.

The following represents the future cash outflows related to lease obligations at December 31, 2018.

	December 31, 2018
	(in thousands)
2019	\$ 2,701
2020	2,759
2021	2,611
2022	2,676
2023	2,092
Thereafter	9,175
Total	\$ 22,014

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 — PREMISES AND EQUIPMENT (cont.)

Total lease obligation is expected to decrease by \$5.1 million as a result of the upcoming Branch Sale. Rent expense for the years ended December 31, 2018, 2017, and 2016 was \$3.1 million, \$2.7 million, and \$2.2 million, respectively, which were included in occupancy expense in the consolidated statements of operations.

NOTE 8 — GOODWILL AND INTANGIBLE ASSETS

The carrying amount of goodwill and other intangible assets is summarized below:

	December 31,	
	2018	2017
	(in thousands)	
Core deposit intangible	\$ 9,544	\$ 9,544
Less: accumulated amortization	(5,853)	(4,624)
Less: impairment to-date related to divested branches	(2,286)	(2,286)
Core deposit intangible, net - discontinued operations	1,405	2,634
Servicing assets, net	2,983	3,240
Total intangibles subject to amortization, net	4,388	5,874
Goodwill - discontinued operations	4,555	4,555
Goodwill - continuing operations	17,135	17,204
Total goodwill and other intangible assets, net	<u>\$ 26,078</u>	<u>\$ 27,633</u>

The Company conducted its annual impairment testing as of October 1, 2018, utilizing a qualitative assessment. Based on these assessments, management concluded that the 2018 annual qualitative impairment assessment indicated that it is more likely than not that the estimated fair value exceeded the carrying value (including goodwill). Therefore, a step one quantitative analysis was not required.

On November 14, 2018, the Bank entered into an agreement to sell all 14 of its bank branches located in Tennessee and northwest Georgia, including its mortgage banking business, to FirstBank. In accordance with U.S. GAAP, Atlantic Capital allocated a proportionate share of its goodwill balance to the discontinued operations on a relative fair value basis and performed a qualitative assessment impairment test for the goodwill allocated to continuing operations. The qualitative goodwill impairment analysis of continuing operations indicated that it was more likely than not that the estimated fair value exceeded the carrying value as of the assessment date. The Company monitored events from the date of the assessment through December 31, 2018 and no events or circumstances led management to believe any impairment existed at the balance sheet date.

Goodwill impairment in the amount of \$69,000 related to the sale of the trust business was recorded in the second quarter of 2018. There were no goodwill impairment charges recorded in 2017. The following table presents activity for goodwill and other intangible assets:

	Goodwill	Core Deposit Intangible	Total
	(in thousands)		
Balance at December 31, 2016	\$ 21,759	\$ 4,624	\$ 26,383
Amortization	—	(1,653)	(1,653)
Impairment, due to branch divestiture	—	(337)	(337)
Balance at December 31, 2017	21,759	2,634	24,393
Amortization	—	(1,229)	(1,229)
Impairment, due to trust business sale	(69)	—	(69)
Balance at December 31, 2018	<u>\$ 21,690</u>	<u>\$ 1,405</u>	<u>\$ 23,095</u>

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 — GOODWILL AND INTANGIBLE ASSETS (cont.)

The amortization expense for core deposit intangible for 2018, 2017, and 2016 was \$1.2 million, \$1.7 million, and \$2.4 million, respectively, which was recognized in noninterest expense. Atlantic Capital expects the remaining balance of core deposit intangible to be written off at the time of the upcoming Branch Sale. There were no events or circumstances that led management to believe that any impairment existed at December 31, 2018 in Atlantic Capital's other intangible assets.

NOTE 9 — SERVICING RIGHTS

SBA Servicing Rights

SBA servicing rights are initially recorded at fair value. Subsequently, Atlantic Capital accounts for SBA servicing rights using the amortization method and they are included in goodwill and intangible assets, net on the Consolidated Balance Sheets. As of December 31, 2018 and 2017, the balance of SBA loans sold and serviced by Atlantic Capital totaled \$161.5 million and \$135.8 million, respectively.

Changes in the balance of SBA servicing assets for the years ended December 31, 2018 and 2017 are presented in the following table.

<u>SBA Loan Servicing Rights</u>	Year ended December 31,	
	2018	2017
	(in thousands)	
Beginning carrying value, net.	\$ 2,635	\$ 2,359
Additions.	823	1,022
Amortization.	(919)	(746)
Ending carrying value	<u>\$ 2,539</u>	<u>\$ 2,635</u>

At December 31, 2018 and 2017, the sensitivity of the fair value of the SBA loan servicing rights to immediate changes in key economic assumptions are presented in the table below.

<u>Sensitivity of the SBA Servicing Asset</u>	December 31,	December 31,
	2018	2017
	(dollars in thousands)	
Fair value of retained servicing assets	\$ 2,630	\$ 2,865
Weighted average life	4.83 years	6.22 years
Prepayment speed:	11.92%	8.64%
Decline in fair value due to a 10% adverse change	\$ (131)	\$ (103)
Decline in fair value due to a 20% adverse change	\$ (223)	\$ (181)
Weighted average discount rate.	14.42%	13.01%
Decline in fair value due to a 100 bps adverse change	\$ (101)	\$ (103)
Decline in fair value due to a 200 bps adverse change	\$ (165)	\$ (180)

The above sensitivities are hypothetical and should be used with caution. As the amounts indicate, changes in fair value based on valuation assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

TriNet Servicing Rights

TriNet servicing rights are initially recorded at fair value. Subsequently, Atlantic Capital accounts for TriNet servicing rights using the amortization method and they are included in goodwill and intangible assets, net.

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 — SERVICING RIGHTS (cont.)

Changes in the balance of TriNet servicing assets for the years ended December 31, 2018 and 2017 are presented in the following table.

<u>TriNet Servicing Rights</u>	<u>Year ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
	(in thousands)	
Beginning carrying value, net.	\$ 605	\$ 825
Additions.	—	—
Amortization.	(161)	(185)
Sale of servicing assets	—	(35)
Impairment	—	—
Ending carrying value	<u>\$ 444</u>	<u>\$ 605</u>

At December 31, 2018 and 2017, the sensitivity of the fair value of the TriNet servicing rights to immediate changes in key economic assumptions are presented in the table below.

<u>Sensitivity of the TriNet Servicing Rights</u>	<u>December 31,</u>	<u>December 31,</u>
	<u>2018</u>	<u>2017</u>
	(dollars in thousands)	
Fair value of retained servicing assets	\$ 515	\$ 697
Weighted average life	6.48 years	7.37 years
Prepayment speed:	5.00%	5.00%
Decline in fair value due to a 10% adverse change	\$ (7)	\$ (10)
Decline in fair value due to a 20% adverse change	\$ (14)	\$ (20)
Weighted average discount rate.	8.00%	8.00%
Decline in fair value due to a 100 bps adverse change.	\$ (13)	\$ (19)
Decline in fair value due to a 200 bps adverse change.	\$ (25)	\$ (37)

The above sensitivities are hypothetical and should be used with caution. As the amounts indicate, changes in fair value based on valuation assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

NOTE 10 — DEPOSITS

	<u>December 31,</u>	<u>December 31,</u>
	<u>2018</u>	<u>2017</u>
	(in thousands)	
Non-interest bearing demand deposits	\$ 602,252	\$ 596,328
Interest-bearing demand deposits	252,490	203,113
Savings and money market deposits	987,908	926,066
Time deposits less than \$250,000	3,630	3,573
Time deposits \$250,000 or greater	6,993	7,239
Brokered deposits	99,241	128,816
Total deposits	<u>\$ 1,952,514</u>	<u>\$ 1,865,135</u>
Deposits to be assumed - discontinued operations	\$ 585,429	\$ 585,530

Brokered certificate of deposits issued in denominations of \$100,000 or more are participated out by the deposit brokers in shares of \$100,000 or less.

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 — DEPOSITS (cont.)

Overdrawn deposits accounts reclassified as loans were \$1.3 million and \$1.1 million at December 31, 2018 and 2017, respectively. There were \$65.3 million and \$93.9 million in investment securities pledged to secure public deposits and other secured borrowings as of December 31, 2018 and 2017, respectively.

Deposits of certain officers, directors, and their associates totaled \$8.4 million and \$8.0 million as of December 31, 2018 and 2017, respectively.

The scheduled maturities of time and brokered deposits as of December 31, 2018 are as follows:

	<u>Time</u>	<u>Brokered</u>
	<u>(in thousands)</u>	
2019.....	\$ 10,108	\$ 96,670
2020.....	377	2,571
2021.....	104	—
2022.....	34	—
2023.....	—	—
Thereafter	—	—
Total	<u>\$ 10,623</u>	<u>\$ 99,241</u>

NOTE 11 — OTHER BORROWINGS AND LONG TERM DEBT

There were no Federal Home Loan Bank borrowings outstanding as of December 31, 2018. Federal Home Loan Bank borrowings as of December 31, 2017 are as follows:

	<u>December 31, 2017</u>	
	<u>Balance</u>	<u>Interest Rate</u>
	<u>(in thousands)</u>	
FHLB short-term borrowings:		
Fixed rate advance maturing January 16, 2018.....	\$ 45,000	1.40%
Total	<u>\$ 45,000</u>	

Interest expense for FHLB borrowings for the years ended December 31, 2018, 2017, and 2016 was \$2.4 million, \$1.5 million, and \$558,000, respectively.

At December 31, 2018, the Company had available line of credit commitments with the FHLB totaling \$864.7 million, with no outstanding FHLB advances. However, based on actual collateral pledged, \$164.9 million was available. At December 31, 2018, the Company had an available line of credit based on the collateral available of \$425.0 million with the Federal Reserve Bank of Atlanta. Interest expense on federal funds purchased for the years ended December 31, 2018, 2017, and 2016 totaled \$303,000, \$222,000, and \$218,000, respectively.

On September 28, 2015, Atlantic Capital issued subordinated notes (the “Notes”) totaling \$50.0 million in aggregate principal amount. The Notes are due September 30, 2025 and bear a fixed rate of interest of 6.25% per year until September 29, 2020. From September 30, 2020 to the maturity date, the interest rate will be a floating rate equal to the three-month LIBOR plus 468 basis points. The Notes were priced at 100% of their par value. The Notes qualify as Tier 2 regulatory capital.

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 — OTHER BORROWINGS AND LONG TERM DEBT (cont.)

