ServisFirst Bancshares, Inc.
Form 10-Q
August 02, 2016

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 JUNE 30, 2016

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _______to_______

Commission file number 001-36452

SERVISFIRST BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

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 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 definitions of “large accelerated filer”, “accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer x 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 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 July 29, 2016**
Common stock, $.001 par value	26,251,948

TABLE OF CONTENTS

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SERVISFIRST BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	June 30, 2016	December 31, 2015
	(Unaudited)	(1)
ASSETS		
Cash and due from banks	$ 54,985	$ 46,614
Interest-bearing balances due from depository institutions	417,703	270,836
Federal funds sold	116,038	34,785
Cash and cash equivalents	588,726	352,235
Available for sale debt securities, at fair value	321,044	342,938
Held to maturity debt securities (fair value of $27,717 and $27,910 at June 30, 2016 and December 31, 2015, respectively)	26,662	27,426
Restricted equity securities	5,671	4,954
Mortgage loans held for sale	7,933	8,249
Loans	4,539,338	4,216,375
Less allowance for loan losses	(46,998)	(43,419)
Loans, net	4,492,340	4,172,956
Premises and equipment, net	23,221	19,434
Accrued interest and dividends receivable	13,487	13,698
Deferred tax assets	21,710	23,425
Other real estate owned and repossessed assets	4,260	5,392
Bank owned life insurance contracts	102,873	91,594
Goodwill and other identifiable intangible assets	15,154	15,330
Other assets	22,974	17,878
Total assets	$ 5,646,055	$ 5,095,509
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 1,185,668	$ 1,053,467
Interest-bearing	3,482,127	3,170,421
Total deposits	4,667,795	4,223,888
Federal funds purchased	420,430	352,360
Other borrowings	55,450	55,637
Accrued interest payable	2,876	2,369

Other liabilities	10,407	12,108
Total liabilities	5,156,958	4,646,362
Stockholders' equity:		
Preferred stock, Series A Senior Non-Cumulative Perpetual, par value $.001 (liquidation preference $1,000), net of discount; no shares authorized, no shares issued or outstanding at June 30, 2016; 40,000 shares authorized, no shares issued or outstanding at December 31, 2015	-	-
Preferred stock, par value $.001 per share; 1,000,000 shares authorized and undesignated at June 30, 2016, and 1,000,000 shares authorized and 960,000 shares undesignated at December 31, 2015	-	-
Common stock, par value $.001 per share; 100,000,000 shares authorized and 26,251,948 shares issued and outstanding at June 30, 2016, and 50,000,000 authorized and 25,972,698 shares issued and outstanding at December 31, 2015	26	26
Additional paid-in capital	214,525	211,546
Retained earnings	268,765	234,150
Accumulated other comprehensive income	5,404	3,048
Total stockholders' equity attributable to ServisFirst Bancshares, Inc.	488,720	448,770
Noncontrolling interest	377	377
Total stockholders' equity	489,097	449,147
Total liabilities and stockholders' equity	$ 5,646,055	$ 5,095,509

(1) Derived from audited financial statements.

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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest income:				
Interest and fees on loans	$ 49,210	$ 42,105	$ 96,457	$ 80,751
Taxable securities	1,238	1,104	2,507	2,232
Nontaxable securities	834	874	1,692	1,734
Federal funds sold	210	24	283	101
Other interest and dividends	558	102	1,072	174
Total interest income	52,050	44,209	102,011	84,992
Interest expense:				
Deposits	4,633	3,512	8,994	6,782
Borrowed funds	1,526	486	2,947	962
Total interest expense	6,159	3,998	11,941	7,744
Net interest income	45,891	40,211	90,070	77,248
Provision for loan losses	3,800	4,062	5,859	6,467
Net interest income after provision for loan losses	42,091	36,149	84,211	70,781
Noninterest income:				
Service charges on deposit accounts	1,306	1,276	2,613	2,483
Mortgage banking	901	735	1,569	1,189
Securities (losses) gains	(3)	-	(3)	29
Increase in cash surrender value life insurance	655	660	1,279	1,308
Other operating income	988	759	1,824	1,355
Total noninterest income	3,847	3,430	7,282	6,364
Noninterest expenses:				
Salaries and employee benefits	10,733	10,426	21,800	19,434
Equipment and occupancy expense	2,023	1,634	4,008	3,295
Professional services	999	665	1,737	1,233
FDIC and other regulatory assessments	803	626	1,553	1,246
OREO expense	41	289	490	503
Merger expense	-	-	-	2,096
Other operating expenses	4,905	4,498	9,206	8,939
Total noninterest expenses	19,504	18,138	38,794	36,746
Income before income taxes	26,434	21,441	52,699	40,399
Provision for income taxes	7,558	6,972	13,867	12,875
Net income	18,876	14,469	38,832	27,524
Preferred stock dividends	23	123	23	223

Net income available to common stockholders	$ 18,853	$ 14,346	$ 38,809	$ 27,301
Basic earnings per common share	$ 0.72	$ 0.56	$ 1.48	$ 1.07
Diluted earnings per common share	$ 0.71	$ 0.54	$ 1.46	$ 1.04

See Notes to Consolidated Financial Statements

4

SERVISFIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	$ 18,876	$ 14,469	$ 38,832	$ 27,524
Other comprehensive income (loss), net of tax:				
Unrealized holding gains (losses) arising during period from securities available for sale, net of tax of $272 and $1,256 for the three and six months ended June 30, 2016, respectively, and $399 and $390 for the three and six months ended June 30, 2015, respectively	520	(1,467)	2,354	(722)
Reclassification adjustment for net losses (gains) on sale of securities in net income, net of tax of $1 for the three and six months ended June 30, 2016, and $0 and $10 for three and six months ended June 30, 2015, respectively	2	-	2	(19)
Other comprehensive income (loss), net of tax	522	(1,467)	2,356	(741)
Comprehensive income	$ 19,398	$ 13,002	$ 41,188	$ 26,783

See Notes to Consolidated Financial Statements

5

SERVISFIRST BANCSHARES, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

SIX MONTHS ENDED JUNE 30, 2016 AND 2015

(In thousands, except share amounts)

(Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total Stockholders' Equity
Balance, December 31, 2015	$-	$ 26	$211,546	$234,150	$ 3,048	$ 377	$ 449,147
Common dividends paid, $0.08 per share	-	-	-	(2,095)	-	-	(2,095)
Common dividends declared, $0.08 per share	-	-	-	(2,099)	-	-	(2,099)
Preferred dividends paid	-	-	-	(23)	-	-	(23)
Issue 274,750 shares of common stock upon exercise of stock options	-	-	2,339	-	-	-	2,339
Stock-based compensation expense	-	-	640	-	-	-	640
Other comprehensive income, net of tax	-	-	-	-	2,356	-	2,356
Net income	-	-	-	38,832	-	-	38,832
Balance, June 30, 2016	$-	$ 26	$214,525	$268,765	$ 5,404	$ 377	$ 489,097
Balance, December 31, 2014	$39,958	$ 25	$185,397	$177,091	$ 4,490	$ 252	$ 407,213
Common dividends paid, $0.06 per share	-	-	-	(1,539)	-	-	(1,539)
Common dividends declared, $0.06 per share	-	-	-	(1,550)	-	-	(1,550)
Preferred dividends paid	-	-	-	(223)	-	-	(223)
Issue 636,592 shares of common stock as consideration for Metro Bancshares, Inc. acquisition	-	1	19,355	-	-	-	19,356
Issue 386,500 shares of common stock upon exercise of stock options	-	-	2,693	-	-	-	2,693
Excess tax benefit on exercise and vesting of stock options	-	-	1,065	-	-	-	1,065
	-	-	-	-	-	125	125

Issue 125 shares of REIT preferred stock							
Stock-based compensation expense	-	-	564	-	-	-	564
Other comprehensive income, net of tax	-	-	-	-	(741)	-	(741)
Net income	-	-	-	27,524	-	-	27,524
Balance, June 30, 2015	$ 39,958	$ 26	$ 209,074	$ 201,303	$ 3,749	$ 377	$ 454,487

See Notes to Consolidated Financial Statements

6

SERVISFIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2016 AND 2015

(In thousands) (Unaudited)

	2016	2015
OPERATING ACTIVITIES		
Net income	$38,832	$27,524
Adjustments to reconcile net income to net cash provided by:		
Deferred tax expense	440	87
Provision for loan losses	5,859	6,467
Depreciation	1,480	1,124
Accretion on acquired loans	(624)	(1,120)
Amortization of core deposit intangible	176	180
Net amortization of debt securities available for sale	1,288	1,214
Decrease (increase) in accrued interest and dividends receivable	211	(207)
Stock-based compensation expense	640	564
Increase in accrued interest and dividends payable	507	311
Proceeds from sale of mortgage loans held for sale	61,054	61,717
Originations of mortgage loans held for sale	(59,169)	(66,266)
Loss (gain) on sale of debt securities available for sale	3	(29)
Gain on sale of mortgage loans held for sale	(1,569)	(1,189)
Net loss on sale of other real estate owned	39	41
Write down of other real estate owned	397	188
Operating losses on tax credit and other partnerships	176	76
Increase in cash surrender value of life insurance contracts	(1,279)	(1,308)
Net change in other assets, liabilities, and other operating activities	(7,563)	(4,273)
Net cash provided by operating activities	40,898	25,101
INVESTMENT ACTIVITIES		
Purchase of debt securities available for sale	(15,119)	(17,497)
Proceeds from sale of debt securities available for sale	6,085	16,738
Proceeds from maturities, calls and paydowns of debt securities available for sale	34,255	20,611
Purchase of debt securities held to maturity	(439)	(202)
Proceeds from maturities, calls and paydowns of debt securities held to maturity	1,203	534
Purchase of equity securities	(708)	(534)
Increase in loans	(325,496)	(357,687)
Purchase of premises and equipment	(5,267)	(441)
Purchase of bank-owned life insurance contracts	(10,000)	-
Expenditures to complete construction of other real estate owned	(3)	(91)
Proceeds from sale of other real estate owned and repossessed assets	1,575	2,665
Investment in tax credit partnerships	(2,491)	-
Net cash paid in acquisition of Metro Bancshares, Inc.	-	(12,883)

Net cash used in investing activities	(316,405)	(348,787)
FINANCING ACTIVITIES		
Net increase in noninterest-bearing deposits	132,201	68,839
Net increase in interest-bearing deposits	311,706	86,379
Net increase in federal funds purchased	68,070	6,605
Repayment of Federal Home Loan Bank advances	(200)	(200)
Proceeds from sale of preferred stock, net	-	125
Proceeds from exercise of stock options	2,339	2,693
Dividends paid on common stock	(2,095)	(1,539)
Dividends paid on preferred stock	(23)	(223)
Net cash provided by financing activities	511,998	162,679
Net increase (decrease) in cash and cash equivalents	236,491	(161,007)
Cash and cash equivalents at beginning of year	352,235	297,464
Cash and cash equivalents at end of year	$588,726	$136,457
SUPPLEMENTAL DISCLOSURE		
Cash paid for:		
Interest	$11,434	$7,344
Income taxes	17,546	14,855
NONCASH TRANSACTIONS		
Other real estate acquired in settlement of loans	$2,036	$1,941
Internally financed sales of other real estate owned	1,157	-
Dividends declared	2,099	1,550
Fair value of assets and liabilities from acquisition:		
Fair value of tangible assets acquired	$-	$201,821
Other intangible assets acquired	-	18,143
Fair value of liabilities assumed	-	(179,682)
Total merger consideration	-	40,282

See Notes to Consolidated Financial Statements

SERVISFIRST BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

(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”) and its consolidated subsidiaries, including ServisFirst Bank (the “Bank”), 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, 2015.

