

ServisFirst Bancshares, Inc.
Form 10-Q
May 01, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2013

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

For the transition period from _____ to _____

Commission file number 000-53149

SERVISFIRST BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware 26-0734029

(State or Other Jurisdiction of (I.R.S. Employer)

Incorporation or Organization) Identification No.)

850 Shades Creek Parkway, Birmingham, Alabama 35209

(Address of Principal Executive Offices) (Zip Code)

(205) 949-0302

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or Section 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

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

Class Outstanding as of April 30, 2013

Common stock, \$.001 par value 6,899,312

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EX-31.01 SECTION 302 CERTIFICATION OF THE CEO

EX-31.02 SECTION 302 CERTIFICATION OF THE CFO

EX-32.01 SECTION 906 CERTIFICATION OF THE CEO

EX-32.02 SECTION 906 CERTIFICATION OF THE CFO

PART 1. FINANCIAL INFORMATION**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS****SERVISFIRST BANCSHARES, INC.****CONSOLIDATED BALANCE SHEETS MARCH 31, 2013 AND DECEMBER 31, 2012****(In thousands, except share and per share amounts)**

| | March 31, 2013 (Unaudited) | December 31, 2012 (Audited) |
|--|----------------------------------|-----------------------------------|
| ASSETS | | |
| Cash and due from banks | \$33,844 | \$58,031 |
| Interest-bearing balances due from depository institutions | 11,914 | 119,423 |
| Federal funds sold | 1,545 | 3,291 |
| Cash and cash equivalents | 47,303 | 180,745 |
| Available for sale debt securities, at fair value | 229,434 | 233,877 |
| Held to maturity debt securities (fair value of \$33,692 and \$27,350 at March 31, 2013 and December 31, 2012, respectively) | 32,669 | 25,967 |
| Restricted equity securities | 3,738 | 3,941 |
| Mortgage loans held for sale | 15,804 | 25,826 |
| Loans | 2,462,154 | 2,363,182 |
| Less allowance for loan losses | (27,679) | (26,258) |
| Loans, net | 2,434,475 | 2,336,924 |
| Premises and equipment, net | 8,845 | 8,847 |
| Accrued interest and dividends receivable | 9,154 | 9,158 |
| Deferred tax assets | 8,384 | 7,386 |
| Other real estate owned | 8,076 | 9,685 |
| Bank owned life insurance contracts | 57,485 | 57,014 |
| Other assets | 6,391 | 6,944 |
| Total assets | \$2,861,758 | \$2,906,314 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities: | | |
| Deposits | | |
| Noninterest-bearing | \$507,647 | \$545,174 |
| Interest-bearing | 1,915,887 | 1,966,398 |
| Total deposits | 2,423,534 | 2,511,572 |
| Federal funds purchased | 153,930 | 117,065 |
| Other borrowings | 19,916 | 19,917 |
| Subordinated debentures | - | 15,050 |
| Accrued interest payable | 1,154 | 942 |
| Other liabilities | 5,677 | 8,511 |

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| | | |
|---|-------------|-------------|
| Total liabilities | 2,604,211 | 2,673,057 |
| Stockholders' equity: | | |
| Preferred stock, Series A Senior Non-Cumulative Perpetual, par value \$.001 (liquidation preference \$1,000), net of discount; 40,000 shares authorized, 40,000 shares issued and outstanding at March 31, 2013 and December 31, 2012 | 39,958 | 39,958 |
| Preferred stock, undesignated, par value \$.001 per share; 1,000,000 shares authorized and 960,000 currently undesignated | - | - |
| Common stock, par value \$.001 per share; 50,000,000 shares authorized; 6,897,812 shares issued and outstanding at March 31, 2013 and 6,268,812 shares issued and outstanding at December 31, 2012 | 7 | 6 |
| Additional paid-in capital | 109,022 | 93,505 |
| Retained earnings | 101,631 | 92,492 |
| Accumulated other comprehensive income | 6,929 | 7,296 |
| Total stockholders' equity | 257,547 | 233,257 |
| Total liabilities and shareholders' equity | \$2,861,758 | \$2,906,314 |

See Notes to Consolidated Financial Statements.

SERVISFIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except share and per share amounts)

(Unaudited)

| | Three Months Ended March 31, | |
|---|---|----------|
| | 2013 | 2012 |
| Interest income: | | |
| Interest and fees on loans | \$27,318 | \$23,325 |
| Taxable debt securities | 948 | 1,337 |
| Nontaxable debt securities | 832 | 782 |
| Federal funds sold | 16 | 53 |
| Other interest and dividends | 51 | 74 |
| Total interest income | 29,165 | 25,571 |
| Interest expense: | | |
| Deposits | 2,713 | 3,122 |
| Borrowed funds | 551 | 711 |
| Total interest expense | 3,264 | 3,833 |
| Net interest income | 25,901 | 21,738 |
| Provision for loan losses | 4,284 | 2,383 |
| Net interest income after provision for loan losses | 21,617 | 19,355 |
| Noninterest income: | | |
| Service charges on deposit accounts | 762 | 601 |
| Mortgage banking | 980 | 972 |
| Securities gains | 123 | - |
| Increase in cash surrender value of life insurance | 470 | 390 |
| Other operating income | 462 | 306 |
| Total noninterest income | 2,797 | 2,269 |
| Noninterest expense: | | |
| Salaries and employee benefits | 5,679 | 5,165 |
| Equipment and occupancy expense | 1,111 | 935 |
| Professional services | 461 | 332 |
| FDIC and other regulatory assessments | 432 | 390 |
| OREO expense | 390 | 137 |
| Other operating expense | 2,679 | 2,072 |
| Total noninterest expense | 10,752 | 9,031 |
| Income before income taxes | 13,662 | 12,593 |
| Provision for income taxes | 4,411 | 4,337 |
| Net income | 9,251 | 8,256 |
| Preferred stock dividends | 100 | 100 |
| Net income available to common stockholders | \$9,151 | \$8,156 |
| Basic earnings per common share | \$1.44 | \$1.37 |

| | | |
|-----------------------------------|--------|--------|
| Diluted earnings per common share | \$1.31 | \$1.20 |
|-----------------------------------|--------|--------|

See Notes to Consolidated Financial Statements.

SERVISFIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

| | Three Months Ended March 31, | |
|--|------------------------------------|---------|
| | 2013 | 2012 |
| Net income | \$9,251 | \$8,256 |
| Other comprehensive (loss) income, net of tax: | | |
| Unrealized holding (losses) gains arising during period from securities available for sale, net of tax of \$(154) and \$67 for 2013 and 2012, respectively | (287) | 216 |
| Reclassification adjustment for net gain on sale of securities in net income, net of tax of \$43 | (80) | - |
| Other comprehensive (loss) income, net of tax | (367) | 216 |
| Comprehensive income | \$8,884 | \$8,472 |

See Notes to Consolidated Financial Statements

SERVISFIRST BANCSHARES, INC.**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY****THREE MONTHS ENDED MARCH 31, 2013 AND 2012****(In thousands, except share amounts)****(Unaudited)**

| | Preferred Stock | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Total Stockholders' Equity |
|--|--------------------|-----------------|----------------------------------|----------------------|---|----------------------------------|
| Balance, December 31, 2012 | \$ 39,958 | \$ 6 | \$ 93,505 | \$ 92,492 | \$ 7,296 | \$ 233,257 |
| Dividends paid on common stock | - | - | - | (12) | - | (12) |
| Dividends paid on preferred stock | - | - | - | (100) | - | (100) |
| Exercise 15,500 stock options and warrants, including tax benefit | - | - | 259 | - | - | 259 |
| Issuance of 600,000 shares upon conversion of subordinated mandatory convertible debentures | - | 1 | 14,999 | - | - | 15,000 |
| Other comprehensive income | - | - | - | - | (367) | (367) |
| Stock-based compensation expense | - | - | 259 | - | - | 259 |
| Net income | - | - | - | 9,251 | - | 9,251 |
| Balance, March 31, 2013 | \$ 39,958 | \$ 7 | \$ 109,022 | \$ 101,631 | \$ 6,929 | \$ 257,547 |
| Balance, December 31, 2011 | \$ 39,958 | \$ 6 | \$ 87,805 | \$ 61,581 | \$ 6,942 | \$ 196,292 |
| Preferred dividends paid | - | - | - | (100) | - | (100) |
| Exercise 33,000 stock options, including tax benefit | - | - | 461 | - | - | 461 |
| Other comprehensive income | - | - | - | - | 216 | 216 |
| Stock-based compensation expense | - | - | 259 | - | - | 259 |
| Net income | - | - | - | 8,256 | - | 8,256 |
| Balance, March 31, 2012 | \$ 39,958 | \$ 6 | \$ 88,525 | \$ 69,737 | \$ 7,158 | \$ 205,384 |

See Notes to Consolidated Financial Statements

SERVISFIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE MONTHS ENDED MARCH 31, 2013 AND 2012

(In thousands) (Unaudited)

| | 2013 | 2012 |
|--|-----------|-----------|
| OPERATING ACTIVITIES | | |
| Net income | \$9,251 | \$8,256 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Deferred tax benefit | (801) | (905) |
| Provision for loan losses | 4,284 | 2,383 |
| Depreciation and amortization | 314 | 301 |
| Net amortization of investments | 258 | 266 |
| Market value adjustment of interest rate cap | - | 7 |
| Decrease in accrued interest and dividends receivable | 4 | 217 |
| Stock-based compensation expense | 259 | 259 |
| Increase in accrued interest payable | 212 | 71 |
| Proceeds from sale of mortgage loans held for sale | 55,848 | 62,699 |
| Originations of mortgage loans held for sale | (44,846) | (56,479) |
| Gain on sale of securities available for sale | (123) | - |
| Gain on sale of mortgage loans held for sale | (980) | (972) |
| Net loss on sale of other real estate owned | 21 | 67 |
| Write down of other real estate owned | 286 | 50 |
| Decrease in special prepaid FDIC insurance assessments | 390 | 354 |
| Increase in cash surrender value of life insurance contracts | (470) | (390) |
| Excess tax benefits from the exercise of warrants | (5) | - |
| Net change in other assets, liabilities, and other operating activities | (2,723) | 2,278 |
| Net cash provided by operating activities | 21,179 | 18,462 |
| INVESTMENT ACTIVITIES | | |
| Purchase of debt securities available for sale | (5,793) | (20,025) |
| Proceeds from maturities, calls and paydowns of debt securities available for sale | 8,373 | 17,194 |
| Proceeds from sale of debt securities available for sale | 1,164 | - |
| Purchase of debt securities held to maturity | (7,357) | (1,063) |
| Proceeds from maturities, calls and paydowns of debt securities held to maturity | 655 | 58 |
| Increase in loans | (102,006) | (88,925) |
| Purchase of premises and equipment | (312) | (145) |
| Purchase of restricted equity securities | - | (787) |
| Proceeds from sale of restricted equity securities | 203 | - |
| Proceeds from sale of other real estate owned and repossessions | 1,473 | 801 |

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| | | |
|---|-----------|-----------|
| Net cash used in investing activities | (103,600) | (92,892) |
| FINANCING ACTIVITIES | | |
| Net increase in noninterest-bearing deposits | (37,527) | 13,608 |
| Net increase (decrease) in interest-bearing deposits | (50,511) | 31,881 |
| Net increase in federal funds purchased | 36,865 | 14,120 |
| Proceeds from exercise of stock options and warrants | 259 | 461 |
| Excess tax benefits from exercise of warrants | 5 | - |
| Dividends paid on common stock | (12) | - |
| Dividends paid on preferred stock | (100) | (100) |
| Net cash (used in) provided by financing activities | (51,021) | 59,970 |
| | | |
| Net decrease in cash and cash equivalents | (133,442) | (14,460) |
| | | |
| Cash and cash equivalents at beginning of period | 180,745 | 242,933 |
| | | |
| Cash and cash equivalents at end of period | \$47,303 | \$228,473 |
| | | |
| SUPPLEMENTAL DISCLOSURE | | |
| Cash paid for: | | |
| Interest | \$3,052 | \$3,762 |
| Income taxes | 4,340 | 1,100 |
| NONCASH TRANSACTIONS | | |
| Conversion of mandatorily convertible subordinated debentures | \$15,000 | \$- |
| Other real estate acquired in settlement of loans | 171 | 304 |
| Internally financed sales of other real estate owned | - | 24 |

See Notes to Consolidated Financial Statements.

SERVISFIRST BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

NOTE 1 - GENERAL

The accompanying consolidated financial statements in this report have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission, including Regulation S-X and the instructions for Form 10-Q, and have not been audited. These consolidated financial statements do not include all of the information and footnotes required by U.S. generally accepted accounting principles (“U.S. GAAP”) for complete financial statements. In the opinion of management, all adjustments necessary to present fairly the consolidated financial position and the consolidated results of operations for the interim periods have been made. All such adjustments are of a normal nature. The consolidated results of operations are not necessarily indicative of the consolidated results of operations which ServisFirst Bancshares, Inc. (the “Company”) may achieve for future interim periods or the entire year. For further information, refer to the consolidated financial statements and footnotes included in the Company’s Form 10-K for the year ended December 31, 2012.