Subordinated debt is summarized as follows:

	December 31, 2018	December 31, 2017
	(in thousands)	
Floating rate 10 year capital securities, with interest paid semi-annually at an annual fixed rate of 6.25% until September 30, 2020	\$ 50,000	\$ 50,000
Principal amount of subordinated debt	\$ 50,000	\$ 50,000
Less debt issuance costs	296	465
Subordinated debt, net	\$ 49,704	\$ 49,535

All subordinated debt outstanding at December 31, 2018 matures after more than five years.

NOTE 12 — OTHER COMPREHENSIVE (LOSS) INCOME

Other comprehensive (loss) income for Atlantic Capital consists of changes in net unrealized gains and losses on investment securities available-for-sale and derivatives. The following tables present a summary of the changes in accumulated other comprehensive (loss) income balances for the applicable periods.

	For the Year Ended								
	December 31, 2018			December 31, 2017			December 31, 2016		
	Pre-Tax Amount	Income Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Income Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Income Tax (Expense) Benefit	After-Tax Amount
	(in thousands)								
Accumulated other comprehensive (loss) income beginning of period	\$ (6,274)	\$ 2,415	\$ (3,859)	\$ (9,144)	\$ 3,519	\$ (5,625)	\$ (2,455)	\$ 939	\$ (1,516)
Reclassification of tax effects from AOCI	—	(844)	(844)	—	—	—	—	—	—
Unrealized net (losses) gains on investment securities available-for-sale	(8,070)	2,018	(6,052)	3,876	(1,491)	2,385	(6,227)	2,403	(3,824)
Reclassification adjustment for net realized gains on investment securities available-for-sale	1,855	(464)	1,391	181	(70)	111	(44)	17	(27)
Unrealized net (losses) gains on derivatives	(1,254)	313	(941)	(1,187)	457	(730)	(418)	160	(258)
Accumulated other comprehensive (loss) income end of period	\$ (13,743)	\$ 3,438	\$ (10,305)	\$ (6,274)	\$ 2,415	\$ (3,859)	\$ (9,144)	\$ 3,519	\$ (5,625)

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 — EARNINGS PER COMMON SHARE

Basic earnings per share amounts are computed by dividing net income by the weighted average number of shares of common stock outstanding.

Diluted earnings per share amounts are computed by dividing net income by the weighted average number of shares of common stock outstanding and the dilutive effects of the shares awarded under the stock option plan, based on the treasury stock method using an average fair market value of the stock during the respective periods.

The following table represents the earnings per share calculations from continuing operations and discontinued operations for the years ended December 31, 2018, 2017, and 2016.

	Year Ended December 31,		
	2018	2017	2016
	(in thousands, except share and per share amounts)		
Net income (loss) from continuing operations	\$ 28,050	\$ (4,756)	\$ 7,564
Net income from discontinued operations	482	1,030	5,831
Net income (loss) available to common shareholders.	<u>\$ 28,532</u>	<u>\$ (3,726)</u>	<u>\$ 13,395</u>
Weighted average shares outstanding			
Basic ⁽¹⁾	25,947,038	25,592,731	24,763,522
Effect of diluted securities:			
Stock options and warrants	164,717	229,354	423,158
Diluted.	<u>26,111,755</u>	<u>25,822,085</u>	<u>25,186,680</u>
Net Income (Loss) per Common Share – Basic			
Net income (loss) per common share – continuing operations	\$ 1.08	\$ (0.19)	\$ 0.31
Net income per common share – discontinued operations	0.02	0.04	0.23
Net Income (Loss) per Common Share – Basic	<u>\$ 1.10</u>	<u>\$ (0.15)</u>	<u>\$ 0.54</u>
Net Income (Loss) per Common Share – Diluted			
Net income (loss) per common share – continuing operations	\$ 1.07	\$ (0.19)	\$ 0.30
Net income per common share – discontinued operations	0.02	0.04	0.23
Net Income (Loss) per Common Share – Diluted	<u>\$ 1.09</u>	<u>\$ (0.15)</u>	<u>\$ 0.53</u>

(1) Unvested restricted shares are participating securities and included in basic share calculations.

Stock options and warrants outstanding of 2,124, 550, and 747 at December 31, 2018, 2017, and 2016, respectively, have not been included in diluted earnings per share because to do so would have been anti-dilutive for the periods presented. These awards were considered anti-dilutive because the exercise price of the award was higher than the market value of the shares.

The Amended and Restated Articles of Incorporation of Atlantic Capital, which were approved by the Board of Directors on March 24, 2015 and by Atlantic Capital's shareholders on May 21, 2015, authorize Atlantic Capital to issue 110,000,000 shares of capital stock, of which 10,000,000 shares are designated as preferred stock, no par value per share, and 100,000,000 shares are designated as common stock, no par value per share. Atlantic Capital had 25,290,419 and 25,712,909 shares of common stock issued and outstanding at December 31, 2018 and 2017, respectively.

The primary source of funds available to Atlantic Capital is payments of dividends from the Bank. The Bank paid dividends totaling \$30.0 million and \$0 to Atlantic Capital in 2018 and 2017, respectively. Banking laws and other regulations limit the amount of dividends a bank subsidiary may pay without prior regulatory approval. Additionally, Atlantic Capital's ability to pay dividends to its shareholders will depend on the ability of the Bank to pay dividends

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 — EARNINGS PER COMMON SHARE (cont.)

to Atlantic Capital. The Bank is subject to regulatory restrictions on the payment of cash dividends, which generally may be paid only from current earnings.

On November 14, 2018, the Board of Directors authorized a stock repurchase program pursuant to which the Company may purchase up to \$85 million of its issued and outstanding common stock. The timing and amounts of any repurchases depend on certain factors, including but not limited to market conditions and prices, available funds and alternative uses of capital. The stock repurchase program may be carried out through open-market purchases, block trades, negotiated private transactions and pursuant to a trading plan that was adopted in accordance with Rule 10b-18 and Rule 10b5-1 under the Securities Exchange Act of 1934. Atlantic Capital repurchased 822,100 shares in 2018 for a total of \$14.2 million.

NOTE 14 — INCOME TAXES

The components of income tax expense from continuing operations included in the Consolidated Statements of Operations for the years ended were as follows:

(in thousands)	For the Year Ended December 31,		
	2018	2017	2016
Current income tax expense (benefit):			
Federal.	\$ 3,710	\$ (561)	\$ 1,357
State.	371	35	(458)
Total	<u>4,081</u>	<u>(526)</u>	<u>899</u>
Deferred income tax expense (benefit):			
Federal.	(1,798)	24,354	2,679
State.	4,024	(113)	643
Total	<u>2,226</u>	<u>24,241</u>	<u>3,322</u>
Total income tax from continuing operations	<u>\$ 6,307</u>	<u>\$ 23,715</u>	<u>\$ 4,221</u>

The income tax expense differs from the statutory rate of 21% in 2018 and 35% in 2017 and 2016, as indicated in the following analysis:

(in thousands)	For the Year Ended December 31,		
	2018	2017	2016
Tax expense (benefit) based on federal statutory rate.	\$ 7,215	\$ 6,636	\$ 4,125
State taxes, net of federal benefit	899	102	333
Income tax credits	(103)	(208)	(51)
Tax-exempt earnings	(717)	(1,221)	(893)
Nondeductible merger related expenses	—	—	178
Excess benefit	(142)	(298)	—
Excess parachute payments under Section 280G	—	—	115
Nondeductible expenses	116	361	322
Change in uncertain tax positions reserve	56	(109)	8
Change in valuation allowance	(996)	(649)	—
Revaluation of deferred tax asset excluding valuation allowance due to tax reform	—	18,983	—
Other	(21)	118	84
Total income tax from continuing operations	<u>\$ 6,307</u>	<u>\$ 23,715</u>	<u>\$ 4,221</u>

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 — INCOME TAXES (cont.)

Deferred income tax assets and liabilities result from differences between assets and liabilities measured for financial reporting purposes and for income tax return purposes. These assets and liabilities are measured using the enacted tax rates and laws. The net deferred tax asset is included as a component of other assets at December 31, 2018 and 2017, and is comprised of the following:

(in thousands)	December 31, 2018	December 31, 2017
Net operating loss carryforward	\$ 25,992	\$ 29,754
Federal tax credits	5,342	5,648
State credits	27	482
Allowance for loan losses	4,374	4,794
Stock-based compensation	699	912
Other real estate owned	371	305
Transaction costs	787	803
Deferred rent	815	—
Unfunded commitments	161	224
Organizational costs	111	145
Nonaccrual loan interest	530	402
Net unrealized losses on investment securities available for sale	2,950	1,396
Net unrealized losses on cash flow hedges	486	172
Long term incentive plan	471	562
Other	1,957	407
Total gross deferred tax assets	45,073	46,006
Less: valuation allowance	(7,446)	(8,532)
Net deferred tax asset	37,627	37,474
Depreciation	1,215	765
Deferred loan costs	365	241
Other	192	245
Total gross deferred tax liabilities	1,772	1,251
Net deferred tax assets	<u>\$ 35,855</u>	<u>\$ 36,223</u>

On December 22, 2017, the 2017 Tax Cuts and Jobs Act (“the Tax Act”) was enacted into law. The Tax Act reduces the U.S. statutory corporate tax rate from 35% to 21% for tax years beginning in 2018, which resulted in the remeasurement of the federal portion of our deferred tax assets as of December 31, 2017, from 35% to the new 21% tax rate.

In assessing the realizability of deferred tax assets, management considers whether it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. A valuation allowance is provided when it is deemed more likely than not that some portion, or all, of the deferred tax asset will not be realized. In assessing the ability to realize the deferred tax assets, management considers the four possible sources of taxable income including future reversals of existing taxable temporary differences, future taxable income, taxable income in prior carryback years and tax-planning strategies that would, if necessary, be implemented. At December 31, 2017, the Company had a valuation allowance of \$8.5 million. This valuation allowance relates to the portion of net operating losses and credits that the Company will not be able to utilize due to limitations under Section 382 of the Internal Revenue Code. In the fourth quarter of 2018, the Company recorded a \$4.5 million favorable reduction of the valuation allowance on Federal deferred tax assets related to the limitations under Section 382 of the Internal Revenue Code. This reduction was offset by an unfavorable increase of \$3.5 million in the valuation allowance related to state net operating losses and carryforwards that are not expected to be utilized. At December 31, 2018, the Company had a valuation allowance of \$7.4 million.

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 — INCOME TAXES (cont.)

ASC 740-10-65 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company has reviewed and evaluated the relevant technical merits of each of its tax positions in accordance with ASC 740-10-65 and determined there are no uncertain tax positions that would have a material impact on the financial statements of the Company as of December 31, 2018.