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

NOTE 2 - ACQUISITION

On January 31, 2015, the Company completed its acquisition of Metro and Metro Bank, its wholly-owned bank subsidiary, for an aggregate of $20.9 million in cash and 636,592 shares of Company common stock. The acquisition of Metro was the Company’s entrance into the greater Atlanta, Georgia area with two added banking offices.

The following table provides a summary of the assets acquired and liabilities assumed as recorded by Metro, the fair value adjustments necessary to adjust those acquired assets and assumed liabilities to estimated fair value, and the resultant fair values of those assets and liabilities as recorded by the Company.

	January 31, 2015			
	As recorded by Metro	Fair value adjustments		As recorded by the Company
	(In Thousands)			
Assets acquired:				
Cash and cash equivalents	$8,543	$ -		$ 8,543
Debt securities	28,833	(41)	a	28,792
Equity securities	499	-		499
Loans	152,869	(3,874)	b	148,995
Allowance for loan losses	(1,621)	1,621	b	-
Premises and equipment, net	7,606	762	c	8,368
Accrued interest receivable	484	-		484
Deferred taxes	754	3,153	d	3,907
Other real estate owned	2,373	(25)	e	2,348
Bank owned life insurance contracts	2,685	-		2,685
Core deposit intangible	-	2,090	f	2,090
Other assets	364	-		364
Total assets acquired	$203,389	$ 3,686		$ 207,075
Liabilities assumed:				
Deposits	$175,236	$ 518	g	$ 175,754
Federal funds purchased	2,175	-		2,175
Other borrowings	1,400	(4)	h	1,396
Accrued interest payable	89	-		89
Other liabilities	996	-		996
Total liabilities assumed	$179,896	$ 514		$ 180,410
Net assets acquired	$23,493	$ 3,172		$ 26,665
Consideration Paid:				
Cash				$ (20,926)
Stock				(19,356)
Total consideration paid				(40,282)
Goodwill				$ 13,617

Explanation of fair value adjustments:

a- Adjustment reflects the fair value adjustment based on the Company’s pricing of the acquired debt securities portfolio.
b- Adjustment reflects the fair value adjustment based on the Company’s evaluation of the acquired loan portfolio and to eliminate the recorded allowance for loan losses.
c- Adjustment reflects the fair value adjustment based on the Company’s evaluation of the premises and equipment acquired.
d- Adjustment reflects the differences in the carrying values of acquired assets and assumed liabilities for financial statement purposes and their basis for federal income tax purposes.
e- Adjustment reflects the fair value adjustment based on the Company’s evaluation of the other real estate owned acquired.
f- Adjustment reflects the fair value adjustment for the core deposit intangible asset recorded as a result of the acquisition.
g- Adjustment reflects the fair value adjustment based on the Company’s evaluation of the acquired deposits.

h- Adjustment reflects the fair value adjustment based on the Company’s evaluation of the assumed debt.

The estimated fair value of the purchased credit impaired loans acquired in the Metro transaction on January 31, 2015 was $5.1 million, which amount is immaterial to the Company’s consolidated financial statements.

Pro forma financial information is not provided because such amounts are immaterial to the Company’s consolidated financial statements.

NOTE 3 - 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 4 - 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In Thousands, Except Shares and Per Share Data)			
Earnings per common share				
Weighted average common shares outstanding	26,212,863	25,715,654	26,170,195	25,507,396
Net income available to common stockholders	$18,853	$14,346	$38,809	$27,301
Basic earnings per common share	$0.72	$0.56	$1.48	$1.07
Weighted average common shares outstanding	26,212,863	25,715,654	26,170,195	25,507,396
Dilutive effects of assumed conversions and exercise of stock options	513,400	710,382	476,342	825,131
Weighted average common and dilutive potential common shares outstanding	26,726,263	26,426,036	26,646,537	26,332,527
Net income available to common stockholders	$18,853	$14,346	$38,809	$27,301
Diluted earnings per common share	$0.71	$0.54	$1.46	$1.04

NOTE 5 - SECURITIES

The amortized cost and fair value of available-for-sale and held-to-maturity securities at June 30, 2016 and December 31, 2015 are summarized as follows:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Market Value
	(In Thousands)			
June 30, 2016				
Securities Available for Sale				
U.S. Treasury and government sponsored agencies	$38,215	$ 1,101	$ -	$39,316
Mortgage-backed securities	125,939	4,014	-	129,953
State and municipal securities	139,642	3,150	(12)	142,780
Corporate debt	8,949	46	-	8,995
Total	312,745	8,311	(12)	321,044
Securities Held to Maturity				
Mortgage-backed securities	20,461	528	-	20,989
State and municipal securities	6,201	527	-	6,728
Total	$26,662	$ 1,055	$ -	$27,717
December 31, 2015				
Securities Available for Sale				
U.S. Treasury and government sponsored agencies	$44,581	$ 569	$ (141)	$45,009
Mortgage-backed securities	135,363	1,945	(354)	136,954

State and municipal securities	143,403	2,731	(101)	146,033
Corporate debt	14,902	67	(27)	14,942
Total	338,249	5,312	(623)	342,938
Securities Held to Maturity				
Mortgage-backed securities	21,666	368	(332)	21,702
State and municipal securities	5,760	449	(1)	6,208
Total	$27,426	$ 817	$ (333)	$27,910

The amortized cost and fair value of debt securities as of June 30, 2016 by contractual maturity are shown below. Actual maturities may differ from contractual maturities of mortgage-backed securities since the mortgages underlying the securities may be called or prepaid with or without penalty. Therefore, these securities are not included in the maturity categories along with the other categories of debt securities.

	June 30, 2016		December 31, 2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Debt securities available for sale				
Due within one year	$23,287	$23,441	$16,770	$16,868
Due from one to five years	139,329	142,704	153,880	156,311
Due from five to ten years	24,190	24,946	32,236	32,805
Mortgage-backed securities	125,939	129,953	135,363	136,954
	$312,745	$321,044	$338,249	$342,938
Debt securities held to maturity				
Due from five to ten years	$627	$663	$627	$659
Due after ten years	5,574	6,065	5,133	5,549
Mortgage-backed securities	20,461	20,989	21,666	21,702
	$26,662	$27,717	$27,426	$27,910

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, 2016 and December 31, 2015, 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, 2016, six of the Company’s 739 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, 2016. 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)					
June 30, 2016						
U.S. Treasury and government sponsored agencies	$-	$ -	$ -	$ -	$-	$ -
Mortgage-backed securities	-	-	-	-	-	-
State and municipal securities	(8)	4,393	(4)	1,215	(12)	5,608
Corporate debt	-	-	-	-	-	-

Total	$(8)	$ 4,393	$ (4)	$ 1,215	$(12)	$ 5,608
December 31, 2015						
U.S. Treasury and government sponsored agencies	$(141)	$ 3,886	$ -	$ -	$(141)	$ 3,886
Mortgage-backed securities	(354)	56,609	(332)	11,712	(686)	68,321
State and municipal securities	(55)	15,464	(47)	4,531	(102)	19,995
Corporate debt	(27)	2,961	-	-	(27)	2,961
Total	$(577)	$ 78,920	$ (379)	$ 16,243	$(956)	$ 95,163

11

NOTE 6 – LOANS

The following table details the Company's loans at June 30, 2016 and December 31, 2015:

	June 30, 2016	December 31, 2015
	(Dollars In Thousands)	
Commercial, financial and agricultural	$1,895,870	$ 1,760,479
Real estate - construction	251,144	243,267
Real estate - mortgage:		
Owner-occupied commercial	1,117,514	1,014,669
1-4 family mortgage	494,733	444,134
Other mortgage	725,336	698,779
Subtotal: Real estate - mortgage	2,337,583	2,157,582
Consumer	54,741	55,047
Total Loans	4,539,338	4,216,375
Less: Allowance for loan losses	(46,998)	(43,419)
Net Loans	$4,492,340	$ 4,172,956

Commercial, financial and agricultural	41.76 %	41.75 %
Real estate - construction	5.53 %	5.77 %
Real estate - mortgage:		
Owner-occupied commercial	24.62 %	24.07 %
1-4 family mortgage	10.90 %	10.53 %
Other mortgage	15.98 %	16.57 %
Subtotal: Real estate - mortgage	51.50 %	51.17 %
Consumer	1.21 %	1.31 %
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 currently 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, 2016 and December 31, 2015 were as follows:

12

June 30, 2016	Pass	Special Mention	Substandard	Doubtful	Total
	(In Thousands)				
Commercial, financial and agricultural	$1,819,738	$58,467	$ 17,665	$ -	$1,895,870
Real estate - construction	239,389	6,833	4,922	-	251,144
Real estate - mortgage:					
Owner-occupied commercial	1,095,079	8,466	13,969	-	1,117,514
1-4 family mortgage	489,905	2,120	2,708	-	494,733
Other mortgage	711,276	10,902	3,158	-	725,336
Total real estate mortgage	2,296,260	21,488	19,835	-	2,337,583
Consumer	54,493	221	27	-	54,741
Total	$4,409,880	$87,009	$ 42,449	$ -	$4,539,338

December 31, 2015	Pass	Special Mention	Substandard	Doubtful	Total
	(In Thousands)				
Commercial, financial and agricultural	$1,701,591	$47,393	$ 11,495	$ -	$1,760,479
Real estate - construction	233,046	6,221	4,000	-	243,267
Real estate - mortgage:					
Owner-occupied commercial	988,762	18,169	7,738	-	1,014,669
1-4 family mortgage	437,834	3,301	2,999	-	444,134
Other mortgage	683,157	11,086	4,536	-	698,779
Total real estate mortgage	2,109,753	32,556	15,273	-	2,157,582
Consumer	54,973	42	32	-	55,047
Total	$4,099,363	$86,212	$ 30,800	$ -	$4,216,375

Loans by performance status as of June 30, 2016 and December 31, 2015 were as follows:

June 30, 2016	Performing	Nonperforming	Total
	(In Thousands)		
Commercial, financial and agricultural	$1,895,539	$ 331	$1,895,870
Real estate - construction	247,522	3,622	251,144
Real estate - mortgage:			
Owner-occupied commercial	1,117,514	-	1,117,514
1-4 family mortgage	494,155	578	494,733
Other mortgage	724,752	584	725,336
Total real estate mortgage	2,336,421	1,162	2,337,583
Consumer	54,703	38	54,741
Total	$4,534,185	$ 5,153	$4,539,338

December 31, 2015	Performing	Nonperforming	Total
	(In Thousands)		
Commercial, financial and agricultural	$1,758,561	$ 1,918	$1,760,479
Real estate - construction	239,267	4,000	243,267
Real estate - mortgage:			
Owner-occupied commercial	1,014,669	-	1,014,669
1-4 family mortgage	443,936	198	444,134
Other mortgage	697,160	1,619	698,779
Total real estate mortgage	2,155,765	1,817	2,157,582
Consumer	55,015	32	55,047
Total	$4,208,608	$ 7,767	$4,216,375

Loans by past due status as of June 30, 2016 and December 31, 2015 were as follows:

June 30, 2016	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	$1,370	$ 28	$ -	$ 1,398	$ 331	$1,894,141	$1,895,870
Real estate - construction	-	-	-	-	3,622	247,522	251,144
Real estate - mortgage:							
Owner-occupied commercial	-	1,461	-	1,461	-	1,116,053	1,117,514
1-4 family mortgage	445	61	250	756	328	493,649	494,733
Other mortgage	-	-	162	162	422	724,752	725,336
Total real estate - mortgage	445	1,522	412	2,379	750	2,334,454	2,337,583
Consumer	427	5	11	443	27	54,271	54,741
Total	$2,242	$ 1,555	$ 423	$ 4,220	$ 4,730	$4,530,388	$4,539,338

December 31, 2015	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	$50	$ 35	$ -	$ 85	$ 1,918	$1,758,476	$1,760,479
Real estate - construction	198	12	-	210	4,000	239,057	243,267
Real estate - mortgage:							
Owner-occupied commercial	-	-	-	-	-	1,014,669	1,014,669
1-4 family mortgage	-	210	-	210	198	443,726	444,134
Other mortgage	-	-	-	-	1,619	697,160	698,779
Total real estate - mortgage	-	210	-	210	1,817	2,155,555	2,157,582
Consumer	45	6	1	52	31	54,964	55,047
Total	$293	$ 263	$ 1	$ 557	$ 7,766	$4,208,052	$4,216,375

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

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

Non-Impaired Loans. Non-impaired loans are grouped into homogeneous loan pools by loan type and are the following: commercial and industrial, construction and development, commercial real estate, second lien home equity lines of credit, and all other loans. Each loan pool is stratified by internal risk rating and multiplied by a loss allocation percentage derived from the loan pool historical loss rate. The historical loss rate is based on an age weighted 5 year history of net charge-offs experienced by pool, with the most recent net charge-off experience given a greater weighting. This results in the expected loss rate per year, adjusted by a qualitative adjustment factor and a years-to-impairment factor, for each pool of loans to derive the total amount of allowance for non-impaired loans.

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

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

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

The following table presents an analysis of the allowance for loan losses by portfolio segment and changes in the allowance for loan losses for the three and six months ended June 30, 2016 and June 30, 2015. The total allowance for loan losses is disaggregated into those amounts associated with loans individually evaluated and those associated with loans collectively evaluated.

	Commercial, financial and agricultural	Real estate - construction	Real estate - mortgage	Consumer	Total
	(In Thousands)				
	Three Months Ended June 30, 2016				
Allowance for loan losses:					
Balance at March 31, 2016	$22,839	$ 5,005	$16,901	$ 400	$45,145
Charge-offs	(1,412)	(355)	(191)	(31)	(1,989)
Recoveries	1	39	2	-	42
Provision	2,227	590	888	95	3,800
Balance at June 30, 2016	$23,655	$ 5,279	$17,600	$ 464	$46,998
	Three Months Ended June 30, 2015				
Allowance for loan losses:					
Balance at March 31, 2015	$16,857	$ 5,889	$13,546	$ 1,064	$37,356
Charge-offs	(1,151)	(93)	(208)	(19)	(1,471)
Recoveries	6	65	2	-	73
Provision	3,340	(187)	831	78	4,062
Balance at June 30, 2015	$19,052	$ 5,674	$14,171	$ 1,123	$40,020
	Six Months Ended June 30, 2016				
Allowance for loan losses:					
Balance at December 31, 2015	$21,495	$ 5,432	$16,061	$ 431	$43,419
Charge-offs	(1,462)	(736)	(191)	(49)	(2,438)
Recoveries	4	55	99	-	158
Provision	3,618	528	1,631	82	5,859
Balance at June 30, 2016	$23,655	$ 5,279	$17,600	$ 464	$46,998
	Six Months Ended June 30, 2015				
Allowance for loan losses:					
Balance at December 31, 2014	$16,079	$ 6,395	$12,112	$ 1,043	$35,629
Charge-offs	(1,228)	(475)	(641)	(24)	(2,368)
Recoveries	25	164	103	-	292
Provision	4,176	(410)	2,597	104	6,467
Balance at June 30, 2015	$19,052	$ 5,674	$14,171	$ 1,123	$40,020
	As of June 30, 2016				
Allowance for loan losses:					
Individually Evaluated for Impairment	$2,855	$ 1,319	$1,675	$ 27	$5,876
Collectively Evaluated for Impairment	20,800	3,960	15,925	437	41,122
Loans:					
Ending Balance	$1,895,870	$ 251,144	$2,337,583	$ 54,741	$4,539,338
Individually Evaluated for Impairment	17,665	4,972	22,371	31	45,039
Collectively Evaluated for Impairment	1,878,205	246,172	2,315,212	54,710	4,494,299

	As of December 31, 2015				
Allowance for loan losses:					
Individually Evaluated for Impairment	$2,698	$ 1,223	$1,730	$ 32	$5,683
Collectively Evaluated for Impairment	18,797	4,209	14,331	399	37,736
Loans:					
Ending Balance	$1,760,479	$ 243,267	$2,157,582	$ 55,047	$4,216,375
Individually Evaluated for Impairment	11,513	4,052	17,880	46	33,491
Collectively Evaluated for Impairment	1,748,966	239,215	2,139,702	55,001	4,182,884

The following table presents details of the Company’s impaired loans as of June 30, 2016 and December 31, 2015, respectively. Loans which have been fully charged off do not appear in the tables.

17

	June 30, 2016			For the three months ended June 30, 2016		For the six months ended June 30, 2016	
	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	$ 1,438	$ 1,438	$ -	$ 1,438	$ 15	$ 1,442	$ 30
Real estate - construction	1,264	2,466	-	1,267	1	1,774	10
Real estate - mortgage:							
Owner-occupied commercial	7,086	7,247	-	7,293	98	7,398	202
1-4 family mortgage	1,962	1,988	-	2,047	26	2,056	53
Other mortgage	2,928	2,928	-	2,944	40	2,958	81
Total real estate - mortgage	11,976	12,163	-	12,284	164	12,412	336
Consumer	4	6	-	6	-	5	-
Total with no allowance recorded	14,682	16,073	-	14,995	180	15,633	376
With an allowance recorded:							
Commercial, financial and agricultural	16,227	19,327	2,855	17,337	218	17,490	498
Real estate - construction	3,708	3,708	1,319	3,708	18	3,694	37
Real estate - mortgage:							
Owner-occupied commercial	9,420	9,420	1,320	9,350	111	9,336	220
1-4 family mortgage	745	745	349	745	4	745	10
Other mortgage	230	230	6	233	4	239	8
Total real estate - mortgage	10,395	10,395	1,675	10,328	119	10,320	238
Consumer	27	27	27	27	-	30	-
Total with allowance recorded	30,357	33,457	5,876	31,400	355	31,534	773
Total Impaired Loans:							
Commercial, financial and agricultural	17,665	20,765	2,855	18,775	233	18,932	528
Real estate - construction	4,972	6,174	1,319	4,975	19	5,468	47
Real estate - mortgage:							
Owner-occupied commercial	16,506	16,667	1,320	16,643	209	16,734	422
1-4 family mortgage	2,707	2,733	349	2,792	30	2,801	63
Other mortgage	3,158	3,158	6	3,177	44	3,197	89
Total real estate - mortgage	22,371	22,558	1,675	22,612	283	22,732	574
Consumer	31	33	27	33	-	35	-
Total impaired loans	$ 45,039	$ 49,530	$ 5,876	$ 46,395	$ 535	$ 47,167	$ 1,149

December 31, 2015

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized in Period
	(In Thousands)				
With no allowance recorded:					
Commercial, financial and agricultural	$478	$487	$ -	$ 482	$ 24
Real estate - construction	161	163	-	370	1
Real estate - mortgage:					
Owner-occupied commercial	3,980	4,140	-	3,815	214
1-4 family mortgage	2,396	2,572	-	2,409	147
Other mortgage	4,079	4,694	-	4,559	222
Total real estate - mortgage	10,455	11,406	-	10,783	583
Consumer	14	20	-	18	1
Total with no allowance recorded	11,108	12,076	-	11,653	609
With an allowance recorded:					
Commercial, financial and agricultural	11,035	13,035	2,698	13,882	672
Real estate - construction	3,891	4,370	1,223	3,920	-
Real estate - mortgage:					
Owner-occupied commercial	6,365	6,365	1,328	9,958	568
1-4 family mortgage	603	603	263	567	19
Other mortgage	457	457	139	880	17
Total real estate - mortgage	7,425	7,425	1,730	11,405	604
Consumer	32	32	32	34	-
Total with allowance recorded	22,383	24,862	5,683	29,241	1,276
Total Impaired Loans:					
Commercial, financial and agricultural	11,513	13,522	2,698	14,364	696
Real estate - construction	4,052	4,533	1,223	4,290	1
Real estate - mortgage:					
Owner-occupied commercial	10,345	10,505	1,328	13,773	782
1-4 family mortgage	2,999	3,175	263	2,976	166
Other mortgage	4,536	5,151	139	5,439	239
Total real estate - mortgage	17,880	18,831	1,730	22,188	1,187
Consumer	46	52	32	52	1
Total impaired loans	$33,491	$36,938	$ 5,683	$ 40,894	$ 1,885

Troubled Debt Restructurings (“TDR”) at June 30, 2016, December 31, 2015 and June 30, 2015 totaled $6.8 million, $7.7 million and $8.3 million, respectively. At June 30, 2016, the Company had a related allowance for loan losses of $1.0 million allocated to these TDRs, compared to $0.9 million at December 31, 2015 and $1.2 million at June 30, 2015. TDR activity by portfolio segment for the three and six months ended June 30, 2016 is presented in the table below. There were no modifications made to new TDRs or renewals of existing TDRs for the three and six months ended June 30, 2015.

	Three Months Ended June 30, 2016			Six Months Ended June 30, 2016		
	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	1	$ 366	$ 366	1	$ 366	$ 366
Real estate - construction	-	-	-	-	-	-
Real estate - mortgage:						
Owner-occupied commercial	-	-	-	-	-	-
1-4 family mortgage	-	-	-	-	-	-
Other mortgage	1	234	234	1	234	234
Total real estate mortgage	1	234	234	1	234	234
Consumer	-	-	-	-	-	-
	2	$ 600	$ 600	2	$ 600	$ 600

There were no TDRs which defaulted during the three and six months ended June 30, 2016 and 2015, and which were modified in the previous twelve months (i.e., the twelve months prior to default). For purposes of this disclosure, default is defined as 90 days past due and still accruing or placement on nonaccrual status. As of June 30, 2016, the Company's TDRs have all resulted from term extensions, rather than from interest rate reductions or debt forgiveness.

NOTE 7 - EMPLOYEE AND DIRECTOR BENEFITS

Stock Options

At June 30, 2016, the Company had stock-based compensation plans, as described below. The compensation cost that has been charged to earnings for the plans was approximately $297,000 and $640,000 for the three and six months ended June 30, 2016 and $263,000 and $564,000 for the three and six months ended June 30, 2015.

The Company's 2005 Amended and Restated Stock Option Plan allows for the grant of stock options to purchase up to 3,075,000 shares of the Company's common stock. The Company's 2009 Amended and Restated Stock Incentive Plan authorizes the grant of up to 2,775,000 shares and allows for the issuance of Stock Appreciation Rights, Restricted Stock, Stock Options, Performance Shares or Performance Units. Both plans allow for the grant of incentive stock options and non-qualified stock options, and awards are granted with an exercise price equal to the market value of the

Company’s common stock at the date of grant. The maximum term of the options granted under the plans is ten years.

