ServisFirst Bancshares, Inc.
Form 10-Q
October 30, 2013

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

FORM 10-Q

(Mark one)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 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 Incorporation or Organization)	*(I.R.S. Employer 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 for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x 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 x 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 “smaller reporting company” in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ¨ Accelerated filer x 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 Exchange Act). Yes ¨ No x

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 October 29, 2013
Common stock, $.001 par value	7,076,347

TABLE OF CONTENTS

PART 1. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

SERVISFIRST BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2013 AND DECEMBER 31, 2012
(In thousands, except share and per share amounts)

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
ASSETS		
Cash and due from banks	$ 71,833	$ 58,031
Interest-bearing balances due from depository institutions	185,657	119,423
Federal funds sold	7,923	3,291
Cash and cash equivalents	265,413	180,745
Available for sale debt securities, at fair value	256,385	233,877
Held to maturity debt securities (fair value of $32,671 and $27,350 at September 30, 2013 and December 31, 2012, respectively)	33,130	25,967
Restricted equity securities	3,738	3,941
Mortgage loans held for sale	11,592	25,826
Loans	2,731,973	2,363,182
Less allowance for loan losses	(28,927)	(26,258)
Loans, net	2,703,046	2,336,924
Premises and equipment, net	8,518	8,847
Accrued interest and dividends receivable	9,604	9,158
Deferred tax assets	9,160	7,386
Other real estate owned and repossessed assets	14,258	9,873
Bank owned life insurance contracts	68,460	57,014
Other assets	12,849	6,756
Total assets	$ 3,396,153	$ 2,906,314
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 635,153	$ 545,174
Interest-bearing	2,284,064	1,966,398
Total deposits	2,919,217	2,511,572
Federal funds purchased	170,090	117,065
Other borrowings	19,932	19,917
Trust preferred securities	-	15,050
Accrued interest and dividends payable	4,553	942
Other liabilities	6,061	8,511
Total liabilities	3,119,853	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 September 30, 2013 and at December 31, 2012	39,958	39,958

Preferred stock, par value $.001 per share; 1,000,000 authorized and 960,000 currently undesignated		-		-
Common stock, par value $.001 per share; 15,000,000 shares authorized; 7,076,347 shares issued and outstanding at September 30, 2013 and 6,268,812 shares issued and outstanding at December 31, 2012		7		6
Additional paid-in capital		113,441		93,505
Retained earnings		118,391		92,492
Accumulated other comprehensive income		4,503		7,296
Total stockholders' equity		276,300		233,257
Total liabilities and stockholders' equity	$	3,396,153	$	2,906,314

See Notes to Consolidated Financial Statements.

3

SERVISFIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except share and per share amounts)
(Unaudited)

	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Interest income:				
Interest and fees on loans	$ 30,475	$ 25,609	$ 86,667	$ 73,372
Taxable securities	980	1,189	2,851	3,828
Nontaxable securities	858	827	2,537	2,423
Federal funds sold	44	50	77	145
Other interest and dividends	142	68	224	200
Total interest income	32,499	27,743	92,356	79,968
Interest expense:				
Deposits	3,131	3,079	8,628	9,229
Borrowed funds	403	616	1,381	2,048
Total interest expense	3,534	3,695	10,009	11,277
Net interest income	28,965	24,048	82,347	68,691
Provision for loan losses	3,034	1,185	10,652	6,651
Net interest income after provision for loan losses	25,931	22,863	71,695	62,040
Noninterest income:				
Service charges on deposit accounts	823	666	2,391	1,986
Mortgage banking	402	865	2,154	2,701
Securities gains	-	-	131	-
Increase in cash surrender value life insurance	491	386	1,446	1,161
Other operating income	553	443	1,517	1,209
Total noninterest income	2,269	2,360	7,639	7,057
Noninterest expenses:				
Salaries and employee benefits	7,048	5,697	19,783	16,110
Equipment and occupancy expense	1,272	988	3,852	2,884
Professional services	443	322	1,329	960
FDIC and other regulatory assessments	405	409	1,263	1,155
OREO expense	357	1,159	951	1,832
Other operating expenses	2,542	2,696	8,013	7,256
Total noninterest expenses	12,067	11,271	35,191	30,197
Income before income taxes	16,133	13,952	44,143	38,900
Provision for income taxes	5,321	4,650	14,394	13,011
Net income	10,812	9,302	29,749	25,889
Preferred stock dividends	100	100	300	300
Net income available to common stockholders	$ 10,712	$ 9,202	$ 29,449	$ 25,589
Basic earnings per common share	$ 1.53	$ 1.53	$ 4.35	$ 4.28
Diluted earnings per common share	$ 1.46	$ 1.35	$ 4.10	$ 3.75

See Notes to Consolidated Financial Statements.

SERVISFIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Net income	$ 10,812	$ 9,302	$ 29,749	$ 25,889
Other comprehensive income (loss), net of tax:				
Unrealized holding gains (losses) arising during period from securities available for sale, net of tax of $199 and $(1,458) for the three and nine months ended September 30, 2013, respectively, and $348 and $525 for the three and nine months ended September 30, 2012, respectively	369	646	(2,708)	1,316
Reclassification adjustment for net gains on sale of securities in net income, net of tax of $46 for the nine months ended September 30, 2013	-	-	(85)	-
Other comprehensive income (loss), net of tax	369	646	(2,793)	1,316
Comprehensive income	$ 11,181	$ 9,948	$ 26,956	$ 27,205

See Notes to Consolidated Financial Statements.

5

SERVISFIRST BANCSHARES, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 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	-	-	-	(12)	-	(12)
Dividends declared	-	-	-	(3,538)	-	(3,538)
Preferred dividends paid	-	-	-	(300)	-	(300)
Exercise 113,500 stock options and warrants, including tax benefit of $243	-	-	2,632	-	-	2,632
Issuance of 600,000 shares upon mandatory conversion of subordinated mandatorily convertible debentures	-	1	14,999	-	-	15,000
Common stock issued	-	-	1,416	-	-	1,416
Other comprehensive income	-	-	-	-	(2,793)	(2,793)
Stock-based compensation expense	-	-	889	-	-	889
Net income	-	-	-	29,749	-	29,749
Balance, September 30, 2013	39,958	7	113,441	118,391	4,503	276,300
Balance, December 31, 2011	39,958	6	87,805	61,581	6,942	196,292
Preferred dividends paid	-	-	-	(300)	-	(300)
Exercise 74,036 stock options and warrants, including tax benefit of $127	-	-	1,021	-	-	1,021
Other comprehensive income	-	-	-	-	1,316	1,316
Stock-based compensation expense	-	-	788	-	-	788
Net income	-	-	-	25,889	-	25,889
Balance, September 30, 2012	39,958	6	89,614	87,170	8,258	225,006

See Notes to Consolidated Financial Statements.

SERVISFIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012
(In thousands) (Unaudited)

	2013	2012
OPERATING ACTIVITIES		
Net income	$ 29,749	$ 25,889
Adjustments to reconcile net income to net cash provided by		
Deferred tax benefit	(270)	(1,602)
Provision for loan losses	10,652	6,651
Depreciation and amortization	1,356	911
Net amortization of investments	712	789
Market value adjustment of interest rate cap	-	9
Increase in accrued interest and dividends receivable	(446)	(996)
Stock-based compensation expense	889	788
Increase (decrease) in accrued interest payable	73	(78)
Proceeds from sale of mortgage loans held for sale	159,266	176,753
Originations of mortgage loans held for sale	(143,523)	(184,706)
Gain on sale of securities available for sale	(131)	-
Gain on sale of mortgage loans held for sale	(2,199)	(2,746)
Net loss on sale of other real estate owned	135	88
Write down of other real estate owned	402	1,424
Decrease in special prepaid FDIC insurance assessments	2,498	972
Increase in cash surrender value of life insurance contracts	(1,446)	(1,161)
Excess tax benefits from exercise of warrants	(248)	-
Net change in other assets, liabilities, and other operating activities	(3,186)	(401)
Net cash provided by operating activities	54,283	22,584
INVESTMENT ACTIVITIES		
Purchase of securities available for sale	(66,120)	(34,040)
Proceeds from maturities, calls and paydowns of securities available for sale	38,734	92,021
Purchase of securities held to maturity	(10,668)	(6,005)
Proceeds from maturities, calls and paydowns of securities held to maturity	3,505	423
Increase in loans	(386,247)	(335,877)
Purchase of premises and equipment	(1,027)	(2,195)
Purchase of restricted equity securities	-	(787)
Purchase of bank-owned life insurance contracts	(10,000)	-
Proceeds from sale of restricted equity securities	203	347
Proceeds from sale of other real estate owned and repossessions	5,258	2,534
Investment in tax credit partnerships	(7,907)	-
Net cash used in investing activities	(434,269)	(283,579)
FINANCING ACTIVITIES		
Net increase in noninterest-bearing deposits	89,979	94,152
Net increase in interest-bearing deposits	317,666	171,482
Net increase in federal funds purchased	53,025	12,052
Proceeds from sale of common stock, net	1,416	-
Proceeds from exercise of stock options and warrants	2,632	1,021

Excess tax benefits from exercise of warrants		248		-
Repayment of other borrowings		-		(5,000)
Dividends paid on common stock		(12)		-
Dividends paid on preferred stock		(300)		(300)
Net cash provided by financing activities		464,654		273,407
Net increase in cash and cash equivalents		84,668		12,412
Cash and cash equivalents at beginning of year		180,745		242,933
Cash and cash equivalents at end of year	$	265,413	$	255,345
SUPPLEMENTAL DISCLOSURE				
Cash paid for:				
Interest	$	9,936	$	11,355
Income taxes		15,488		12,203
NONCASH TRANSACTIONS				
Conversion of mandatorily convertible subordinated debentures	$	15,000	$	-
Transfers of loans from held for sale to held for investment		690		-
Other real estate acquired in settlement of loans		10,163		1,436
Internally financed sales of other real estate owned		-	$	24
Dividends declared		3,538		-

See Notes to Consolidated Financial Statements.

7

SERVISFIRST BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 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 available to common stockholders 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In Thousands, Except Shares and Per Share Data)			
Earnings per common share				
Weighted average common shares outstanding	7,019,069	6,005,242	6,768,678	5,977,590
Net income available to common stockholders	$ 10,712	$ 9,202	$ 29,449	$ 25,589
Basic earnings per common share	$ 1.53	$ 1.53	$ 4.35	$ 4.28
Weighted average common shares outstanding	7,019,069	6,005,242	6,768,678	5,977,590
Dilutive effects of assumed conversions and exercise of stock options and warrants	302,842	942,187	437,840	954,088
Weighted average common and dilutive potential common shares outstanding	7,321,911	6,947,429	7,206,518	6,931,678
Net income available to common stockholders	$ 10,712	$ 9,202	$ 29,449	$ 25,589
Effect of interest expense on convertible debt, net of tax and discretionary expenditures related to conversion	-	143	-	426
Net income available to common stockholders, adjusted for effect of debt conversion	$ 10,712	$ 9,345	$ 29,449	$ 26,015
Diluted earnings per common share	$ 1.46	$ 1.35	$ 4.10	$ 3.75

8

NOTE 4 - SECURITIES

The amortized cost and fair value of available-for-sale and held-to-maturity securities at September 30, 2013 and December 31, 2012 are summarized as follows:

	Amortized Cost (In Thousands)	Gross Unrealized Gain	Gross Unrealized Loss	Market Value
September 30, 2013				
Securities Available for Sale				
U.S. Treasury and government sponsored agencies	$ 27,762	$ 844	$ -	$ 28,606
Mortgage-backed securities	82,347	3,130	(67)	85,410
State and municipal securities	123,631	3,639	(725)	126,545
Corporate debt	15,717	132	(25)	15,824
Total	249,457	7,745	(817)	256,385
Securities Held to Maturity				
Mortgage-backed securities	27,587	369	(1,073)	26,883
State and municipal securities	5,543	245	-	5,788
Total	$ 33,130	$ 614	$ (1,073)	$ 32,671
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

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 September 30, 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 September 30, 2013, one of the Company's 647 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 September 30, 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	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In Thousands)					
September 30, 2013						
U.S. Treasury and government sponsored agencies	$ -	$ -	$ -	$ -	$ -	$ -
Mortgage-backed securities	(1,140)	25,668	-	-	(1,140)	25,668
State and municipal securities	(723)	32,803	(2)	175	(725)	32,978
Corporate debt	(25)	5,959	-	-	(25)	5,959
Total	$ (1,888)	$ 64,430	$ (2)	$ 175	$ (1,890)	$ 64,605
December 31, 2012						
U.S. Treasury and government sponsored agencies	$ -	$ -	$ -	$ -	$ -	$ -
Mortgage-backed securities	(40)	4,439	-	-	(40)	4,439
State and municipal securities	(83)	8,801	-	166	(83)	8,967
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 September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
	(Dollars In Thousands)	
Commercial, financial and agricultural	$ 1,222,953	$ 1,030,990
Real estate - construction	156,595	158,361
Real estate - mortgage:		

Owner-occupied commercial		667,401			568,041	
1-4 family mortgage		262,144			235,909	
Other mortgage		379,490			323,599	
Subtotal: Real estate - mortgage		1,309,035			1,127,549	
Consumer		43,390			46,282	
Total Loans		2,731,973			2,363,182	
Less: Allowance for loan losses		(28,927)			(26,258)	
Net Loans	$	2,703,046		$	2,336,924	
Commercial, financial and agricultural		44.76	%		43.63	%
Real estate - construction		5.73	%		6.70	%
Real estate - mortgage:						
Owner-occupied commercial		24.43	%		24.04	%
1-4 family mortgage		9.60	%		9.98	%
Other mortgage		13.89	%		13.69	%
Subtotal: Real estate - mortgage		47.92	%		47.71	%
Consumer		1.59	%		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 weaknesses 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 September 30, 2013 and December 31, 2012 were as follows:

September 30, 2013	Pass	Special Mention	Substandard	Doubtful	Total
	(In Thousands)				
Commercial, financial and agricultural	$ 1,183,674	$ 33,412	$ 5,867	$ -	$ 1,222,953
Real estate - construction	142,093	3,492	11,010	-	156,595
Real estate - mortgage:					
Owner-occupied commercial	653,524	9,463	4,414	-	667,401
1-4 family mortgage	248,425	1,393	12,326	-	262,144
Other mortgage	365,911	9,788	3,791	-	379,490
Total real estate mortgage	1,267,860	20,644	20,531	-	1,309,035
Consumer	42,615	51	724	-	43,390
Total	$ 2,636,242	$ 57,599	$ 38,132	$ -	$ 2,731,973

December 31, 2012	Pass (In Thousands)	Special Mention	Substandard	Doubtful	Total
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

Loans by performance status as of September 30, 2013 and December 31, 2012 were as follows:

September 30, 2013	Performing (In Thousands)	Nonperforming	Total
Commercial, financial and agricultural	$ 1,222,110	$ 843	$ 1,222,953
Real estate - construction	152,037	4,558	156,595
Real estate - mortgage:			
Owner-occupied commercial	663,709	3,692	667,401
1-4 family mortgage	262,144	-	262,144
Other mortgage	379,253	237	379,490
Total real estate mortgage	1,305,106	3,929	1,309,035
Consumer	43,324	66	43,390
Total	$ 2,722,577	$ 9,396	$ 2,731,973

December 31, 2012	Performing (In Thousands)	Nonperforming	Total
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 September 30, 2013 and December 31, 2012 were as follows:

September 30, 2013	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	$ 82	$ 971	$ -	$ 1,053	$ 843	$ 1,221,057	$ 1,222,953
Real estate - construction	-	1,510	-	1,510	4,558	150,527	156,595
Real estate - mortgage:							
Owner-occupied commercial	-	-	-	-	3,692	663,709	667,401
1-4 family mortgage	349	5,148	-	5,497	-	256,647	262,144
Other mortgage	-	-	-	-	237	379,253	379,490
Total real estate - mortgage	349	5,148	-	5,497	3,929	1,299,609	1,309,035
Consumer	56	-	-	56	66	43,268	43,390
Total	$ 487	$ 7,629	$ -	$ 8,116	$ 9,396	$ 2,714,461	$ 2,731,973

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 attributable to 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 September 30, 2013 and December 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 September 30, 2013					
Allowance for loan losses:						
Balance at June 30, 2013	$ 11,140	$ 5,453	$ 6,039	$ 224	$ 5,901	$ 28,757
Charge-offs	(849)	(394)	(1,746)	(42)	-	(3,031)
Recoveries	13	124	24	6	-	167
Provision	739	307	1,078	563	347	3,034
Balance at September 30, 2013	$ 11,043	$ 5,490	$ 5,395	$ 751	$ 6,248	$ 28,927
	Three Months Ended September 30, 2012					
Allowance for loan losses:						
Balance at June 30, 2012	$ 6,511	$ 7,582	$ 3,640	$ 285	$ 5,221	$ 23,239
Charge-offs	(349)	(16)	(30)	(79)	-	(474)
Recoveries	24	47	582	1	-	654
Provision	1,090	(1,560)	615	96	944	1,185
Balance at September 30, 2012	$ 7,276	$ 6,053	$ 4,807	$ 303	$ 6,165	$ 24,604
	Nine Months Ended September 30, 2013					
Allowance for loan losses:						
Balance at December 31, 2012	$ 8,233	$ 6,511	$ 4,912	$ 199	$ 6,403	$ 26,258
Charge-offs	(1,838)	(4,271)	(2,016)	(172)	-	(8,297)
Recoveries	50	226	28	10	-	314
Provision	4,598	3,024	2,471	714	(155)	10,652
Balance at September 30, 2013	$ 11,043	$ 5,490	$ 5,395	$ 751	$ 6,248	$ 28,927
	Nine Months Ended September 30, 2012					
Allowance for loan losses:						
Balance at December 31, 2011	$ 6,627	$ 6,542	$ 3,295	$ 531	$ 5,035	$ 22,030
Charge-offs	(898)	(2,935)	(311)	(707)	-	(4,851)
Recoveries	124	55	588	7	-	774
Provision	1,423	2,391	1,235	472	1,130	6,651
	$ 7,276	$ 6,053	$ 4,807	$ 303	$ 6,165	$ 24,604

Balance at September 30, 2012

	As of September 30, 2013					
Allowance for loan losses:						
Individually Evaluated for Impairment	$ 1,817	$ 1,363	$ 1,576	$ 592	$ -	$ 5,348
Collectively Evaluated for Impairment	9,226	4,127	3,819	159	6,248	23,579
Loans:						
Ending Balance	$ 1,222,953	$ 156,595	$ 1,309,035	$ 43,390	$ -	$ 2,731,973
Individually Evaluated for Impairment	4,048	11,010	20,475	608	-	36,141
Collectively Evaluated for Impairment	1,218,905	145,585	1,288,560	42,782	-	2,695,832
	As of December 31, 2012					
Allowance for loan losses:						
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

14

The following table presents details of the Company's impaired loans as of September 30, 2013 and December 31, 2012, respectively. Loans which have been fully charged off do not appear in the tables.

	September 30, 2013			For the three months ended September 30, 2013		For the nine months ended September 30, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized in Period	Average Recorded Investment	Interest Income Recognized in Period
	(In Thousands)						
With no allowance recorded:							
Commercial, financial and agricultural	$ 856	$ 876	$ -	$ 875	$ 11	$ 875	$ 33
Real estate - construction	5,217	6,135	-	4,847	35	4,201	113
Real estate - mortgage:							
Owner-occupied commercial	2,792	2,918	-	2,884	8	2,923	51
1-4 family mortgage	1,349	1,349	-	1,350	15	1,352	45
Other mortgage	3,500	3,599	-	3,963	46	4,147	150
Total real estate - mortgage	7,641	7,866	-	8,197	69	8,422	246
Consumer	16	16	-	17	-	20	1
Total with no allowance recorded	13,730	14,893	-	13,936	115	13,518	393
With an allowance recorded:							
Commercial, financial and agricultural	3,192	3,632	1,817	3,622	21	3,573	106
Real estate - construction	5,793	5,793	1,363	5,572	41	5,309	126
Real estate - mortgage:							
Owner-occupied commercial	1,566	1,566	527	1,571	(16)	1,582	19
1-4 family mortgage	10,977	10,977	973	10,804	111	10,968	268
Other mortgage	291	291	76	293	5	298	15
Total real estate - mortgage	12,834	12,834	1,576	12,668	100	12,848	302
Consumer	592	592	592	593	8	698	30
Total with allowance recorded	22,411	22,851	5,348	22,455	170	22,428	564
Total Impaired Loans:							
Commercial, financial and	4,048	4,508	1,817	4,497	32	4,448	139

agricultural							
Real estate - construction	11,010	11,928	1,363	10,419	76	9,510	239
Real estate - mortgage:							
Owner-occupied commercial	4,358	4,484	527	4,455	(8)	4,505	70
1-4 family mortgage	12,326	12,326	973	12,154	126	12,320	313
Other mortgage	3,791	3,890	76	4,256	51	4,445	165
Total real estate - mortgage	20,475	20,700	1,576	20,865	169	21,270	548
Consumer	608	608	592	610	8	718	31
Total impaired loans	$ 36,141	$ 37,744	$ 5,348	$ 36,391	$ 285	$ 35,946	$ 957

	December 31, 2012				
	Recorded Investment (In Thousands)	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized in Period
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
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 September 30, 2013, December 31, 2012 and September 30, 2012 totaled $8.4 million, $12.3 million and $12.0 million, respectively. At September 30, 2013, the Company had a related allowance for loan losses of $0.8 million allocated to these TDRs, compared to $1.4 million at December 31, 2012 and $1.4 million at September 30, 2012. During the third quarter 2013, the Company had three TDR loans to one borrower in the amount of $3.1 million enter into payment default status. Two of these loans were fully charged-off and a partial charge-off was taken on the remaining loan for a total charge-off of $0.9 million, leaving a balance of $2.2 million on the TDR at September 30, 2013. All other loans classified as TDRs as of September 30, 2013 are performing as agreed under the terms of their restructured plans. The following table presents an analysis of TDRs as of September 30, 2013 and September 30, 2012.

September 30, 2013	September 30, 2012

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(In Thousands)					
Troubled Debt Restructurings						
Commercial, financial and agricultural	2	$ 1,017	$ 1,017	2	$ 1,216	$ 1,216
Real estate - construction	-	-	-	15	2,899	2,899
Real estate - mortgage:						
Owner-occupied commercial	1	3,121	2,200	6	5,907	5,907
1-4 family mortgage	1	4,925	4,925	5	1,709	1,709
Other mortgage	1	291	291	1	304	304
Total real estate - mortgage	3	8,337	7,416	12	7,920	7,920
Consumer	-	-	-	-	-	-
	5	$ 9,354	$ 8,433	29	$ 12,035	$ 12,035

16

	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	1	2,200	-	-
1-4 family mortgage	-	-	-	-
Other mortgage	-	-	-	-
Total real estate - mortgage	1	2,200	-	-
Consumer	-	-	-	-
	1	$ 2,200	-	$ -

NOTE 6 - EMPLOYEE AND DIRECTOR BENEFITS

Stock Options

At September 30, 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 $308,000 and $889,000 for the three and nine months ended September 30, 2013 and $266,000 and $788,000 for the three and nine months ended September 30, 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 prices between $15.00 and $20.00 per share with a term of 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 %	19.88 %
Expected term (in years)	7.5 years	6 years
Risk-free rate	1.39 %	1.03 %

The weighted average grant-date fair value of options granted during the nine months ended September 30, 2013 and September 30, 2012 was $8.03 and $6.52, respectively.

The following table summarizes stock option activity during the nine months ended September 30, 2013 and September 30, 2012:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (In Thousands)
Nine Months Ended September 30, 2013:				
Outstanding at January 1, 2013	816,500	$ 20.87	5.8	$ 9,905
Granted	25,000	33.00	9.5	
Exercised	(43,000)	14.42	2.8	1,054
Forfeited	(3,000)	20.00	4.2	65
Outstanding at September 30, 2013	795,500	21.60	5.3	$ 15,828
Exercisable at September 30, 2013	517,744	$ 15.30	3.1	$ 13,563
Nine Months Ended September 30, 2012:				
Outstanding at January 1, 2012	1,073,800	$ 18.33	6.0	$ 12,508
Granted	41,500	30.00	9.5	
Exercised	(54,036)	11.07	3.3	1,023
Forfeited	(12,500)	25.60	5.6	55
Outstanding at September 30, 2012	1,048,764	19.11	5.8	$ 11,440
Exercisable at September 30, 2012	443,589	$ 13.40	3.7	$ 7,363

As of September 30, 2013, there was $1,448,000 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 1.4 years.

Restricted Stock

The Company has awarded 71,000 shares of restricted stock, of which 16,000 shares are vested. The value of restricted stock awards is determined to be the current value of the Company’s stock at the grant date, 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 September 30, 2013, there was $1,288,000 of total unrecognized compensation cost related to non-vested restricted stock. The cost is expected to be recognized evenly over the remaining 3.4 years of the restricted stock’s vesting period.

NOTE 7 - DERIVATIVES

During 2008, the Company entered into an interest rate swap (“swap”) to facilitate the financing needs of a single customer. Upon entering into the swap, the Company entered into an offsetting position with a regional correspondent bank in order to minimize the risk to the Company. As of September 30, 2013, the notional amount of the swap with this customer was approximately $4.5 million while the notional amount of the swap with the correspondent bank was also approximately $4.5 million. The swap qualifies as a derivative, but is not designated as a hedging instrument. The Company has recorded the value of the swap at $194,000 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 September 30, 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.

In July 2013, the FASB issued ASU No. 2013-10, *Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes,* which permits the Fed Funds Effective Swap Rate to be used as a U.S. benchmark interest rate for hedge accounting purposes, in addition to the U.S. Treasury and London Interbank Offered Rate. The ASU also amends previous rules by removing the restriction on using different benchmark rates for similar hedges. The amendments apply to all entities that elect to apply hedge accounting of the benchmark interest rate. The amendments in this ASU were effective for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. 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.

In July 2013, the FASB issued ASU No. 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists,* which provides that an unrecognized tax benefit, or a portion thereof, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, then the unrecognized tax benefit should be presented as a liability. The amendments in this ASU are effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013. Early adoption and retrospective application is permitted. 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.

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. 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 $2,301,000 and $7,983,000 during the three and nine months ended September 30, 2013, respectively, and $1,246,000 and $4,946,000 during the three and nine months ended September 30, 2012, respectively.

Other Real Estate Owned. Other real estate owned ("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. A net loss on the sale and write-downs of OREO of $302,000 and $813,000 was recognized for the three and nine months ended September 30, 2013, respectively. A net loss on the sale and write-downs of OREO of $933,000 and $1,416,000 was recognized during the three and nine months ended September 30, 2012, respectively. These charges were for write-downs in the value of OREO subsequent to foreclosure and losses on the disposal of OREO. OREO is classified within Level 3 of the hierarchy.

The following table presents the Company's financial assets and financial liabilities carried at fair value on a recurring basis as of September 30, 2013 and December 31, 2012:

	Fair Value Measurements at September 30, 2013 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In Thousands)			
Assets Measured on a Recurring Basis:				
Available-for-sale securities:				
U.S. Treasury and government sponsored agencies	$ -	$ 28,606	$ -	$ 28,606
Mortgage-backed securities	-	85,410	-	85,410

State and municipal securities		-		126,545		-		126,545
Corporate debt		-		15,824		-		15,824
Interest rate swap agreements		-		194		-		194
Total assets at fair value	$	-	$	256,579	$	-	$	256,579
Liabilities Measured on a Recurring Basis:								
Interest rate swap agreements	$	-	$	194	$	-	$	194

20

	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
	(In Thousands)			
Assets Measured on a Recurring Basis:				
Available-for-sale 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 September 30, 2013 and December 31, 2012:

	Fair Value Measurements at September 30, 2013 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In Thousands)			
Assets Measured on a Nonrecurring Basis:				
Impaired loans	$ -	-	$ 30,793	$ 30,793
Other real estate owned and repossessed assets	-	-	14,258	14,258
Total assets at fair value	$ -	$ -	$ 45,051	$ 45,051

	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
	(In Thousands)			
Assets Measured on a Nonrecurring Basis:				
Impaired loans	$ -	$ -	$ 33,883	$ 33,883
Other real estate owned	-	-	9,873	9,873
Total assets at fair value	$ -	$ -	$ 43,756	$ 43,756

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.

23

The carrying amount, estimated fair value, and placement in the fair value hierarchy of the Company's financial instruments as of September 30, 2013 and December 31, 2012 are presented in the following table.

	September 30, 2013 Carrying Amount (In Thousands)	Fair Value	December 31, 2012 Carrying Amount	Fair Value
Financial Assets:				
Level 2 inputs:				
Investment securities available for sale	$ 249,457	$ 256,385	$ 233,877	$ 233,877
Investment securities held to maturity	33,130	32,671	25,967	27,350
Restricted equity securities	3,738	3,738	3,941	3,941
Mortgage loans held for sale	11,592	11,592	25,826	25,826
Bank owned life insurance contracts	68,460	68,460	57,014	57,014
Derivative	194	194	389	389
Level 3 inputs:				
Loans, net	2,703,046	2,705,685	2,336,924	2,327,780
Financial Liabilities:				
Level 2 inputs:				
Deposits	2,919,217	2,921,406	2,511,572	2,516,320
Federal funds purchased	170,090	170,090	117,065	117,065
Other borrowings	19,932	19,932	19,917	19,917
Subordinated debentures	-	-	15,050	15,050
Derivative	194	194	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 September 30, 2013, and events which occurred subsequent to September 30, 2013 but were not recognized in the financial statements.

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 September 30, 2013 and for the three and nine months ended September 30, 2013 and September 30, 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 expres 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;
- 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 “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 twelve full-service banking offices, with ten offices located in Jefferson, Shelby, Madison, Montgomery, Houston and Mobile counties in the metropolitan statistical areas (“MSAs”) of Birmingham-Hoover, Huntsville, Montgomery, Dothan and Mobile Alabama, and two offices located in Escambia County in the Pensacola-Ferry Pass-Brent, Florida MSA. We currently have a loan production office in Nashville, Tennessee. The Mobile, Alabama office opened 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 September 30, 2013, we had consolidated total assets of $3.4 billion, an increase of $0.5 billion, or 17.2%, from $2.9 billion at December 31, 2012. Total loans were $2.7 billion at September 30, 2013, up $0.3 billion, or 12.5%, from $2.4 billion at December 31, 2012. Total deposits were $2.9 billion at September 30, 2013, an increase of $0.4 billion, or 16.0%, from $2.5 billion at December 31, 2012.

Net income available to common stockholders for the quarter ended September 30, 2013 was $10.7 million, an increase of $1.5 million, or 16.3%, from $9.2 million for the quarter ended September 30, 2012. Basic and diluted earnings per common share were $1.53 and $1.46, respectively, for the three months ended September 30, 2013, compared to $1.53 and $1.35, respectively, for the corresponding period in 2012.

Net income available to common stockholders for the nine months ended September 30, 2013 was $29.4 million, an increase of $3.8 million, or 14.8%, from $25.6 million for the nine months ended September 30, 2012. Basic and diluted earnings per common share were $4.35 and $4.10, respectively, for the nine months ended September 30, 2013, compared to $4.28 and $3.75, respectively, for the corresponding period in 2012.

Critical Accounting Policies

The accounting and financial policies of the Company conform to U.S. generally accepted accounting principles ("U.S. GAAP") and to general practices within the banking industry. To prepare consolidated financial statements in conformity with U.S. GAAP, 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 September 30, 2013, we had $7.9 million in federal funds sold, compared to $3.3 million at December 31, 2012. We also maintain balances at the Federal Reserve Bank of Atlanta, which earn interest. At September 30, 2013, we had $182.2 million in balances at the Federal Reserve, compared to $115.7 million at December 31, 2012.

Debt Securities

Debt securities available for sale totaled $256.4 million at September 30, 2013 and $233.9 million at December 31, 2012. Debt securities held to maturity totaled $33.1 million at September 30, 2013 and $26.0 million at December 31, 2012. Paydowns of $20.8 million in mortgage-backed securities, and $11.5 million in maturities and calls of government agency securities were replaced with purchases of $41.9 million of mortgage-backed securities and $12.8 million of tax-exempt municipal securities during the first nine months of 2013. Also during this period, we sold $4.1 million in corporate securities, recognizing a gain of $131,000, and replaced them with the purchase of $6.0 million in corporate securities.

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 maturity, no declines are deemed to be other than temporary. We will continue to evaluate our debt 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 debt securities by their stated maturity at September 30, 2013:

	Less Than One Year (In Thousands)	One Year to Five Years	Five Years to Ten Years	More Than Ten Years	Total
U.S. Treasury and government sponsored agencies	$ 58	$ 19,706	$ 7,998	$ -	$ 27,762
Mortgage-backed securities	120	78,017	31,798	-	109,935
State and municipal securities	5,438	65,081	51,625	7,030	129,174
Corporate debt	-	9,733	5,984	-	15,717
Total	$ 5,616	$ 172,537	$ 97,405	$ 7,030	$ 282,588
Taxable-equivalent Yield	4.44 %	3.06 %	3.67 %	6.22 %	3.38 %

All securities held are traded in liquid markets. As of September 30, 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 $0.3 million. We had no investments in any one security, restricted or liquid, in excess of 10% of our stockholders’ equity.

The Bank 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 securities portfolio at September 30, 2013 has a combined average credit rating of AA.

The carrying value of debt securities pledged to secure public funds on deposit and for other purposes as required by law was $186.0 million and $200.7 million as of September 30, 2013 and December 31, 2012, respectively.

Loans

We had total loans of $2.7 billion at September 30, 2013, an increase of $0.3 billion, or 12.5% year to date, compared to $2.4 at December 31, 2012. Our loan portfolio has experienced growth in all markets and in the commercial and owner-occupied real estate segments. At September 30, 2013, 51% of our loans were in our Birmingham offices, 15% of our loans were in our Huntsville offices, 13% of our loans were in our Dothan offices, 10% of our loans were in our Montgomery offices, 3% of our loans were in our Mobile office, and 8% of our loans were in our Pensacola, Florida offices. All of our markets' loan portfolios grew from December 31, 2012 to September 30, 2013. The highest percentage growth among our markets open more than one year was 26.3% and the lowest percentage growth was 5.6%.

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 September 30, 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.

September 30, 2013	Amount (In Thousands)		Percentage of loans in each category to total loans	
Commercial, financial and agricultural	$	11,043	44.76	%
Real estate - construction		5,490	5.73	%
Real estate - mortgage		5,395	47.92	%
Consumer		751	1.59	%
Qualitative factors		6,248	-	%
Total	$	28,927	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, decreased to $9.4 million at September 30, 2013, compared to $10.4 million at December 31, 2012. There were not any loans 90 or more days past due and still accruing at September 30, 2013, compared to four loans 90 or more days past due and still accruing in the amount of $8 thousand at December 31, 2012. TDRs at September 30, 2013 were $8.4 million compared to $12.3 million at December 31, 2012 with the majority of this decrease due to the pay-off of three TDR loans to one borrower in the amount of $2.8 million during the second quarter 2013 and a write-down of a TDR relationship in the amount of $921,000 during the third quarter 2013. The Company has one TDR loan in the amount of $2.2 million in payment default status as of September 30, 2013. All TDR loans at December 31, 2012 were performing as agreed under the terms of their restructuring plans.

27

Other real estate owned (OREO) increased to $14.3 million at September 30, 2013, from $9.7 million at December 31, 2012. The total number of OREO accounts increased from 38 to 63. The majority of this increase is attributable to the foreclosure of $7.1 million in assets on 30 loans to a large residential builder during the third quarter 2013.

The following table summarizes our nonperforming assets and TDRs at September 30, 2013 and December 31, 2012:

	September 30, 2013			December 31, 2012		
	Balance		Number of Loans	Balance		Number of Loans
	(Dollar Amounts In Thousands)					
Nonaccrual loans:						
Commercial, financial and agricultural	$	843	9	$	276	2
Real estate - construction		4,558	14		6,460	19
Real estate - mortgage:						
Owner-occupied commercial		3,692	4		2,786	3
1-4 family mortgage		-	-		453	2
Other mortgage		237	1		240	1
Total real estate - mortgage		3,929	5		3,479	6
Consumer		66	3		135	2
Total Nonaccrual loans:	$	9,396	31	$	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		-	-		8	4
Total 90+ days past due and accruing:	$	-	-	$	8	4
Total Nonperforming Loans:	$	9,396	31	$	10,358	33
Plus: Other real estate owned and repossessed assets		14,258	63		9,721	38
Total Nonperforming Assets	$	23,654	94	$	20,079	71
Restructured accruing loans:						
Commercial, financial and agricultural	$	1,017	2	$	1,168	2
Real estate - construction		-	-		3,213	15
Real estate - mortgage:						
Owner-occupied commercial		-	-		3,121	3
1-4 family mortgage		4,925	1		1,709	5
Other mortgage		291	1		302	1
Total real estate - mortgage		5,216	2		5,132	9
Consumer		-	-		-	-
Total restructured accruing loans:	$	6,233	4	$	9,513	26
Total Nonperforming assets and						

restructured accruing loans	$	29,887		98	$	29,592	97
Ratios:							
Nonperforming loans to total loans		0.34	%			0.44	%
Nonperforming assets to total loans plus other real estate owned and repossessed assets		0.86	%			0.85	%
Nonperforming loans plus restructured accruing loans to total loans plus other real estate owned and repossessed assets		0.57	%			0.84	%

28

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 $5.5 million of our allowance for loan losses to real estate construction, including acquisition and development and lot loans, $11.0 million to commercial, financial and agricultural loans, and $6.2 million to other loan types. We have a total loan loss reserve as of September 30, 2013 allocable to specific loan types of $22.7 million. Another $6.2 million of our allowance for loan losses is based on our judgments regarding various external and internal factors, including macroeconomic trends, our assessment of the Bank's loan growth prospects, and evaluations of internal risk controls. The total resulting loan loss reserve is $28.9 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 September 30, 2013, we had impaired loans of $36.1 million inclusive of nonaccrual loans, a decrease of $1.3 million from $37.4 million as of December 31, 2012. We allocated $5.3 million of our allowance for loan losses at September 30, 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 the 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 $36.1 million of impaired loans reported as of September 30, 2013, $11.0 million were real estate construction loans, $4.0 million were commercial, financial, and agricultural loans, $4.3 million were commercial real estate loans, and $12.4 million were residential real estate loans. The remaining $4.4 million of impaired loans consisted of other mortgages and consumer loans. Of the $11.0 million of impaired real estate construction loans, $8.6 million (a total of 23 loans with 8 builders) were residential construction loans, and $0.9 million consisted of various residential lot loans to 3 builders.

Deposits

Total deposits increased $0.4 billion, or 16.0%, to $2.9 billion at September 30, 2013 compared to $2.5 billion at December 31, 2012. We anticipate long-term sustainable growth in deposits through continued development of market share in our 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”.

Other Borrowings

Our borrowings consist of federal funds purchased and subordinated notes payable. We had $170.1 million and $117.1 million at September 30, 2013 and December 31, 2012, respectively, in federal funds purchased from correspondent banks that are clients of our correspondent banking unit. The average rate paid on these borrowings was 0.25% for the quarter ended September 30, 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 principle amount of $5.0 million. In November 2012, we redeemed our outstanding 8.50% Junior Subordinated Deferrable Interest Debentures due 2038 in the aggregate principle 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 September 30, 2013, liquid assets, which are represented by cash and due from banks, federal funds sold and unpledged available-for-sale securities, totaled $395.4 million. Additionally, the Bank had additional borrowing availability of approximately $125.0 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 “Other 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 September 30, 2013. The amounts shown do not reflect any early withdrawal or prepayment assumptions.

	Payments due by Period				
	Total (In Thousands)	1 year or less	Over 1 - 3 years	Over 3 - 5 years	Over 5 years
Contractual Obligations (1)					
Deposits without a stated maturity	$ 2,509,581	$ -	$ -	$ -	$ -
Certificates of deposit (2)	409,636	262,114	101,076	46,446	-
Federal funds purchased	170,090	170,090	-	-	-
Subordinated debentures	19,932	-	-	-	19,932
Operating lease commitments	16,702	2,481	4,935	4,185	5,101
Total	$ 3,125,941	$ 434,685	$ 106,011	$ 50,631	$ 25,033

(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 September 30, 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 September 30, 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 September 30, 2013, December 31, 2012 and September 30, 2012:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2013:						
Total Capital to Risk-Weighted Assets:						
Consolidated	$ 320,656	11.40 %	$ 225,115	8.00 %	$ N/A	N/A %
ServisFirst Bank	322,262	11.45 %	225,098	8.00 %	281,372	10.00 %
Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	271,797	9.66 %	112,558	4.00 %	N/A	N/A %
ServisFirst Bank	293,335	10.43 %	112,549	4.00 %	168,823	6.00 %
Tier 1 Capital to Average Assets:						
Consolidated	271,797	8.28 %	131,341	4.00 %	N/A	N/A %
ServisFirst Bank	293,335	8.94 %	131,294	4.00 %	164,118	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 September 30, 2012:						
Total Capital to Risk-Weighted Assets:						
Consolidated	$ 287,868	12.99 %	$ 177,349	8.00 %	$ N/A	N/A %
ServisFirst Bank	269,760	12.17 %	177,355	8.00 %	221,694	10.00 %

Tier 1 Capital to Risk-Weighted Assets:									
Consolidated	263,264	11.88	%	88,674	4.00	%	N/A	N/A	%
ServisFirst Bank	245,156	11.06	%	88,677	4.00	%	133,016	6.00	%
Tier 1 Capital to Average Assets:									
Consolidated	263,264	9.92	%	106,104	4.00	%	N/A	N/A	%
ServisFirst Bank	245,156	9.25	%	106,025	4.00	%	132,532	5.00	%

31

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 $249,000 as of September 30, 2013 and $209,000 as of December 31, 2012 for the settlement of any repurchase demands by investors.

Financial instruments whose contract amounts represent credit risk at September 30, 2013 are as follows:

	9/30/2013 (In Thousands)	
Commitments to extend credit	$	1,014,260
Credit card arrangements		30,848
Standby letters of credit		39,202
	$	1,084,310

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 September 30, 2013 was $10.7 million compared to net income of $9.2 million for the three months ended September 30, 2012. Net income for the nine months ended September 30, 2013 was $29.4 million compared to net income of $25.6 million for the nine months ended September 30, 2012. The increase in net income was primarily attributable to increased net interest income as a result of growth in average earning assets. Net interest income for the three months ended September 30, 2013 increased to $29.0 million, or 20.8%, compared to $24.0 million for the corresponding period in 2012. Net interest income for the nine months ended September 30, 2013 increased to $82.3 million, or 19.8%, compared to $68.7 million for the corresponding period in 2012. The provision for loan losses increased $1.8 million to $3.0 million for the three months ended September 30, 2013 compared to the corresponding period in 2012, and increased $4.0 million to $10.7 million for the nine months ended September 30, 2013 compared to the corresponding period in 2012. The increase in provision for loan losses is more fully explained in “Provision for Loan Losses” below. Noninterest income decreased $0.1 million to $2.3 million for the three months ended September 30, 2013 compared to the corresponding period in 2012, and increased $0.5 million to $7.6 million for the nine months ended September 30, 2013 compared to the corresponding period in 2012. The small decrease in noninterest income for the quarter was primarily attributable to lower mortgage banking income, offset by increases in other categories of noninterest income, as more fully explained in “Noninterest Income” below. Operating expenses for the three months ended September 30, 2013 increased to $12.1 million, or 7.1%, compared to $11.3 million for the corresponding period in 2012, and for the nine months ended September 30, 2013 increased to $35.2 million, or 16.6%, compared to $30.2 million for the corresponding period in 2012. The increase in operating expenses was primarily attributable to increases in salary and employee benefits expense and equipment and occupancy expense, partially offset by decreases in OREO expense, as more fully explained in “Noninterest Expense” below.

Basic and diluted net income per common share were $1.53 and $1.46, respectively, for the three months ended September 30, 2013, compared to $1.53 and $1.35, respectively, for the corresponding period in 2012. Basic and diluted net income per common share were $4.35 and $4.10, respectively, for the nine months ended September 30, 2013, compared to $4.28 and $3.75, respectively, for the corresponding period in 2012. Return on average assets for the three and nine months ended September 30, 2013 was 1.29% and 1.30%, respectively, compared to 1.38% and 1.34% for the corresponding period in 2012, and return on average common equity for the three and nine months ended September 30, 2013 was 15.74% and 15.46%, respectively, compared to 16.64% and 16.22% 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 $4.9 million, or 20.1%, to $29.4 million for the three months ended September 30, 2013 from $24.4 million for the corresponding period in 2012, and increased $13.6 million, or 19.5%, to $83.5 million for the nine months ended September 30, 2013 from $69.8 million for the corresponding period in 2012. This increase was primarily attributable to growth in average earning assets. The taxable-equivalent yield on interest-earning assets decreased to 4.14% for the three months ended September 30, 2013 from 4.39% for the corresponding period in 2012, and decreased to 4.30% for the nine months ended September 30, 2013 from 4.43% for the corresponding period in 2012. The yield on loans for the three months ended September 30, 2013 was 4.56%

compared to 4.88% for the corresponding period in 2012, and 4.59% compared to 4.97% for the nine months ended September 30, 2013 and September 30, 2012, respectively. Loan fees included in the yield calculation increased to $176,000 for the three months ended September 30, 2013 from $57,000 for the corresponding period in 2012, and was flat at $241,000 for the nine months ended September 30, 2013 compared to the corresponding period in 2012. The cost of total interest-bearing liabilities decreased to 0.58% for the three months ended September 30, 2013 from 0.76% for the corresponding period in 2012, and to 0.60% for the nine months ended September 30, 2013 from 0.80% for the corresponding period in 2012. Net interest margin for the three months ended September 30, 2013 was 3.69% compared to 3.82% for the corresponding period in 2012, and was 3.84% for the nine months ended September 30, 2013 compared to 3.81% for the corresponding period in 2012.

The following tables show, for the three and nine months ended September 30, 2013 and September 30, 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 September 30,
(Dollar Amounts In Thousands)

	2013			2012		
	Average Balance	Interest Earned / Paid	Average Yield / Rate	Average Balance	Interest Earned / Paid	Average Yield / Rate
Assets:						
Interest-earning assets:						
Loans, net of unearned income (1)						
Taxable	$ 2,640,444	$ 30,367	4.56 %	$ 2,079,759	$ 25,502	4.88 %
Tax-exempt (2)	2,483	37	5.91	2,490	37	5.91
Mortgage loans held for sale	12,531	84	2.66	21,613	96	1.77
Investment securities:						
Taxable	152,135	980	2.56	180,567	1,190	2.62
Tax-exempt (2)	118,001	1,228	4.13	103,770	1,192	4.57
Total investment securities (3)	270,136	2,208	3.24	284,337	2,382	3.33
Federal funds sold	62,192	44	0.28	92,086	50	0.22
Restricted equity securities	3,738	25	2.65	4,514	29	2.56
Interest-bearing balances with banks	161,169	117	0.29	62,277	39	0.25
Total interest-earning assets	$ 3,152,693	$ 32,882	4.14 %	$ 2,547,076	$ 28,135	4.39 %
Non-interest-earning assets:						
Cash and due from banks	45,314			39,352		
Net fixed assets and equipment	9,052			6,280		
interest and other assets	76,477			59,899		
Total assets	$ 3,283,536			2,652,607		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 432,453	$ 308	0.28 %	$ 334,412	$ 266	0.32 %
Savings deposits	21,602	16	0.29	17,444	12	0.27
Money market accounts	1,356,197	1,609	0.47	1,075,224	1,489	0.55
Time deposits	408,600	1,198	1.16	399,268	1,312	1.31
Federal funds purchased	168,121	118	0.28	85,153	54	0.25
Other borrowings	19,928	283	5.63	30,514	562	7.33
Total interest-bearing liabilities	$ 2,406,901	$ 3,532	0.58 %	$ 1,942,015	$ 3,695	0.76 %
Non-interest-bearing liabilities:						

Non-interest-bearing demand deposits		599,379				486,090		
Other liabilities		7,250				4,510		
Stockholders' equity		266,427				212,002		
Unrealized gains on securities and derivatives		3,580				7,990		
Total liabilities and stockholders' equity	$	3,283,536			$	2,652,607		
Net interest spread			3.56	%			3.63	%
Net interest margin			3.69	%			3.82	%

(1) Non-accrual loans are included in average loan balances in all periods. Loan fees of $176,000 and $57,000 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 $5,507,000 and $12,292,000 are excluded from the yield calculation in 2013 and 2012, respectively.

	For the Three Months Ended September 30, 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	$ 6,591	$ (1,726)	$ 4,865
Mortgages held for sale	(49)	37	(12)
Securities - taxable	(181)	(29)	(210)
Securities - non taxable	156	(120)	36
Federal funds sold	(19)	13	(6)
Restricted equity securities	(5)	1	(4)
Interest-bearing balances with banks	71	7	78
Total interest-earning assets	6,564	(1,817)	4,747
Interest-bearing liabilities:			
Interest-bearing demand deposits	73	(31)	42
Savings	3	1	4
Money market accounts	356	(236)	120
Time deposits	31	(145)	(114)
Federal funds purchased	57	7	64
Other borrowed funds	(168)	(111)	(279)
Total interest-bearing liabilities	352	(515)	(163)
Increase in net interest income	$ 6,212	$ (1,302)	$ 4,910

Average Consolidated Balance Sheets and Net Interest Analysis
On a Fully Taxable-Equivalent Basis
For the Nine Months Ended September 30,
(Dollar Amounts In Thousands)

	2013				2012			
	Average Balance	Interest Earned / Paid	Average Yield / Rate		Average Balance	Interest Earned / Paid	Average Yield / Rate	
Assets:								
Interest-earning assets:								
Loans, net of unearned income (1)								
Taxable	$ 2,516,809	$ 86,342	4.59	%	$ 1,967,039	$ 73,136	4.97	%
Tax-exempt (2)	2,467	108	5.85		1,347	58	5.75	
Mortgage loans held for sale	15,312	251	2.19		14,977	254	2.27	
Investment securities:								
Taxable	145,271	2,851	2.62		197,980	3,828	2.58	
Tax-exempt (2)	114,370	3,641	4.26		98,966	3,500	4.72	
Total investment securities (3)	259,641	6,492	3.34		296,946	7,328	3.30	
Federal funds sold	35,814	77	0.29		93,760	145	0.21	
Restricted equity securities	3,809	68	2.39		4,427	74	2.23	
Interest-bearing balances with banks	75,782	155	0.27		67,625	127	0.25	
Total interest-earning assets	$ 2,909,634	$ 93,493	4.30	%	$ 2,446,121	$ 81,122	4.43	%
Non-interest-earning assets:								
Cash and due from banks	42,990				36,861			
Net fixed assets and equipment	9,217				5,649			
Allowance for loan losses, accrued interest and other assets	75,150				62,366			
Total assets	$ 3,036,991				$ 2,550,997			
Liabilities and stockholders' equity:								
Interest-bearing liabilities:								
Interest-bearing demand deposits	$ 420,849	$ 880	0.28	%	$ 339,898	$ 800	0.31	%
Savings deposits	21,806	46	0.28		16,468	34	0.28	
Money market accounts	1,185,709	4,119	0.46		1,013,300	4,344	0.57	
Time deposits	402,458	3,583	1.19		398,815	4,050	1.36	
Federal funds purchased	163,725	338	0.28		81,489	153	0.25	
Other borrowings	22,403	1,043	6.22		33,264	1,895	7.61	
Total interest-bearing liabilities	$ 2,216,950	$ 10,009	0.60	%	$ 1,883,234	$ 11,276	0.80	%

Non-interest-bearing liabilities:								
Non-interest-bearing demand deposits		554,368				451,337		
Other liabilites		11,034				5,746		
Stockholders' equity		248,879				203,049		
Unrealized gains on securities and derivatives		5,760				7,631		
Total liabilities and stockholders' equity	$	3,036,991			$	2,550,997		
Net interest spread			3.70	%			3.63	%
Net interest margin			3.84	%			3.81	%

(1) Non-accrual loans are included in average loan balances in all periods. Loan fees of $241,000 are included in interest income in 2013 and 2012.

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

(3) Unrealized gains of $8,861,000 and $11,905,000 are excluded from the yield calculation in 2013 and 2012, respectively.

	For the Nine Months Ended September 30, 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	$ 19,143	$ (5,937)	$ 13,206
Tax-exempt	49	1	50
Mortgages held for sale	6	(9)	(3)
Taxable	(1,037)	60	(977)
Tax-exempt	509	(368)	141
Federal funds sold	(111)	43	(68)
Restricted equity securities	(11)	5	(6)
Interest-bearing balances with banks	16	12	28
Total interest-earning assets	18,564	(6,193)	12,371
Interest-bearing liabilities:			
Interest-bearing demand deposits	176	(96)	80
Savings	11	1	12
Money market accounts	670	(895)	(225)
Time deposits	36	(503)	(467)
Federal funds purchased	169	16	185
Other borrowed funds	(547)	(305)	(852)
Total interest-bearing liabilities	515	(1,782)	(1,267)
Increase in net interest income	$ 18,049	$ (4,411)	$ 13,638

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 these grades. At September 30, 2013, total loans rated Special Mention, Substandard, and Doubtful were $95.7 million, or 3.5% of total loans, compared to $100.7 million, or 4.3% 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 $3.0 million for the three months ended September 30, 2013, an increase of $1.8 million from $1.2 million for the three months ended September 30, 2012. The provision for loan losses was $10.7 million for the nine months ended September 30, 2013, a $4.0 million increase, compared to $6.7 million for the nine months ended September 30, 2012. The increase in provision for loan loss for the three and nine month periods ended September 30, 2013 was primarily due to an increase in charge-offs compared to recent historical levels plus the year-to-date growth in the loan portfolio of 15.6% (20.9% annualized). Our management continues to maintain a proactive approach to credit risk management. Nonperforming loans decreased to $9.4 million, or 0.34% of total loans, at September 30, 2013 from $10.4 million, or 0.44% of total loans, at December 31, 2012, and were also lower than $13.2 million, or 0.61% of total loans, at September 30, 2012. Impaired loans decreased to $36.1 million, or 1.3% of total loans, at September 30, 2013, compared to $37.4 million, or 1.6% of total loans, at December 31, 2012. The allowance for loan losses totaled $28.9 million, or 1.06% of total loans, net of unearned income, at September 30, 2013, compared to $26.3 million, or 1.11% of loans, net of unearned income, at December 31, 2012 and $24.6 million, or 1.14% of loans, net of unearned income, at September 30, 2012. The decrease in the allowance for loan losses as a percent of total loans at September 30, 2013 is primarily the result of improvement in loan portfolio credit quality through loan work-out strategies that have led to lower levels of nonaccrual and substandard loans.

Noninterest Income

Noninterest income totaled $2.3 million for the three months ended September 30, 2013, a decrease of $0.1 million, or 4.2%, compared to the corresponding period in 2012, and totaled $7.6 million for the nine months ended September 30, 2013, an increase of $0.5 million, or 7.0%, compared to the corresponding period in 2012. Service charges on deposit accounts increased $0.1 million, or 14.3%, to $0.8 million for the three months ended September 30, 2013, from $0.7 million for the corresponding period in 2012, and increased $0.4 million, or 20.0%, to $2.4 million for the nine months ended September 30, 2013, from $2.0 million for the corresponding period in 2012. Income from credit cards increased to $0.4 million for the three months ended September 30, 2013 compared to $0.3 million for the corresponding period in 2012, and was $1.0 million for the nine months ended September 30, 2013 compared to $0.8 million for the corresponding period in 2012. We continue to aggressively expand our credit card products, including offering credit card services through our correspondent banks. We purchased additional life insurance contracts in September 2012, which contributed to the increase in the cash surrender value of life insurance from $0.4 million for the three months ended September 30, 2012 to $0.5 million for the three months ended September 30, 2013, and from $1.2 million for the nine months ended September 30, 2012 to $1.4 million for the nine months ended September 30, 2013. Income from mortgage banking operations for the three months ended September 30, 2013 was $0.4 million, down $0.5 million from $0.9 million for the corresponding period in 2012, and for the nine months ended September 30, 2013 was $2.2 million, down $0.5 million from $2.7 million for the corresponding period in 2012. Recent fluctuations in market rates for mortgages have resulted in a lower number of refinancings of existing mortgages.

Noninterest Expense

Noninterest expense totaled $12.1 million for the three months ended September 30, 2013, an increase of $0.8 million, or 7.1%, compared to $11.3 million in 2012, and totaled $35.2 million for the nine months ended September 30, 2013, an increase of $5.0 million, or 16.6%, compared to $30.2 million for the corresponding period in 2012.

Details of expenses are as follows:

> Salary and benefit expense increased $1.3 million, or 22.8%, to $7.0 million for the three months ended September 30, 2013 from $5.7 million for the corresponding period in 2012, and increased $3.7 million, or 23.0%, to $19.8 million for the nine months ended September 30, 2013 from $16.1 million for the corresponding period in 2012. We had 264 full-time equivalent employees at September 30, 2013 compared to 223 at September 30, 2012, a 18.4% increase. Most of this increase in number of employees was due to our continued expansion in Pensacola, Florida, and our recent entry into the Mobile, Alabama

and Nashville, Tennessee markets. We also have hired support staff as a result of continued expansion and growth in our core business lines.

Equipment and occupancy expense increased $0.3 million, or 30.0%, to $1.3 million for the three months ended September 30, 2013 from $1.0 million for the corresponding period in 2012 and increased $1.0 million, or 34.5%, to $3.9 million for the nine months ended September 30, 2013 from $2.9 million for the corresponding period in 2012. This increase in occupancy expense is largely the result of our expansion into the Mobile, Alabama and Nashville, Tennessee markets. We also leased additional office space adjacent to our Birmingham, Alabama headquarters building in which to house operations staff.

Professional service expense increased $0.1 million, or 33.3%, to $0.4 million for the three months ended September 30, 2013 from $0.3 million for the corresponding period in 2012 and increased $0.3 million, or 30.0%, to $1.3 million for the nine months ended September 30, 2013 from $1.0 million for the corresponding period in 2012. These increases are the result of legal expenses, consulting fees and temporary employee costs related to corporate transactions and projects to improve our operating efficiencies in support areas of the Bank.

Expenses related to OREO decreased $0.8 million to $0.4 million for the three months ended September 30, 2013, from $1.2 million for the corresponding period in 2012, and decreased $0.8 million to $1.0 million for the nine months ended September 30, 2013 from $1.8 million for the corresponding period in 2012. OREO expenses were lower as a result of no write-downs in value during the three months ended September 30, 2013, compared to $1.0 million for the three months ended September 30, 2012, and from $1.4 million for the nine months ended September 30, 2012 to $0.4 million for the nine months ended September 30, 2013.

Other operating expenses decreased $0.2 million, or 7.4%, to $2.5 million for the three months ended September 30, 2013 compared to the corresponding period in 2012, and increased $0.7 million, or 9.6%, to $8.0 million compared to the corresponding period in 2012. These increases are the result of increases in loan expenses, consumer use taxes, postage and supplies, and communications expenses. All of these increases generally relate to our expansion and growth. Additionally, we settled a lawsuit with a client during the second quarter 2013 for $100,000.

Income Tax Expense

Income tax expense was $5.3 million for the three months ended September 30, 2013 versus $4.7 million for the corresponding period in 2012, and was $14.4 million for the nine months ended September 30, 2013 versus $13.0 million for the corresponding period in 2012. Our effective tax rate for the three and nine months ended September 30, 2013 was 32.98% and 32.61%, respectively, compared to 33.33% and 33.45%, respectively, for the corresponding periods in 2012. Our primary permanent differences are related to tax exempt income on securities, Alabama income tax benefit on real estate investment trust dividends and incentive stock option expenses.

We have invested $65.0 million in bank-owned life insurance for certain named officers of the Bank. The periodic increase in cash surrender value of those policies is tax exempt and therefore contributes 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 September 30, 2013. Based upon the Evaluation, our CEO and CFO have concluded that, as of September 30, 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, except as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

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

In connection with a private placement and pursuant to subscription agreements effective September 12, 2013, the Company issued and sold to accredited investors 35,035 shares of the Company’s common stock for $41.50 per share, for an aggregate purchase price of $1,453,952.50. The issuance and sale of the shares of the Company’s common stock were exempt from registration under the Securities Act of 1933, in reliance on the exemption from the registration requirements under the Securities Act of 1933 for transactions not involving a public offering pursuant to Section 4(2) under the Securities Act of 1933 and Rule 506 of Regulation D thereunder. No underwriter or placement agent was involved in the private placement, and no underwriting discounts or commissions were paid.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit:	Description
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.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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: October 30, 2013	By	/s/ Thomas A. Broughton III Thomas A. Broughton III President and Chief Executive Officer
Date: October 30, 2013	By	/s/ William M. Foshee William M. Foshee Chief Financial Officer