A reconciliation of the beginning and ending unrecognized tax benefit related to uncertain tax positions is as follows:

(in thousands)	2018	2017
Balance at beginning of year	\$ 216	\$ 319
Additions based on tax positions related to the current year	62	14
Settlement of prior year positions	—	(117)
Balance at end of year	<u>\$ 278</u>	<u>\$ 216</u>

The amount of unrecognized tax positions that would have impacted the effective tax rate if recognized was \$220.

With the adoption of ASC 740-10-65, the Company elected to recognize accrued interest and penalties related to any future unrecognized tax benefits in current income tax expense. Interest in the amount of \$51,000 and \$40,000 was accrued as of December 31, 2018 and 2017, respectively. The total amount of interest and penalties recognized in current income tax expense during 2018, 2017 and 2016 was \$44,000, \$30,000 and \$32,000, respectively.

At December 31, 2018, Atlantic Capital had operating loss carryforwards for federal income tax purposes of \$95.2 million which are available to offset future federal taxable income, if any, through 2035. Atlantic Capital had operating loss carryforwards for state income tax purposes of \$117.3 million, which are available to offset future state taxable income, if any, through 2035. In addition, Atlantic Capital had general business credits of approximately \$5.3 million, which are available to reduce future federal income taxes, if any through 2035. Atlantic Capital had alternative minimum tax credit carryforwards of approximately \$355,000 available to reduce future federal regular income taxes, if any, over an indefinite period.

The Company's income tax returns remain subject to examination by both U.S. federal and state jurisdictions for tax years 2014 forward.

As of December 31, 2017, the Company recorded a net income tax expense for the estimated effects of the Tax Act of \$17.4 million, which was primarily due to the remeasurement of the Company's estimated deferred tax assets and deferred tax liabilities to reflect the new federal rate of 21%.

NOTE 15 — EMPLOYEE AND DIRECTOR BENEFIT PLANS

Defined Contribution Plan

Atlantic Capital sponsors a 401(k) qualified retirement plan that is qualified pursuant to Section 401 of the Internal Revenue Code. The plan is referred to as a "safe harbor 401(k) plan." The plan allows eligible employees to defer a portion of their income by making contributions into the plan on a pretax basis. The plan provides for a safe harbor contribution by Atlantic Capital. If the Company elects to make the safe harbor contribution, it will be at least 3% of eligible employees' compensation that is subject to income tax and paid during the plan year. Eligible employees are not required to participate in the plan in order to receive the safe harbor contribution. The plan also provides that the Board of Directors may authorize matching contributions based on a percentage of the amount contributed by the employee and discretionary profit sharing contributions. Employees of the Company must meet certain requirements concerning minimum age and credited period of service to participate in the plan. During the years ended December 31, 2018, 2017, and 2016, the Company contributed approximately \$1.1 million, \$1.0 million, and \$990,000, respectively, to this plan under its safe harbor provision.

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 — EMPLOYEE AND DIRECTOR BENEFIT PLANS (cont.)

Long-Term Incentive Plan

In 2012, Atlantic Capital initiated a long-term incentive plan for certain key employees. Bonuses under the Executive Officer Long Term Incentive Plan (the “LTI Plan”) may be paid in lump sum in cash or in common stock or in any combination of cash and common stock. Awards are granted under the LTI Plan for a bonus period, which means a period of more than one year. Awards are based on individual performance, business unit or division performance or Company-wide performance, or any combination of these performance objectives. Awards granted in 2018, 2017, and 2016 are earned, if at all, at the end of a three year period from the date of the awards. Compensation expense for the LTI Plan was \$879,000, \$1.5 million, and \$2.6 million for the years ended December 31, 2018, 2017, and 2016, respectively. Beginning in 2018, LTI Plan bonuses were evidenced by the issuance of performance share awards under the Company’s 2015 Stock Incentive Plan. The awards granted in 2018 are accounted for as equity awards. Previously, in 2016 and 2017, no performance share awards were issued and LTI Plan awards were accounted for as liabilities and remeasured at each reporting date.

Stock Incentive Plans

Atlantic Capital sponsors a stock incentive plan for the benefit of directors and employees. Under the Company’s 2015 Stock Incentive Plan (as amended and restated effective May 16, 2018) there were approximately 4,525,000 shares reserved for issuance to directors and employees. The Compensation Committee has the authority to grant the following: an incentive or nonqualified option; a stock appreciation right (including a related SAR or a freestanding SAR); a restricted award (including a restricted stock award or a restricted unit award); a performance award (including a performance share award or a performance unit award); a phantom stock award; an other stock-based award; a cash bonus award; a dividend equivalent award; or any other award granted under the plan.

As of December 31, 2018, approximately 3,513,000 additional awards could be granted under the plan. Through December 31, 2018, incentive stock options, nonqualified stock options, restricted stock, and other stock-based awards have been granted under the plan. Stock options are granted at a price which is no less than the fair market value of a share of Atlantic Capital common stock on the grant date. Stock options generally vest over three years and expire after ten years.

As of December 31, 2018 and 2017, no warrants were outstanding for the purchase of common stock.

The Company accounts for stock options in accordance with FASB ASC 718, *Stock Compensation*, which requires the Company to recognize the costs of its employee stock option awards in its Consolidated Statements of Operations. According to ASC 718, the total cost of the Company’s share-based awards is equal to their grant date fair value and is recognized as expense on a straight-line basis over the vesting period of the awards. Total stock-based compensation expense recognized by the Company during 2018, 2017, and 2016 for stock option grants was \$242,000, \$1.1 million, and \$937,000, respectively. Unrecognized stock-based compensation expense related to stock option grants at December 31, 2018, 2017, and 2016 was \$308,000, \$646,000, and \$1.7 million, respectively. At December 31, 2018, 2017, and 2016, the weighted average period over which this unrecognized expense is expected to be recognized was 1.9 years, 2.6 years, and 3.4 years, respectively. The weighted average remaining contractual life of options outstanding at December 31, 2018 was 4.0 years.

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 — EMPLOYEE AND DIRECTOR BENEFIT PLANS (cont.)

The Company estimates the fair value of its options awards using the Black-Scholes option pricing model. The risk-free rate for periods within the contractual life of the option and warrant is based on the U.S. Treasury yield curve in effect at the time of grant. There were no options awarded during 2016. The table below summarizes the assumptions used to calculate the fair value of options granted/modified during 2018 and 2017:

	For the year ended December 31,		
	2018	2017	2016
Risk-free interest rate	1.66%	1.00-2.42%	N/A
Expected term in years	0.25	.25-8	N/A
Expected stock price volatility	24.2%	23.2-25.3%	N/A
Dividend yield.	—%	—%	N/A

The following table represents stock option and warrant activity for the years ended December 31, 2018, 2017, and 2016:

Options and Warrants	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding, December 31, 2017	757,711	\$ 12.66		
Granted/modified ⁽¹⁾	15,000	14.64		
Exercised	(310,016)	13.21		
Forfeited ⁽¹⁾	(19,935)	14.08		
Expired	(306)	105.97		
Outstanding, December 31, 2018	442,454	\$ 12.02	3.98	\$ 1,990
Exercisable, December 31, 2018.	396,454	\$ 11.67	3.63	\$ 1,919
Weighted average fair value of options and warrants granted				
	\$ 2.79			
Outstanding, December 31, 2016	1,485,704	\$ 11.69		
Granted/modified ⁽²⁾	229,100	13.53		
Exercised	(724,912)	10.53		
Forfeited ⁽²⁾	(231,546)	13.50		
Expired	(635)	126.22		
Outstanding, December 31, 2017	757,711	\$ 12.66	5.56	\$ 3,883
Exercisable, December 31, 2017.	662,016	\$ 12.39	5.24	\$ 3,585
Weighted average fair value of options and warrants granted				
	\$ 7.15			
Outstanding, December 31, 2015	2,369,759	\$ 11.30		
Exercised	(872,162)	10.04		
Canceled	(4,057)	142.89		
Forfeited	(7,836)	10.76		
Outstanding, December 31, 2016	1,485,704	\$ 11.69	4.33	\$ 11,104
Exercisable, December 31, 2016.	1,204,558	\$ 11.10	3.38	\$ 9,755
Weighted average fair value of options and warrants granted				
	\$ —			

- (1) During the year ended December 31, 2018, the Company modified options for 15,000 shares. The modifications are included as shares granted/modified and as shares forfeited in this table.
- (2) During the year ended December 31, 2017, the Company modified options for 229,100 shares. The modifications are included as shares granted/modified and as shares forfeited in this table.

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 — EMPLOYEE AND DIRECTOR BENEFIT PLANS (cont.)

The total fair value of shares vested during each of the years ended December 31, 2018, 2017, and 2016, was \$307,000, \$1.8 million, and \$1.2 million, respectively.

In April 2018, the Company granted performance share awards under Atlantic Capital's 2015 Stock Incentive Plan to members of executive management to evidence awards granted under the LTI Plan. The Company also granted restricted stock awards to certain employees in 2018 under the 2015 Stock Incentive Plan. Compensation expense for restricted stock is based on the fair value of restricted stock awards at the time of grant, which is equal to the value of Atlantic Capital's common stock on the date of grant. Compensation expense for performance share awards are based on the fair value of Atlantic Capital's stock at the grant date adjusted for market conditions, as well as the subsequent achievement of performance conditions over the vesting period. The value of restricted stock and performance share grants that are expected to vest is amortized into expense over the vesting period. Restricted stock awards may cliff vest over 1-3 years or vest on a pro-rata basis, generally over 3 years. The market value at the date of award is amortized by charges to compensation expense over the vesting period. Compensation expense related to these awards during 2018, 2017, and 2016 was \$1.5 million, \$1.3 million, and \$801,000, respectively. Unrecognized compensation expense associated with restricted stock was \$2.5 million, \$2.6 million, and \$2.4 million as of December 31, 2018, 2017, and 2016, respectively. At December 31, 2018, 2017, and 2016, the weighted average period over which this unrecognized expense is to be recognized was 2.4 years, 3.0 years, and 3.2 years, respectively. During 2018, 2017, and 2016, respectively, there were 139,507, 132,487, and 109,959 restricted stock and performance share awards granted at a weighted average grant price of \$19.79, \$17.83, and \$14.34 per share.

During the year ended December 31, 2018, the Company modified options for 15,000 shares and 6,869 restricted stock awards to two individuals. During the year ended December 31, 2017, the Company modified options for 229,100 shares and 24,628 restricted stock awards to five individuals. The modifications allowed for the immediate vesting of the awards upon termination of service. The total incremental cost resulting from the modifications was \$111,000 and \$709,000 for the years ended December 31, 2018 and 2017, respectively.