The Company estimates the fair value of each stock option award using a Black-Scholes-Merton valuation model 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.

	2016	2015
Expected volatility	29.00 %	24.00 %
Expected dividends	0.63 %	0.71 %
Expected term (in years)	6.25	6.25
Risk-free rate	1.87 %	1.85 %

The weighted average grant-date fair value of options granted during the six months ended June 30, 2016 and June 30, 2015 was $11.80 and $8.37, respectively.

The following table summarizes stock option activity during the six months ended June 30, 2016 and June 30, 2015:

20

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (In Thousands)
Six Months Ended June 30, 2016:				
Outstanding at January 1, 2016	1,249,417	$ 13.32	6.3	$ 42,743
Granted	113,500	39.52	9.7	1,120
Exercised	(274,750)	8.51	4.4	11,230
Forfeited	(6,500)	38.82	9.2	69
Outstanding at June 30, 2016	1,081,667	17.13	6.6	$ 34,891
Exercisable at June 30, 2016	343,768	$ 12.17	6.0	$ 14,989
Six Months Ended June 30, 2015:				
Outstanding at January 1, 2015	1,622,917	$ 9.38	5.9	$ 38,256
Granted	160,000	33.16	9.7	706
Exercised	(386,500)	6.97	3.2	12,875
Forfeited	(7,500)	10.00	6.8	207
Outstanding at June 30, 2015	1,388,917	12.51	6.5	$ 34,425
Exercisable at June 30, 2015	272,418	$ 9.02	4.8	$ 7,779

As of June 30, 2016, there was approximately $2.6 million of total unrecognized compensation cost related to non-vested stock options. The cost is expected to be recognized on the straight-line method over the next 2.5 years.

Restricted Stock

The Company has issued 241,588 shares of restricted stock to certain employees. The value of restricted stock awards is determined to be the current value of the Company’s stock, and this total value will be recognized as compensation expense over the vesting period. As of June 30, 2016, there was $573,000 of total unrecognized compensation cost related to non-vested restricted stock. The cost is expected to be recognized evenly over the remaining 2.1 years of the restricted stock’s vesting period. During the second quarter of 2015, 7,500 shares of restricted stock were forfeited by one recipient upon his termination from the Company.

NOTE 8 - DERIVATIVES

The Company has entered into agreements with secondary market investors to deliver loans on a “best efforts delivery” basis. When a rate is committed to a borrower, it is based on the best price that day and locked with the investor for the customer for a 30-day period. In the event the loan is not delivered to the investor, the Company has no risk or exposure with the investor. The interest rate lock commitments related to loans that are originated for later sale are classified as derivatives. The fair values of the Company’s agreements with investors and rate lock commitments to customers as of June 30, 2016 and December 31, 2015 were not material.

NOTE 9 – RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs.* Under the ASU, an entity presents debt issuance costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. For public entities, the amendments in ASU 2015-03 were effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption was permitted for financial statements that have not been previously issued. The Company early adopted the amendments in ASU 2015-03. As of June 30, 2016, the Company had reported its $34.75 million of 5.00% Subordinated Notes due July 15, 2025 net of unamortized issue costs of $99,000 and recognized $6,000 and $12,000 of amortization in interest expense for the three and six months ended June 30, 2016, respectively.

In August 2015, the FASB issued ASU No. 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements: Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting,* to clarify the SEC staff's position on presenting and measuring debt issuance costs incurred in connection with line-of-credit arrangements given the lack of guidance on this topic in ASU 2015-03. The SEC staff has announced that it would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement. ASU 2015-15 was effective upon issuance for all entities. The Company considers the amendments in this ASU to have no effect on its consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*. The amendments modify the evaluation reporting organizations must perform to determine if certain legal entities should be consolidated as VIEs. Specifically, the amendments: (1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities; (2) eliminate the presumption that a general partner should consolidate a limited partnership; (3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. ASU No. 2015-02 became effective for interim and annual reporting periods beginning after December 15, 2015. The Company has adopted the provisions these amendments, and they have no impact on the Company's financial reporting.

In September 2015, the FASB issued ASU 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*. The amendments in ASU 2015-16 require that an acquirer recognize adjustments to estimated amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the estimated amounts, calculated as if the accounting had been completed at the acquisition date. The amendments also require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the estimated amounts had been recognized as of the acquisition date. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. Adoption of these amendments had no impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"), which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company elected to early adopt the provisions on this ASU during the second quarter of 2016, and retrospectively apply the changes in accounting for stock compensation back to the first quarter of 2016. In so doing, the Company recognized a $2.3 million reduction in its provision for income taxes in the first quarter of 2016 and an additional $1.3 million reduction in its provision for income taxes in the second quarter of 2016, all related to the exercise and vesting of stock options and restricted stock. Prior to ASU 2016-09, such tax benefits were recorded as an increase to additional paid-in capital.

NOTE 10 - RECENT ACCOUNTING PRONOUNCEMENTS

In August 2015, the FASB issued ASU 2015-14, *Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date.* This ASU defers the effective date of ASU 2014-09, *Revenue From Contracts With Customers (Topic 606)*, issued in May 2014, by one year. ASU 2014-09 is discussed in the Annual Report on Form 10-K for the year ended December 31, 2014. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted as of the date of the original effective date, for interim and annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the provisions of ASU 2015-14 and ASU 2014-09.

In January 2016, the FASB issued ASU 2016-1, *Financial Instruments Overall (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in ASU 2016-1: (a) require equity investments (except for those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (b) simplify the impairment assessment of equity securities without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminate the requirement for public business entities to disclose the method and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (d) require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (e) require an entity to present separately in other comprehensive income, the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (f) require separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the notes to the financial statements; and (g) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact of adopting the new guidance on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The FASB issued this ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current U.S. GAAP and disclosing key information about leasing arrangements. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early application of this ASU is permitted for all entities. The Company is currently evaluating the impact of adopting the new guidance on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07*, Investments – Equity Method and Joint Ventures (Topic 323), Simplifying the Transition to the Equity Method of Accounting*. The amendments eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The amendments require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increase the level of ownership interest or degree of influence that result in the adoption of the equity method. Early adoption is permitted. The Company is currently evaluating the impact of adopting the amendments on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08*, Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue versus Net)* ("ASU 2016-08"), which clarifies the implementation guidance on principal versus agent considerations in the new revenue recognition standard. ASU 2016-08 clarifies how an entity should identify the unit of accounting (i.e. the specified good or service) for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements. The amendments in ASU 2016-08 affect the guidance in ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and have similar effective dates and transition requirements (i.e., effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein). The Company is currently evaluating the impact of adopting the new revenue recognition guidance on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which is essentially the final rule on use of the so-called CECL model, or current expected credit losses. Among other things, the amendments in this ASU require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses.

In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For SEC filers, the amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with later effective dates for non-SEC registrant public companies and other organizations. Early adoption will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the impact of the amendments in this ASU on its consolidated financial statements, and is collecting data that will be needed to produce historical inputs into any models created as a result of adopting this ASU.

NOTE 11 - FAIR VALUE MEASUREMENT

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

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

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

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

Impaired Loans. Impaired loans are measured and reported at fair value when full payment under the loan terms is not probable. Impaired loans are carried at the present value of expected future cash flows using the loan's existing rate in a discounted cash flow calculation, or the fair value of the collateral if the loan is collateral-dependent. Expected cash flows are based on internal inputs reflecting expected default rates on contractual cash flows. This method of estimating fair value does not incorporate the exit-price concept of fair value described in 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 $1,634,000 and $2,546,000 during the three and six months ended June 30, 2016, respectively, and $2,335,000 and $3,636,000 during the three and six months ended June 30, 2015, respectively.

Other Real Estate Owned. Other real estate assets ("OREO") acquired through, or in lieu of, foreclosure are held for sale and are initially recorded at the lower of cost or fair value, less selling costs. Any write-downs to fair value at the time of transfer to OREO are charged to the allowance for loan losses subsequent to foreclosure. Values are derived from appraisals of underlying collateral and discounted cash flow analysis. Appraisals are performed by certified and licensed appraisers. Subsequent to foreclosure, valuations are updated periodically and assets are marked to current fair value, not to exceed the new cost basis. In the determination of fair value subsequent to foreclosure, management also considers other factors or recent developments, such as changes in absorption rates and market conditions from the time of valuation, and anticipated sales values considering management's plans for disposition, which could result in adjustment to lower the property value estimates indicated in the appraisals. These measurements are classified as Level 3 within the valuation hierarchy. Net losses on the sale and write-downs of OREO of $248,000 and $436,000 was recognized for the three and six months ended June 30, 2016, respectively, and $124,000 and $229,000 for the three and six months ended June 30, 2015, 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.

Residential real estate loan foreclosures classified as OREO totaled $157,000 as of June 30, 2016 and $1,141,000 as of December 31, 2015.

No residential real estate loans were in the process of being foreclosed as of June 30, 2016.

The following table presents the Company’s financial assets and financial liabilities carried at fair value on a recurring basis as of June 30, 2016 and December 31, 2015:

	Fair Value Measurements at June 30, 2016 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	$ -	$ 39,316	$ -	$ 39,316
Mortgage-backed securities	-	129,953	-	129,953
State and municipal securities	-	142,780	-	142,780
Corporate debt	-	8,995	-	8,995
Total assets at fair value	$ -	$ 321,044	$ -	$ 321,044

	Fair Value Measurements at December 31, 2015 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				
	$ -	$ 45,009	$ -	$ 45,009

U.S. Treasury and government sponsored agencies				
Mortgage-backed securities	-	136,954	-	136,954
State and municipal securities	-	146,033	-	146,033
Corporate debt	-	14,942	-	14,942
Total assets at fair value	$ -	$ 342,938	$ -	$ 342,938

The following table presents the Company’s financial assets and financial liabilities carried at fair value on a nonrecurring basis as of June 30, 2016 and December 31, 2015:

	Fair Value Measurements at June 30, 2016			
	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	$ -	$ -	$ 39,163	$ 39,163
Other real estate owned and repossessed assets	-	-	4,260	4,260
Total assets at fair value	$ -	$ -	$ 43,423	$ 43,423

	Fair Value Measurements at December 31, 2015			
	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	$ -	$ -	$ 27,808	$ 27,808
Other real estate owned and repossessed assets	-	-	5,392	5,392
Total assets at fair value	$ -	$ -	$ 33,200	$ 33,200

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 due from banks: 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.

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

Federal funds sold: The carrying amounts reported in the statements of financial condition approximate those assets' fair values.

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.

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

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.

Federal funds purchased: The carrying amounts in the statements of condition approximate these assets’ fair value.

Other borrowings: The fair values of other borrowings 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.

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

The carrying amount, estimated fair value, and placement in the fair value hierarchy of the Company's financial instruments as of June 30, 2016 and December 31, 2015 are presented in the following table. This table includes those financial assets and liabilities that are not measured and reported at fair value on a recurring basis or nonrecurring basis.