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

NOTE 2 - CASH AND CASH EQUIVALENTS

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

NOTE 3 - EARNINGS PER COMMON SHARE

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

Three Months Ended
March 31,
2013 2012
(In Thousands, Except
Shares and Per Share
Data)

| | | |
|---|-----------|-----------|
| Earnings per common share | | |
| Weighted average common shares outstanding | 6,341,605 | 5,946,006 |
| Net income available to common stockholders | \$9,151 | \$8,156 |
| Basic earnings per common share | \$1.44 | \$1.37 |
| Weighted average common shares outstanding | 6,341,605 | 5,946,006 |
| Dilutive effects of assumed conversions and exercise of stock options and warrants | 734,900 | 967,863 |
| Weighted average common and dilutive potential common shares outstanding | 7,076,505 | 6,913,869 |
| Net income, available to common stockholders | \$9,151 | \$8,156 |
| Effect of interest expense on convertible debt, net of tax and discretionary expenditures related to conversion | \$132 | \$142 |
| Net income available to common stockholders, adjusted for effect of debt conversion | \$9,283 | \$8,298 |
| Diluted earnings per common share | \$1.31 | \$1.20 |

NOTE 4 - SECURITIES

The amortized cost and fair value of available-for-sale and held-to-maturity securities at March 31, 2013 and December 31, 2012 are summarized as follows:

| | Gross | | Gross | Market |
|---|----------------|------------|------------|-----------|
| | Amortized | Unrealized | Unrealized | Value |
| | Cost | Gain | Loss | Value |
| | (In Thousands) | | | |
| March 31, 2013 | | | | |
| Securities Available for Sale | | | | |
| U.S. Treasury and government sponsored agencies | \$26,928 | \$ 887 | \$ - | \$27,815 |
| Mortgage-backed securities | 62,632 | 3,844 | - | 66,476 |
| State and municipal securities | 116,554 | 5,813 | (64) | 122,303 |
| Corporate debt | 12,660 | 180 | - | 12,840 |
| Total | \$218,774 | \$ 10,724 | \$ (64) | \$229,434 |
| Securities Held to Maturity | | | | |
| Mortgage-backed securities | \$27,129 | \$ 643 | \$ (177) | \$27,595 |
| State and municipal securities | 5,540 | 557 | - | 6,097 |
| Total | \$32,669 | \$ 1,200 | \$ (177) | \$33,692 |

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December 31, 2012

Securities Available for Sale

| | | | | |
|---|-----------|-----------|-----------|-----------|
| U.S. Treasury and government sponsored agencies | \$27,360 | \$ 1,026 | \$ - | \$28,386 |
| Mortgage-backed securities | 69,298 | 4,168 | - | 73,466 |
| State and municipal securities | 112,319 | 5,941 | (83) | 118,177 |
| Corporate debt | 13,677 | 210 | (39) | 13,848 |
| Total | \$222,654 | \$ 11,345 | \$ (122) | \$233,877 |

Securities Held to Maturity

| | | | | |
|--------------------------------|----------|----------|----------|----------|
| Mortgage-backed securities | \$20,429 | \$ 768 | \$ (40) | \$21,157 |
| State and municipal securities | 5,538 | 655 | - | 6,193 |
| Total | \$25,967 | \$ 1,423 | \$ (40) | \$27,350 |

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

The following table identifies, as of March 31, 2013 and December 31, 2012, the Company's investment securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months. At March 31, 2013, none of the Company's 591 debt securities had been in an unrealized loss position for 12 or more months. The Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell the securities before recovery of their amortized cost, which may be maturity; accordingly, the Company does not consider these securities to be other-than-temporarily impaired at March 31, 2013. Further, the Company believes any deterioration in value of its current investment securities is attributable to changes in market interest rates and not credit quality of the issuer.

| | Less Than Twelve Months | | Twelve Months or More | | Total | |
|--|-------------------------------|---------------|-------------------------------|---------------|-------------------------------|---------------|
| | Gross Unrealized Losses | | Gross Unrealized Losses | | Gross Unrealized Losses | |
| | Fair Value | Fair Value | Fair Value | Fair Value | Fair Value | Fair Value |
| | (In Thousands) | | | | | |
| March 31, 2013 | | | | | | |
| U.S. Treasury and government sponsored agencies | \$- | \$- | \$- | \$- | \$- | \$- |
| Mortgage-backed securities | (177) | 12,813 | - | - | (177) | 12,813 |
| State and municipal securities | (64) | 9,090 | - | - | (64) | 9,090 |
| Corporate debt | - | - | - | - | - | - |
| Total | \$(241) | \$21,903 | \$- | \$- | \$(241) | \$21,903 |
| December 31, 2012 | | | | | | |
| U.S. Treasury and government sponsored agencies | (40) | 4,439 | - | - | (40) | 4,439 |
| Mortgage-backed securities | (83) | 8,801 | - | 166 | (83) | 8,967 |
| State and municipal securities | (39) | 4,882 | - | - | (39) | 4,882 |
| Corporate debt | (39) | 4,882 | - | - | (39) | 4,882 |
| Total | \$(162) | \$18,122 | \$- | \$ 166 | \$(162) | \$18,288 |

NOTE 5 – LOANS

The following table details the Company's loans at March 31, 2013 and December 31, 2012:

| | March 31, 2013 | December 31, 2012 | | |
|--|------------------------|-------------------------|--------|---|
| | (Dollars In Thousands) | | | |
| Commercial, financial and agricultural | \$1,090,877 | \$1,030,990 | | |
| Real estate - construction | 162,190 | 158,361 | | |
| Real estate - mortgage: | | | | |
| Owner-occupied commercial | 583,956 | 568,041 | | |
| 1-4 family mortgage | 244,242 | 235,909 | | |
| Other mortgage | 340,631 | 323,599 | | |
| Subtotal: Real estate - mortgage | 1,168,829 | 1,127,549 | | |
| Consumer | 40,258 | 46,282 | | |
| Total Loans | 2,462,154 | 2,363,182 | | |
| Less: Allowance for loan losses | (27,679) | (26,258) | | |
| Net Loans | \$2,434,475 | \$2,336,924 | | |
| Commercial, financial and agricultural | 44.31 | % | 43.63 | % |
| Real estate - construction | 6.59 | % | 6.70 | % |
| Real estate - mortgage: | | | | |
| Owner-occupied commercial | 23.72 | % | 24.04 | % |
| 1-4 family mortgage | 9.92 | % | 9.98 | % |
| Other mortgage | 13.83 | % | 13.69 | % |
| Subtotal: Real estate - mortgage | 47.47 | % | 47.71 | % |
| Consumer | 1.63 | % | 1.96 | % |
| Total Loans | 100.00 | % | 100.00 | % |

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

Pass – loans which are well protected by the current net worth and paying capacity of the obligor (or obligors, if any) or by the fair value, less cost to acquire and sell, of any underlying collateral.

Special Mention – loans with potential weakness that may, if not reversed or corrected, weaken the credit or inadequately protect the Company's position at some future date. These loans are not adversely classified and do not

expose an institution to sufficient risk to warrant an adverse classification.

Substandard – loans that exhibit well-defined weakness or weaknesses that presently jeopardize debt repayment. These loans are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful – loans that have all the weaknesses inherent in loans classified substandard, plus the added characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions, and values highly questionable and improbable.

Loans by credit quality indicator as of March 31, 2013 and December 31, 2012 were as follows:

| March 31, 2013 | Pass | Special Mention | Substandard | Doubtful | Total |
|--|----------------|--------------------|-------------|----------|-------------|
| | (In Thousands) | | | | |
| Commercial, financial and agricultural | \$1,059,426 | \$23,746 | \$ 7,591 | \$ 114 | \$1,090,877 |
| Real estate - construction | 129,512 | 5,911 | 26,767 | - | 162,190 |
| Real estate - mortgage: | | | | | |
| Owner-occupied | | | | | |
| commercial | 570,069 | 2,692 | 11,195 | - | 583,956 |
| 1-4 family mortgage | 232,109 | 5,816 | 6,317 | - | 244,242 |
| Other mortgage | 328,925 | 7,100 | 4,606 | - | 340,631 |
| Total real estate mortgage | 1,131,103 | 15,608 | 22,118 | - | 1,168,829 |
| Consumer | 39,393 | 708 | 157 | - | 40,258 |
| Total | \$2,359,434 | \$45,973 | \$ 56,633 | \$ 114 | \$2,462,154 |

| December 31, 2012 | Pass | Special Mention | Substandard | Doubtful | Total |
|--|----------------|--------------------|-------------|----------|-------------|
| | (In Thousands) | | | | |
| Commercial, financial and agricultural | \$1,004,043 | \$19,172 | \$7,775 | \$- | \$1,030,990 |
| Real estate - construction | 121,168 | 22,771 | 14,422 | - | 158,361 |
| Real estate - mortgage: | | | | | |
| Owner-occupied | | | | | |
| commercial | 555,536 | 4,142 | 8,363 | - | 568,041 |
| 1-4 family mortgage | 223,152 | 6,379 | 6,378 | - | 235,909 |
| Other mortgage | 312,473 | 6,674 | 4,452 | - | 323,599 |
| Total real estate mortgage | 1,091,161 | 17,195 | 19,193 | - | 1,127,549 |
| Consumer | 46,076 | 71 | 135 | - | 46,282 |
| Total | \$2,262,448 | \$59,209 | \$41,525 | \$- | \$2,363,182 |

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Loans by performance status as of March 31, 2013 and December 31, 2012 were as follows:

| March 31, 2013 | Performing | Nonperforming | Total |
|--|----------------|---------------|--------------|
| | (In Thousands) | | |
| Commercial, financial and agricultural | \$ 1,089,529 | \$ 1,348 | \$ 1,090,877 |
| Real estate - construction | 146,722 | 18,053 | 164,775 |
| Real estate - mortgage: | | | |
| Owner-occupied | | | |
| commercial | 580,170 | 3,786 | 583,956 |
| 1-4 family mortgage | 243,571 | 671 | 244,242 |
| Other mortgage | 337,808 | 238 | 338,046 |
| Total real estate mortgage | 1,161,549 | 4,695 | 1,166,244 |
| Consumer | 40,090 | 168 | 40,258 |
| Total | \$ 2,437,890 | \$ 24,264 | \$ 2,462,154 |

| December 31, 2012 | Performing | Nonperforming | Total |
|--|----------------|---------------|--------------|
| | (In Thousands) | | |
| Commercial, financial and agricultural | \$ 1,030,714 | \$ 276 | \$ 1,030,990 |
| Real estate - construction | 151,901 | 6,460 | 158,361 |
| Real estate - mortgage: | | | |
| Owner-occupied | | | |
| commercial | 565,255 | 2,786 | 568,041 |
| 1-4 family mortgage | 235,456 | 453 | 235,909 |
| Other mortgage | 323,359 | 240 | 323,599 |
| Total real estate mortgage | 1,124,070 | 3,479 | 1,127,549 |
| Consumer | 46,139 | 143 | 46,282 |
| Total | \$ 2,352,824 | \$ 10,358 | \$ 2,363,182 |

Loans by past due status as of March 31, 2013 and December 31, 2012 were as follows:

| March 31, 2013 | Past Due Status (Accruing Loans) | | | Total Past Due | Non-Accrual | Current | Total Loans |
|--|----------------------------------|------------|----------|----------------|-------------|--------------|--------------|
| | 30-59 Days | 60-89 Days | 90+ Days | | | | |
| | (In Thousands) | | | | | | |
| Commercial, financial and agricultural | \$65 | \$68 | \$ - | \$ 133 | \$ 1,348 | \$ 1,089,396 | \$ 1,090,877 |
| Real estate - construction | - | 298 | - | 298 | 18,053 | 143,839 | 162,190 |