The following table represents restricted stock and performance share award activity for the year ended December 31, 2018, 2017, and 2016:

	Shares	Weighted Average Grant-Date Fair Value
Outstanding, December 31, 2017	239,468	\$ 15.69
Granted	139,507	19.79
Vested	(73,686)	14.51
Forfeited	(32,594)	15.91
Outstanding, December 31, 2018	<u>272,695</u>	<u>\$ 18.09</u>
Outstanding, December 31, 2016	259,165	\$ 13.70
Granted	132,487	17.83
Vested	(91,671)	13.54
Forfeited	(60,513)	15.03
Outstanding, December 31, 2017	<u>239,468</u>	<u>\$ 15.69</u>
Outstanding, December 31, 2015	217,658	\$ 13.07
Granted	109,959	14.34
Vested	(44,966)	11.92
Forfeited	(23,486)	14.23
Outstanding, December 31, 2016	<u>259,165</u>	<u>\$ 13.70</u>

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 — DERIVATIVES AND HEDGING

Risk Management

Atlantic Capital's objectives in using interest rate derivatives are to add stability to net interest revenue and to manage its exposure to interest rate movements. To accomplish this objective, Atlantic Capital primarily uses interest rate swaps as part of its interest rate risk management strategy.

Cash Flow Hedges

At December 31, 2018, Atlantic Capital's interest rate swaps designated as cash flow hedges involve the payment of floating-rate amounts to a counterparty in exchange for receiving fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. At December 31, 2018 and 2017, Atlantic Capital had interest rate swaps designated as cash flow hedges with aggregate notional amounts of \$100.0 million, respectively.

No hedge ineffectiveness gains or losses were recognized on active cash flow hedges in 2018 or 2017. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Atlantic Capital expects that approximately \$403,000 will be reclassified as a decrease to loan interest income over the next twelve months related to these cash flow hedges.

Customer Swaps

Atlantic Capital also enters into derivative contracts, which consist of interest rate swaps, to facilitate the needs of clients desiring to manage interest rate risk. These swaps are not designated as accounting hedges under ASC 815, *Derivatives and Hedging*. In order to economically hedge the interest rate risk associated with offering this product, Atlantic Capital simultaneously enters into derivative contracts with third parties to offset the customer contracts, such that Atlantic Capital minimizes its net risk exposure resulting from such transactions. The derivative contracts are structured such that the notional amounts reduce over time to generally match the expected amortization of the underlying loans. These derivatives are not speculative and arise from a service provided to clients.

Atlantic Capital's derivative instruments are recorded at fair value in other assets and accrued interest receivable and other liabilities and accrued interest payable in the Consolidated Balance Sheets. The changes in the fair value of the derivative instruments are recognized in derivatives income in the Consolidated Statements of Operations. At December 31, 2018 and 2017, Atlantic Capital had interest rate swaps related to this program with an aggregate notional amount of \$109.5 million and \$142.3 million, respectively.

Atlantic Capital acquired a loan level hedging program, which First Security utilized to accommodate clients preferring a fixed rate loan. The loan documents include an addendum with a zero premium collar. The zero premium collar is a cap and a floor at the same interest rate, resulting in a fixed rate to the borrower. To hedge this embedded option the Bank enters into a dealer facing trade exactly mirroring the terms in the loan addendum.

Counterparty Credit Risk

As a result of its derivative contracts, Atlantic Capital is exposed to credit risk. Specifically approved counterparties and exposure limits are defined. On a quarterly basis, the customer derivative contracts and related counterparties are evaluated for credit risk and an adjustment is made to the contract's fair value. This adjustment is recognized in the Consolidated Statements of Operations.

Most derivative contracts with clients are secured by collateral. Additionally, in accordance with the interest rate agreements with derivatives dealers, Atlantic Capital may be required to post margin to these counterparties. At December 31, 2018 and 2017, Atlantic Capital had minimum collateral posting thresholds with certain of its derivative counterparties and posted collateral of \$5.1 million and \$8.8 million, respectively, against its obligations under these agreements. Cash collateral related to derivative contracts is recorded in other assets in the Consolidated Balance Sheets.

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 — DERIVATIVES AND HEDGING (cont.)

In conjunction with the FASB's fair value measurement guidance, management made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting arrangements on a net basis.

Atlantic Capital has master netting agreements with the derivatives dealers with which it does business, but reflects gross assets and liabilities on the Consolidated Balance Sheets.

To accommodate clients, Atlantic Capital occasionally enters into credit risk participation agreements with counterparty banks to accept a portion of the credit risk related to interest rate swaps. This allows clients to execute an interest rate swap with one bank while allowing for distribution of the credit risk among participating members. Credit risk participation agreements arise when Atlantic Capital contracts with other financial institutions, as a guarantor, to share credit risk associated with certain interest rate swaps. These agreements provide for reimbursement of losses resulting from a third party default on the underlying swap. At December 31, 2018 and 2017, Atlantic Capital had credit risk participation agreements with a notional amount of \$9.5 million and \$14.8 million, respectively.

The following table reflects the estimated fair value positions of derivative contracts and credit risk participation agreements as of December 31, 2018 and 2017:

Derivatives designated as hedging instruments under ASC 815

(in thousands)	Balance Sheet Location	December 31, 2018		December 31, 2017	
		Notional Amount	Fair Value	Notional Amount	Fair Value
Interest Rate Products					
Cash flow hedge of LIBOR based loans . . .	Other liabilities	\$ 100,000	\$ 2,029	\$ 100,000	\$ 887

Derivatives not designated as hedging instruments under ASC 815

Interest Rate Products	Balance Sheet Location	December 31, 2018		December 31, 2017	
		Notional Amount	Fair Value	Notional Amount	Fair Value
Customer swap positions	Other assets	\$ 54,760	\$ 756	\$ 71,160	\$ 946
Zero premium collar	Other assets	83,385	1,205	94,953	2,072
		<u>\$ 138,145</u>	<u>\$ 1,961</u>	<u>\$ 166,113</u>	<u>\$ 3,018</u>
Dealer offsets to customer swap positions . . .	Other liabilities	\$ 54,760	\$ 770	\$ 71,160	\$ 975
Credit risk participation	Other liabilities	9,532	2	14,807	4
Dealer offset to zero premium collar	Other liabilities	83,385	1,226	94,953	2,157
		<u>\$ 147,677</u>	<u>\$ 1,998</u>	<u>\$ 180,920</u>	<u>\$ 3,136</u>

The following table reflects the impact to the Consolidated Statements of Operations related to derivative contracts for the years ended December 31, 2018 and 2017:

Derivatives in Cash Flow Hedging Relationships

(in thousands)	Years ended December 31,				
	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)		Gain or (Loss) Reclassified from Accumulated OCI in Income (Effective Portion)		
	2018	2017	Location	2018	2017
Interest rate swaps	\$ (1,229)	\$ (688)	Interest income	\$ 26	\$ 499

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 — REGULATORY MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. On January 1, 2015, the Company became subject to Basel III rules, which include transition provisions through January 1, 2019. Under Basel III, total capital consist of two tiers of capital, Tier 1 and Tier 2. Tier 1 capital is further composed of Common Equity Tier 1 Capital and additional Tier 1 capital.

The transition provisions include important differences in determining the composition of regulatory capital between the Basel I rules and Basel III rules including, changes in capital deductions related to the Company's deferred tax assets, and the inclusion of unrealized gains and losses on AFS debt and certain marketable equity securities recorded in accumulated other comprehensive income ("AOCI"). These changes are impacted by, among other things, future changes in interest rates, overall earnings performance and company actions. Changes to the composition of regulatory capital under Basel III, as compared to the Basel I rules, are recognized in 20% annual increments, and were fully recognized as of January 1, 2019. When presented on a fully phased-in basis, capital, risk-weighted assets and the capital ratios assume all regulatory capital adjustments and deductions are fully recognized.

Common Equity Tier 1 Capital primarily includes qualifying common shareholders' equity, retained earnings, accumulated other comprehensive income and certain minority interests. Goodwill, disallowed intangible assets and certain disallowed deferred tax assets are excluded from Common Equity Tier 1 Capital.

Additional Tier 1 capital primarily includes qualifying non-cumulative preferred stock, trust preferred securities subject to phase-out and certain minority interests. Certain deferred tax assets are also excluded.

Tier 2 capital primarily consists of qualifying subordinated debt, a limited portion of the allowance for loan and lease losses, trust preferred securities subject to phase-out and reserves for unfunded lending commitments. The Company's total capital is the sum of Tier 1 capital plus Tier 2 capital.

To meet adequately capitalized regulatory requirements, an institution must maintain a Common Equity Tier 1 Capital of 4.5%, a Tier 1 capital ratio of 6.0% and a Total capital ratio of 8.0%. A "well-capitalized" institution must generally maintain capital ratios 200 basis points higher than the minimum guidelines. The risk-based capital rules have been further supplemented by a Tier 1 leverage ratio, defined as Tier 1 capital divided by quarterly average total assets, after certain adjustments. The Bank must maintain a Tier 1 leverage ratio of at least 5.0% to be classified as "well capitalized." Failure to meet the capital requirements established by the joint agencies can lead to certain mandatory and discretionary actions by regulators that could have a material adverse effect on the Company's consolidated financial statements.

The Basel III rules also introduced a capital conservation buffer which is fully phased in and is 2.5% of risk-weighted assets for 2019 and thereafter. Failure to maintain the required capital conservation buffer will result in limitations on capital distributions and on discretionary bonuses to executive officers.

The Basel III rules were implemented in the first quarter of 2015. The Company opted out of the AOCI treatment under these requirements and, as such, unrealized security gains and losses will continue to be excluded from bank regulatory capital.

As of December 31, 2018 and 2017, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. Management believes there are no conditions or events since the previous notification that have changed the institution's categorizations.

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 — FAIR VALUE MEASUREMENTS

Atlantic Capital follows the guidance pursuant to ASC No. 820-10, *Fair Value Measurements and Disclosures*. This guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This issuance applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances. Atlantic Capital measures its investment securities and interest rate derivative assets and liabilities at fair value on a recurring basis. Fair value is used on a nonrecurring basis either when assets are evaluated for impairment or for disclosure purposes. Atlantic Capital measures its servicing assets, goodwill, intangible assets, loans held for sale, impaired loans and other real estate owned at fair value on a nonrecurring basis if necessary.

The guidance emphasizes that fair value is a market-based measurement, not an entity-specific measurement and defines fair value as the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As a basis for considering market participant assumptions in fair value measurements, this guidance establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Atlantic Capital applied the following fair value hierarchy:

Level 1 — Assets or liabilities for which the identical item is traded on an active exchange, such as publicly-traded instruments or futures contracts.