	June 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial Assets:				
Level 1 inputs:				
Cash and due from banks	$472,688	$472,688	$317,450	$317,450
Level 2 inputs:				
Available for sale debt securities	321,044	321,044	342,938	342,938
Held to maturity debt securities	26,662	27,717	27,426	27,910
Restricted equity securities	5,671	5,671	4,954	4,954
Federal funds sold	116,038	116,038	34,785	34,785
Mortgage loans held for sale	7,933	8,037	8,249	8,295
Bank owned life insurance contracts	102,873	102,873	91,594	91,594
Level 3 inputs:				
Loans, net	4,492,340	4,509,664	4,172,956	4,179,835
Financial liabilities:				
Level 2 inputs:				
Deposits	$4,667,795	$4,669,723	$4,223,888	$4,223,181
Federal funds purchased	420,430	420,430	352,360	352,360
Other borrowings	55,450	54,240	55,637	52,521

NOTE 12 – 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 June 30, 2016, and events which occurred subsequent to June 30, 2016 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 June 30, 2016 and for the three and six months ended June 30, 2016 and June 30, 2015.

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 expression 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 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 “Cautionary Note Regarding Forward Looking Statements” and “Risk Factors” in our most recent Annual Report on Form 10-K and our other SEC filings. If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained herein. Accordingly, you should not place undue reliance on any forward-looking statements, which speak only as of the date made. ServisFirst Bancshares, Inc. assumes no obligation to update or revise any forward-looking statements that are made from time to time.

Business

We are a bank holding company under the Bank Holding Company Act of 1956 and are headquartered in Birmingham, Alabama. Our wholly-owned subsidiary, ServisFirst Bank, an Alabama banking corporation, provides commercial banking services through nineteen full-service banking offices located in Alabama, Florida, Georgia, South Carolina and Tennessee. Through the Bank, we originate commercial, consumer and other loans and accept deposits, provide electronic banking services, such as online and mobile banking, including remote deposit capture, deliver treasury and cash management services and provide correspondent banking services to other financial institutions.

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, other overhead expenses and income taxes.

Overview

As of June 30, 2016, we had consolidated total assets of $5.6 billion, an increase of $0.5 billion, or 9.8%, from $5.1 billion at December 31, 2015. Total loans were $4.5 billion at June 30, 2016, up $0.3 billion, or 7.1%, from $4.2 billion at December 31, 2015. Total deposits were $4.7 billion at June 30, 2016, an increase of $0.5 billion, or 11.9%, from $4.2 billion at December 31, 2015.

Net income available to common stockholders for the three months ended June 30, 2016 was $18.9 million, an increase of $4.6 million, or 32.2%, from $14.3 million for the corresponding period in 2015. Basic and diluted earnings per common share were $0.72 and $0.71, respectively, for the three months ended June 30, 2016, compared to $0.56 and $0.54, respectively, for the corresponding period in 2015.

Net income available to common stockholders for the six months ended June 30, 2016 was $38.8 million, an increase of $11.5 million, or 42.1%, from $27.3 million for the corresponding period in 2015. Basic and diluted earnings per common share were $1.48 and $1.46, respectively, for the six months ended June 30, 2016, compared to $1.07 and $1.04, respectively, for the corresponding period in 2015.

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, 2015.

Financial Condition

Cash and Cash Equivalents

At June 30, 2016, we had $116.0 million in federal funds sold, compared to $34.8 million at December 31, 2015. We also maintain balances at the Federal Reserve Bank of Atlanta, which earn interest. At June 30, 2016, we had $416.2 million in balances at the Federal Reserve, compared to $269.4 million at December 31, 2015. This increase in balances at the Federal Reserve are due to excess liquidity resulting from growth in deposits and increases in federal funds purchased from our correspondent banks during the first half of 2016.

Debt Securities

Debt securities available for sale totaled $321.0 million at June 30, 2016 and $342.9 million at December 31, 2015. Debt securities held to maturity totaled $26.7 million at June 30, 2016 and $27.4 million at December 31, 2015. We sold two corporate bonds for total aggregate proceeds of $6.0 million and one municipal bond for proceeds of $0.1 million. We had pay downs of $14.5 million on mortgage-backed securities and maturities and calls of $21.0 million in government agency and municipal securities during the six months ended June 30, 2016. We bought $4.3 million in mortgage-backed securities, $9.1 million in municipal securities and $2.2 million in small business investment company (SBIC) debentures during the first six months of 2016. One of the municipal securities bought is classified as held to maturity. All other securities bought are classified as available for sale.

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

Each quarter, management assesses whether there have been events or economic circumstances indicating that a security on which there is an unrealized loss is other-than-temporarily impaired. Management considers several factors, including the amount and duration of the impairment; the intent and ability of the Company to hold the security for a period sufficient for a recovery in value; and known recent events specific to the issuer or its industry. In analyzing an issuer's financial condition, management considers whether the securities are issued by agencies of the federal government, whether downgrades by bond rating agencies have occurred, and industry analysts' reports, among other things. As we currently do not have the intent to sell these securities and it is not more likely than not that we will be required to sell these securities before recovery of their amortized cost basis, which may be at maturity, and impairment positions at June 30, 2016 are interest-rate driven, no declines are deemed to be other than temporary. We will continue to evaluate our investment securities for possible other-than-temporary impairment, which could result in non-cash charges to earnings in one or more future periods.

All securities held are traded in liquid markets. As of June 30, 2016, we owned restricted securities of the Federal Home Loan Bank with an aggregate book value and market value of $4.7 million, securities of First National Bankers Bank with an aggregate book value and market value of $0.4 million, securities of a fund that invests in Community Reinvestment Act-qualifying real estate with a book value and market value of $0.5 million, and securities of a bank holding company in Georgia with a book value and market value of $0.1 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 corporate bonds had a Standard and Poor's or Moody's rating of A-1 or better when purchased. The total investment portfolio at June 30, 2016 has a combined average credit rating of AA.

The carrying value of investment securities pledged to secure public funds on deposit and for other purposes as required by law was $257.6 million and $245.5 million as of June 30, 2016 and December 31, 2015, respectively.

Loans

We had total loans of $4.5 billion at June 30, 2016, an increase of $0.3 billion, or 7.1%, compared to $4.2 billion at December 31, 2015. At June 30, 2016, the percentage of our loans in each of our regions were as follows:

	Percentage of Total Loans in MSA	
Birmingham-Hoover, AL MSA	44.9	%
Huntsville, AL MSA	9.9	%
Dothan, AL MSA	9.8	%
Montgomery, AL MSA	8.0	%
Mobile, AL MSA	6.0	%
Total Alabama MSAs	78.6	%
Pensacola-Ferry Pass-Brent, FL MSA	7.1	%
Tampa-St. Petersburg-Clearwater, FL MSA	0.3	%
Total Florida MSAs	7.4	%
Atlanta-Sandy Springs-Roswell, GA MSA	3.8	%
Nashville-Davidson-Murfreesboro-Franklin, TN MSA	7.9	%
Charleston-North Charleston, SC MSA	2.3	%

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 June 30, 2016.

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.

June 30, 2016	Amount	Percentage of loans in each category to total loans	
	(In Thousands)		
Commercial, financial and agricultural	$23,655	41.76	%
Real estate - construction	5,279	5.53	%
Real estate - mortgage	17,600	51.50	%
Consumer	464	1.21	%
Total	$46,998	100.00	%

December 31, 2015	Amount	Percentage of loans in each category to total loans	
	(In Thousands)		
Commercial, financial and agricultural	$21,495	41.75	%
Real estate - construction	5,432	5.77	%
Real estate - mortgage	16,061	51.17	%
Consumer	431	1.31	%
Total	$43,419	100.00	%

Nonperforming Assets

Total nonperforming loans, which include nonaccrual loans and loans 90 or more days past due and still accruing, decreased $2.7 million to $5.1 million at June 30, 2016, compared to $7.8 million at December 31, 2015. Of this total, nonaccrual loans were $4.7 million at June 30, 2016, compared to $7.8 million at December 31, 2015, a decrease of $3.1 million. There were seven loans 90 or more days past due and still accruing totaling $423,000 at June 30, 2016, compared to one loan 90 or more days past due and still accruing totaling $1,000, at December 31, 2015. Troubled Debt Restructurings (“TDR”) at June 30, 2016 and December 31, 2015 were $6.8 million and $7.7 million, respectively. There no loans newly classified as TDR and two renewals of existing TDRs totaling $600,000 for the three and six months ended June 30, 2016. There were no loans newly classified as a TDR or renewals of existing TDRs for the three and six months ended June 30, 2015.

OREO and repossessed assets decreased to $4.3 million at June 30, 2016, from $5.4 million at December 31, 2015. The total number of OREO and repossessed asset accounts decreased to 10 at June 30, 2016, compared to 18 at December 31, 2015. The following table summarizes OREO and repossessed asset activity for the six months ended June 30, 2016 and 2015:

	Six months ended June 30,	
	2016	2015
	(In thousands)	
Balance at beginning of period	$ 5,392	$ 6,840
OREO acquired - Metro	-	2,348
Transfers from loans and capitalized expenses	2,036	1,941
Proceeds from sales	(1,575)	(2,665)
Internally financed sales	(1,157)	-
Write-downs / net loss on sales	(436)	(229)
Balance at end of period	$ 4,260	$ 8,235

The following table summarizes our nonperforming assets and TDRs at June 30, 2016 and December 31, 2015:

	June 30, 2016		December 31, 2015	
	Balance	Number of Loans	Balance	Number of Loans
	(Dollar Amounts In Thousands)			
Nonaccrual loans:				
Commercial, financial and agricultural	$331	4	$ 1,918	7
Real estate - construction	3,622	8	4,000	7
Real estate - mortgage:				
Owner-occupied commercial	-	-	-	-
1-4 family mortgage	328	4	198	2
Other mortgage	422	2	1,619	5
Total real estate - mortgage	750	6	1,817	7
Consumer	27	1	31	1
Total Nonaccrual loans:	$4,730	19	$ 7,766	22
90+ days past due and accruing:				
Commercial, financial and agricultural	$-	-	$ -	-
Real estate - construction	-	-	-	-
Real estate - mortgage:				
Owner-occupied commercial	-	-	-	-
1-4 family mortgage	250	2	-	-
Other mortgage	162	1	-	-
Total real estate - mortgage	412	3	-	-

Consumer	11	4	1	1
Total 90+ days past due and accruing:	$423	7	$ 1	1
Total Nonperforming Loans:	$5,153	26	$ 7,767	23
Plus: Other real estate owned and repossessions	4,260	10	5,392	18
Total Nonperforming Assets	$9,413	36	$ 13,159	41
Restructured accruing loans:				
Commercial, financial and agricultural	$6,523	8	$ 6,618	8
Real estate - construction	-	-	-	-
Real estate - mortgage:				
Owner-occupied commercial	-	-	-	-
1-4 family mortgage	-	-	-	-
Other mortgage	230	1	253	1
Total real estate - mortgage	230	1	253	1
Consumer	-	-	-	-
Total restructured accruing loans:	$6,753	9	$ 6,871	9
Total Nonperforming assets and restructured accruing loans	$16,166	45	$ 20,030	50
Ratios:				
Nonperforming loans to total loans	0.11 %		0.18 %	
Nonperforming assets to total loans plus other real estate owned and repossessions	0.21 %		0.31 %	
Nonperforming assets plus restructured accruing loans to total loans plus other real estate owned and repossessions	0.36 %		0.47 %	

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

As of June 30, 2016, we had impaired loans of $45.0 million, inclusive of nonaccrual loans, an increase of $11.5 million from $33.5 million as of December 31, 2015. This increase is attributable to loans totaling $18.3 million newly classified as specifically impaired, partially offset by net loan pay downs and upgrades of $3.7 million, loan charge-offs of $2.1 million and OREO transfers of $1.0 million. We allocated $5.9 million of our allowance for loan losses at June 30, 2016 to these impaired loans, an increase of $0.2 million compared to $5.7 million as of December 31, 2015. 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 administration group performs verification and testing to ensure appropriate identification of impaired loans and that proper reserves are held on these loans.