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| | | | | | | | |
|------------------------------|-------|---------|------|---------|----------|-------------|-------------|
| Real estate - mortgage: | | | | | | | |
| Owner-occupied | | | | | | | |
| commercial | - | 717 | - | 717 | 3,786 | 579,453 | 583,956 |
| 1-4 family mortgage | 42 | - | - | 42 | 671 | 243,529 | 244,242 |
| Other mortgage | - | 516 | - | 516 | 238 | 339,877 | 340,631 |
| Total real estate - mortgage | 42 | 1,233 | - | 1,275 | 4,695 | 1,162,859 | 1,168,829 |
| Consumer | 53 | 23 | 33 | 109 | 135 | 40,014 | 40,258 |
| Total | \$160 | \$1,622 | \$33 | \$1,815 | \$24,231 | \$2,436,108 | \$2,462,154 |

| | | | | | | | |
|--|----------------------------------|------------|----------|----------------|-------------|-------------|-------------|
| December 31, 2012 | Past Due Status (Accruing Loans) | | | | | | |
| | 30-59 Days | 60-89 Days | 90+ Days | Total Past Due | Non-Accrual | Current | Total Loans |
| | (In Thousands) | | | | | | |
| Commercial, financial and agricultural | \$1,699 | \$385 | \$- | \$2,084 | \$276 | \$1,028,630 | \$1,030,990 |
| Real estate - construction | - | - | - | - | 6,460 | 151,901 | 158,361 |
| Real estate - mortgage: | | | | | | | |
| Owner-occupied | | | | | | | |
| commercial | 1,480 | 10 | - | 1,490 | 2,786 | 563,765 | 568,041 |
| 1-4 family mortgage | 420 | 16 | - | 436 | 453 | 235,020 | 235,909 |
| Other mortgage | 516 | - | - | 516 | 240 | 322,843 | 323,599 |
| Total real estate - mortgage | 2,416 | 26 | - | 2,442 | 3,479 | 1,121,628 | 1,127,549 |
| Consumer | 108 | - | 8 | 116 | 135 | 46,031 | 46,282 |
| Total | \$4,223 | \$411 | \$8 | \$4,642 | \$10,350 | \$2,348,190 | \$2,363,182 |

The Company assesses the adequacy of its allowance for loan losses prior to the end of each calendar quarter. The level of the allowance is based on management's evaluation of the loan portfolios, past loan loss experience, current asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay (including the timing of future payment), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, industry and peer bank loan quality indications and other pertinent factors, including regulatory recommendations. This evaluation is inherently subjective as it requires material estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. Loan losses are charged off when management believes that the full collectability of the loan is unlikely. A loan may be partially charged-off after a "confirming event" has occurred which serves to validate that full repayment pursuant to the terms of the loan is unlikely. Allocation of the allowance is made for specific loans, but the entire allowance is available for any loan that in management's judgment deteriorates and is uncollectible. The portion of the reserve classified as qualitative factors is management's evaluation of potential future losses that would arise in the loan portfolio should management's assumption about qualitative and environmental conditions materialize. This qualitative factor portion of the allowance for loan losses is based on management's judgment regarding various external and internal factors including macroeconomic trends, management's assessment of the Company's loan growth prospects, and evaluations of internal risk controls.

The following table presents an analysis of the allowance for loan losses by portfolio segment as of March 31, 2013 and December 31, 2012, and changes in the allowance for loan losses for the three months ended March 31, 2013 and March 31, 2012. The total allowance for loan losses is disaggregated into those amounts associated with loans individually evaluated and those associated with loans collectively evaluated.

| | Commercial, financial and agricultural | Real estate - construction | Real estate - mortgage | Consumer | Qualitative Factors | Total |
|-----------------------------------|---|-------------------------------|------------------------------|----------|------------------------|----------|
| (In Thousands) | | | | | | |
| Three Months Ended March 31, 2013 | | | | | | |
| Allowance for loan losses: | | | | | | |
| Balance at December 31, 2012 | \$8,233 | \$ 6,511 | \$ 4,912 | \$ 199 | \$ 6,403 | \$26,258 |
| Chargeoffs | (887) | (1,990) | - | (1) | - | (2,878) |
| Recoveries | 6 | 7 | - | 2 | - | 15 |
| Provision | 1,599 | 2,114 | 825 | (36) | (218) | 4,284 |
| Balance at March 31, 2013 | \$8,951 | \$ 6,642 | \$ 5,737 | \$ 164 | \$ 6,185 | \$27,679 |
| Three Months Ended March 31, 2012 | | | | | | |
| Allowance for loan losses: | | | | | | |
| Balance at December 31, 2011 | \$6,627 | \$6,542 | \$3,295 | \$531 | \$5,035 | \$22,030 |
| Chargeoffs | (287) | (417) | (60) | (92) | - | (856) |
| Recoveries | 100 | - | 2 | 3 | - | 105 |
| Provision | 185 | 1,482 | 656 | 68 | (8) | 2,383 |
| Balance at March 31, 2012 | \$6,625 | \$7,607 | \$3,893 | \$510 | \$5,027 | \$23,662 |

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| | As of March 31, 2013 | | | | | |
|---------------------------------------|----------------------|---------|---------|-----|-------|---------|
| Individually Evaluated for Impairment | \$982 | \$2,915 | \$2,651 | \$- | \$- | \$6,548 |
| Collectively Evaluated for Impairment | 7,969 | 3,727 | 3,086 | 164 | 6,185 | 21,131 |

Loans:

| | | | | | | |
|---------------------------------------|-------------|-----------|-------------|----------|---|-------------|
| Ending Balance | \$1,090,877 | \$162,190 | \$1,168,829 | \$40,258 | - | \$2,462,154 |
| Individually Tested for Impairment | 5,044 | 26,767 | 21,852 | 157 | - | 53,820 |
| Collectively Evaluated for Impairment | 1,085,833 | 135,423 | 1,146,977 | 40,101 | - | 2,408,334 |

As of December 31, 2012

| | Commercial, financial and agricultural | Real estate - construction | Real estate - mortgage | Consumer | Qualitative Factors | Total |
|---------------------------------------|---|-------------------------------|------------------------------|----------|------------------------|----------|
| Allowance for loan losses: | \$8,233 | \$6,511 | \$4,912 | \$199 | \$6,403 | \$26,258 |
| Individually Evaluated for Impairment | \$577 | \$1,013 | \$1,921 | \$- | \$- | \$3,511 |
| Collectively Evaluated for Impairment | 7,656 | 5,498 | 2,991 | 199 | 6,403 | 22,747 |

Loans:

| | | | | | | |
|---------------------------------------|-------------|-----------|-------------|----------|---|-------------|
| Ending Balance | \$1,030,990 | \$158,361 | \$1,127,549 | \$46,282 | - | \$2,363,182 |
| Individually Evaluated for Impairment | 3,910 | 14,422 | 18,927 | 135 | - | 37,394 |
| Collectively Evaluated for Impairment | 1,027,080 | 143,939 | 1,108,622 | 46,147 | - | 2,325,788 |

The following table presents details of the Company's impaired loans as of March 31, 2013 and December 31, 2012, respectively. Loans which have been fully charged off do not appear in the table.

| | March 31, 2013 | | | For the three months ended March 31, 2013 | |
|--|---------------------|--------------------------|-------------------|--|-------------------------------|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Recognized in Period |
| | (In Thousands) | | | | |
| With no allowance recorded: | | | | | |
| Commercial, financial and agricultural | \$3,246 | \$3,500 | \$ - | \$3,281 | \$ 95 |
| Real estate - construction | 15,049 | 16,071 | - | 13,616 | 97 |
| Real estate - mortgage: | | | | | |
| Owner-occupied commercial | 6,458 | 6,708 | - | 6,472 | 36 |
| 1-4 family mortgage | 1,566 | 1,787 | - | 1,566 | 15 |
| Other mortgage | 2,720 | 2,819 | - | 2,722 | 39 |
| Total real estate - mortgage | 10,744 | 11,314 | - | 10,760 | 90 |
| Consumer | 157 | 366 | - | 158 | 1 |
| Total with no allowance recorded | 29,196 | 31,251 | - | 27,815 | 283 |
| With an allowance recorded: | | | | | |
| Commercial, financial and agricultural | 1,798 | 1,798 | 982 | 1,806 | 12 |
| Real estate - construction | 11,718 | 12,165 | 2,915 | 11,857 | 44 |
| Real estate - mortgage: | | | | | |
| Owner-occupied commercial | 4,681 | 4,681 | 1,194 | 4,696 | 44 |
| 1-4 family mortgage | 4,541 | 4,541 | 1,023 | 4,542 | 37 |
| Other mortgage | 1,886 | 1,886 | 434 | 1,760 | 27 |
| Total real estate - mortgage | 11,108 | 11,108 | 2,651 | 10,998 | 108 |
| Total with allowance recorded | 24,624 | 25,071 | 6,548 | 24,661 | 164 |
| Total Impaired Loans: | | | | | |
| Commercial, financial and agricultural | 5,044 | 5,298 | 982 | 5,087 | 107 |
| Real estate - construction | 26,767 | 28,236 | 2,915 | 25,473 | 141 |
| Real estate - mortgage: | | | | | |
| Owner-occupied commercial | 11,139 | 11,389 | 1,194 | 11,168 | 80 |
| 1-4 family mortgage | 6,107 | 6,328 | 1,023 | 6,108 | 52 |
| Other mortgage | 4,606 | 4,705 | 434 | 4,482 | 66 |
| Total real estate - mortgage | 21,852 | 22,422 | 2,651 | 21,758 | 198 |
| Consumer | 157 | 366 | - | 158 | 1 |
| Total impaired loans | \$53,820 | \$56,322 | \$ 6,548 | \$52,476 | \$ 447 |

| | December 31, 2012 | | | | |
|---|----------------------------------|----------------------|----------------------|-----------------------------------|---|
| | Unpaid Recorded Investment | Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized In Period |
| | (In Thousands) | | | | |
| With no allowance recorded: | | | | | |
| Commercial, financial and agricultural | \$2,602 | \$2,856 | \$ - | \$ 2,313 | \$ 105 |
| Real estate - construction | 6,872 | 7,894 | - | 7,631 | 188 |
| Real estate - mortgage: | | | | | |
| Owner-occupied commercial | 5,111 | 5,361 | - | 5,411 | 145 |
| 1-4 family mortgage | 2,166 | 2,388 | - | 2,177 | 108 |
| Other mortgage | 4,151 | 4,249 | - | 4,206 | 275 |
| Total real estate - mortgage | 11,428 | 11,998 | - | 11,794 | 528 |
| Consumer | 135 | 344 | - | 296 | 6 |
| Total with no allowance recorded | 21,037 | 23,092 | - | 22,034 | 827 |
| With an allowance recorded: | | | | | |
| Commercial, financial and agricultural | 1,308 | 1,308 | 577 | 1,325 | 90 |
| Real estate - construction | 7,550 | 8,137 | 1,013 | 6,961 | 154 |
| Real estate - mortgage: | | | | | |
| Owner-occupied commercial | 3,195 | 3,195 | 779 | 3,277 | 77 |
| 1-4 family mortgage | 4,002 | 4,002 | 1,007 | 4,001 | 139 |
| Other mortgage | 302 | 302 | 135 | 307 | 20 |
| Total real estate - mortgage | 7,499 | 7,499 | 1,921 | 7,585 | 236 |
| Total with allowance recorded | 16,357 | 16,944 | 3,511 | 15,871 | 480 |
| Total Impaired Loans: | | | | | |
| Commercial, financial and agricultural | 3,910 | 4,164 | 577 | 3,638 | 195 |
| Real estate - construction | 14,422 | 16,031 | 1,013 | 14,592 | 342 |
| Real estate - mortgage: | | | | | |
| Owner-occupied commercial | 8,306 | 8,556 | 779 | 8,688 | 222 |
| 1-4 family mortgage | 6,168 | 6,390 | 1,007 | 6,178 | 247 |
| Other mortgage | 4,453 | 4,551 | 135 | 4,513 | 295 |
| Total real estate - mortgage | 18,927 | 19,497 | 1,921 | 19,379 | 764 |
| Consumer | 135 | 344 | - | 296 | 6 |
| Total impaired loans | \$37,394 | \$40,036 | \$ 3,511 | \$ 37,905 | \$ 1,307 |

Troubled Debt Restructurings ("TDR") at March 31, 2013, December 31, 2012 and March 31, 2012 totaled \$12.3 million, \$12.3 million and \$8.3 million, respectively. At March 31, 2013, the Company had a related allowance for loan losses of \$1,448,000 allocated to these TDRs, compared to \$1,442,000 at December 31, 2012 and \$858,000 at March 31, 2012. The Company had three TDR loans to one borrower in the amount of \$2.8 million enter into payment default status during the first quarter of 2012. All other loans classified as TDRs as of March 31, 2013 are performing as agreed under the terms of their restructured plans. The following table presents an analysis of TDRs as of March

31, 2013 and March 31, 2012.

| | March 31, 2013 | | | March 31, 2012 | | |
|--|--|---|--|--------------------------------|---|--|
| | Number of Contracts (In Thousands) | Pre- Modification Outstanding Recorded Investment | Post- Modification Outstanding Recorded Investment | Number of Contracts | Pre- Modification Outstanding Recorded Investment | Post- Modification Outstanding Recorded Investment |
| Troubled Debt Restructurings | | | | | | |
| Commercial, financial and agricultural | 2 | \$1,121 | \$ 1,121 | 2 | \$1,318 | \$ 1,318 |
| Real estate - construction | 15 | 3,213 | 3,213 | 10 | 2,140 | 2,140 |
| Real estate - mortgage: | | | | | | |
| Owner-occupied | | | | | | |
| commercial | 6 | 5,907 | 5,907 | 3 | 2,785 | 2,785 |
| 1-4 family mortgage | 5 | 1,709 | 1,709 | 5 | 1,705 | 1,705 |
| Other mortgage | 1 | 301 | 301 | 1 | 311 | 311 |
| Total real estate mortgage | 12 | 7,917 | 7,917 | 9 | 4,801 | 4,801 |
| Consumer | - | - | - | - | - | - |
| | 29 | \$12,251 | \$ 12,251 | 21 | \$8,259 | \$ 8,259 |
| | Number of Contracts | Recorded Investment | | Number of Contracts | Recorded Investment | |
| Troubled Debt Restructurings | | | | | | |
| That Subsequently Defaulted | | | | | | |
| Commercial, financial and agricultural | - | \$- | | - | \$- | |
| Real estate - construction | - | - | | - | - | |
| Real estate - mortgage: | | | | | | |
| Owner-occupied | | | | | | |
| commercial | 3 | 2,786 | | 3 | 2,785 | |
| 1-4 family mortgage | - | - | | - | - | |
| Other mortgage | - | - | | - | - | |
| Total real estate - mortgage | 3 | 2,786 | | 3 | 2,785 | |
| Consumer | - | - | | - | - | |
| | 3 | \$2,786 | | 3 | \$2,785 | |

NOTE 6 - EMPLOYEE AND DIRECTOR BENEFITS

Stock Options

At March 31, 2013, the Company had stock-based compensation plans as described below. The compensation cost that has been charged to earnings for the plans was approximately \$259,000 for the three months ended March 31, 2013 and 2012.