Level 2 — Assets or liabilities valued based on observable market data for similar instruments.

Level 3 — Assets or liabilities for which significant valuation assumptions are not readily observable in the market, instruments valued based on the best available data, some of which is internally-developed, and risk premiums that a market participant would require.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement. There were no transfers between Level 1 and Level 2 or Level 2 and Level 3 during 2018 or 2017.

Atlantic Capital records investment securities available-for-sale at fair value on a recurring basis. Investment securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, Atlantic Capital obtains fair value measurements from an independent pricing service. In estimating the fair values for investment securities, Atlantic Capital believes that independent third-party market prices are the best evidence of an exit price. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the Treasury Department yield curve, trade execution data, market consensus prepayment speeds, credit information and the securities' terms and conditions, among other things.

Derivative instruments are primarily transacted as over-the-counter trades and priced with observable market assumptions. Ongoing measurements include observable market assumptions with appropriate valuation adjustments for liquidity and for credit risk of counterparties and Atlantic Capital's own credit. For these instruments, Atlantic Capital obtains fair value measurements from an independent pricing service. The fair value measurements consider factors such as the likelihood of default by Atlantic Capital and its counterparties, total exposure and remaining maturities in determining the appropriate fair value adjustments to record. Generally, the expected loss of each client counterparty is estimated using Atlantic Capital's internal risk rating system. For financial institution counterparties that are rated by national rating agencies, those ratings are used in determining the credit risk. This approach used to estimate exposures to counterparties is also used by Atlantic Capital to estimate its own credit risk on derivative liability positions.

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 — FAIR VALUE MEASUREMENTS (cont.)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present assets and liabilities that were measured at fair value on a recurring basis by level within the fair value hierarchy as reported in the Consolidated Balance Sheets at December 31, 2018 and 2017.

	2018 Fair Value Measurement Using			Total
	Quoted Prices in Active markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(in thousands)			
Securities available-for-sale-				
U.S. government agencies	\$ —	\$ 26,849	\$ —	\$ 26,849
U.S. states and political subdivisions . . .	—	84,834	—	84,834
Trust preferred securities	—	4,400	—	4,400
Corporate debt securities	—	12,363	—	12,363
Mortgage-backed securities	—	274,040	—	274,040
Total securities available-for-sale	<u>\$ —</u>	<u>\$ 402,486</u>	<u>\$ —</u>	<u>\$ 402,486</u>
Interest rate derivative assets	\$ —	\$ 1,961	\$ —	\$ 1,961
Interest rate derivative liabilities	\$ —	\$ 4,027	\$ —	\$ 4,027

	2017 Fair Value Measurement Using			Totals
	Quoted Prices in Active markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(in thousands)			
Securities available-for-sale-				
U.S. government agencies	\$ —	\$ 34,111	\$ —	\$ 34,111
U.S. states and political subdivisions . . .	—	90,001	—	90,001
Trust preferred securities	—	4,650	—	4,650
Corporate debt securities	—	12,622	—	12,622
Mortgage-backed securities	—	307,733	—	307,733
Total securities available-for-sale	<u>\$ —</u>	<u>\$ 449,117</u>	<u>\$ —</u>	<u>\$ 449,117</u>
Interest rate derivative assets	\$ —	\$ 3,018	\$ —	\$ 3,018
Interest rate derivative liabilities	\$ —	\$ 4,023	\$ —	\$ 4,023

For Level 3 securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators. Atlantic Capital had no Level 3 securities as of December 31, 2018 and 2017.

For the years ended December 31, 2018 and 2017, there was not a change in the methods and significant assumptions used to estimate fair value.

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 — FAIR VALUE MEASUREMENTS (cont.)

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

The following table presents the assets that were measured at fair value on a nonrecurring basis by level within the fair value hierarchy as reported in the Consolidated Balance Sheets at December 31, 2018 and December 31, 2017.

<u>December 31, 2018</u>	<u>Level 1 Fair Value Measurement</u>	<u>Level 2 Fair Value Measurement</u>	<u>Level 3 Fair Value Measurement</u>	<u>Total</u>
	(in thousands)			
Impaired Loans	\$ —	\$ —	\$ 1,836	\$ 1,836
	<u>Level 1 Fair Value Measurement</u>	<u>Level 2 Fair Value Measurement</u>	<u>Level 3 Fair Value Measurement</u>	<u>Total</u>
<u>December 31, 2017</u>	(in thousands)			
Impaired Loans	\$ —	\$ —	\$ 2,199	\$ 2,199

Level 3 loans consist of impaired loans which have been partially charged-off or have specific valuation allowances. The fair value of Level 3 assets is estimated based on the underlying collateral value. For loans which the cash proceeds from the sale of the underlying collateral is the expected source of repayment, the fair value of these loans was derived from internal estimates of the underlying collateral incorporating market data, including third party appraisals or evaluations, when available. Appraised values may be discounted based on management's assessment of the level of inactivity in the real estate market and other markets for the underlying collateral, changes in market conditions from the time of the valuation, and other information that in management's judgment may affect the value. Impaired loans are evaluated on at least a quarterly basis and adjusted accordingly.

Assets and Liabilities Not Measured at Fair Value

FASB ASC 825, *Financial Instruments*, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. 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.

The following disclosure should not be considered a surrogate of the liquidation value of Atlantic Capital or the Bank, but rather a good-faith estimate of the increase or decrease in value of financial instruments held by Atlantic Capital since purchase, origination or issuance.

The following methods and assumptions were used by the Company in estimating its fair values disclosures for financial instruments:

Cash and Cash Equivalents. For cash and due from banks, interest-bearing deposits in other banks, commercial paper, federal funds sold and reverse repurchase agreements the carrying amount is a reasonable estimate of fair value.

Investment Securities Available-for-Sale. Fair values for investment securities available-for-sale are based on quoted market prices.

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 — FAIR VALUE MEASUREMENTS (cont.)

Federal Home Loan Bank Stock. The Federal Home Loan Bank has historically repurchased their stock at cost. Therefore, the carrying amount is considered a reasonable estimate of its fair value.

Loans Held for Investment, Net. The fair value of fixed rate loans is estimated by discounting the future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and adjusted for a market liquidity discount. For variable rate loans the carrying amount is a reasonable estimate of fair value, adjusted for a market liquidity discount. Estimating the fair value of the loan portfolio when loan sales and trading markets are illiquid requires significant judgment. Therefore, the estimated fair value can vary significantly depending on a market participant's ultimate considerations and assumptions.

The Company uses assumptions that are expected to approximate those that a market participant purchasing the loans would use to value the loans in the current environment. The final value yields a market participant's expected return on investment that is indicative of the current market conditions, but it does not take into consideration the Company's estimated value from continuing to hold these loans or its lack of willingness to transact at these estimated values.

Loans Held for Sale and Deposits to be Assumed in Branch Sale. Loans held for sale and deposits to be assumed in branch sale are carried at the lower of cost or market value. The fair value is based on what secondary markets are currently offering for portfolios with similar characteristics.

Derivative Financial Instruments. The estimated fair value of the interest rate swaps and credit risk participations are based on cash flow models supported by market data inputs.

Deposits. The fair value of demand deposits, savings accounts, NOW accounts and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposits is estimated by discounting the future cash flows using rates currently offered for deposits of similar remaining maturities.

Advances from the Federal Home Loan Bank. The fair value of the FHLB fixed rate borrowing is estimated using discounted cash flows, based on the current incremental borrowing rates for similar types of borrowing arrangements. For variable rate FHLB borrowings the carrying amount is a reasonable estimate of fair value.

Subordinated Debt. The fair value of subordinated debt is estimated using discounted cash flows, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Off-Balance Sheet Financial Instruments. Because commitments to extend credit and letters of credit are generally short-term and at variable rates, the contract value and estimated fair value associated with these instruments are immaterial.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time Atlantic Capital's entire holdings of a particular financial instrument.

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments.

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 — FAIR VALUE MEASUREMENTS (cont.)

The following tables present the estimated fair values of Atlantic Capital's financial instruments at December 31, 2018 and December 31, 2017.

	Fair Value Measurements at December 31, 2018 Using:			
	Carrying Amount	Quoted Prices in Active markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Financial assets:				
Cash and due from banks	\$ 42,895	\$ 42,895	\$ —	\$ —
Interest-bearing deposits in banks	216,040	216,040	—	—
Other short-term investments	9,457	9,457	—	—
Total securities available-for-sale	402,486	—	402,486	—
FHLB stock	2,622	—	—	2,622
Federal Reserve Bank stock	9,906	—	—	9,906
Loans held for investment, net	1,710,222	—	—	1,740,438
Loans held for sale	5,889	—	5,889	—
Loans held for sale – discontinued operations	373,030	—	373,030	—
Derivative assets	1,961	—	1,961	—
Financial liabilities:				
Deposits	\$ 1,952,514	\$ —	\$ 1,830,673	\$ —
Deposits to be assumed – discontinued operations	585,429	—	585,429	—
Securities sold under agreements to repurchase – discontinued operations	6,220	6,220	—	—
Subordinated debt	49,704	—	48,960	—
Derivative financial instruments	4,027	—	4,027	—

	Fair Value Measurements at December 31, 2017 Using:			
	Carrying Amount	Quoted Prices in Active markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Financial assets:				
Cash and due from banks	\$ 38,086	\$ 38,086	\$ —	\$ —
Interest-bearing deposits in other banks	281,247	281,247	—	—
Other short-term investments	10,681	10,681	—	—
Total securities available-for-sale	449,117	—	449,117	—
FHLB stock	4,388	—	—	4,388
Federal Reserve Bank stock	9,792	—	—	9,792
Loans held for investment, net	1,499,289	—	—	1,531,617
Loans held for sale	1,487	—	1,487	—
Loans held for sale – discontinued operations	415,206	—	415,206	—
Derivative assets	3,018	—	3,018	—
Financial liabilities:				
Deposits	\$ 1,865,135	\$ —	\$ 1,835,563	\$ —
Deposits to be assumed – discontinued operations	585,530	—	585,530	—
Subordinated debt	49,535	—	49,888	—
FHLB advances	45,000	—	45,057	—
Derivative financial instruments	4,023	—	4,023	—

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 — FAIR VALUE MEASUREMENTS (cont.)

The methods utilized to estimate the fair value of financial instruments at December 31, 2017 did not necessarily represent an exit price. In accordance with the adoption of ASU 2016-01 in 2018, the methods used to measure the fair value of financial instruments at December 31, 2018 represent an approximation of exit price, however, an actual exit price may differ.

NOTE 19 — COMMITMENTS AND CONTINGENCIES

Atlantic Capital is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit, most of which are standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amounts recognized in the Consolidated Balance Sheets. The contract amounts of these instruments reflect the extent of involvement Atlantic Capital has in particular classes of financial instruments.

Standby letters of credit are written conditional commitments issued by Atlantic Capital to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. Most letters of credit expire in less than one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Atlantic Capital's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. Atlantic Capital uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Atlantic Capital's maximum exposure to credit risk for unfunded loan commitments and standby letters of credit as well as a summary of minimum lease payments at December 31, 2018 and December 31, 2017 were as follows:

	December 31, 2018	December 31, 2017
	(in thousands)	
Financial Instruments whose contract amount represents credit risk:		
Commitments to extend credit	\$ 715,591	\$ 689,753
Standby letters of credit	15,650	10,958
	\$ 731,241	\$ 700,711
Minimum lease payments	\$ 22,014	\$ 18,894

The Company also had commitments related to investment in SBICs totaling \$3.2 million and \$5.8 million at December 31, 2018 and 2017, respectively.

Atlantic Capital, in the normal course of business, is subject to various pending and threatened lawsuits in which claims for monetary damages are asserted. Although it is not possible to predict the outcome of these lawsuits, or the range of any possible loss, management, after consultation with legal counsel, does not anticipate that the ultimate aggregate liability, if any, arising from these lawsuits will have a material adverse effect on Atlantic Capital's financial position or results of operations.

NOTE 20 — REVENUE RECOGNITION

On January 1, 2018, the Company adopted ASU No. 2014-09 "Revenue from Contracts with Customers" (Topic 606) and all subsequent ASUs that modified Topic 606. As stated in Note 2, *Accounting Standards Updates and Recently Adopted Standards*, the implementation of the new standard did not result in any significant changes to the Company's methodology of recognizing revenue; as such, the Company recorded a cumulative effect adjustment to first quarter 2018 opening retained earnings in an amount of approximately \$1,000. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with the Company's historic accounting under Topic 605.

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 — REVENUE RECOGNITION (cont.)

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as fees associated with financial guarantees and derivatives are also not in scope of the new guidance. Topic 606 is applicable to noninterest revenue streams such as service charges on deposit accounts and trust and asset management income. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Company's revenue is generated from contracts with customers. Noninterest revenue streams within the scope of Topic 606 are discussed below.

Service Charges on Deposit Accounts

Service charges represent general service fees for monthly account maintenance and activity, or transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when the performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed, such as a wire transfer or ATM withdrawal. Payment for such performance obligations are generally received at the time the performance obligations are satisfied. The following table presents service charges by type of service provided for the years ended December 31, 2018, 2017, and 2016:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Deposit account analysis fees and charges	\$ 2,166	\$ 1,785	\$ 1,441
ATM fees	223	234	30
NSF fees	97	74	48
Wire fees	426	356	185
Foreign exchange fees	288	258	232
Other	15	27	36
Total service charges – continuing operations	<u>3,215</u>	<u>2,734</u>	<u>1,972</u>
Service charges – discontinued operations	1,922	2,342	3,515
Total service charges	<u>\$ 5,137</u>	<u>\$ 5,076</u>	<u>\$ 5,487</u>

Trust and Asset Management

Trust and asset management income is primarily comprised of fees earned from the management and administration of trusts and other customer assets. The Company's performance obligation is generally satisfied over time and the resulting fees are recognized monthly, based upon the month-end market value of the assets under management and the applicable fee rate. Payment is generally received a few days after month end through a direct charge to customers' accounts. The Company's performance obligation for these transactional-based services is generally satisfied, and related revenue recognized, at a point in time (i.e., as incurred). Payment is received shortly after services are rendered. During the second quarter of 2018, Atlantic Capital sold its trust business, Southeastern Trust Company. The following table presents trust income by type of service provided for the years ended December 31, 2018, 2017, and 2016:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Personal trust and agency accounts	\$ 615	\$ 1,012	\$ 707
Employee benefit and retirement-related trust and agency accounts	120	225	200
Investment management and investment advisory agency accounts	216	355	352
Custody and safekeeping accounts	26	68	52
Other	48	154	100
	<u>\$ 1,025</u>	<u>\$ 1,814</u>	<u>\$ 1,411</u>

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 — REVENUE RECOGNITION (cont.)

Other

Other noninterest income consists of other recurring revenue streams such as check printing income, safety deposit box rental fees, and other miscellaneous revenue streams. Check printing income is recognized ratably over the contract period as the Company satisfies its performance obligation to sell a specific number of check packages. Safe deposit box rental fees are charged to the customer annually and recognized upon receipt of payment. The Company determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

Contract Balances

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company's noninterest revenue streams are largely based on transactional activity, or standard month-end revenue accruals such as asset management fees based on month-end market values. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2018 and 2017, the Company did not have any significant contract balances.

NOTE 21 — ATLANTIC CAPITAL BANCSHARES, INC. (PARENT COMPANY ONLY) FINANCIAL INFORMATION

Balance Sheets

(in thousands)

	December 31,	
	2018	2017
Assets		
Cash	\$ 30,568	\$ 14,151
Investment in subsidiary	343,311	344,188
Other assets	260	403
Total assets	\$ 374,139	\$ 358,742
Liabilities and shareholders' equity		
Long-term debt	\$ 49,704	\$ 49,535
Other liabilities	782	782
Total liabilities	50,486	50,317
Shareholders' equity:		
Common stock	291,771	299,474
Retained earnings	42,187	12,810
Accumulated other comprehensive income	(10,305)	(3,859)
Total shareholders' equity	323,653	308,425
Total liabilities and shareholders' equity	\$ 374,139	\$ 358,742

ATLANTIC CAPITAL BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 — ATLANTIC CAPITAL BANCSHARES, INC. (PARENT COMPANY ONLY) FINANCIAL INFORMATION (cont.)

Statements of Operations

(in thousands)

	Year Ended December 31,		
	2018	2017	2016
Income:			
Interest income	\$ 381	\$ 197	\$ 98
Total income	<u>381</u>	<u>197</u>	<u>98</u>
Expense:			
Interest on long-term debt.	3,304	3,294	3,282
Other expense	1,134	1,113	322
Total expense.	<u>4,438</u>	<u>4,407</u>	<u>3,604</u>
Loss before income tax expense and equity in undistributed (losses) earnings from subsidiary	(4,057)	(4,210)	(3,506)
Income tax benefit.	(1,091)	(1,681)	(849)
Loss before equity in undistributed (losses) earnings of subsidiary	(2,966)	(2,529)	(2,657)
Equity in undistributed (losses) earnings of subsidiary	31,498	(1,197)	16,052
Net (loss) income	<u>\$ 28,532</u>	<u>\$ (3,726)</u>	<u>\$ 13,395</u>

Statements of Cash Flows

(in thousands)

	Year Ended December 31,		
	2018	2017	2016
Operating activities			
Net (loss) income	\$ 28,532	\$ (3,726)	\$ 13,395
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in undistributed earnings of subsidiary	(31,498)	1,197	(16,052)
Decrease (increase) in other assets	(705)	(1,264)	1,928
(Decrease) increase in other liabilities	169	(1,354)	2,100
Net cash provided by (used in) operating activities	<u>(3,502)</u>	<u>(5,147)</u>	<u>1,371</u>
Investing activities			
Net cash (used in) provided by investing activities.	<u>—</u>	<u>—</u>	<u>—</u>
Financing activities			
Proceeds from exercise of stock options	4,096	3,567	3,947
Cash dividends received	30,000	—	—
Repurchase of common stock	(14,177)	—	—
Net cash provided by financing activities	<u>19,919</u>	<u>3,567</u>	<u>3,947</u>
Net (decrease) increase in cash and cash equivalents	16,417	(1,580)	5,318
Cash equivalents, beginning of year	14,151	15,731	10,413
Cash equivalents, end of year	<u>\$ 30,568</u>	<u>\$ 14,151</u>	<u>\$ 15,731</u>

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

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2018. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based on the evaluation of our disclosure controls and procedures as of December 31, 2018, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management’s Report on Internal Control Over Financial Reporting

Management of the Company is responsible for the preparation, integrity, accuracy, and fair presentation of the Consolidated Financial Statements appearing in this Annual Report on Form 10-K for the fiscal year ended December 31, 2018. The financial statements were prepared in conformity with generally accepted accounting principles in the United States (“GAAP”) and include amounts based on judgments and estimates by management. Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Consolidated Financial Statements in accordance with GAAP. Our internal control over financial reporting is supported by internal audits, appropriate reviews by management, policies and guidelines, careful selection and training of qualified personnel, and a code of ethics adopted by our Board of Directors that is applicable to all directors, officers, and employees of the Company.

Because of its inherent limitations, no matter how well designed, internal control over financial reporting may not prevent or detect all misstatements. Internal controls can only provide reasonable assurance with respect to financial statement preparation and presentation. Further, the evaluation of the effectiveness of internal control over financial reporting was made as of a specific date, and continued effectiveness in future periods is subject to the risks that the controls may become inadequate because of changes in conditions or that the degree of compliance with the policies and procedures may decline.

Management assessed the effectiveness of the Company’s internal control over financial reporting, with the participation of the Company’s chief executive officer and chief financial officer, as of December 31, 2018. In conducting this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013). Based on our assessment, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2018.

As an “emerging growth company” under the Jumpstart our Business Startups Act of 2012, we are exempt from the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002. As a result, the Company’s independent registered public accounting firm has not audited or issued an attestation report with respect to the effectiveness of our internal control over financial reporting, as of December 31, 2018.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in management’s evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act that occurred during the quarterly period ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required under this item is incorporated herein by reference to the information presented under the headings “Proposal 1 — Election of Directors,” “Directors and Executive Officers,” “Corporate Governance Matters” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the Company’s definitive proxy statement pursuant to Regulation 14A, which proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company’s fiscal year ended December 31, 2018 (the “Proxy Statement”).

ITEM 11. EXECUTIVE COMPENSATION

The information required under this item is incorporated herein by reference to the information presented under the headings “Corporate Governance Matters,” “Executive Compensation,” “Director Compensation,” and “Compensation and Other Information Concerning Our Executive Officers and Directors” in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information required under this item is incorporated herein by reference to the information presented under the headings “Security Ownership of Certain Beneficial Owners and Management” and “Executive Compensation” in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required under this item is incorporated herein by reference to the information presented under the headings “Certain Relationships and Related Person Transactions” and “Corporate Governance Matters” in the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required under this item is incorporated herein by reference to the information presented under the heading “Proposal 2 — Ratification of the Independent Registered Public Accounting Firm for 2019” in the Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- (a) The following documents are filed as part of this report:
 - (1) Financial Statements:
 - (i) Report of Independent Registered Public Accounting Firm
 - (ii) Consolidated Balance Sheets at December 31, 2018 and December 31, 2017
 - (iii) Consolidated Statements of Operations for the Years Ended December 31, 2018, December 31, 2017, and December 31, 2016
 - (iv) Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2018, December 31, 2017, and December 31, 2016
 - (v) Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2018, December 31, 2017, and December 31, 2016
 - (vi) Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, December 31, 2017, and December 31, 2016
 - (vii) Notes to Consolidated Financial Statements
 - (2) Financial Statement Schedules: None. Financial statement schedules have been omitted since the required information is included in our consolidated financial statements contained elsewhere in this Annual Report on Form 10-K.
 - (3) Exhibits: The exhibits listed in the accompanying Exhibit Index are filed as a part of this Annual Report on Form 10-K.
- (b) Exhibits: The exhibits listed in the accompanying Exhibit Index are filed as a part of this Annual Report on Form 10-K.
- (c) Separate Financial Statements and Schedules: None. Financial statement schedules have been omitted since the required information is included in our consolidated financial statements contained elsewhere in this Annual Report on Form 10-K.

ITEM 16. FORM 10-K SUMMARY

None.

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
2.1	Agreement and Plan of Merger, dated as of March 25, 2015 by and between Atlantic Capital Bancshares, Inc. and First Security Group, Inc., which is incorporated by reference to Exhibit 2.1 to our Registration Statement on Form S-4 (file no. 333-204855), initially filed with the Securities and Exchange Commission on June 10, 2015.
2.2	First Amendment to the Agreement and Plan of Merger, dated as of June 8, 2015 by and between Atlantic Capital Bancshares, Inc. and First Security Group, Inc., which is incorporated by reference to Exhibit 2.2 to our Registration Statement on Form S-4 (file no. 333-204855), initially filed with the Securities and Exchange Commission on June 10, 2015.
3.1	Amended and Restated Articles of Incorporation of Atlantic Capital Bancshares, Inc., which are incorporated by reference to Exhibit 3.1 to our Registration Statement on Form S-4 (file no. 333-204855), initially filed with the Securities and Exchange Commission on June 10, 2015.
3.2	Amended and Restated Bylaws of Atlantic Capital Bancshares, Inc., which are incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K, initially filed with the Securities and Exchange Commission on January 19, 2017.
4.1	Form of Stock Certificate of Atlantic Capital Bancshares, Inc., which is incorporated by reference to Exhibit 4.1 to our Registration Statement on Form S-4 (file no. 333-204855), initially filed with the Securities and Exchange Commission on June 10, 2015.
4.2	Issuing and Paying Agency Agreement, dated September 14, 2015, between Atlantic Capital Bancshares, Inc. and U.S. Bank National Association, which is incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on September 18, 2015.
4.3	Form of 6.25% Fixed-to-Floating Rate Subordinated Note due 2025, which is incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on September 18, 2015.
10.1	Corporate Governance Agreement, dated March 25, 2015, by and among Atlantic Capital Bancshares, Inc., Atlantic Capital Bank N.A., and BCP Fund I Southeast Holdings LLC, which is incorporated by reference to Exhibit 10.3 to our Registration Statement on Form S-4 (file no. 333-204855), initially filed with the Securities and Exchange Commission on June 10, 2015.
10.2(a)*	Employment Agreement, dated January 1, 2015, by and among Atlantic Capital Bancshares, Inc., Atlantic Capital Bank, N.A. and Douglas L. Williams, which is incorporated by reference to Exhibit 10.4 to our Registration Statement on Form S-4 (file no. 333-204855), initially filed with the Securities and Exchange Commission on June 10, 2015.
10.2(b)*	Amendment No. 1 to Employment Agreement, dated July 20, 2017, by and among Atlantic Capital Bancshares, Inc., Atlantic Capital Bank, N.A. and Douglas L. Williams, which is incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q (file no. 001-37615), filed with the Securities and Exchange Commission on August 8, 2017.
10.2(c)*	Employment Agreement, dated November 17, 2017, by and among Atlantic Capital Bancshares, Inc., Atlantic Capital Bank, N.A. and Douglas L. Williams, which is incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K (file no. 001-37615), filed with the Securities and Exchange Commission on November 20, 2017.
10.2(d)*	Employment Agreement, dated December 21, 2017, by and among Atlantic Capital Bancshares, Inc., Atlantic Capital Bank, N.A. and Patrick T. Oakes which is incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K (file no. 001-37615), filed with the Securities and Exchange Commission on December 22, 2017.
10.2(e)*	Employment Agreement, dated December 21, 2017, by and among Atlantic Capital Bancshares, Inc., Atlantic Capital Bank, N.A. and Richard A. Oglesby, Jr., which is incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K (file no. 001-37615), filed with the Securities and Exchange Commission on December 22, 2017.
10.2(f)*	Employment Agreement, dated December 21, 2017, by and among Atlantic Capital Bancshares, Inc., Atlantic Capital Bank, N.A. and Annette Rollins, which is incorporated by reference to Exhibit 10.11 to our Annual Report on Form 10-K (file no. 001-37615), filed with the Securities and Exchange Commission on March 15, 2018.

Exhibit No.	Description
10.2(g)*	Employment Agreement, dated December 21, 2017, by and among Atlantic Capital Bancshares, Inc., Atlantic Capital Bank, N.A. and Kurt A. Shreiner, which is incorporated by reference to Exhibit 10.12 to our Annual Report on Form 10-K (file no. 001-37615), filed with the Securities and Exchange Commission on March 15, 2018.
10.3*	Atlantic Capital Bancshares, Inc. 2006 Stock Incentive Plan, which is incorporated by reference to Exhibit 10.8 to our Registration Statement on Form S-4 (file no. 333-204855), initially filed with the Securities and Exchange Commission on June 10, 2015.
10.4(a)*	Form of Employee Restricted Stock Award Agreement under the 2006 Stock Incentive Plan (for employees with employment agreements), which is incorporated by reference to Exhibit 10.9 to our Registration Statement on Form S-4 (file no. 333-204855), initially filed with the Securities and Exchange Commission on June 10, 2015.
10.4(b)*	Form of Employee Restricted Stock Award Agreement under the 2006 Stock Incentive Plan (for employees without employment agreements), which is incorporated by reference to Exhibit 10.10 to our Registration Statement on Form S-4 (file no. 333-204855), initially filed with the Securities and Exchange Commission on June 10, 2015.
10.4(c)*	Form of Non-Employee Director Restricted Stock Award Agreement under the 2006 Stock Incentive Plan, which is incorporated by reference to Exhibit 10.11 to our Registration Statement on Form S-4 (file no. 333-204855), initially filed with the Securities and Exchange Commission on June 10, 2015.
10.5(a)*	Form of Employee Stock Option Agreement under the 2006 Stock Incentive Plan, which is incorporated by reference to Exhibit 10.12 to our Registration Statement on Form S-4 (file no. 333-204855), initially filed with the Securities and Exchange Commission on June 10, 2015.
10.5(b)*	Form of Non-Employee Director Stock Option Agreement under the 2006 Stock Incentive Plan, which is incorporated by reference to Exhibit 10.13 to our Registration Statement on Form S-4 (file no. 333-204855), initially filed with the Securities and Exchange Commission on June 10, 2015.
10.6(a)*	Atlantic Capital Bancshares, Inc. Executive Officer Long-Term Incentive Plan (As Amended and Restated Effective January 1, 2017), which is incorporated by reference to Exhibit 10.44 to our Annual Report on Form 10-K (file no. 001-37615), filed with the Securities and Exchange Commission on March 14, 2017.
10.6(b)*	Executive Officer Long Term Incentive Plan (as Amended and Restated Effective April 19, 2018), which is incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K (file no. 001-37615), filed with the Securities and Exchange Commission on April 20, 2018.
10.7*	Form of Officer Award Certificate under the Executive Long-Term Incentive Plan, which is incorporated by reference to Exhibit 10.16 to our Registration Statement on Form S-4 (file no. 333-204855), initially filed with the Securities and Exchange Commission on June 10, 2015.
10.8*	Atlantic Capital Bancshares, Inc. Executive Officer Short Term Incentive Plan, which is incorporated by reference to Exhibit 10.17 to our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 30, 2016.
10.9(a)*	Atlantic Capital Bancshares, Inc. 2015 Stock Incentive Plan (as amended and restated effective May 18, 2017), which is incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K (file no. 001-37615), initially filed with the Securities and Exchange Commission on May 22, 2017.
10.9(b)*	Atlantic Capital Bancshares, Inc. 2015 Stock Incentive Plan (as amended and restated effective May 16, 2018), which is incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q (file no. 001-37615), initially filed with the Securities and Exchange Commission on August 8, 2018.
10.10(a)*	Form of Restricted Stock Award Agreement (Employees - without Employment Agreement) under the 2015 Stock Incentive Plan, which is incorporated by reference to Exhibit 10.19 to our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 30, 2016.
10.10(b)*	Form of Restricted Stock Award Agreement (Employees - with Employment Agreement) under the 2015 Stock Incentive Plan, which is incorporated by reference to Exhibit 10.20 to our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 30, 2016.
10.10(c)*	Form of Restricted Stock Award Agreement (Non-Employee Directors) under the 2015 Stock Incentive Plan, which is incorporated by reference to Exhibit 10.21 to our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 30, 2016.
10.10(d)*	Form of Restricted Stock Award Agreement (Employees - with Employment Agreement) under the 2015 Stock Incentive Plan, which is incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q (file no. 001-37615), filed with the Securities and Exchange Commission on May 9, 2018.

Exhibit No.	Description
10.10(e)*	Form of Restricted Stock Award Agreement (Employees - without Employment Agreement) under the 2015 Stock Incentive Plan (form in use April 18, 2018 - October 16, 2018), which is incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q (file no. 001-37615), filed with the Securities and Exchange Commission on May 9, 2018.
10.10(f)*	Form of Restricted Stock Award Agreement (Employees - without Employment Agreement) under the 2015 Stock Incentive Plan.
10.11(a)*	Form of Restricted Stock Unit Agreement (Employees - with Employment Agreement) under the 2015 Stock Incentive Plan, which is incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q (file no. 001-37615), filed with the Securities and Exchange Commission on May 9, 2018.
10.11(b)*	Form of Restricted Stock Unit Agreement (Employees - without Employment Agreement) under the 2015 Stock Incentive Plan, which is incorporated by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q (file no. 001-37615), filed with the Securities and Exchange Commission on May 9, 2018.
10.11(c)*	Form of Restricted Stock Unit Agreement (Non-Employee Directors) under the 2015 Stock Incentive Plan, which is incorporated by reference to Exhibit 10.24 to our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 30, 2016.
10.12(a)*	Form of Stock Option Agreement (Employees - without Employment Agreement) under the 2015 Stock Incentive Plan (form in use prior to April 25, 2018), which is incorporated by reference to Exhibit 10.25 to our Annual Report on Form 10-K (file no. 001-37615), filed with the Securities and Exchange Commission on March 30, 2016.
10.12(b)*	Form of Stock Option Agreement (Employees - with Employment Agreement) under the 2015 Stock Incentive Plan (form in use prior to April 25, 2018), which is incorporated by reference to Exhibit 10.26 to our Annual Report on Form 10-K (file no. 001-37615), filed with the Securities and Exchange Commission on March 30, 2016.
10.12(c)*	Form of Stock Option Agreement (Non-Employee Directors) under the 2015 Stock Incentive Plan, which is incorporated by reference to Exhibit 10.27 to our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 30, 2016.
10.12(d)*	Form of Stock Option Agreement (Employees - with Employment Agreement) under the 2015 Stock Incentive Plan, which is incorporated by reference to Exhibit 10.6 to our Quarterly Report on Form 10-Q (file no. 001-37615), filed with the Securities and Exchange Commission on May 9, 2018.
10.12(e)*	Form of Stock Option Agreement (Employees - without Employment Agreement) under the 2015 Stock Incentive Plan, which is incorporated by reference to Exhibit 10.7 to our Quarterly Report on Form 10-Q (file no. 001-37615), filed with the Securities and Exchange Commission on May 9, 2018.
10.13*	Form of Other Stock-Based Award Agreement (Executive Officer Long Term Incentive Plan (“LTIP”) Award), which is incorporated by reference to Exhibit 10.28 to our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 30, 2016.
10.14(a)*	Form of Performance Share Award Agreement (Employees - with Employment Agreement) (Executive Officer Long Term Incentive Plan (“LTIP”) Award), which is incorporated by reference to Exhibit 10.8 to our Quarterly Report on Form 10-Q (file no. 001-37615), filed with the Securities and Exchange Commission on May 9, 2018.
10.14(b)*	Form of Performance Share Award Agreement (Employees - without Employment Agreement) (form in use prior to October 17, 2018) (Executive Officer Long Term Incentive Plan (“LTIP”) Award), which is incorporated by reference to Exhibit 10.9 to our Quarterly Report on Form 10-Q (file no. 001-37615), filed with the Securities and Exchange Commission on May 9, 2018.
10.14(c)*	Form of Performance Share Award Agreement (Employees - without Employment Agreement) (Executive Officer Long Term Incentive Plan (“LTIP”) Award).
10.15*	First Security Group, Inc. 2012 Long-Term Incentive Plan, as amended and restated, as further amended and assumed by Atlantic Capital Bancshares, Inc., which is incorporated by reference to Exhibit 99.1 to the Post-Effective Amendment No. 1 on Form S-8 to Form S-4 (file no. 333-204855), filed with the Securities and Exchange Commission on November 2, 2015.
10.16*	Form of Incentive Stock Option Award pursuant to the First Security Group, Inc. 2012 Long-Term Incentive Plan, which is incorporated by reference to Exhibit 10.29 to First Security Group, Inc.’s Form 10-K, filed with the Securities and Exchange Commission on April 15, 2013.
10.17*	Form of Non-Qualified Stock Option Award under the First Security Group, Inc. 2012 Long-Term Incentive Plan, which is incorporated by reference to Exhibit 10.30 to First Security Group, Inc.’s Form 10-K, filed with the Securities and Exchange Commission on April 15, 2013.

Exhibit No.	Description
10.18*	First Security Group, Inc. 2002 Long-Term Incentive Plan, as amended, as further amended and assumed by Atlantic Capital Bancshares, Inc., which is incorporated by reference to Exhibit 99.2 to the Post-Effective Amendment No. 1 on Form S-8 to Form S-4 (file no. 333-204855), filed with the Securities and Exchange Commission on November 2, 2015.
10.19*	Form of Incentive Stock Option Award under the First Security Group, Inc. 2002 Long-Term Incentive Plan, which is incorporated by reference to Exhibit 10.5 to First Security Group, Inc.'s Form 10-K, filed with the Securities and Exchange Commission on March 16, 2005.
10.20*	Form of Non-Qualified Stock Option Award under the 2002 Long-Term Incentive Plan, which is incorporated by reference to Exhibit 10.6 to First Security Group, Inc.'s Form 10-K for its fiscal year ended December 31, 2004, filed with the Securities and Exchange Commission on March 16, 2005.
10.21*	Form of Stock Purchase Agreement by and between First Security Group, Inc. and each of the investors named therein, which is incorporated by reference to Exhibit 10.18 to our Registration Statement on Form S-4/A (file no. 333-204855), filed with the Securities and Exchange Commission on July 17, 2015.
10.22(a)*	Atlantic Capital Bancshares, Inc. Change in Control Plan, which is incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q (file no. 001-37615), filed with the Securities and Exchange Commission on August 8, 2017.
10.22(b)*	Atlantic Capital Bancshares, Inc. 2017 Change in Control Plan, which is incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q (file no. 001-37615), filed with the Securities and Exchange Commission on November 9, 2017.
10.23*	Atlantic Capital Bank Severance Plan, which is incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q (file no. 001-37615), filed with the Securities and Exchange Commission on November 9, 2017.
10.24†	Purchase and Assumption Agreement, dated November 14, 2018, by and between Atlantic Capital Bank, N.A. and FirstBank, which is incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K (file no. 001-37615), filed with the Securities and Exchange Commission on November 14, 2018.
21	Subsidiaries of Atlantic Capital Bancshares, Inc.
23	Consent of Ernst & Young LLP, independent registered public accounting firm of Atlantic Capital Bancshares, Inc.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) under the Exchange Act, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) under the Exchange Act, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from our Annual Report on Form 10-K for the year ended December 31, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets as of December 31, 2018 and December 31, 2017; (ii) the Consolidated Statements of Operations for the Years Ended December 31, 2018, December 31, 2017, and December 31, 2016; (iii) the Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2018, December 31, 2017, and December 31, 2016; (iv) Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2018, December 31, 2017, and December 31, 2016; (v) the Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, December 31, 2017, and December 31, 2016; and (vi) the Notes to the Consolidated Financial Statements.

* Management contract or compensatory plan or arrangement.

† Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 14th day of March, 2019.

ATLANTIC CAPITAL BANCSHARES, INC.

/s/ Douglas L. Williams

Douglas L. Williams
President & Chief Executive Officer
(Principal Executive Officer)

/s/ Patrick T. Oakes

Patrick T. Oakes
Executive Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities and Exchange Act of 1934, the report has been signed by the following persons on behalf of the registrant and in the capacities indicated on March 14, 2019.

<u>Signature</u>	<u>Title</u>
<u>/s/ Douglas L. Williams</u> Douglas L. Williams	President, Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ Patrick T. Oakes</u> Patrick T. Oakes	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
<u>/s/ Walter M. Deriso, Jr.</u> Walter M. Deriso, Jr.	Chairman of the Board
<u>/s/ Shantella E. Cooper</u> Shantella E. Cooper	Director
<u>/s/ Henchy R. Enden</u> Henchy R. Enden	Director
<u>/s/ James H. Graves</u> James H. Graves	Director
<u>/s/ Douglas J. Hertz</u> Douglas J. Hertz	Director
<u>/s/ Larry D. Mauldin</u> Larry D. Mauldin	Director
<u>/s/ R. Charles Shufeldt</u> R. Charles Shufeldt	Director
<u>/s/ Lizanne Thomas</u> Lizanne Thomas	Director
<u>/s/ Marietta Edmunds Zakas</u> Marietta Edmunds Zakas	Director

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Board of Directors

Walter M. “Sonny” Deriso, Jr.
Chairman
Atlantic Capital Bancshares, Inc.

Shantella E. “Shan” Cooper
Executive Director
Atlanta Committee for Progress

Henchy R. Enden
Equity Analyst
MFP Investors LLC

James H. Graves
Partner
Erwin Graves & Associates

Douglas J. Hertz
President and Chief Executive Officer
United Distributors, Inc.

Larry D. Mauldin
Owner and Manager
Mauldin Properties, LLC

R. Charles Shufeldt
Senior Advisor
Brown Brothers Harriman & Co.

Lizanne Thomas
Partner-in-Charge,
Southeastern Region
Jones Day

Douglas L. Williams
President and Chief Executive Officer
Atlantic Capital Bancshares, Inc.

Marietta “Martie” Edmunds Zakas
Executive Vice President and
Chief Financial Officer
Mueller Water Products, Inc.

Executive Management Team

Douglas L. Williams
President and Chief Executive Officer

Patrick T. Oakes
Executive Vice President
Chief Financial Officer and Corporate Secretary

Annette F. Rollins
Executive Vice President
Chief Human Resources Officer

Richard A. Oglesby, Jr.
Executive Vice President
General Banking Division

Gary G. Fleming, Jr.
Executive Vice President
Chief Risk Officer

Robert R. Bugbee, II
Executive Vice President
Chief Credit Officer

Ashley C. Carson
Executive Vice President
Corporate and Community Affairs

Mark E. Robertson
Executive Vice President
Operations and Information Technology

Kurt A. Shreiner
Executive Vice President
Corporate Financial Services Division

Kenneth W. Deere
Executive Vice President
Commercial and Private Banking

How to Contact Us

Investor Relations

Annual and quarterly financial information is available online at www.atlanticcapitalbank.com

Request publications:

Atlantic Capital Bancshares, Inc.,
945 East Paces Ferry Road NE, Suite 1600
Atlanta, GA 30326
Attention: Patrick T. Oakes, Executive Vice President,
Chief Financial Officer, and Corporate Secretary
404.995.6050

Corporate Headquarters

Atlantic Capital Bancshares, Inc.
945 East Paces Ferry Road NE, Suite 1600
Atlanta, GA 30326
404.995.6050

Corporate & Community Affairs

Ashley C. Carson
Executive Vice President
404.995.6214

Transfer Agent

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1.800.368.5948

By Overnight Delivery:

Computershare Investor Services
462 South 4th Street, Suite 1600
Louisville, KY, 40202
www.computershare.com/investor

2019 Annual Meeting of Shareholders

Thursday, May 16, 2019, 10:00 a.m.
The Piedmont Driving Club
1215 Piedmont Avenue NE
Atlanta, GA 30309

Bank in the right direction

www.atlanticcapitalbank.com