Of the $45.0 million of impaired loans reported as of June 30, 2016, $17.7 million were commercial, financial and agricultural loans, $5.0 million were real estate construction loans and $22.4 million were real estate mortgage loans.

Deposits

Total deposits increased $0.5 billion, or 11.9%, to $4.7 billion at June 30, 2016 compared to $4.2 billion at December 31, 2015. We anticipate long-term sustainable growth in deposits through continued development of market share in our regions.

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, subordinated notes payable and Federal Home Loan Bank advances. We had $423.4 million and $352.4 million at June 30, 2016 and December 31, 2015, respectively, in federal funds purchased from correspondent banks that are clients of our correspondent banking unit. The average rate paid on these borrowings was 0.64% for the quarter ended June 30, 2016. Other borrowings consist of the following:

- $20.0 million of 5.50% Subordinated Notes due November 9, 2022, which were issued in a private placement in November 2012,
- $34.75 million of 5% Subordinated Notes due July 15, 2025, which were issued in a private placement in July 2015, and
- $800,000 of principal reducing advances from the Federal Home Loan Bank of Atlanta, which have an interest rate of 0.75% and require quarterly principal payments of $100,000 until maturity on May 22, 2018.

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 June 30, 2016, liquid assets, which are represented by cash and due from banks, federal funds sold and unpledged available-for-sale securities, totaled $708.8 million. Additionally, the Bank had additional borrowing availability of approximately $340.0 million in unused federal funds lines of credit with regional banks, subject to certain restrictions and collateral requirements. We added a new line for $20.0 million during the second quarter of 2016. We believe these sources of funding are adequate to meet immediate anticipated funding needs. 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, correspondent banking relationships and related federal funds purchased, 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 June 30, 2016. The amounts shown do not reflect any early withdrawal or prepayment assumptions.

Payments due by Period		
	Over 1 - 3	Over 3 - 5

	Total	1 year or less	years	years	Over 5 years
	(In Thousands)				
Contractual Obligations (1)					
Deposits without a stated maturity	$4,166,813	$ -	$ -	$ -	$ -
Certificates of deposit (2)	500,982	291,789	151,291	57,545	357
Federal funds purchased	420,430	420,430	-	-	-
Subordinated debentures	55,450	400	400	-	54,650
Operating lease commitments	19,257	3,533	6,505	4,319	4,900
Total	$5,162,932	$ 716,152	$ 158,196	$ 61,864	$ 59,907

(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.

33

Capital Adequacy

As of June 30, 2016, 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 June 30, 2016.

We issued subordinated notes payable in the aggregate amount of $34.75 million on July 15, 2015. The notes qualify as Tier 2 Capital. We used the proceeds from the issuance of the notes to redeem our Senior Non-Cumulative Perpetual Preferred Stock, Series A, issued to the United States Department of the Treasury on June 21, 2011.

In July 2013, the Federal Reserve announced its approval of a final rule to implement the regulatory capital reforms developed by the Basel Committee on Banking Supervision (“Basel III”), among other changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The new rules became effective January 1, 2015, subject to a phase-in period for certain aspects of the new rules. In order to avoid restrictions on capital distributions and discretionary bonus payments to executives, under the new rules a covered banking organization will also be required to maintain a “capital conservation buffer” in addition to its minimum risk-based capital requirements. This buffer will be required to consist solely of common equity Tier 1, and the buffer will apply to all three risk-based measurements (CET1, Tier 1 capital and total capital). The capital conservation buffer will be phased in incrementally over time, beginning January 1, 2016 and becoming fully effective on January 1, 2019, and will ultimately consist of an additional amount of Tier 1 common equity equal to 2.5% of risk-weighted assets.

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 June 30, 2016, December 31, 2015 and June 30, 2015:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
As of June 30, 2016:						
CET 1 Capital to Risk-Weighted Assets:						
Consolidated	$469,101	9.83 %	$ 214,649	4.50 %	N/A	N/A
ServisFirst Bank	517,987	10.86%	214,615	4.50 %	$ 309,999	6.50 %
Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	469,478	9.84 %	286,199	6.00 %	N/A	N/A

ServisFirst Bank	518,364	10.87 %	286,153	6.00 %	381,538	8.00 %
Total Capital to Risk-Weighted Assets:						
Consolidated	571,627	11.98 %	381,598	8.00 %	N/A	N/A
ServisFirst Bank	565,862	11.86 %	381,538	8.00 %	476,922	10.00
Tier 1 Capital to Average Assets:						
Consolidated	469,478	8.52 %	220,506	4.00 %	N/A	N/A
ServisFirst Bank	518,364	9.40 %	220,492	4.00 %	275,615	5.00 %
As of December 31, 2015:						
CET 1 Capital to Risk-Weighted Assets:						
Consolidated	$431,642	9.72 %	$ 199,836	4.50 %	N/A	N/A
ServisFirst Bank	439,279	9.89 %	199,806	4.50 %	$ 288,608	6.50 %
Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	432,019	9.73 %	266,448	6.00 %	N/A	N/A
ServisFirst Bank	439,656	9.90 %	266,407	6.00 %	355,210	8.00 %
Total Capital to Risk-Weighted Assets:						
Consolidated	530,688	11.95 %	355,264	8.00 %	N/A	N/A
ServisFirst Bank	483,575	10.89 %	355,210	8.00 %	444,012	10.00 %
Tier 1 Capital to Average Assets:						
Consolidated	432,019	8.55 %	202,043	4.00 %	N/A	N/A
ServisFirst Bank	439,656	8.71 %	202,023	4.00 %	252,529	5.00 %
As of June 30, 2015:						
CET 1 Capital to Risk-Weighted Assets:						
Consolidated	$393,735	9.60 %	$ 184,637	4.50 %	N/A	N/A
ServisFirst Bank	406,302	9.91 %	184,569	4.50 %	$ 266,599	6.50 %
Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	434,070	10.58 %	246,182	6.00 %	N/A	N/A
ServisFirst Bank	406,679	9.92 %	246,092	6.00 %	328,122	8.00 %
Total Capital to Risk-Weighted Assets:						
Consolidated	493,909	12.04 %	328,243	8.00 %	N/A	N/A
ServisFirst Bank	446,699	10.89 %	328,122	8.00 %	410,153	10.00 %
Tier 1 Capital to Average Assets:						
Consolidated	434,070	9.88 %	175,725	4.00 %	N/A	N/A
ServisFirst Bank	406,679	9.26 %	175,683	4.00 %	219,604	5.00 %

Off-Balance Sheet Arrangements

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

Our exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contractual or notional amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments. As of June 30, 2016, we have reserved $500,000 for losses on such off-balance sheet arrangements consistent with guidance in the Federal Reserve Bank’s Interagency Policy Statement SR 06-17.

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 $368,000 as of June 30, 2016 and $91,000 as of December 31, 2015 for the settlement of any repurchase demands by investors. In December 2014, we repurchased one loan with a principal balance of $292,000 from an investor due to a loan-to-value (“LTV”) exception. We resold this loan during the second quarter of 2016, and such sales proceeds were posted back into this reserve account.

Financial instruments whose contract amounts represent credit risk at June 30, 2016 are as follows:

	June 30, 2016 (In Thousands)
Commitments to extend credit	$ 1,586,425
Credit card arrangements	88,678
Standby letters of credit	43,900
	$ 1,719,003

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 June 30, 2016 was $18.9 million compared to net income of $14.5 million for the three months ended June 30, 2015. Net income for the six months ended June 30, 2016 was $38.8 million compared to net income of $27.5 million for the six months ended June 30, 2015. Core net income for the six months ended June 30, 2015 was $29.3 million. Core net income excludes the impact of non-routine expenses during the comparative periods, as more fully discussed in "Noninterest Expense" below. For a reconciliation of these non-GAAP measures to the most comparable GAAP measure, see "GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures" below. The increase in net income for the three months ended June 30, 2016 compared to 2015 was primarily the result of an $5.7 million increase in net interest income as a result of growth in average earning assets, offset by a $1.3 million increase in noninterest expense. We recognized a $1.3 million credit to our income tax expense during the three months ended June 30, 2016 as a result of early adopting ASU 2016-09. See further details of the adoption of this new accounting rule in "Income Tax Expense" below. The increase in net income for the six months ended June 30, 2016 compared to 2015 was primarily the result of a $12.9 million increase in net interest income as a result of growth in average earning assets and a $3.6 million reduction in our income tax expense as a result of adopting ASU 2016-09, offset by a $2.0 million increase in noninterest expense.

Basic and diluted net income per common share were $0.72 and $0.71, respectively, for the three months ended June 30, 2016, compared to $0.56 and $0.54, respectively, for the corresponding period in 2015. Basic and diluted net income per common share were $1.48 and $1.46, respectively, for the six months ended June 30, 2016, compared to $1.07 and $1.04, respectively, for the corresponding period in 2015. Core basic and diluted earnings per share were $1.14 and $1.10, respectively, for the six months ended June 30, 2015. Return on average assets for the three and six months ended June 30, 2016 was 1.37% and 1.45%, respectively, compared to 1.31% and 1.29%, respectively, for the corresponding periods in 2015. Core return on average assets for the six months ended June 30, 2015 was 1.37%. Return on average common stockholders' equity for the three and six months ended June 30, 2016 was 15.79% and 16.57% compared to 14.06% and 13.81%, respectively, for the corresponding periods in 2015. Core return on average common stockholders' equity for the six months ended June 30, 2015 was 14.70%.

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 $5.7 million, or 14.0%, to $46.4 million for the three months ended June 30, 2016 compared to $40.7 million for the corresponding period in 2015, and increased $12.9 million, or 16.5%, to $91.1 million for the six months ended June 30, 2016 compared to $78.2 million for the corresponding period in 2015. This increase was primarily attributable to growth in average earning assets, which increased $1.1 billion, or 26.2%, from the second quarter of 2015 to the second quarter of 2016, and $1.1 billion, or 26.8%, from the six months ended June 30, 2015 to the same period in 2016. The taxable-equivalent yield on interest-earning assets decreased to 3.97% for the three months ended June 30, 2016 from 4.26% for the corresponding period in 2015, and decreased to 4.00% for the six months ended June 30, 2016 from 4.22% for the corresponding period in 2015. The yield on loans for the three months ended June 30, 2016 was 4.47% compared to 4.51% for the corresponding period in 2015, and 4.48% compared to 4.49% for the six months ended June 30, 2016 and June 30, 2015, respectively. Loan fees included in the yield calculation increased to $530,000 for the three months ended June 30, 2016 from $292,000 for the corresponding period in 2015, and increased to $939,000 for the six months ended June 30, 2016 from $510,000 for the corresponding period in 2015. The cost of total interest-bearing liabilities increased to 0.64% for the three months ended June 30, 2016 compared to 0.53% for the corresponding period in 2015, and increased to 0.63% for the six months ended June 30, 2016 from 0.52% for the corresponding period in 2015. Increased balances in federal funds purchased from banks who are customers of our correspondent banking division contributed to this increase in cost of funds. We introduced a new 30-day term federal funds product which has a higher rate than the over-night rate we have historically offered. Net interest margin for the three months ended June 30, 2016 was 3.51% compared to 3.88% for the corresponding period in 2015, and 3.54% for the six months ended June 30, 2016 compared to 3.84% for the corresponding period in 2015.