The Company's 2005 Amended and Restated Stock Option Plan allows for the grant of stock options to purchase up to 1,025,000 shares of the Company's common stock. The Company's 2009 Stock Incentive Plan authorizes the grant of up to 425,000 shares and allows for the issuance of Stock Appreciation Rights, Restricted Stock, Stock Options, Non-stock Share Equivalents, Performance Shares or Performance Units. Both plans allow for the grant of incentive stock options and non-qualified stock options, and awards are generally granted with an exercise price equal to the estimated fair market value of the Company's common stock at the date of grant. The maximum term of the options granted under the plans is ten years.

The Company has granted non-plan options to certain persons representing key business relationships to purchase up to an aggregate amount of 55,000 shares of the Company's common stock at between \$15.00 and \$20.00 per share for ten years. These options are non-qualified and not part of either plan.

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

| | 2013 | 2012 |
|--------------------------|---------|---------|
| Expected volatility | 18.50 % | 20.00 % |
| Expected term (in years) | 7 years | 5 years |
| Risk-free rate | 1.39 % | 0.92 % |

The weighted average grant-date fair value of options granted during the three months ended March 31, 2013 and March 31, 2012 was \$8.03 and \$5.89, respectively.

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The following table summarizes stock option activity during the three months ended March 31, 2013 and March 31, 2012:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (years) | Aggregate Intrinsic Value |
|------------------------------------|----------------|--|--|---------------------------------|
| | (In Thousands) | | | |
| Three Months Ended March 31, 2013: | | | | |
| Outstanding at January 1, 2013 | 816,500 | \$ 20.87 | 5.8 | \$ 9,905 |
| Granted | 25,000 | 33.00 | 10.0 | - |
| Exercised | (9,000) | 10.00 | 2.2 | 207 |
| Outstanding at March 31, 2013 | 832,500 | 21.35 | 5.7 | \$ 9,698 |
| Exercisable at March 31, 2013 | 458,995 | \$ 14.37 | 3.5 | \$ 8,550 |
| Three Months Ended March 31, 2012: | | | | |
| Outstanding at January 1, 2012 | 1,073,800 | \$ 18.33 | 6.0 | \$ 12,508 |
| Granted | 25,000 | 30.00 | 9.9 | - |
| Exercised | (33,000) | 11.03 | 3.8 | 626 |
| Outstanding at March 31, 2012 | 1,065,800 | 13.37 | 5.9 | \$ 11,892 |
| Exercisable at March 31, 2012 | 411,940 | \$ 13.37 | 4.2 | \$ 6,851 |

As of March 31, 2013, there was \$1,467,000 of total unrecognized compensation cost related to non-vested stock options. The cost is expected to be recognized on the straight-line method over the next 1.9 years.

Restricted Stock

The Company has issued 68,500 shares of restricted stock to certain employees. The value of restricted stock awards is determined to be the current value of the Company's stock at the time of grant, and this total value will be recognized as compensation expense over the vesting period, which is five years from the date of grant. As of March 31, 2013, there was \$1,473,000 of total unrecognized compensation expense. The expense is expected to be recognized evenly over the remaining 3.9 years of the restricted stock's vesting period.

Stock Warrants

The Company granted warrants to purchase common stock of the Company in connection with the issuance of debt. There were 79,000 warrants unexercised as of March 31, 2013, each with an exercise price of \$25.00. 64,000 of the warrants expire in September 2013, and the remaining 15,000 expire in June 2016. There were 6,500 warrants exercised during the first quarter of 2013.

NOTE 7 - DERIVATIVES

During 2008, the Company entered into interest rate swaps ("swaps") to facilitate customer transactions and meet customer financing needs. Upon entering into these swaps, the Company entered into offsetting positions with a regional correspondent bank in order to minimize the risk to the Company. As of March 31, 2013, the Company was party to two swaps with notional amounts totaling approximately \$11.0 million with customers, and two swaps with notional amounts totaling approximately \$11.0 million with a regional correspondent bank. These swaps qualify as derivatives, but are not designated as hedging instruments. The Company has recorded the value of these swaps at \$296,000 in offsetting entries in other assets and other liabilities.

The Company has entered into agreements with secondary market investors to deliver loans on a "best efforts delivery" basis. When a rate is committed to a borrower, it is based on the best price that day and locked with the investor for the customer for a 30-day period. In the event the loan is not delivered to the investor, the Company has no risk or exposure with the investor. The interest rate lock commitments related to loans that are originated for later sale are classified as derivatives. The fair values of the Company's agreements with investors and rate lock commitments to customers as of March 31, 2013 and December 31, 2012 were not material.

NOTE 8 – RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In December 2011, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*, which amended disclosures by requiring improved information about financial instruments and derivative instruments that are either offset on the balance sheet or subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset on the balance sheet. Reporting entities are required to provide both net and gross information for these assets and liabilities in order to enhance comparability between those entities that prepare their financial statements on the basis of international financial reporting standards (“IFRS”). Companies were required to apply the amendments for fiscal years beginning on or after January 1, 2013, and interim periods within those years. The Company has adopted this update, but such adoption had no impact on its financial position or results of operations.

In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which requires a reporting entity to provide information about the amounts reclassified out of accumulated comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional details about those amounts. Companies were required to apply these amendments prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2012. The Company has adopted this update, but such adoption had no impact on its financial position or results of operations.

NOTE 9 - RECENT ACCOUNTING PRONOUNCEMENTS

In February 2013, the FASB issued ASU No. 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date*, which provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The amendments in this ASU are effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013. The Company will evaluate these amendments but does not believe they will have an impact on its financial position or results of operations.

NOTE 10 - FAIR VALUE MEASUREMENT

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

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

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

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

Interest Rate Swap Agreements. The fair value is estimated by a third party using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the hierarchy. These fair value estimations include primarily market observable inputs such as yield curves and option volatilities, and include the value associated with counterparty credit risk.

Impaired Loans. Impaired loans are measured and reported at fair value when full payment under the loan terms is not probable. Impaired loans are carried at the present value of expected future cash flows using the loan's existing rate in a discounted cash flow calculation, or the fair value of the collateral if the loan is collateral-dependent. Expected cash flows are based on internal inputs reflecting expected default rates on contractual cash flows. This method of estimating fair value does not incorporate the exit-price concept of fair value described in Accounting Standards Codification ("ASC") 820-10 and would generally result in a higher value than the exit-price approach. For loans measured using the estimated fair value of collateral less costs to sell, fair value is generally determined based on appraisals performed by certified and licensed appraisers using inputs such as absorption rates, capitalization rates, and market comparables, adjusted for estimated costs to sell. Management modifies the appraised values, if needed, to take into account recent developments in the market or other factors, such as changes in absorption rates or market conditions from the time of valuation, and anticipated sales values considering management's plans for disposition. Such modifications to the appraised values could result in lower valuations of such collateral. Estimated costs to sell are based on current amounts of disposal costs for similar assets. These measurements are classified as Level 3 within the valuation hierarchy. Impaired loans are subject to nonrecurring fair value adjustment upon initial recognition or subsequent impairment. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly based on the same factors identified above. The amount recognized as an impairment charge related to impaired loans that are measured at fair value on a nonrecurring basis was \$3,925,000 during the three months ended March 31, 2013, and \$2,387,000 during the three months ended March 31, 2012.

Other Real Estate Owned. Other real estate assets ("OREO") acquired through, or in lieu of, foreclosure are held for sale and are initially recorded at the lower of cost or fair value, less selling costs. Any write-downs to fair value at the time of transfer to OREO are charged to the allowance for loan losses subsequent to foreclosure. Values are derived from appraisals of underlying collateral and discounted cash flow analysis. Appraisals are performed by certified and licensed appraisers. Subsequent to foreclosure, valuations are updated periodically and assets are marked to current fair value, not to exceed the new cost basis. In the determination of fair value subsequent to foreclosure, management also considers other factors or recent developments, such as changes in absorption rates and market conditions from the time of valuation, and anticipated sales values considering management's plans for disposition, which could result in adjustment to lower the property value estimates indicated in the appraisals. These measurements are classified as Level 3 within the valuation hierarchy. A loss on the sale and write-downs of OREO of \$308,000 was recognized during the three months ended March 31, 2013, and \$117,000 during the three months ended March 31, 2012. These charges were for write-downs in the value of OREO subsequent to foreclosure and losses on the disposal of OREO. OREO is classified within Level 3 of the hierarchy.

The following table presents the Company's financial assets and financial liabilities carried at fair value on a recurring basis as of March 31, 2013 and December 31, 2012:

| | Fair Value Measurements at March 31, 2013 Using | | | |
|---|---|---|---|----------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) (In Thousands) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Assets Measured on a Recurring Basis: | | | | |
| Available for sale debt securities: | | | | |
| U.S. Treasury and government sponsored agencies | \$- | \$27,815 | \$- | \$27,815 |
| Mortgage-backed securities | - | 66,476 | - | 66,476 |
| State and municipal securities | - | 122,303 | - | 122,303 |
| Corporate debt | - | 12,840 | - | 12,840 |
| Interest rate swap agreements | - | 296 | - | 296 |
| Total assets at fair value | - | 229,730 | - | 229,730 |
| Liabilities Measured on a Recurring Basis: | | | | |
| Interest rate swap agreements | \$- | \$296 | \$- | \$296 |
| | Fair Value Measurements at December 31, 2012 Using | | | |
| | Quoted Prices in Active Markets for Identical Assets (Level 1) (In Thousands) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Assets Measured on a Recurring Basis: | | | | |
| Available for sale debt securities: | | | | |
| U.S. Treasury and government sponsored agencies | \$- | \$28,386 | \$- | \$28,386 |
| Mortgage-backed securities | - | 73,466 | - | 73,466 |
| State and municipal securities | - | 118,177 | - | 118,177 |
| Corporate debt | - | 13,848 | - | 13,848 |
| Interest rate swap agreements | - | 389 | - | 389 |
| Total assets at fair value | - | 234,266 | - | 234,266 |
| Liabilities Measured on a Recurring Basis: | | | | |
| Interest rate swap agreements | \$- | \$389 | \$- | \$389 |

The following table presents the Company's financial assets and financial liabilities carried at fair value on a nonrecurring basis as of March 31, 2013 and December 31, 2012:

| | Fair Value Measurements at March 31, 2013 Using | | | |
|--|---|---|---|----------|
| | Quoted Prices in | | | |
| | Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Assets Measured on a Nonrecurring Basis: | (In Thousands) | | | |
| Impaired loans | \$- | \$- | \$47,272 | \$47,272 |
| Other real estate owned and repossessed assets | - | - | 8,076 | 8,076 |
| Total assets at fair value | \$- | \$- | \$55,348 | \$55,348 |
| | Fair Value Measurements at December 31, 2012 Using | | | |
| | Quoted Prices in | | | |
| | Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Assets Measured on a Nonrecurring Basis: | (In Thousands) | | | |
| Impaired loans | \$- | \$- | \$33,883 | \$33,883 |
| Other real estate owned | - | - | 9,685 | 9,685 |
| Total assets at fair value | \$- | \$- | \$43,568 | \$43,568 |

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

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

Cash and cash equivalents: The carrying amounts reported in the statements of financial condition approximate those assets' fair values.

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

Restricted equity securities: Fair values for other investments are considered to be their cost as they are redeemed at par value.

Loans, net: For variable-rate loans that re-price frequently and with no significant change in credit risk, fair value is based on carrying amounts. The fair value of other loans (for example, fixed-rate commercial real estate loans, mortgage loans, and industrial loans) is estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. The method of estimating fair value does not incorporate the exit-price concept of fair value as prescribed by ASC 820 and generally produces a higher value than an exit-price approach. The measurement of the fair value of loans is classified within Level 3 of the fair value hierarchy.

Mortgage loans held for sale: Loans are committed to be delivered to investors on a “best efforts delivery” basis within 30 days of origination. Due to this short turn-around time, the carrying amounts of the Company’s agreements approximate their fair values.

Derivatives: The fair value of the derivative agreements are estimated by a third party using inputs that are observable or can be corroborated by observable market data. As part of the Company’s procedures, the price provided from the third party is evaluated for reasonableness given market changes. These measurements are classified within Level 2 of the fair value hierarchy.

Accrued interest and dividends receivable: The carrying amounts in the statements of condition approximate these assets’ fair value.

Bank owned life insurance contracts: The carrying amounts in the statements of condition approximate these assets’ fair value.

Deposits: The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation using interest rates currently offered for deposits with similar remaining maturities. The fair value of the Company’s time deposits do not take into consideration the value of the Company’s long-term relationships with depositors, which may have significant value. Measurements of the fair value of certificates of deposit are classified within Level 2 of the fair value hierarchy.

Other borrowings: The fair values of borrowings are estimated using discounted cash flow analysis, based on interest rates currently being offered by the Federal Home Loan Bank for borrowings of similar terms as those being valued. These measurements are classified as Level 2 in the fair value hierarchy.

Subordinated debentures: The fair values of subordinated debentures are estimated using a discounted cash flow analysis, based on interest rates currently being offered on the best alternative debt available at the measurement date. These measurements are classified as Level 2 in the fair value hierarchy.

Accrued interest payable: The carrying amounts in the statements of condition approximate these assets' fair value.

Loan commitments: The fair values of the Company's off-balance-sheet financial instruments are based on fees currently charged to enter into similar agreements. Since the majority of the Company's other off-balance-sheet financial instruments consists of non-fee-producing, variable-rate commitments, the Company has determined they do not have a distinguishable fair value.

The carrying amount, estimated fair value, and placement in the fair value hierarchy of the Company's financial instruments as of March 31, 2013 and December 31, 2012 are presented in the following table. This table includes those financial assets and liabilities that are not measured and reported at fair value on a recurring basis or nonrecurring basis.

| | March 31, 2013 | | December 31, 2012 | |
|-------------------------------------|--------------------|--------------|--------------------|--------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| (In Thousands) | | | | |
| Financial Assets: | | | | |
| Level 2 inputs: | | | | |
| Available for sale debt securities | \$229,434 | \$229,434 | \$233,877 | \$233,877 |
| Held to maturity debt securities | 32,669 | 33,692 | 25,967 | 27,350 |
| Restricted equity securities | 3,738 | 3,738 | 3,941 | 3,941 |
| Mortgage loans held for sale | 15,804 | 15,804 | 25,826 | 25,826 |
| Bank owned life insurance contracts | 57,485 | 57,485 | 57,014 | 57,014 |
| Derivatives | 296 | 296 | 389 | 389 |
| Level 3 Inputs: | | | | |
| Loans, net | \$ 2,434,475 | \$ 2,421,081 | \$ 2,336,924 | \$ 2,327,780 |
| Financial Liabilities: | | | | |
| Level 2 inputs: | | | | |
| Deposits | \$2,423,534 | \$2,427,935 | \$2,511,572 | \$2,516,320 |
| Other borrowings | 19,916 | 19,916 | 19,917 | 19,917 |
| Subordinated debentures | - | - | 15,050 | 15,050 |
| Derivatives | 296 | 296 | 389 | 389 |

NOTE 11 – SUBSEQUENT EVENTS

The Company has evaluated all subsequent events through the date of this filing to ensure that this Form 10-Q includes appropriate disclosure of events both recognized in the financial statements as of March 31, 2013, and events which occurred subsequent to March 31, 2013 but were not recognized in the financial statements. As of the date of this filing, there were no subsequent events that required recognition or disclosure.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is designed to provide a better understanding of various factors relating to the results of operations and financial condition of ServisFirst Bancshares, Inc. (the “Company”) and its wholly owned subsidiary, ServisFirst Bank (the “Bank”). This discussion is intended to supplement and highlight information contained in the accompanying unaudited consolidated financial statements as of March 31, 2013 and for the three months ended March 31, 2013 and March 31, 2012.

Forward-Looking Statements

Statements in this document that are not historical facts, including, but not limited to, statements concerning future operations, results or performance, are hereby identified as “forward-looking statements” for the purpose of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. The words “believe,” “expect,” “anticipate,” “project,” “plan,” “intend,” “will,” “would,” “might” and similar expressions signify forward-looking statements. Such statements involve inherent risks and uncertainties. The Company cautions that such forward-looking statements, wherever they occur in this quarterly report or in other statements attributable to the Company, are necessarily estimates reflecting the judgment of the Company’s senior management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Such forward-looking statements should, therefore, be considered in light of various factors that could affect the accuracy of such forward-looking statements, including: general economic conditions, especially in the credit markets and in the Southeast; the performance of the capital markets; changes in interest rates, yield curves and interest rate spread relationships; changes in accounting and tax principles, policies or guidelines; changes in legislation or regulatory requirements; changes in our loan portfolio and the deposit base; possible changes in laws and regulations and governmental monetary and fiscal policies, including, but not limited to, economic stimulus initiatives and so-called “bailout” initiatives; the cost and other effects of legal and administrative cases and similar contingencies; possible changes in the creditworthiness of customers and the possible impairment of the collectability of loans and the value of collateral; the effect of natural disasters, such as hurricanes and tornados, in our geographic markets; and increased competition from both banks and non-banks. The foregoing list of factors is not exhaustive. For discussion of these and other risks that may cause actual results to differ from expectations, please refer to “Cautionary Note Regarding Forward Looking Statements” and “Risk Factors” in our most recent Annual Report on Form 10-K and our other SEC filings. If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained herein. Accordingly, you should not place undue reliance on any forward-looking statements, which speak only as of the date made.

Business

We are a bank holding company under the Bank Holding Company Act of 1956 incorporated in Delaware and headquartered at 850 Shades Creek Parkway, Birmingham, Alabama 35209 (Jefferson County). Through the Bank, we operate eleven full-service banking offices, with nine offices located in Jefferson, Shelby, Madison, Montgomery and Houston counties in the metropolitan statistical areas (“MSAs”) of Birmingham-Hoover, Huntsville, Montgomery and Dothan, Alabama, and two offices located in Escambia County in the Pensacola-Ferry Pass-Brent, Florida MSA. We currently have loan production offices in Mobile, Alabama and Nashville, Tennessee. The Mobile office will open as a full service banking office in April 2013. These MSAs constitute our primary service areas.

Our principal business is to accept deposits from the public and to make loans and other investments. Our principal sources of funds for loans and investments are demand, time, savings, and other deposits (including negotiable orders of withdrawal, or NOW accounts). Our principal sources of income are interest and fees collected on loans, interest and dividends collected on other investments and service charges. Our principal expenses are interest paid on savings and other deposits (including NOW accounts), interest paid on our other borrowings, employee compensation, office expenses and other overhead expenses.

Overview

As of March 31, 2013, we had consolidated total assets of \$2.9 billion which is unchanged from total assets at December 31, 2012. Total loans were \$2.5 billion at March 31, 2013, up \$0.1 billion, or 4.2%, over \$2.4 billion at December 31, 2012. Total deposits were \$2.4 billion at March 31, 2013, down \$0.1 billion, or 4.0%, from \$2.5 billion at December 31, 2012.

Net income for the quarter ended March 31, 2013 was \$9.3 million, an increase of \$1.0 million, or 12.0%, from \$8.3 million for the quarter ended March 31, 2012. Basic and diluted earnings per common share were \$1.44 and \$1.31, respectively, for the three months ended March 31, 2013, compared to \$1.37 and \$1.20, respectively, for the corresponding period in 2012. This increase was primarily attributable to increased net interest income of \$4.2 million resulting from a \$0.4 billion, or 16.7%, increase in average interest-earning assets from the quarters ended March 31, 2012 to 2013. This increase in net interest income and average interest-earning assets is further explained in “Results of Operations” following.

Critical Accounting Policies

The accounting and financial policies of the Company conform to U.S. generally accepted accounting principles and to general practices within the banking industry. To prepare consolidated financial statements in conformity with U.S. generally accepted accounting principles, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, valuation of foreclosed real estate, deferred taxes, and fair value of financial instruments are particularly subject to change. Information concerning our accounting policies with respect to these items is available in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Financial Condition

Cash and Cash Equivalents

At March 31, 2013, we had \$1.5 million in federal funds sold and other investments, compared to \$3.3 million at December 31, 2012.

Investment Securities

Investment securities available for sale totaled \$229.4 million at March 31, 2013 and \$233.9 million at December 31, 2012. Investment securities held to maturity totaled \$32.7 million at March 31, 2013 and \$26.0 million at December 31, 2012. Pay downs on mortgage-backed securities were approximately \$7.5 million during the first three months of 2013. Purchases of \$12.7 million in mortgage-backed securities and municipal bonds during the first three months of 2013 replaced those securities that were paid down or called.

The objective of our investment policy is to invest funds not otherwise needed to meet our loan demand to earn the maximum return, yet still maintain sufficient liquidity to meet fluctuations in our loan demand and deposit structure. In doing so, we balance the market and credit risks against the potential investment return, make investments compatible with the pledge requirements of any deposits of public funds, maintain compliance with regulatory investment requirements, and assist certain public entities with their financial needs. The investment committee has full authority over the investment portfolio and makes decisions on purchases and sales of securities. The entire portfolio, along with all investment transactions occurring since the previous board of directors meeting, is reviewed by the board at each monthly meeting. The investment policy allows portfolio holdings to include short-term securities purchased to provide us with needed liquidity and longer term securities purchased to generate level income for us over periods of interest rate fluctuations.

Each quarter, management assesses whether there have been events or economic circumstances indicating that a security on which there is an unrealized loss is other-than-temporarily impaired. Management considers several factors, including the amount and duration of the impairment; the intent and ability of the Company to hold the security for a period sufficient for a recovery in value; and known recent events specific to the issuer or its industry. In analyzing an issuer's financial condition, management considers whether the securities are issued by agencies of the federal government, whether downgrades by bond rating agencies have occurred, and industry analysts' reports, among other things. As we currently do not have the intent to sell these securities and it is not more likely than not that we will be required to sell these securities before recovery of their amortized cost basis, which may be at maturity, no declines are deemed to be other than temporary. We will continue to evaluate our investment securities for possible other-than-temporary impairment, which could result in non-cash charges to earnings in one or more future periods.

The following table shows the amortized cost of our investment securities by their stated maturity at March 31, 2013:

| | Less Than One Year | One Year to Five Years | Five Years to Ten Years | More Than Ten Years | Total |
|---|--------------------|------------------------|-------------------------|---------------------|-----------|
| (In Thousands) | | | | | |
| U.S. Treasury and government sponsored agencies | \$10,001 | \$15,241 | \$1,686 | \$- | \$26,928 |
| Mortgage-backed securities | 82 | 72,073 | 17,606 | - | 89,761 |
| State and municipal securities | 2,937 | 56,125 | 55,313 | 7,719 | 122,094 |
| Corporate debt | - | 12,660 | - | - | 12,660 |
| Total | \$13,020 | \$156,099 | \$74,605 | \$7,719 | \$251,443 |
| Taxable-equivalent Yield | 2.60 % | 3.32 % | 4.09 % | 6.06 % | 3.60 % |

All securities held are traded in liquid markets. As of March 31, 2013, we owned certain restricted securities of the Federal Home Loan Bank with an aggregate book value and market value of \$3.7 million and certain securities of First National Bankers Bank in which we invested \$0.2 million. We had no investments in any one security, restricted or liquid, in excess of 10% of our stockholders' equity.

The Company does not invest in collateralized debt obligations ("CDOs"). All tax-exempt securities currently held are issued by government issuers within the State of Alabama. All corporate bonds had a Standard and Poor's or Moody's rating of A-1 or better when purchased. The total investment portfolio as of March 31, 2013 has a combined average credit rating of AA.

The carrying value of investment securities pledged to secure public funds on deposit and for other purposes as required by law was \$201.9 million and \$210.0 million as of March 31, 2013 and December 31, 2012, respectively.

Loans

We had total loans of \$2.5 billion at March 31, 2013, an increase of \$0.1 billion, or 4.2%, compared to \$2.4 billion at December 31, 2012. At March 31, 2013, 53% of our loans were in our Birmingham offices, 17% in our Huntsville offices, 10% in our Montgomery offices, 12% in our Dothan offices, 1% in our Mobile office, and 7% in our Pensacola, Florida office.

Asset Quality

The allowance for loan losses is established and maintained at levels management deems adequate to absorb anticipated credit losses from identified and otherwise inherent risks in the loan portfolio as of the balance sheet date. In assessing the adequacy of the allowance for loan losses, management considers its evaluation of the loan portfolio, past due loan experience, collateral values, current economic conditions and other factors considered necessary to maintain the allowance at an adequate level. Our management believes that the allowance was adequate at March 31, 2013.

The following table presents the allocation of the allowance for loan losses for each respective loan category with the corresponding percentage of loans in each category to total loans. Management believes that the comprehensive allowance analysis developed by our credit administration group is in compliance with all current regulatory guidelines.

| March 31, 2013 | Amount (In Thousands) | Percentage of loans in each category to total loans | |
|--|--------------------------|---|---|
| Commercial, financial and agricultural | \$8,951 | 44.31 | % |
| Real estate - construction | 6,642 | 6.59 | % |
| Real estate - mortgage | 5,737 | 47.47 | % |
| Consumer | 164 | 1.63 | % |
| Qualitative Factors | 6,185 | - | % |
| Total | \$27,679 | 100.00 | % |

| December 31, 2012 | Amount (In Thousands) | Percentage of loans in each category to total loans | |
|--|--------------------------|---|---|
| Commercial, financial and agricultural | \$8,233 | 43.63 | % |
| Real estate - construction | 6,511 | 6.70 | % |
| Real estate - mortgage | 4,912 | 47.71 | % |
| Consumer | 199 | 1.96 | % |
| Qualitative Factors | 6,403 | - | % |
| Total | \$26,258 | 100.00 | % |

Nonperforming Assets

Total nonperforming loans, which include nonaccrual loans and loans 90 or more days past due and still accruing, increased to \$24.3 million at March 31, 2013, compared to \$10.4 million at December 31, 2012. Of this total, nonaccrual loans of \$24.2 million at March 31, 2013, represented a net increase of \$13.8 million from nonaccrual loans at December 31, 2012. There were two loans 90 or more days past due and still accruing in the amount of \$33,000, at March 31, 2013, compared to four loans 90 or more days past due and still accruing in the amount of \$8,000, at December 31, 2012. During the first quarter of 2013, we placed on nonaccrual status \$13.5 million in loans to a residential construction and development builder. This nonaccrual addition represents the largest change in nonaccrual loans at March 31, 2013. Troubled Debt Restructurings (“TDR”) at March 31, 2013 and December 31, 2012 were \$12.3 million, respectively. We had three TDR loans to one borrower in the amount of \$2.8 million enter into payment default status during the first quarter of 2012. No TDR loans have entered default status since the first

quarter of 2012. All other loans classified as TDRs at March 31, 2013 are performing under the terms of their restructured plans.

Other real estate owned (OREO) decreased to \$8.1 million at March 31, 2013, from \$9.7 million at December 31, 2012. The total number of OREO accounts decreased from 38 to 35.

The following table summarizes our nonperforming assets and TDRs at March 31, 2013 and December 31, 2012:

| | March 31, 2013 | | December 31, 2012 | |
|---|--------------------------------------|--------------------------------|--------------------------|--------------------------------|
| | Balance | Number of Loans | Balance | Number of Loans |
| | (Dollar Amounts In Thousands) | | | |
| Nonaccrual loans: | | | | |
| Commercial, financial and agricultural | \$1,348 | 7 | \$276 | 2 |
| Real estate - construction | 18,053 | 53 | 6,460 | 19 |
| Real estate - mortgage: | | | | |
| Owner-occupied commercial | 3,786 | 8 | 2,786 | 3 |
| 1-4 family mortgage | 671 | 3 | 453 | 2 |
| Other mortgage | 238 | 1 | 240 | 1 |
| Total real estate - mortgage | 4,695 | 12 | 3,479 | 6 |
| Consumer | 135 | 2 | 135 | 2 |
| Total Nonaccrual loans: | \$24,231 | 74 | \$10,350 | 29 |
| 90+ days past due and accruing: | | | | |
| Commercial, financial and agricultural | \$- | - | \$- | - |
| Real estate - construction | - | - | - | \$ - |
| Real estate - mortgage: | | | | |
| Owner-occupied commercial | - | - | - | \$ - |
| 1-4 family mortgage | - | - | - | - |
| Other mortgage | - | - | - | \$ - |
| Total real estate - mortgage | - | - | - | \$ - |
| Consumer | 33 | 2 | 8 | 4 |
| Total 90+ days past due and accruing: | \$33 | 2 | \$8 | \$ 4 |
| Total Nonperforming Loans: | \$24,264 | 76 | \$10,358 | 33 |
| Plus: Other real estate owned and repossessions | 8,112 | 35 | 9,721 | 38 |
| Total Nonperforming Assets | \$32,376 | 111 | \$20,079 | 71 |
| Restructured accruing loans: | | | | |
| Commercial, financial and agricultural | \$1,121 | 2 | \$1,168 | 2 |
| Real estate - construction | 3,213 | 15 | 3,213 | 15 |
| Real estate - mortgage: | | | | |

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| | | | | |
|--|----------|-----|----------|----|
| Owner-occupied commercial | 3,121 | 3 | 3,121 | 3 |
| 1-4 family mortgage | 1,709 | 5 | 1,709 | 5 |
| Other mortgage | 311 | 1 | 302 | 1 |
| Total real estate - mortgage | 5,141 | 9 | 5,132 | 9 |
| Total restructured accruing loans: | \$9,475 | 26 | \$9,513 | 26 |
| Total Nonperforming assets and restructured accruing loans | \$41,851 | 137 | \$29,592 | 97 |

Ratios:

| | | | | |
|--|------|---|------|---|
| Nonperforming loans to total loans | 0.99 | % | 0.44 | % |
| Nonperforming assets to total loans plus other real estate owned | 1.31 | % | 0.85 | % |
| Nonperforming loans plus restructured accruing loans to total loans plus other real estate owned | 1.36 | % | 0.84 | % |

The balance of nonperforming assets can fluctuate due to changes in economic conditions. We have established a policy to discontinue accruing interest on a loan (i.e., place the loan on nonaccrual status) after it has become 90 days delinquent as to payment of principal or interest, unless the loan is considered to be well-collateralized and is actively in the process of collection. In addition, a loan will be placed on nonaccrual status before it becomes 90 days delinquent unless management believes that the collection of interest is expected. Interest previously accrued but uncollected on such loans is reversed and charged against current income when the receivable is determined to be uncollectible. Interest income on nonaccrual loans is recognized only as received. If we believe that a loan will not be collected in full, we will increase the allowance for loan losses to reflect management's estimate of any potential exposure or loss. Generally, payments received on nonaccrual loans are applied directly to principal.

Impaired Loans and Allowance for Loan Losses

We have allocated approximately \$6.6 million of our allowance for loan losses to real estate construction, including acquisition and development and lot loans, \$9.0 million to commercial, financial and agricultural loans, and \$5.9 million to other loan types. We have a total loan loss reserve as of March 31, 2013 allocable to specific loan types of \$ 21.5 million. Another \$ 6.2 million of our allowance for loan losses is based on our judgment regarding various external and internal factors, including macroeconomic trends, our assessment of the Company's loan growth prospects, and evaluations of internal risk controls. The total resulting loan loss reserve is \$ 27.7 million. Based upon historical performance, known factors, overall judgment, and regulatory methodologies, including consideration of the possible effect of current residential housing market defaults and business failures plaguing financial institutions in general, management believes that the current methodology used to determine the adequacy of the allowance for loan losses is reasonable.

As of March 31, 2013, we had impaired loans of \$53.8 million inclusive of nonaccrual loans, an increase of \$16.4 million from \$37.4 million as of December 31, 2012. This increase was the result of placing on nonaccrual status \$13.5 million in loans to a residential builder. We allocated \$6.5 million of our allowance for loan losses at March 31, 2013 to these impaired loans. A loan is considered impaired, based on current information and events, if it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the original loan agreement. Impairment does not always indicate credit loss, but provides an indication of collateral exposure based on prevailing market conditions and third-party valuations. Impaired loans are measured by either the present value of expected future cash flows discounted at each loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral-dependent. The amount of impairment, if any, and subsequent changes are included in the allowance for loan losses. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for nonaccrual status. Our credit risk management team performs verification and testing to ensure appropriate identification of impaired loans and that proper reserves are held on these loans.

Of the \$53.8 million of impaired loans reported as of March 31, 2013, \$26.8 million were real estate – construction loans, \$15.4 million (a total of 52 loans with 8 builders) were residential construction loans, and \$5.9 million consisted of various residential lot loans to 8 builders.

Deposits

Total deposits decreased \$0.1 billion, or 4.0%, to \$2.4 billion at March 31, 2013 compared to \$2.5 billion at December 31, 2012. While deposits were down slightly during the first quarter of 2013, we anticipate long-term sustainable growth in deposits through continued development of market share in our less mature markets and through organic growth in our mature markets.

For amounts and rates of our deposits by category, see the table “Average Consolidated Balance Sheets and Net Interest Analysis on a Fully Taxable-equivalent Basis” under the subheading “Net Interest Income”

Borrowings

Our borrowings consist of federal funds purchased and subordinated notes payable. We had \$153.9 million and \$117.1 million at March 31, 2013 and December 31, 2012, respectively, in federal funds purchased from respondent banks that are clients of our correspondent banking unit. The average rate paid on these borrowings was 0.25% for the quarter ended March 31, 2013. \$19.9 million in other borrowings consist of 5.50% Subordinated Notes due November 9, 2022, which were issued in a private placement in November 2012. The notes pay interest semi-annually.

In June 2012, we paid off our 8.25% Subordinated Note due June 1, 2016 in the aggregate principal amount of \$5.0 million. In November 2012, we redeemed our outstanding 8.50% Junior Subordinated Deferrable Interest Debentures due 2038 in the aggregate principal amount of \$15.0 million, which were held by ServisFirst Capital Trust I. All of the related 8.50% Trust Preferred Securities and 8.50% Common Securities of the Trust were redeemed. In March 2013, our 6.00% Junior Subordinated Mandatory Convertible Deferrable Interest Debentures due 2040 were automatically and mandatorily converted into our common stock at a conversion price of \$25 per share. A total of 600,000 shares of our common stock were issued pursuant to this conversion.

Liquidity

Liquidity is defined as our ability to generate sufficient cash to fund current loan demand, deposit withdrawals, and other cash demands and disbursement needs, and otherwise to operate on an ongoing basis.

The retention of existing deposits and attraction of new deposit sources through new and existing customers is critical to our liquidity position. If our liquidity were to decline due to a run-off in deposits, we have procedures that provide for certain actions under varying liquidity conditions. These actions include borrowing from existing correspondent banks, selling or participating loans, and curtailing loan commitments and funding. At March 31, 2013, liquid assets, which are represented by cash and due from banks, federal funds sold and unpledged available-for-sale securities, totaled \$145.1 million. Additionally, the Bank had additional borrowing availability of approximately \$130.0 million in unused federal funds lines of credit with regional banks, subject to certain restrictions and collateral requirements. We believe these sources of funding are adequate to meet immediate anticipated funding needs, but we will need additional capital to maintain our current growth. Our management meets on a quarterly basis to review sources and uses of funding to determine the appropriate strategy to ensure an appropriate level of liquidity. At the current time, our long-term liquidity needs primarily relate to funds required to support loan originations and commitments and deposit withdrawals. Our regular sources of funding are from the growth of our deposit base, repayment of principal and interest on loans, the sale of loans and the renewal of time deposits. In addition, we have issued debt as described above under "Borrowings".

We are subject to general FDIC guidelines that require a minimum level of liquidity. Management believes our liquidity ratios meet or exceed these guidelines. Our management is not currently aware of any trends or demands that are reasonably likely to result in liquidity materially increasing or decreasing.

The following table reflects the contractual maturities of our term liabilities as of March 31, 2013. The amounts shown do not reflect any early withdrawal or prepayment assumptions.

| | Payments due by Period | | | | |
|------------------------------------|------------------------|----------------|------------------|------------------|--------------|
| | Total | 1 year or less | Over 1 - 3 years | Over 3 - 5 years | Over 5 years |
| (In Thousands) | | | | | |
| Contractual Obligations (1) | | | | | |
| Deposits without a stated maturity | \$2,028,264 | \$- | \$- | \$- | \$- |
| Certificates of deposit (2) | 395,270 | 241,015 | 111,836 | 42,419 | - |
| Federal funds purchased | 153,930 | 153,930 | - | - | - |

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| | | | | | |
|-----------------------------|-------------|-----------|-----------|----------|----------|
| Subordinated note payable | 19,916 | - | - | - | 19,916 |
| Operating lease commitments | 15,233 | 2,146 | 3,881 | 3,853 | 5,353 |
| Total | \$2,612,613 | \$397,091 | \$115,717 | \$46,272 | \$25,269 |

(1) Excludes interest

(2) Certificates of deposit give customers the right to early withdrawal. Early withdrawals may be subject to penalties. The penalty amount depends on the remaining time to maturity at the time of early withdrawal.

Capital Adequacy

As of March 31, 2013, our most recent notification from the FDIC categorized us as well-capitalized under the regulatory framework for prompt corrective action. To remain categorized as well-capitalized, we must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as disclosed in the table below. Our management believes that we are well-capitalized under the prompt corrective action provisions as of March 31, 2013.

The following table sets forth (i) the capital ratios required by the FDIC and the Alabama Banking Department's leverage ratio requirement and (ii) our actual ratios of capital to total regulatory or risk-weighted assets, as of March 31, 2013, December 31, 2012 and March 31, 2012:

| | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|-----------|--------|-------------------------------|--------|--|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of March 31, 2013: | | | | | | |
| Total Capital to Risk-Weighted Assets: | | | | | | |
| Consolidated | \$298,297 | 11.82% | \$201,860 | 8.00% | \$N/A | N/A % |
| ServisFirst Bank | 295,545 | 11.71% | 201,857 | 8.00% | 252,321 | 10.00% |
| Tier 1 Capital to Risk-Weighted Assets: | | | | | | |
| Consolidated | 250,618 | 9.93 % | 100,930 | 4.00 % | N/A | N/A % |
| ServisFirst Bank | 267,866 | 10.62% | 100,928 | 4.00% | 151,393 | 6.00 % |
| Tier 1 Capital to Average Assets: | | | | | | |
| Consolidated | 250,618 | 8.80 % | 113,901 | 4.00 % | N/A | N/A % |
| ServisFirst Bank | 267,866 | 9.42 % | 113,797 | 4.00 % | 142,246 | 5.00 % |
| As of December 31, 2012: | | | | | | |
| Total Capital to Risk-Weighted Assets: | | | | | | |
| Consolidated | \$287,136 | 11.78% | \$194,943 | 8.00% | \$N/A | N/A % |
| ServisFirst Bank | 284,141 | 11.60% | 194,942 | 8.00% | 243,678 | 10.00% |
| Tier 1 Capital to Risk-Weighted Assets: | | | | | | |
| Consolidated | 240,961 | 9.89 % | 97,472 | 4.00 % | N/A | N/A % |
| ServisFirst Bank | 257,883 | 10.58% | 97,471 | 4.00% | 146,207 | 6.00 % |
| Tier 1 Capital to Average Assets: | | | | | | |
| Consolidated | 240,961 | 8.43 % | 114,323 | 4.00 % | N/A | N/A % |
| ServisFirst Bank | 257,883 | 9.03 % | 114,227 | 4.00 % | 142,784 | 5.00 % |
| As of March 31, 2012: | | | | | | |
| Total Capital to Risk-Weighted Assets: | | | | | | |
| Consolidated | \$256,846 | 12.81% | \$160,440 | 8.00% | \$N/A | N/A % |
| ServisFirst Bank | 254,302 | 12.68% | 160,393 | 8.00% | 200,492 | 10.00% |
| Tier 1 Capital to Risk-Weighted Assets: | | | | | | |
| Consolidated | 228,226 | 11.38% | 80,220 | 4.00% | N/A | N/A % |
| ServisFirst Bank | 225,682 | 11.26% | 80,197 | 4.00% | 120,295 | 6.00 % |
| Tier 1 Capital to Average Assets: | | | | | | |
| Consolidated | 228,226 | 9.26 % | 98,593 | 4.00 % | N/A | N/A % |
| ServisFirst Bank | 225,682 | 9.17 % | 98,435 | 4.00 % | 123,043 | 5.00 % |

Off-Balance Sheet Arrangements

In the normal course of business, we are a party to financial instruments with off-balance sheet risk to meet the financing needs of our customers. These financial instruments include commitments to extend credit beyond current fundings, credit card arrangements, standby letters of credit, and financial guarantees. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement we have in those particular financial instruments.

Our exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contractual or notional amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments.

As part of our mortgage operations, we originate and sell certain loans to investors in the secondary market. We continue to experience a manageable level of investor repurchase demands. For loans sold, we have an obligation to either repurchase the outstanding principal balance of a loan or make the purchaser whole for the economic benefits of a loan if it is determined that the loans sold were in violation of representations and warranties made by the Bank at the time of the sale. Representations and warranties typically include those made regarding loans that had missing or insufficient file documentation or loans obtained through fraud by borrowers or other third parties such as appraisers. We had a reserve of \$224,000 as of March 31, 2013 and \$209,000 as of December 31, 2012 for the settlement of any repurchase demands by investors. We did not have any requests by investors to repurchase loans during the first quarter of 2013.

Financial instruments whose contract amounts represent credit risk at March 31, 2013 are as follows:

| | March 31, 2013 (In Thousands) |
|------------------------------|--|
| Commitments to extend credit | \$ 925,529 |
| Credit card arrangements | 26,781 |
| Standby letters of credit | 36,172 |
| | \$ 988,482 |

Commitments to extend credit beyond current funded amounts are agreements to lend to a customer as long as there is no violation of any condition established in the applicable loan agreement. Such commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are

expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by us upon extension of credit is based on our management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. All letters of credit are due within one year or less of the original commitment date. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Federal funds lines of credit are uncommitted lines issued to downstream correspondent banks for the purpose of providing liquidity to them. The lines are unsecured, and we have no obligation to sell federal funds to the correspondent, nor does the correspondent have any obligation to request or accept purchases of federal funds from us.

Results of Operations

Summary of Net Income

Net income for the three months ended March 31, 2013 was \$9.3 million compared to net income of \$8.3 million for the three months ended March 31, 2012. The increase in net income was primarily attributable to a \$4.2 million increase in net interest income as a result of growth in average earning assets and a \$0.5 million increase in noninterest income, both of which are more fully explained below. Operating expenses for the three months ended March 31, 2013 increased by \$1.8 million, or 20.0%, to \$10.8 million compared to \$9.0 million for the three months ended March 31, 2012.

Basic and diluted net income per common share were \$1.44 and \$1.31, respectively, for the three months ended March 31, 2013, compared to \$1.37 and \$1.20, respectively, for the corresponding period in 2012. Return on average assets for the three months ended March 31, 2013 was 1.31% compared to 1.33% for the corresponding period in 2012, and return on average stockholders' equity for the three months ended March 31, 2013 was 15.20%, compared to 16.31% for the corresponding period in 2012.

Net Interest Income

Net interest income is the difference between the income earned on interest-earning assets and interest paid on interest-bearing liabilities used to support such assets. The major factors which affect net interest income are changes in volumes, the yield on interest-earning assets and the cost of interest-bearing liabilities. Our management's ability to respond to changes in interest rates by effective asset-liability management techniques is critical to maintaining the stability of the net interest margin and the momentum of our primary source of earnings.

Taxable-equivalent net interest income increased \$4.2 million, or 19.0%, to \$26.3 million for the three months ended March 31, 2013 compared to \$22.1 million for the corresponding period in 2012. This increase was primarily attributable to a \$362.2 million increase in average earning assets, or 15.3%, year over year. The taxable-equivalent yield on interest-earning assets decreased one basis point to 4.41% for the three months ended March 31, 2013 from 4.42% for the corresponding period in 2012. The yield on loans for the three months ended March 31, 2013 was 4.64% compared to 5.03% for the corresponding period in 2012. Loan fees included in the yield calculation decreased to \$6,000 for the three months ended March 31, 2013 from \$110,000 for the corresponding period in 2012 as a result of the origination of fewer real estate construction loans. The cost of total interest-bearing liabilities decreased to 0.64% for the three months ended March 31, 2013 from 0.84% for the corresponding period in 2012. Net interest margin for the three months ended March 31, 2013 improved to 3.92% from 3.76% for the corresponding period in 2012. Yields on interest-earning assets were relatively flat from the three months ended March 31, 2012 to the same period this year, while the rate paid on interest-bearing liabilities decreased from 0.84% during the three month ended March 31, 2012 to 0.64% during the same period this year. The decrease in our cost of funds was due to decreases in rates paid on money market accounts and certificates of deposit, as shown in the table following. We also paid off \$35.0 million in debt with an average rate of 8.44% and partially replaced it with \$20.0 million in debt with a rate of 5.50%.

The following table shows, for the three months ended March 31, 2013 and March 31, 2012, the average balances of each principal category of our assets, liabilities and stockholders' equity, and an analysis of net interest revenue. The accompanying tables reflect changes in our net interest margin as a result of changes in the volume and rate of our interest-earning assets and interest-bearing liabilities for the same periods. Changes as a result of mix or the number of days in the periods have been allocated to the volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each. The tables are presented on a taxable-equivalent basis where applicable:

Average Consolidated Balance Sheets and Net Interest Analysis

On a Fully Taxable-Equivalent Basis

For the Three Months Ended March 31,

(Dollar Amounts In Thousands)

| | 2013 | | | 2012 | | | |
|--|-------------|---------------|--------------|---------------|---------------|--------------|---|
| | Average | Interest | Average | Average | Interest | Average | |
| | Balance | Earned / Paid | Yield / Rate | Balance | Earned / Paid | Yield / Rate | |
| Assets: | | | | | | | |
| Interest-earning assets: | | | | | | | |
| Loans, net of unearned income (1) | | | | | | | |
| Taxable | \$2,384,670 | \$27,255 | 4.64 | % \$1,857,753 | \$23,254 | 5.03 | % |
| Tax-exempt(2) | 2,464 | 35 | 5.76 | - | - | | |
| Mortgage loans held for sale | 19,322 | 93 | 1.95 | 11,855 | 70 | 2.37 | |
| Investment securities: | | | | | | | |
| Taxable | 144,407 | 948 | 2.66 | 208,173 | 1,337 | 2.58 | |
| Tax-exempt(2) | 109,587 | 1,197 | 4.43 | 93,370 | 1,132 | 4.88 | |
| Total investment securities (3) | 253,994 | 2,145 | 3.42 | 301,543 | 2,469 | 3.29 | |
| Federal funds sold | 23,522 | 16 | 0.28 | 99,700 | 53 | 0.21 | |
| Restricted equity securities | 3,954 | 23 | 2.36 | 4,095 | 21 | 2.06 | |
| Interest-bearing balances with banks | 34,704 | 28 | 0.33 | 85,448 | 53 | 0.25 | |
| Total interest-earning assets | \$2,722,630 | \$29,595 | 4.41 | % \$2,360,394 | \$25,920 | 4.42 | % |
| Non-interest-earning assets: | | | | | | | |
| Cash and due from banks | 41,437 | | | 35,696 | | | |
| Net premises and equipment | 9,241 | | | 4,798 | | | |
| Allowance for loan losses, accrued interest and other assets | 74,223 | | | 63,932 | | | |
| Total assets | \$2,847,531 | | | \$2,464,820 | | | |
| Liabilities and stockholders' equity: | | | | | | | |
| Interest-bearing liabilities: | | | | | | | |

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| | | | | | | | | |
|--|-------------|---------|------|---|-------------|---------|------|---|
| Interest-bearing demand deposits | \$413,935 | \$281 | 0.28 | % | \$342,529 | \$269 | 0.32 | % |
| Savings deposits | 22,089 | 15 | 0.28 | | 15,767 | 11 | 0.28 | |
| Money market accounts | 1,074,226 | 1,225 | 0.46 | | 969,244 | 1,447 | 0.60 | |
| Time deposits | 395,902 | 1,192 | 1.22 | | 397,071 | 1,395 | 1.41 | |
| Federal funds purchased | 137,183 | 85 | 0.25 | | 72,583 | 46 | 0.25 | |
| Other borrowings | 27,441 | 466 | 6.89 | | 35,470 | 665 | 7.54 | |
| Total interest-bearing liabilities | \$2,070,776 | \$3,264 | 0.64 | | \$1,832,664 | \$3,833 | 0.84 | |
| Non-interest-bearing liabilities: | | | | | | | | |
| Non-interest-bearing demand deposits | 523,669 | | | | 424,949 | | | |
| Other liabilities | 7,708 | | | | 6,175 | | | |
| Stockholders' equity | 238,290 | | | | 193,728 | | | |
| Unrealized gains on securities and derivatives | 7,088 | | | | 7,304 | | | |
| Total liabilities and stockholders' equity | \$2,847,531 | | | | \$2,464,820 | | | |
| Net interest spread | | | 3.77 | % | | | 3.58 | % |
| Net interest margin | | | 3.92 | % | | | 3.76 | % |

(1) Non-accrual loans are included in average loan balances in all periods. Loan fees of \$6,000 and \$110,000 are included in interest income in 2013 and 2012, respectively.

(2) Interest income and yields are presented on a fully taxable equivalent basis using a tax rate of 35%.

(3) Unrealized gains of \$10,905,000 and \$11,012,000 are excluded from the yield calculation in 2013 and 2012, respectively.

| | For the Three Months Ended March 31, 2013 Compared to 2012 Increase (Decrease) in Interest Income and Expense Due to Changes in: | | |
|------------------------------------|--|-----------|---------|
| | Volume | Rate | Total |
| | (In Thousands) | | |
| Interest-earning assets: | | | |
| Loans, net of unearned income | | | |
| Taxable | \$5,985 | \$(1,984) | \$4,001 |
| Tax-exempt | 35 | - | 35 |
| Mortgages held for sale | 37 | (14) | 23 |
| Debt securities: | | | |
| Taxable | (428) | 39 | (389) |
| Tax-exempt | 177 | (112) | 65 |
| Federal funds sold | (49) | 12 | (37) |
| Restricted equity securities | (1) | 3 | 2 |
| Interest-bearing balances | | | |
| with banks | (38) | 13 | (25) |
| Total interest-earning assets | 5,718 | (2,043) | 3,675 |
| Interest-bearing liabilities: | | | |
| Interest-bearing demand deposits | 50 | (38) | 12 |
| Savings | 4 | - | 4 |
| Money market accounts | 140 | (362) | (222) |
| Time deposits | (4) | (199) | (203) |
| Federal funds purchased | 40 | (1) | 39 |
| Other borrowed funds | (144) | (55) | (199) |
| Total interest-bearing liabilities | 86 | (655) | (569) |
| Increase in net interest income | \$5,632 | \$(1,388) | \$4,244 |

Provision for Loan Losses

The provision for loan losses represents the amount determined by management to be necessary to maintain the allowance for loan losses at a level capable of absorbing inherent losses in the loan portfolio. Our management reviews the adequacy of the allowance for loan losses on a quarterly basis. The allowance for loan losses calculation is segregated into various segments that include classified loans, loans with specific allocations and pass rated loans. A pass rated loan is generally characterized by a very low to average risk of default and in which management perceives there is a minimal risk of loss. Loans are rated using a nine-point risk grade scale with loan officers having the primary responsibility for assigning risk grades and for the timely reporting of changes in the risk grades. Based on these processes, and the assigned risk grades, the criticized and classified loans in the portfolio are segregated into the following regulatory classifications: Special Mention, Substandard, Doubtful or Loss, with some general allocation of

reserve based on various internal and external factors. At March 31, 2013, total loans rated Special Mention, Substandard, and Doubtful were \$102.7 million, or 4.2% of total loans, compared to \$88.5 million, or 4.8% of total loans, at December 31, 2012. Impaired loans are reviewed specifically and separately under FASB ASC 310-30-35, Subsequent Measurement of Impaired Loans, to determine the appropriate reserve allocation. Our management compares the investment in an impaired loan with the present value of expected future cash flow discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral, if the loan is collateral-dependent, to determine the specific reserve allowance. Reserve percentages assigned to non-impaired loans are based on historical charge-off experience adjusted for other risk factors. To evaluate the overall adequacy of the allowance to absorb losses inherent in our loan portfolio, our management considers historical loss experience based on volume and types of loans, trends in classifications, volume and trends in delinquencies and nonaccruals, economic conditions and other pertinent information. Based on future evaluations, additional provisions for loan losses may be necessary to maintain the allowance for loan losses at an appropriate level.

The provision for loan losses was \$4.3 million for the three months ended March 31, 2013, an increase of \$1.9 million from \$2.4 million for the three months ended March 31, 2012. Our management continues to maintain a proactive approach to credit risk management. Nonperforming loans increased to \$24.3 million, or 0.99% of total loans, at March 31, 2013 from \$10.4 million, or 0.75% of total loans, at December 31, 2012, but were lower than \$22.0 million, or 1.50% of total loans, at March 31, 2012. Impaired loans increased to \$53.8 million, or 2.2% of total loans, at March 31, 2013, compared to \$37.4 million, or 1.6% of total loans, at December 31, 2012. The increase in impaired loans was primarily the result of the Bank placing on nonaccrual status \$13.5 million in loans to a residential construction and development builder. The allowance for loan losses totaled \$ 27.7 million, or 1.12% of total loans, net of unearned income, at March 31, 2013, compared to \$ 26.3 million, or 1.11% of loans, net of unearned income, at December 31, 2012.

Noninterest Income

Noninterest income totaled \$2.8 million for the three months ended March 31, 2013, an increase of \$0.5 million, or 21.7%, compared to the corresponding period in 2012. The increase was primarily attributable to higher deposit service charges, higher credit card income and increases in the cash surrender value of life insurance contracts. Service charges on deposit accounts for the three months ended March 31, 2013 were \$762,000, up \$161,000, or 26.8%, from \$601,000 for the corresponding period in 2012. We continue to aggressively sell credit card services to our existing clients, and interchange income on credit card transactions has increased significantly, with total noninterest income from credit cards increasing from \$222,000 for the quarter ended March 31, 2012 to \$289,000 for the quarter ended March 31, 2013. We purchased additional life insurance contracts during 2012, which lead to the increase in the cash surrender value of life insurance from \$390,000 for the quarter ended March 31, 2012 to \$470,000 for the quarter ended March 31, 2013. Income from mortgage banking operations were relatively flat from the three months ended March 31, 2012 to the same period this year. Low interest rates continue to drive our refinance volume. We have also added mortgage originators in our markets to continue to meet their mortgage needs, and have added support staff to ensure that we maintain good service and meet compliance standards.

Noninterest Expense

Noninterest expense totaled \$10.8 million for the three months ended March 31, 2013, an increase of \$1.8 million, or 20.0%, compared to \$9.0 million for the corresponding period in 2012. Increases in expenses primarily relate to our continued expansion, both within existing markets and into our newest market of Mobile, Alabama.

Further details of expenses are as follows:

Salary and benefit expense increased \$0.5 million, or 9.6%, to \$5.7 million for the three months ended March 31, 2013 from \$5.2 million for the corresponding period in 2012. We had 241 full-time equivalent employees at March 31, 2013 compared to 214 at March 31, 2012, a 12.6% increase. Most of this increase in number of employees was due to our continued expansion into the Pensacola, Florida market and our addition of a new office in Mobile, Alabama.

Occupancy expense increased \$0.2 million, or 22.2%, to \$1.1 million for the three months ended March 31, 2013 from \$0.9 million for the corresponding period in 2012.

Expenses related to OREO increased \$0.3 million to \$0.4 million for the three months ended March 31, 2013, from \$0.1 million for the corresponding period in 2012. Almost all of this increase in OREO expense was the result of write-downs in value of residential lots included in two loans that were moved to OREO in 2009 and 2011.

Other operating expenses increased \$0.6 million, primarily a result of increases of \$0.2 million in other loan expenses and \$0.2 million in data processing expenses. Other loan expenses are largely comprised of recording fees and other non-origination loan expenses. Higher data processing expenses primarily relate to increases in transaction volumes and added record retention needs.

Income Tax Expense

Income tax expense was \$4.4 million for the three months ended March 31, 2013 versus \$4.3 million for the same period in 2012. Our effective tax rate for the three months ended March 31, 2013 was 32.29%, compared to 34.44% for the corresponding period in 2012. Our primary permanent differences relate to tax exempt income on securities and incentive stock option expenses.

We have invested \$55.0 million in bank-owned life insurance for named officers of the Bank. The periodic increase in cash surrender value of those policies are tax exempt and therefore contribute to a larger permanent difference between book income and taxable income.

We created a real estate investment trust in the first quarter of 2012 for the purpose of holding and managing participations in residential mortgages and commercial real estate loans originated by the Bank. The trust is a wholly-owned subsidiary of a trust holding company, which in turn is a wholly-owned subsidiary of the Bank. The trust earns interest income on the loans it holds and incurs operating expenses. It pays its net earnings, in the form of dividends, to the Bank, which receives a deduction for Alabama income taxes.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Like all financial institutions, we are subject to market risk from changes in interest rates. Interest rate risk is inherent in the balance sheet due to the mismatch between the maturities of rate-sensitive assets and rate-sensitive liabilities. If rates are rising, and the level of rate-sensitive liabilities exceeds the level of rate-sensitive assets, the net interest margin will be negatively impacted. Conversely, if rates are falling, and the level of rate-sensitive liabilities is greater than the level of rate-sensitive assets, the impact on the net interest margin will be favorable. Managing interest rate risk is further complicated by the fact that all rates do not change at the same pace; in other words, short-term rates may be rising while longer-term rates remain stable. In addition, different types of rate-sensitive assets and rate-sensitive liabilities react differently to changes in rates.

To manage interest rate risk, we must take a position on the expected future trend of interest rates. Rates may rise, fall or remain the same. Our asset-liability committee develops its view of future rate trends and strives to manage rate risk within a targeted range by monitoring economic indicators, examining the views of economists and other experts, and understanding the current status of our balance sheet. Our annual budget reflects the anticipated rate environment for the next 12 months. The asset-liability committee conducts a quarterly analysis of the rate sensitivity position and reports its results to our board of directors.

The asset-liability committee thoroughly analyzes the maturities of rate-sensitive assets and liabilities. This analysis measures the “gap”, which is defined as the difference between the dollar amount of rate-sensitive assets repricing during a period and the volume of rate-sensitive liabilities repricing during the same period. The gap is also expressed as the ratio of rate-sensitive assets divided by rate-sensitive liabilities. If the ratio is greater than one, the dollar value of assets exceeds the dollar value of liabilities; the balance sheet is “asset-sensitive.” Conversely, if the value of liabilities exceeds the value of assets, the ratio is less than one and the balance sheet is “liability-sensitive.” Our internal policy requires management to maintain the gap such that net interest margins will not change more than 10% if interest rates change 100 basis points or more than 15% if interest rates change 200 basis points. There have been no changes to our policies or procedures for analyzing our interest rate risk since December 31, 2012, and there are no significant changes to our sensitivity to changes in interest rates since December 31, 2012 as disclosed in our Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

CEO and CFO Certification.

Appearing as exhibits to this report are Certifications of our Chief Executive Officer (“CEO”) and our Chief Financial Officer (“CFO”). The Certifications are required to be made by Rule 13a-14 under the Securities Exchange Act of 1934,

as amended (the "Exchange Act"). This item contains the information about the evaluation that is referred to in the Certifications, and the information set forth below in this Item 4 should be read in conjunction with the Certifications for a more complete understanding of the Certifications.

Evaluation of Disclosure Controls and Procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

We conducted an evaluation (the "Evaluation") of the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of our management, including our CEO and CFO, as of March 31, 2013. Based upon the Evaluation, our CEO and CFO have concluded that, as of March 31, 2013, our disclosure controls and procedures are effective to ensure that material information relating to ServisFirst Bancshares, Inc. and its subsidiaries is made known to management, including the CEO and CFO, particularly during the period when our periodic reports are being prepared.

There have not been any changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time we may be a party to various legal proceedings arising in the ordinary course of business. We are not currently a party to any material legal proceedings except as disclosed in Item 3, “Legal Proceedings”, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, and there has been no material change in any matter described therein.

ITEM 1A. RISK FACTORS

Our business is influenced by many factors that are difficult to predict, involve uncertainties that may materially affect actual results and are often beyond our control. We have identified a number of these risk factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, which should be taken into consideration when reviewing the information contained in this report. There have been no material changes with regard to the risk factors previously disclosed in the Form 10-K. For other factors that may cause actual results to differ materially from those indicated in any forward-looking statement or projection contained in this report, see “Forward-Looking Statements” under Part 1, Item 2 above.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibit:

31.01 Certification of principal executive officer pursuant to Rule 13a-14(a).

31.02 Certification of principal financial officer pursuant to Rule 13a-14(a).

32.01 Certification of principal executive officer pursuant to 18 U.S.C. Section 1350.

32.02 Certification of principal financial officer pursuant to 18 U.S.C. Section 1350.

SIGNATURES

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

SERVISFIRST BANCSHARES, INC.

Date: May 1, 2013 By /s/ Thomas A. Broughton III
Thomas A. Broughton III
President and Chief Executive Officer

Date: May 1, 2013 By /s/ William M. Foshee
William M. Foshee
Chief Financial Officer

