

ServisFirst Bancshares, Inc.
Form 10-Q
July 31, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012

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

For the transition period from _____ to _____

Commission file number 000-53149

SERVISFIRST BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

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850 Shades Creek Parkway, Birmingham, Alabama 35209
(Address of Principal Executive Offices) (Zip Code)

(205) 949-0302

(Registrant's Telephone Number, Including Area Code)

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

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

Yes No

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

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

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

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

| Class | Outstanding as of July 30, 2012 |
|--------------------------------|---------------------------------|
| Common stock, \$.001 par value | 6,005,318 |

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EX-32.01 SECTION 906 CERTIFICATION OF THE CEO

EX-32.02 SECTION 906 CERTIFICATION OF THE CFO

PART 1. FINANCIAL INFORMATION**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS****SERVISFIRST BANCSHARES, INC.****CONSOLIDATED BALANCE SHEETS JUNE 30, 2012 AND DECEMBER 31, 2011****(In thousands, except share and per share amounts)**

| | June 30, 2012 (Unaudited) | December 31, 2011 (Audited) |
|---|------------------------------|--------------------------------|
| ASSETS | | |
| Cash and due from banks | \$ 42,332 | \$ 43,018 |
| Interest-bearing balances due from depository institutions | 29,002 | 99,350 |
| Federal funds sold | 84,468 | 100,565 |
| Cash and cash equivalents | 155,802 | 242,933 |
| Available for sale debt securities, at fair value | 296,508 | 293,809 |
| Held to maturity debt securities (fair value of \$22,193 and \$15,999 at June 30, 2012 and December 31, 2011, respectively) | 21,011 | 15,209 |
| Restricted equity securities | 4,018 | 3,501 |
| Mortgage loans held for sale | 15,000 | 17,859 |
| Loans | 2,022,589 | 1,830,742 |
| Less allowance for loan losses | (23,239) | (22,030) |
| Loans, net | 1,999,350 | 1,808,712 |
| Premises and equipment, net | 6,032 | 4,591 |
| Accrued interest and dividends receivable | 8,057 | 8,192 |
| Deferred tax assets | 5,738 | 4,914 |
| Other real estate owned | 9,834 | 12,275 |
| Bank owned life insurance contracts | 41,165 | 40,390 |
| Other assets | 7,728 | 8,400 |
| Total assets | \$ 2,570,243 | \$ 2,460,785 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities: | | |
| Deposits: | | |
| Noninterest-bearing | \$ 467,344 | \$ 418,810 |
| Interest-bearing | 1,773,558 | 1,725,077 |
| Total deposits | 2,240,902 | 2,143,887 |
| Federal funds purchased | 80,205 | 79,265 |
| Other borrowings | - | 4,954 |
| Trust preferred securities | 30,514 | 30,514 |
| Accrued interest payable | 935 | 945 |
| Other liabilities | 2,819 | 4,928 |
| Total liabilities | 2,355,375 | 2,264,493 |

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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 June 30, 2012 and at December 31, 2011 | 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; 6,004,318 shares issued and outstanding at June 30, 2012 and 5,932,182 shares issued and outstanding at December 31, 2011 | 6 | 6 |
| Additional paid-in capital | 89,324 | 87,805 |
| Retained earnings | 77,968 | 61,581 |
| Accumulated other comprehensive income | 7,612 | 6,942 |
| Total stockholders' equity | 214,868 | 196,292 |
| Total liabilities and stockholders' equity | \$ 2,570,243 | \$ 2,460,785 |

See Notes to Consolidated Financial Statements.

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

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------|------------------|-----------|
| | June 30, | | June 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Interest income: | | | | |
| Interest and fees on loans | \$ 24,438 | \$ 19,845 | \$ 47,763 | \$ 38,466 |
| Taxable securities | 1,302 | 1,444 | 2,639 | 2,986 |
| Nontaxable securities | 814 | 719 | 1,596 | 1,433 |
| Federal funds sold | 42 | 35 | 95 | 71 |
| Other interest and dividends | 58 | 37 | 132 | 85 |
| Total interest income | 26,654 | 22,080 | 52,225 | 43,041 |
| Interest expense: | | | | |
| Deposits | 3,028 | 3,264 | 6,150 | 6,398 |
| Borrowed funds | 721 | 768 | 1,432 | 1,619 |
| Total interest expense | 3,749 | 4,032 | 7,582 | 8,017 |
| Net interest income | 22,905 | 18,048 | 44,643 | 35,024 |
| Provision for loan losses | 3,083 | 1,494 | 5,466 | 3,725 |
| Net interest income after provision for loan losses | 19,822 | 16,554 | 39,177 | 31,299 |
| Noninterest income: | | | | |
| Service charges on deposit accounts | 719 | 547 | 1,320 | 1,114 |
| Mortgage banking | 879 | 476 | 1,836 | 827 |
| Securities gains | - | 523 | - | 666 |
| Increase in cash surrender value life insurance | 385 | - | 775 | - |
| Other operating income | 445 | 236 | 766 | 446 |
| Total noninterest income | 2,428 | 1,782 | 4,697 | 3,053 |
| Noninterest expenses: | | | | |
| Salaries and employee benefits | 5,248 | 5,026 | 10,413 | 9,240 |
| Equipment and occupancy expense | 961 | 934 | 1,896 | 1,820 |
| Professional services | 306 | 351 | 638 | 591 |
| FDIC and other regulatory assessments | 356 | 225 | 746 | 975 |
| OREO expense | 536 | 135 | 673 | 389 |
| Other operating expenses | 2,488 | 2,698 | 4,560 | 4,951 |
| Total noninterest expenses | 9,895 | 9,369 | 18,926 | 17,966 |
| Total interest income | 12,355 | 8,967 | 24,948 | 16,386 |
| Provision for income taxes | 4,024 | 3,122 | 8,361 | 5,670 |
| Net income | 8,331 | 5,845 | 16,587 | 10,716 |
| Preferred stock dividends | 100 | - | 200 | - |
| Net income available to common stockholders | \$ 8,231 | \$ 5,845 | \$ 16,387 | \$ 10,716 |

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| | | | | |
|-----------------------------------|---------|---------|---------|---------|
| Basic earnings per common share | \$ 1.38 | \$ 1.02 | \$ 2.74 | \$ 1.88 |
| Diluted earnings per common share | \$ 1.21 | \$ 0.89 | \$ 2.41 | \$ 1.65 |

See Notes to Consolidated Financial Statements.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|----------|------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Net income | \$ 8,331 | \$ 5,845 | \$ 16,587 | \$ 10,716 |
| Other comprehensive income, net of tax: | | | | |
| Unrealized holding gains arising during period from securities available for sale, net of tax of \$245 and \$178 for the three and six months ended June 30, 2012, respectively, and \$1,550 and \$1,713 for the three and six months ended June 30, 2011, respectively | 454 | 2,877 | 670 | 3,182 |
| Reclassification adjustment for net gains on sale of securities in net income, net of tax of \$184 and \$234 for the three and six months ended June 30, 2011, respectively | - | (339) | - | (432) |
| Other comprehensive income, net of tax | 454 | 2,538 | 670 | 2,750 |
| Comprehensive income | \$ 8,785 | \$ 8,383 | \$ 17,257 | \$ 13,466 |

See Notes to Consolidated Financial Statements

SERVISFIRST BANCSHARES, INC.**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY****SIX MONTHS ENDED JUNE 30, 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, 2011 | \$ 39,958 | \$ 6 | \$ 87,805 | \$ 61,581 | \$ 6,942 | \$ 196,292 |
| Preferred dividends paid | - | - | - | (200) | - | (200) |
| Exercise 72,136 stock options and warrants, including tax benefit | - | - | 997 | - | - | 997 |
| Other comprehensive income | - | - | - | - | 670 | 670 |
| Stock-based compensation expense | - | - | 522 | - | - | 522 |
| Net income | - | - | - | 16,587 | - | 16,587 |
| Balance, June 30, 2012 | \$ 39,958 | \$ 6 | \$ 89,324 | \$ 77,968 | \$ 7,612 | \$ 214,868 |

See Notes to Consolidated Financial Statements

SERVISFIRST BANCSHARES, INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS****SIX MONTHS ENDED JUNE 30, 2012 AND 2011****(In thousands) (Unaudited)**

| | 2012 | 2011 |
|---|-----------|-----------|
| OPERATING ACTIVITIES | | |
| Net income | \$16,587 | \$10,716 |
| Adjustments to reconcile net income to net cash provided by | | |
| Deferred tax benefit | (703) | (2,452) |
| Provision for loan losses | 5,466 | 3,725 |
| Depreciation and amortization | 604 | 566 |
| Net amortization of investments | 529 | 417 |
| Market value adjustment of interest rate cap | 9 | 99 |
| Decrease in accrued interest and dividends receivable | 136 | 143 |
| Stock-based compensation expense | 522 | 465 |
| (Decrease) increase in accrued interest payable | (10) | 85 |
| Proceeds from sale of mortgage loans held for sale | 121,731 | 67,237 |
| Originations of mortgage loans held for sale | (117,006) | (63,871) |
| Gain on sale of securities available for sale | - | (666) |
| Gain on sale of mortgage loans held for sale | (1,866) | - |
| Net loss (gain) on sale of other real estate owned | 62 | (32) |
| Write down of other real estate owned | 420 | 156 |
| Decrease in special prepaid FDIC insurance assessments | 626 | 793 |
| Increase in cash surrender value of life insurance contracts | (775) | - |
| Loss on prepayment of other borrowings | - | 738 |
| Net change in other assets, liabilities, and other operating activities | (2,109) | (46) |
| Net cash provided by operating activities | 24,223 | 18,073 |
| INVESTMENT ACTIVITIES | | |
| Purchase of securities available for sale | (31,223) | (26,007) |
| Proceeds from maturities, calls and paydowns of securities available for sale | 28,544 | 13,504 |
| Purchase of securities held to maturity | (6,005) | (8,704) |
| Proceeds from maturities, calls and paydowns of securities held to maturity | 203 | 43 |
| Increase in loans | (196,384) | (169,996) |
| Purchase of premises and equipment | (2,045) | (789) |
| Purchase of restricted equity securities | (787) | (543) |
| Proceeds from sale of securities available for sale | - | 63,270 |
| Proceeds from sale of restricted equity securities | 270 | 154 |
| Proceeds from sale of other real estate owned and repossessions | 2,239 | 1,882 |
| Net cash used in investing activities | (205,188) | (127,186) |
| FINANCING ACTIVITIES | | |
| Net increase in noninterest-bearing deposits | 48,534 | 33,478 |
| Net increase in interest-bearing deposits | 48,481 | 11,680 |

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| | | |
|--|-----------|-----------|
| Net increase in federal funds purchased | 940 | - |
| Proceeds from sale of common stock, net | 997 | 10,212 |
| Proceeds from sale of preferred stock, net | - | 39,958 |
| Repayment of other borrowings | (4,918) | (20,738) |
| Dividends on preferred stock | (200) | - |
| Net cash provided by financing activities | 93,834 | 74,590 |
| Net decrease in cash and cash equivalents | (87,131) | (34,523) |
| Cash and cash equivalents at beginning of year | 242,933 | 231,978 |
| Cash and cash equivalents at end of year | \$155,802 | \$197,455 |
| SUPPLEMENTAL DISCLOSURE | | |
| Cash paid for: | | |
| Interest | \$7,592 | \$7,932 |
| Income taxes | 8,691 | 8,136 |
| NONCASH TRANSACTIONS | | |
| Transfers of loans from held for sale to held for investment | \$- | \$417 |
| Other real estate acquired in settlement of loans | 304 | 2,112 |
| Internally financed sales of other real estate owned | 24 | 141 |

See Notes to Consolidated Financial Statements.

SERVISFIRST BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

(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, 2011.

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, as well as the potential common shares issuable upon possible conversion of the preferred securities described in Note 11 to the

consolidated financial statements.

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Three Months Ended June 30, 2012
 2011
 2012
 2011
 (In Thousands, Except Shares and Per Share Data)

| | | | | |
|---|-----------|-----------|-----------|-----------|
| Earnings per common share | | | | |
| Weighted average common shares outstanding | 5,981,218 | 5,708,871 | 5,971,630 | 5,694,871 |
| Net income available to common stockholders | \$8,231 | \$5,845 | \$16,387 | \$10,716 |
| Basic earnings per common share | \$1.38 | \$1.02 | \$2.74 | \$1.88 |
| | | | | |
| Weighted average common shares outstanding | 5,981,218 | 5,708,871 | 5,971,630 | 5,694,871 |
| Dilutive effects of assumed conversions and exercise of stock options and warrants | 952,346 | 997,082 | 952,087 | 962,488 |
| Weighted average common and dilutive potential common shares outstanding | 6,933,564 | 6,705,953 | 6,923,717 | 6,657,359 |
| Net income available to common stockholders | \$8,231 | \$5,845 | \$16,387 | \$10,716 |
| Effect of interest expense on convertible debt, net of tax and discretionary expenditures related to conversion | 142 | 148 | 283 | 294 |
| Net income available to common stockholders, adjusted for effect of debt conversion | \$8,373 | \$5,993 | \$16,670 | \$11,010 |
| Diluted earnings per common share | \$1.21 | \$0.89 | \$2.41 | \$1.65 |

NOTE 4 - SECURITIES

The amortized cost and fair value of available-for-sale and held-to-maturity securities at June 30, 2012 and December 31, 2011 are summarized as follows:

| | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | Market Value |
|---|----------------|-----------------------|-----------------------|--------------|
| | (In Thousands) | | | |
| June 30, 2012 | | | | |
| Securities Available for Sale | | | | |
| U.S. Treasury and government sponsored agencies | \$86,643 | \$ 1,272 | \$ - | \$87,915 |
| Mortgage-backed securities | 84,665 | 4,672 | (7) | 89,330 |
| State and municipal securities | 107,733 | 5,766 | (36) | 113,463 |
| Corporate debt | 5,756 | 44 | - | 5,800 |
| Total | 284,797 | 11,754 | (43) | 296,508 |
| Securities Held to Maturity | | | | |
| Mortgage-backed securities | 15,476 | 651 | (24) | 16,103 |
| State and municipal securities | 5,535 | 555 | - | 6,090 |
| Total | \$21,011 | \$ 1,206 | \$ (24) | \$22,193 |

December 31, 2011
 Securities Available for Sale

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| | | | | |
|---|----------|----------|----------|----------|
| U.S. Treasury and government sponsored agencies | \$98,169 | \$ 1,512 | \$ (59) | \$99,622 |
| Mortgage-backed securities | 88,118 | 4,462 | - | 92,580 |
| State and municipal securities | 95,331 | 5,230 | (35) | 100,526 |
| Corporate debt | 1,029 | 52 | - | 1,081 |
| Total | 282,647 | 11,256 | (94) | 293,809 |
| Securities Held to Maturity | | | | |
| Mortgage-backed securities | 9,676 | 410 | - | 10,086 |
| State and municipal securities | 5,533 | 380 | - | 5,913 |
| Total | \$15,209 | \$ 790 | \$ - | \$15,999 |

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 June 30, 2012 and December 31, 2011, 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 June 30, 2012, none of the Company's 553 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 June 30, 2012. 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 |
| June 30, 2012 | | | | | | |
| U.S. Treasury and government sponsored agencies | \$- | \$ - | \$ - | \$ - | \$- | \$ - |
| Mortgage-backed securities | (31) | 5,902 | - | - | (31) | 5,902 |
| State and municipal securities | (36) | 7,500 | - | - | (36) | 7,500 |
| Corporate debt | - | - | - | - | - | - |
| Total | \$(67) | \$ 13,402 | \$ - | \$ - | \$(67) | \$ 13,402 |
| December 31, 2011 | | | | | | |
| U.S. Treasury and government sponsored agencies | \$(59) | \$ 15,074 | \$ - | \$ - | \$(59) | \$ 15,074 |
| State and municipal securities | (35) | 4,559 | - | - | (35) | 4,559 |
| Corporate debt | - | - | - | - | - | - |
| Total | \$(94) | \$ 19,633 | \$ - | \$ - | \$(94) | \$ 19,633 |

NOTE 5 – LOANS

The following table details the Company's loans at June 30, 2012 and December 31, 2011:

| | June 30, 2012 | December 31, 2011 | | |
|--|------------------------|----------------------|--------|---|
| | (Dollars In Thousands) | | | |
| Commercial, financial and agricultural | \$ 856,823 | \$ 799,464 | | |
| Real estate - construction | 148,486 | 151,218 | | |
| Real estate - mortgage: | | | | |
| Owner-occupied commercial | 490,204 | 398,601 | | |
| 1-4 family mortgage | 229,036 | 205,182 | | |
| Other mortgage | 254,295 | 235,251 | | |
| Subtotal: Real estate - mortgage | 973,535 | 839,034 | | |
| Consumer | 43,745 | 41,026 | | |
| Total Loans | 2,022,589 | 1,830,742 | | |
| Less: Allowance for loan losses | (23,239) | (22,030) | | |
| Net Loans | \$ 1,999,350 | \$ 1,808,712 | | |
| Commercial, financial and agricultural | 42.36 | % | 43.67 | % |
| Real estate - construction | 7.34 | % | 8.26 | % |
| Real estate - mortgage: | | | | |
| Owner-occupied commercial | 24.24 | % | 21.77 | % |
| 1-4 family mortgage | 11.33 | % | 11.21 | % |
| Other mortgage | 12.57 | % | 12.85 | % |
| Subtotal: Real estate - mortgage | 48.14 | % | 45.83 | % |
| Consumer | 2.16 | % | 2.24 | % |
| 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 June 30, 2012 and December 31, 2011 were as follows:

| June 30, 2012 | Pass | Special Mention | Substandard | Doubtful | Total |
|--|----------------|--------------------|-------------|----------|-------------|
| | (In Thousands) | | | | |
| Commercial, financial and agricultural | \$840,432 | \$10,379 | \$ 6,012 | \$ - | \$856,823 |
| Real estate - construction | 117,852 | 8,295 | 22,339 | - | 148,486 |
| Real estate - mortgage: | | | | | |
| Owner-occupied commercial | 477,066 | 7,097 | 6,041 | - | 490,204 |
| 1-4 family mortgage | 216,338 | 6,614 | 6,084 | - | 229,036 |
| other mortgage | 243,987 | 6,884 | 3,424 | - | 254,295 |
| Total real estate mortgage | 937,391 | 20,595 | 15,549 | - | 973,535 |
| Consumer | 43,393 | 86 | 266 | - | 43,745 |
| Total | \$1,939,068 | \$39,355 | \$ 44,166 | \$ - | \$2,022,589 |

| December 31, 2011 | Pass | Special Mention | Substandard | Doubtful | Total |
|--|----------------|--------------------|-------------|----------|-------------|
| | (In Thousands) | | | | |
| Commercial, financial and agricultural | \$780,270 | \$11,775 | \$ 7,419 | \$ - | \$799,464 |
| Real estate - construction | 117,244 | 14,472 | 19,502 | - | 151,218 |
| Real estate - mortgage: | | | | | |
| Owner-occupied commercial | 385,084 | 7,333 | 6,184 | - | 398,601 |
| 1-4 family mortgage | 194,447 | 4,835 | 5,900 | - | 205,182 |
| other mortgage | 224,807 | 7,034 | 3,410 | - | 235,251 |
| Total real estate mortgage | 804,338 | 19,202 | 15,494 | - | 839,034 |
| Consumer | 40,353 | 96 | 577 | - | 41,026 |
| Total | \$1,742,205 | \$45,545 | \$ 42,992 | \$ - | \$1,830,742 |

Loans by performance status as of June 30, 2012 and December 31, 2011 were as follows:

| June 30, 2012 | Performing | Nonperforming | Total |
|--|----------------|---------------|-------------|
| | (In Thousands) | | |
| Commercial, financial and agricultural | \$856,367 | \$ 456 | \$856,823 |
| Real estate - construction | 140,971 | 7,515 | 148,486 |
| Real estate - mortgage: | | | |
| Owner-occupied commercial | 487,247 | 2,957 | 490,204 |
| 1-4 family mortgage | 228,568 | 468 | 229,036 |
| other mortgage | 253,602 | 693 | 254,295 |
| Total real estate mortgage | 969,417 | 4,118 | 973,535 |
| Consumer | 43,709 | 36 | 43,745 |
| Total | \$2,010,464 | \$ 12,125 | \$2,022,589 |

| December 31, 2011 | Performing | Nonperforming | Total |
|--|----------------|---------------|-------------|
| | (In Thousands) | | |
| Commercial, financial and agricultural | \$798,285 | \$ 1,179 | \$799,464 |
| Real estate - construction | 141,155 | 10,063 | 151,218 |
| Real estate - mortgage: | | | |
| Owner-occupied commercial | 397,809 | 792 | 398,601 |
| 1-4 family mortgage | 204,512 | 670 | 205,182 |
| other mortgage | 234,558 | 693 | 235,251 |
| Total real estate mortgage | 836,879 | 2,155 | 839,034 |
| Consumer | 40,651 | 375 | 41,026 |
| Total | \$1,816,970 | \$ 13,772 | \$1,830,742 |

Loans by past due status as of June 30, 2012 and December 31, 2011 were as follows:

| June 30, 2012 | Past Due Status (Accruing Loans) | | | | Non-Accrual | Current | Total Loans |
|--|----------------------------------|------------|----------|----------------|-------------|-------------|-------------|
| | 30-59 Days | 60-89 Days | 90+ Days | Total Past Due | | | |
| Commercial, financial and agricultural | \$469 | \$ 7 | \$ - | \$ 476 | \$ 456 | \$855,891 | \$856,823 |
| Real estate - construction | 1,925 | - | - | 1,925 | 7,515 | 139,046 | 148,486 |
| Real estate - mortgage: | | | | | | | |
| Owner-occupied commercial | - | - | - | - | 2,957 | 487,247 | 490,204 |
| 1-4 family mortgage | 16 | 389 | - | 405 | 468 | 228,163 | 229,036 |
| Other mortgage | - | - | - | - | 693 | 253,602 | 254,295 |
| Total real estate - mortgage | 16 | 389 | - | 405 | 4,118 | 969,012 | 973,535 |
| Consumer | 34 | 2 | - | 36 | 36 | 43,673 | 43,745 |
| Total | \$2,444 | \$ 398 | \$ - | \$ 2,842 | \$ 12,125 | \$2,007,622 | \$2,022,589 |

| December 31, 2011 | Past Due Status (Accruing Loans) | | | | Non-Accrual | Current | Total Loans |
|--|----------------------------------|------------|----------|----------------|-------------|-------------|-------------|
| | 30-59 Days | 60-89 Days | 90+ Days | Total Past Due | | | |
| Commercial, financial and agricultural | \$- | \$ - | \$ - | \$ - | \$ 1,179 | \$798,285 | \$799,464 |
| Real estate - construction | 2,234 | - | - | 2,234 | 10,063 | 138,921 | 151,218 |
| Real estate - mortgage: | | | | | | | |
| Owner-occupied commercial | - | - | - | - | 792 | 397,809 | 398,601 |
| 1-4 family mortgage | 2,107 | - | - | 2,107 | 670 | 202,405 | 205,182 |
| Other mortgage | - | - | - | - | 693 | 234,558 | 235,251 |
| Total real estate - mortgage | 2,107 | - | - | 2,107 | 2,155 | 834,772 | 839,034 |
| Consumer | - | 84 | - | 84 | 375 | 40,567 | 41,026 |
| Total | \$4,341 | \$ 84 | \$ - | \$ 4,425 | \$ 13,772 | \$1,812,545 | \$1,830,742 |

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 unallocated portion of the reserve 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. The unallocated 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 June 30, 2012 and December 31, 2011. 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 Real estate - Real estate -
 agricultural construction mortgage Consumer Unallocated Total
 (In Thousands)

Three Months Ended June 30, 2012

| | | | | | | |
|----------------------------|---------|----------|----------|--------|----------|----------|
| Allowance for loan losses: | | | | | | |
| Balance at March 31, 2012 | \$6,625 | \$ 7,607 | \$ 3,893 | \$ 510 | \$ 5,027 | \$23,662 |
| Chargeoffs | (261) | (2,502) | (221) | (537) | - | (3,521) |
| Recoveries | - | 8 | 4 | 3 | - | 15 |
| Provision | 147 | 2,469 | (36) | 309 | 194 | 3,083 |
| Balance at June 30, 2012 | \$6,511 | \$ 7,582 | \$ 3,640 | \$ 285 | \$ 5,221 | \$23,239 |

Three Months Ended June 30, 2011

| | | | | | | |
|----------------------------|---------|----------|---------|-------|---------|----------|
| Allowance for loan losses: | | | | | | |
| Balance at March 31, 2011 | \$6,241 | \$6,285 | \$2,669 | \$441 | \$3,590 | \$19,226 |
| Chargeoffs | (310) | (1,021) | (15) | (5) | - | (1,351) |
| Recoveries | - | 74 | 1 | 72 | - | 147 |
| Provision | (109) | 1,130 | 532 | 43 | (102) | 1,494 |
| Balance at June 30, 2011 | \$5,822 | \$6,468 | \$3,187 | \$551 | \$3,488 | \$19,516 |

Six Months Ended June 30, 2012

| | | | | | | |
|------------------------------|---------|----------|---------|--------|---------|----------|
| Allowance for loan losses: | | | | | | |
| Balance at December 31, 2011 | \$6,627 | \$6,542 | \$3,295 | \$531 | \$5,035 | \$22,030 |
| Chargeoffs | (548) | (2,919) | (281) | (629) | - | (4,377) |
| Recoveries | 100 | 8 | 6 | 6 | - | 120 |
| Provision | 332 | 3,951 | 620 | 377 | 186 | 5,466 |
| Balance at June 30, 2012 | \$6,511 | \$7,582 | \$3,640 | \$285 | \$5,221 | \$23,239 |

Six Months Ended June 30, 2011

| | | | | | | |
|------------------------------|---------|----------|---------|--------|---------|----------|
| Allowance for loan losses: | | | | | | |
| Balance at December 31, 2010 | \$5,348 | \$6,373 | \$2,443 | \$749 | \$3,164 | \$18,077 |
| Chargeoffs | (860) | (1,321) | (15) | (329) | - | (2,525) |
| Recoveries | - | 165 | 1 | 73 | - | 239 |
| Provision | 1,334 | 1,251 | 758 | 58 | 324 | 3,725 |
| Balance at June 30, 2011 | \$5,822 | \$6,468 | \$3,187 | \$551 | \$3,488 | \$19,516 |