The following tables show, for the three and six months ended June 30, 2016 and June 30, 2015, 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 June 30, 2016 and 2015

(Dollar Amounts In Thousands)

	2016			2015		
	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	$4,406,107	$49,015	4.47 %	$3,731,699	$41,949	4.51 %
Tax-exempt (2)	16,315	184	4.51	10,005	125	5.00
Total loans, net of unearned income	4,422,422	49,199	4.47	3,741,704	42,074	4.51
Mortgage loans held for sale	7,323	66	3.62	12,718	70	2.21
Investment securities:						
Taxable	208,113	1,238	2.38	193,848	1,105	2.28
Tax-exempt (2)	135,954	1,269	3.73	136,104	1,337	3.93
Total investment securities (3)	344,067	2,507	2.91	329,952	2,442	2.96
Federal funds sold	144,206	210	0.59	26,638	24	0.36
Restricted equity securities	5,659	51	3.62	4,953	39	3.16
Interest-bearing balances with banks	393,782	507	0.52	97,482	62	0.26
Total interest-earning assets	$5,317,459	$52,540	3.97 %	$4,213,447	$44,711	4.26 %
Non-interest-earning assets:						
Cash and due from banks	65,318			58,347		
Net fixed assets and equipment	23,241			16,323		
Allowance for loan losses, accrued interest and other assets	127,640			129,233		
Total assets	$5,533,658			4,417,350		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$691,776	$614	0.36 %	$579,650	$397	0.27 %
Savings deposits	41,546	31	0.30	37,697	26	0.28
Money market accounts	2,105,420	2,736	0.52	1,653,708	1,837	0.45
Time deposits	498,151	1,252	1.01	480,140	1,252	1.05
Total interest-bearing deposits	3,336,893	4,633	0.56	2,751,195	3,512	0.51
Federal funds purchased	505,076	808	0.64	275,888	200	0.29
Other borrowings	55,521	718	5.20	21,238	286	5.40
Total interest-bearing liabilities	$3,897,490	$6,159	0.64 %	$3,048,321	$3,998	0.53 %
Non-interest-bearing liabilities:						

Non-interest-bearing demand deposits	1,142,541			908,020		
Other liabilities	13,301			11,793		
Stockholders' equity	475,917			444,302		
Unrealized gains on securities and derivatives	4,409			4,914		
Total liabilities and stockholders' equity	$5,533,658			$4,417,350		
Net interest income		$46,381			$40,713	
Net interest spread			3.33 %			3.73 %
Net interest margin			3.51 %			3.88 %

(1) Non-accrual loans are included in average loan balances in all periods. Loan fees of $530,000 and $292,000 are included in interest income in 2016 and 2015, respectively.

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

(3) Net unrealized gains of $6,772,000 and $7,009,000 are excluded from the yield calculation in 2016 and 2015, respectively.

	For the Three Months Ended June 30, 2016 Compared to 2015 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	$ 7,395	$ (329)	$ 7,066
Tax-exempt	72	(13)	59
Total loans, net of unearned income	7,467	(342)	7,125
Mortgages held for sale	(38)	34	(4)
Debt securities:	-	-	-
Taxable	82	51	133
Tax-exempt	(1)	(67)	(68)
Total debt securities	81	(16)	65
Federal funds sold	163	23	186
Restricted equity securities	6	6	12
Interest-bearing balances with banks	332	113	445
Total interest-earning assets	8,011	(182)	7,829
Interest-bearing liabilities:			
Interest-bearing demand deposits	85	132	217
Savings	3	2	5
Money market accounts	550	349	899
Time deposits	44	(44)	-
Total interest-bearing deposits	682	439	1,121
Federal funds purchased	247	361	608
Other borrowed funds	443	(11)	432
Total interest-bearing liabilities	1,372	789	2,161
Increase in net interest income	$ 6,639	$ (971)	$ 5,668

Our growth in loans and non-interest bearing deposits continues to drive favorable volume component change and overall change. However, we have experienced an unfavorable variance relating to the interest rate component because yields on loans have remained flat while rates paid on deposits have increased. Accordingly, the prolonged low interest rate environment has resulted in a compression of the net interest margin percentage.

Average Consolidated Balance Sheets and Net Interest Analysis

On a Fully Taxable-Equivalent Basis

For the Six Months Ended June 30, 2016 and 2015

(Dollar Amounts In Thousands)

	2016				2015			
	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	$4,318,082	$96,096	4.48	%	$3,612,691	$80,472	4.49	%
Tax-exempt (2)	13,298	327	4.92		10,092	252	4.99	
Total loans, net of unearned income	4,331,380	96,423	4.48		3,622,783	80,724	4.49	
Mortgage loans held for sale	6,704	136	4.08		9,817	106	2.18	
Investment securities:								
Taxable	214,918	2,505	2.33		195,678	2,231	2.28	
Tax-exempt (2)	136,858	2,618	3.83		133,068	2,638	3.96	
Total investment securities (3)	351,776	5,123	2.91		328,746	4,869	2.96	
Federal funds sold	96,298	283	0.59		33,003	49	0.30	
Restricted equity securities	5,310	98	3.71		4,638	74	3.22	
Interest-bearing balances with banks	383,548	974	0.51		109,881	152	0.28	
Total interest-earning assets	$5,175,016	$103,037	4.00	%	$4,108,868	$85,974	4.22	%
Non-interest-earning assets:								
Cash and due from banks	63,460				58,762			
Net fixed assets and equipment	22,132				15,091			
Allowance for loan losses, accrued interest and other assets	127,066				125,057			
Total assets	$5,387,674				$4,307,778			
Liabilities and stockholders' equity:								
Interest-bearing liabilities:								
Interest-bearing demand deposits	$678,407	$1,194	0.35	%	$566,682	$762	0.27	%
Savings deposits	41,301	61	0.30		36,917	52	0.28	
Money market accounts	2,036,579	5,226	0.52		1,636,426	3,619	0.45	
Time deposits	502,878	2,513	1.00		463,206	2,349	1.02	
Total interest-bearing deposits	3,259,165	8,994	0.55		2,703,231	6,782	0.51	
Federal funds purchased	479,187	1,512	0.63		273,233	391	0.29	
Other borrowings	55,576	1,435	5.19		21,050	571	5.47	
Total interest-bearing liabilities	$3,793,928	$11,941	0.63	%	$2,997,514	$7,744	0.52	%

Non-interest-bearing liabilities:								
Non-interest-bearing demand deposits	1,110,076				860,908			
Other liabilities	12,747				10,720			
Stockholders' equity	466,569				433,633			
Unrealized gains on securities and derivatives	4,354				5,003			
Total liabilities and stockholders' equity	$5,387,674				$4,307,778			
Net interest income		$91,096				$78,230		
Net interest spread			3.37	%			3.70	%
Net interest margin			3.54	%			3.84	%

(1) Non-accrual loans are included in average loan balances in all periods. Loan fees of $939,000 and $510,000 are included in interest income in 2016 and 2015, respectively.

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

(3) Net unrealized gains of $6,694,000 and $6,993,000 are excluded from the yield calculation in 2016 and 2015, respectively.

	For the Six Months Ended June 30, 2016 Compared to 2015 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	$ 15,919	$ (295)	$ 15,624
Tax-exempt	80	(5)	75
Total loans, net of unearned income	15,999	(300)	15,699
Mortgages held for sale	(42)	72	30
Debt securities:			
Taxable	228	46	274
Tax-exempt	77	(97)	(20)
Total debt securities	305	(51)	254
Federal funds sold	155	79	234
Restricted equity securities	12	12	24
Interest-bearing balances with banks	616	206	822
Total interest-earning assets	17,045	18	17,063
Interest-bearing liabilities:			
Interest-bearing demand deposits	170	262	432
Savings	7	2	9
Money market accounts	978	629	1,607
Time deposits	204	(40)	164
Total interest-bearing deposits	1,359	853	2,212
Federal funds purchased	433	688	1,121
Other borrowed funds	894	(30)	864
Total interest-bearing liabilities	2,686	1,511	4,197
Increase in net interest income	$ 14,359	$ (1,493)	$ 12,866

Our growth in loans and non-interest bearing deposits continues to drive favorable volume component change and overall change. However, we have experienced an unfavorable variance relating to the interest rate component because yields on loans have remained flat while rates paid on deposits have increased. Accordingly, the prolonged low interest rate environment has resulted in a compression of the net interest margin percentage. Growth in non-interest bearing deposits has also contributed to our growth in net interest income. Maintenance of higher levels of liquidity has also decreased the net interest margin in the 2016 period compared to 2015.

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 June 30, 2016, total loans rated Special Mention, Substandard, and Doubtful were $129.5 million, or 2.9% of total loans, compared to $117.0 million, or 2.8% of total loans, at December 31, 2015. 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 $3.8 million for the three months ended June 30, 2016, a decrease of $0.3 million from $4.1 million for the three months ended June 30, 2015, and was $5.9 million for the six months ended June 30, 2016, a $0.6 million decrease, compared to $6.5 million for the six months ended June 30, 2015. Nonperforming loans decreased to $5.2 million, or 0.11% of total loans, at June 30, 2016 from $7.8 million, or 0.18% of total loans, at December 31, 2015, and were also lower than $8.7 million, or 0.22% of total loans, at June 30, 2015. Impaired loans increased to $45.0 million, or 0.99% of total loans, at June 30, 2016, compared to $33.5 million, or 0.80% of total loans, at December 31, 2015. The allowance for loan losses totaled $47.0 million, or 1.04% of total loans, net of unearned income, at June 30, 2016, compared to $43.4 million, or 1.03% of loans, net of unearned income, at December 31, 2015.

Noninterest Income

Noninterest income totaled $3.8 million for the three months ended June 30, 2016, an increase of $0.4 million, or 11.7%, compared to the corresponding period in 2015, and totaled $7.3 million for the six months ended June 30, 2016, an increase of $0.9 million, or 14.1%, compared to the corresponding period in 2015. Service charges on deposit accounts were relatively flat at $1.3 million for the three months ended June 30, 2016 and 2015, and only increased by $0.1 million to $2.6 million for the six months ended June 30, 2016 compared to $2.5 million for the same period in 2015. Mortgage banking income increased $0.2 million, or 28.6%, to $0.9 million for the three months ended June 30, 2016 compared to $0.7 million for the same period in 2015, and increased $0.4 million, or 33.3%, to $1.6 million for the six months ended June 30, 2016 compared to $1.2 million for the same period in 2015. This increase resulted from improved operations, translating to increased net gains on sales. Income from credit cards increased to $0.7 million for the three months ended June 30, 2016 from $0.5 million for the same period in 2015, and increased to $1.2 million for the six months ended June 30, 2016 compared to $0.8 million for the same period in 2015.

Noninterest Expense

Noninterest expense totaled $19.5 million for the three months ended June 30, 2016, an increase of $1.4 million, or 7.7%, compared to $18.1 million for the same period in 2015, and totaled $38.8 million for the six months ended June 30, 2016, an increase of $2.1 million, or 5.7%, compared to $36.7 million for the same period in 2015.

Details of expenses are as follows:

- Salary and benefit expense increased $0.3 million, or 2.9%, to $10.7 million for the three months ended June 30, 2016 from $10.4 million for the same period in 2015, and increased $2.4 million, or 12.2%, to $21.8 million for the six months ended June 30, 2016 from $19.4 million for the same period in 2015. Twelve new sales officers were added during the six months ended June 30, 2016, with seven of these comprising our team in the Tampa Bay area of Florida, our newest region. We had 408 full-time equivalent employees at June 30, 2016 compared to 371 at June 30, 2015, a 10.0% increase.

- Occupancy expense increased $0.4 million, or 23.8%, to $2.0 million for the three months ended June 30, 2016 from $1.6 million for the corresponding period in 2015, and increased $0.7 million, or 21.6%, to $4.0 million from $3.3 million for the six months ended June 30, 2016 compared to the corresponding period in 2015. New main offices were opened in our Mobile, Alabama, Charleston, South Carolina and Nashville, Tennessee regions during the first quarter of 2016. Also, we accelerated depreciation of leasehold improvements for our headquarters building in Birmingham, Alabama to coincide with the date we move into our new headquarters building, which we anticipate will be in the second half of 2017.

- Federal deposit insurance and other regulatory assessments increased $0.2 million to $0.8 million for the three months ended June 30, 2016 compared to the same period in 2015, and increased $0.3 million to $1.6 million for the six months ended June 30, 2016 compared to the same period in 2015. This increase is driven by growth in deposits.

- Expenses on other real estate owned decreased from $0.3 million for the three months ended June 30, 2015 to less than $0.1 million for the three months ended June 30, 2016.

- Merger expenses related to the acquisition of Metro in the first quarter of 2015 were $2.1 million.

- Other operating expenses increased $0.4 million to $4.9 million for the three months ended June 30, 2016 compared to the same period in 2015, and increased $0.3 million to $9.2 million for the six months ended June 30, 2016 compared to the same period in 2015. Increases in Federal Reserve Bank service charges of $0.1 million and $0.2 million for the three and six months ended June 30, 2016 when compared to the corresponding periods in 2015 are the result of increased clearing services for correspondent bank clients. Expenses relating to our growth in loans and expansion into new regions also contributed to the increased other operating expenses in the 2016 periods. During the first quarter of 2015, we recognized $0.5 million in other expense as an initial funding of reserves for unfunded loan commitments. Without this one-time initial funding of reserves, other operating expenses would have increased by $0.8 million, or 9.5% from the six months ended June 30, 2015 to the same period this year.

The following table presents our non-interest income and non-interest expense for the three and six month periods ending June 30, 2016 compared to the same periods in 2015.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016	2015	$ change	% change	2016	2015	$ change	% change
Non-interest income:								
Service charges on deposit accounts	$ 1,306	$ 1,276	$ 30	2.4 %	$ 2,613	$ 2,483	$ 130	5.2 %
Mortgage banking	901	735	166	22.6 %	1,569	1,189	380	32.0 %
Securities (losses) gains	(3)	-	(3)	NM	(3)	29	(32)	NM
Increase in cash surrender value life insurance	655	660	(5)	(0.8)%	1,279	1,308	(29)	(2.2)%
Other operating income	988	759	229	30.2 %	1,824	1,355	469	34.6 %
Total non-interest income	$ 3,847	$ 3,430	$ 417	12.2 %	$ 7,282	$ 6,364	$ 918	14.4 %
Non-interest expense:								
Salaries and employee benefits	$ 10,733	$ 10,426	$ 307	2.9 %	$ 21,800	$ 19,434	$ 2,366	12.2 %
Equipment and occupancy expense	2,023	1,634	389	23.8 %	4,008	3,295	713	21.6 %
Professional services	999	665	334	50.2 %	1,737	1,233	504	40.9 %
FDIC and other regulatory assessments	803	626	177	28.3 %	1,553	1,246	307	24.6 %
OREO expense	41	289	(248)	(85.8)%	490	503	(13)	(2.6)%
Merger expense	-	-	-	NM	-	2,096	(2,096)	NM
Other operating expense	4,905	4,498	407	9.0 %	9,206	8,939	267	3.0 %
Total non-interest expense	$ 19,504	$ 18,138	$ 1,366	7.5 %	$ 38,794	$ 36,746	$ 2,048	5.6 %

Income Tax Expense

Income tax expense was $7.6 million for the three months ended June 30, 2016 compared to $7.0 million for the same period in 2015, and was $13.9 million for the six months ended June 30, 2016 compared to $12.9 million for the same period in 2015. Our effective tax rate for the three and six months ended June 30, 2016 was 28.59% and 26.31%, respectively, compared to 32.52% and 31.87%, respectively, for the corresponding periods in 2015. In the second quarter of 2016 we early adopted the amendments in Accounting Standards Update 2016-09. We recognized excess tax benefits as a credit to our income tax expense from the exercise and vesting of stock options and restricted stock of $1.3 million in the second quarter of 2016 and retrospectively recognized excess tax benefits from the exercise and vesting of stock options and restricted stock of $2.3 million in the first quarter of 2016. Previously under generally accepted accounting principles, such credits were reflected within additional paid-in capital. Our primary permanent differences are related to tax exempt income on securities, state income tax benefit on real estate investment trust dividends, various qualifying tax credits, change in cash surrender value of bank-owned life insurance and incentive stock option expenses.

We own real estate investment trusts for the purpose of holding and managing participations in residential mortgages and commercial real estate loans originated by the Bank. The trusts are majority-owned subsidiaries of a trust holding company, which in turn is a wholly-owned subsidiary of the Bank. The trusts earn interest income on the loans they hold and incur operating expenses related to their activities. They pay their net earnings, in the form of dividends, to the Bank, which receives a deduction for state income taxes.

GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures

As discussed in more detail in the section titled “Noninterest Expense,” we recorded expenses of $2.1 million for the first quarter of 2015 related to the acquisition of Metro and the merger of Metro Bank with and into the Bank, and recorded an expense of $0.5 million resulting from the initial funding of reserves for unfunded loan commitments as of March 31, 2015, consistent with guidance provided in the Federal Reserve Bank’s Inter-agency Policy Statement SR 06-17. The non-GAAP financial measures included in this quarterly report on Form 10-Q of our results for the six months ended June 30, 2015 are “core net income,” “core net income available to common stockholders,” “core diluted earnings per share,” “core return on average assets” and “core return on average common stockholders’ equity.” Each of these five core financial measures excludes the impact of the merger expenses and the initial funding of the reserve for unfunded loan commitments. None of the other periods included in this quarterly report on Form 10-Q are affected by such non-routine expenses.

“Core net income” is defined as net income, adjusted by the net effect of the non-routine expense.

“Core net income available to common stockholders” is defined as net income available to common stockholders, adjusted by the net effect of the non-routine expense.

“Core diluted earnings per share” is defined as net income available to common stockholders, adjusted by the net effect of the non-routine expense, divided by weighted average diluted shares outstanding.

“Core return on average assets” is defined as net income, adjusted by the net effect of the non-routine expense, divided by average total assets.

“Core return of average common stockholders’ equity” is defined as net income, adjusted by the net effect of the non-routine expense, divided by average common stockholders’ equity.

We believe these non-GAAP financial measures provide useful information to management and investors that is supplementary to our financial condition, results of operations and cash flows computed in accordance with GAAP; however, we acknowledge that these non-GAAP financial measures have a number of limitations. As such, you should not view these disclosures as a substitute for results determined in accordance with GAAP, and they are not necessarily comparable to non-GAAP financial measures that other companies, including those in our industry, use. The following reconciliation table provides a more detailed analysis of the non-GAAP financial measures as of and for the six month period ended June 30, 2015. Dollars are in thousands, except share and per share data.

	For the Six Months Ended June 30, 2015	
Return on average assets - GAAP	1.29	%
Net income - GAAP	$ 27,524	
Adjustments:		
Merger expenses - Metro Bancshares, Inc.	2,096	
Initial reserve for unfunded loan commitments	500	
Tax (benefit) of adjustments	(829	)
Core net income - non-GAAP	$ 29,291	
Average assets - GAAP	$ 4,307,778	
Core return on average assets - non-GAAP	1.37	%

Return on average common stockholders' equity - GAAP	13.81	%
Net income available to common stockholders - GAAP	$ 27,301	
Adjustments:		
Merger expenses - Metro Bancshares, Inc.	2,096	
Initial reserve for unfunded loan commitments	500	
Tax (benefit) of adjustments	(829	)
Core net income available to common stockholders - non-GAAP	$ 29,068	
Average common stockholders' equity - GAAP	$ 398,678	
Core return on average common stockholders' equity - non-GAAP	14.70	%
Basic earnings per common share - GAAP	1.07	%
Weighted average common shares outstanding, basic - GAAP	25,507,396	
Core basic earnings per common share - non-GAAP	1.14	%
Diluted earnings per common share - GAAP	1.04	%
Weighted average common shares outstanding, diluted - GAAP	26,332,527	
Core diluted earnings per common share - non-GAAP	1.10	%

44

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, 2015, and there are no significant changes to our sensitivity to changes in interest rates since December 31, 2015 as disclosed in our Annual Report on 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 or Rule 15d-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 June 30, 2016. Based upon the Evaluation, our CEO and CFO have concluded that, as of June 30, 2016, our disclosure controls and procedures are effective to ensure that material information relating to ServisFirst Bancshares, Inc. and its subsidiaries is made known to management, including the CEO and CFO, particularly during the period when our periodic reports are being prepared.

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time we may be a party to various legal proceedings arising in the ordinary course of business. We are not currently a party to any material legal proceedings except as disclosed in Item 3, “Legal Proceedings”, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, 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, 2015, 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

On May 13, 2014, the Company’s registration statement on Form S-1 (File No. 333-193401), which related to the Company’s initial public offering, was declared effective by the SEC. Under that registration statement, we registered and sold an aggregate of 1,875,000 shares of common stock at a price to the public of $30.333 per share, generating gross offering proceeds of approximately $56.9 million. The net proceeds of the sale of such shares, after underwriting commissions and offering expenses, were approximately $52.1 million. There has been no material change in the planned use of proceeds from the initial public offering as described in the final prospectus filed with the SEC on May 14, 2014 under Rule 424(b) of the Securities Act of 1933, as amended. We applied approximately $20.9 million of the proceeds from the initial public offering toward the acquisition of Metro Bank on January 31, 2015. We contributed approximately $36.0 million of offering proceeds to the Bank in the form of additional paid in capital during the second quarter of 2016, in anticipation of additional capital needs related to the Federal Deposit Insurance Corporation’s (FDIC) proposed revised calculation of FDIC assessments, which will take effect the quarter after its Deposit Insurance Fund (DIF) reserve ratio has reached 1.15%.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit:	Description
3.1	Third Certificate of Amendment to the Certificate of Incorporation of ServisFirst Bancshares, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on June 24, 2016).
3.2	Certificate of Elimination of the Senior Non-Cumulative Perpetual Preferred Stock, Series A of ServisFirst Bancshares, Inc. (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K/A filed on June 28, 2016).
3.3	Restated Certificate of Incorporation of ServisFirst Bancshares, Inc. (incorporated by reference to Exhibit 3.3 to the Registrant's Current Report on Form 8-K filed on June 24, 2016).
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.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema 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: August 2, 2016	By /s/ Thomas A. Broughton III Thomas A. Broughton III President and Chief Executive Officer
Date: August 2, 2016	By /s/ William M. Foshee William M. Foshee Chief Financial Officer.01, Doc: