ServisFirst Bancshares, Inc.
Form 10-Q
May 01, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

______________________________

**FORM 10-Q**

**(Mark one)**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2018**

**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.)* |

2500 Woodcrest Place, Birmingham, Alabama **35209**
(Address of Principal Executive Offices) (Zip Code)

**(205) 949-0302**

*(Registrant's Telephone Number, Including Area Code)*

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

| Title of each class | Name of exchange on which registered |
| --- | --- |
| Common stock, par value $.001 per share | The NASDAQ Stock Market LLC |

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

None

(Title of Class)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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

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

| Class | Outstanding as of April 27, 2018 |
| --- | --- |
| Common stock, $.001 par value | 53,147,169 |

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EX-31.01 SECTION 302 CERTIFICATION OF THE CEO

EX-31.02 SECTION 302 CERTIFICATION OF THE CFO

EX-32.01 SECTION 906 CERTIFICATION OF THE CEO

EX-32.02 SECTION 906 CERTIFICATION OF THE CFO

**PART 1. FINANCIAL INFORMATION**

**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

**SERVISFIRST BANCSHARES, INC.**

**CONSOLIDATED BALANCE SHEETS**

**(In thousands, except share and per share amounts)**

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| | (Unaudited) | (1) |
| ASSETS | | |
| Cash and due from banks | $ 64,912 | $ 86,213 |
| Interest-bearing balances due from depository institutions | 53,311 | 151,849 |
| Federal funds sold | 197,882 | 239,524 |
| Cash and cash equivalents | 316,105 | 477,586 |
| Available for sale debt securities, at fair value | 560,635 | 538,080 |
| Held to maturity debt securities (fair value of $250 at March 31, 2018 and December 31, 2017) | 250 | 250 |
| Equity securities | 1,026 | 1,034 |
| Mortgage loans held for sale | 4,522 | 4,459 |
| Loans | 5,928,327 | 5,851,261 |
| Less allowance for loan losses | (62,050) | (59,406) |
| Loans, net | 5,866,277 | 5,791,855 |
| Premises and equipment, net | 58,624 | 58,900 |
| Accrued interest and dividends receivable | 20,261 | 20,661 |
| Deferred tax assets, net | 11,468 | 13,022 |
| Other real estate owned and repossessed assets | 5,748 | 6,701 |
| Bank owned life insurance contracts | 128,296 | 127,519 |
| Goodwill and other identifiable intangible assets | 14,652 | 14,719 |
| Other assets | 23,871 | 27,598 |
| Total assets | $ 7,011,735 | $ 7,082,384 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities: | | |
| Deposits: | | |
| Noninterest-bearing | $ 1,407,592 | $ 1,440,326 |
| Interest-bearing | 4,569,795 | 4,651,348 |
| Total deposits | 5,977,387 | 6,091,674 |
| Federal funds purchased | 326,399 | 301,797 |
| Other borrowings | 64,739 | 64,832 |
| Accrued interest payable | 7,823 | 4,971 |
| Other liabilities | 6,090 | 11,506 |
| Total liabilities | 6,382,438 | 6,474,780 |

| | | |
|---|---|---|
| Stockholders' equity: | | |
| Preferred stock, par value $0.001 per share; 1,000,000 authorized and undesignated at March 31, 2018 and December 31, 2017 | - | - |
| Common stock, par value $0.001 per share; 100,000,000 shares authorized; 53,147,169 shares issued and outstanding at March 31, 2018, and 52,992,586 shares issued and outstanding at December 31, 2017 | 53 | 53 |
| Additional paid-in capital | 217,536 | 217,693 |
| Retained earnings | 416,311 | 389,554 |
| Accumulated other comprehensive loss | (5,105) | (198) |
| Total stockholders' equity attributable to ServisFirst Bancshares, Inc. | 628,795 | 607,102 |
| Noncontrolling interest | 502 | 502 |
| Total stockholders' equity | 629,297 | 607,604 |
| Total liabilities and stockholders' equity | $ 7,011,735 | 7,082,384 |

(1) derived from audited financial statements

**See Notes to Consolidated Financial Statements.**

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**SERVISFIRST BANCSHARES, INC.**

**CONSOLIDATED STATEMENTS OF INCOME**

**(In thousands, except share and per share amounts)**

**(Unaudited)**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Interest income: | | |
| Interest and fees on loans | $69,674 | $55,556 |
| Taxable securities | 2,745 | 2,087 |
| Nontaxable securities | 656 | 765 |
| Federal funds sold | 551 | 519 |
| Other interest and dividends | 383 | 590 |
| Total interest income | 74,009 | 59,517 |
| Interest expense: | | |
| Deposits | 9,621 | 5,982 |
| Borrowed funds | 1,952 | 1,483 |
| Total interest expense | 11,573 | 7,465 |
| Net interest income | 62,436 | 52,052 |
| Provision for loan losses | 4,139 | 4,986 |
| Net interest income after provision for loan losses | 58,297 | 47,066 |
| Noninterest income: | | |
| Service charges on deposit accounts | 1,585 | 1,354 |
| Mortgage banking | 518 | 899 |
| Credit card income | 1,578 | 1,179 |
| Securities gains | 4 | - |
| Increase in cash surrender value life insurance | 777 | 724 |
| Other operating income | 407 | 390 |
| Total noninterest income | 4,869 | 4,546 |
| Non-interest expenses: | | |
| Salaries and employee benefits | 13,296 | 11,713 |
| Equipment and occupancy expense | 1,954 | 2,250 |
| Professional services | 805 | 771 |
| FDIC and other regulatory assessments | 1,133 | 997 |
| Other real estate owned expense | 316 | 76 |
| Other operating expenses | 6,008 | 5,460 |
| Total non-interest expenses | 23,512 | 21,267 |
| Income before income taxes | 39,654 | 30,345 |
| Provision for income taxes | 7,051 | 7,826 |
| Net income | 32,603 | 22,519 |
| Dividends on preferred stock | - | - |
| Net income available to common stockholders | $32,603 | $22,519 |

| | | |
|---|---|---|
| Basic earnings per common share | $0.61 | $0.43 |
| Diluted earnings per common share | $0.60 | $0.42 |

**See Notes to Consolidated Financial Statements.**

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**SERVISFIRST BANCSHARES, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(In thousands)**

**(Unaudited)**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Net income | $32,603 | $22,519 |
| Other comprehensive (loss) income, net of tax: | | |
| Unrealized holding (losses) gains arising during period from securities available for sale, net of (benefit) tax of $(1,340) and $534 for 2018 and 2017, respectively | (4,910 ) | 993 |
| Reclassification adjustment for gains on sale of securities, net of tax of $1 for 2018 | 3 | - |
| Other comprehensive (loss) income, net of tax | (4,907 ) | 993 |
| Comprehensive income | $27,696 | $23,512 |

**See Notes to Consolidated Financial Statements.**

**SERVISFIRST BANCSHARES, INC.**

**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

**THREE MONTHS ENDED MARCH 31, 2018 AND 2017**

**(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, 2016 | $ - | $ 53 | $215,932 | $307,151 | $ (624) | $ 377 | $ 522,889 |
| Common dividends declared, $0.05 per share | - | - | - | (2,641) | - | - | (2,641) |
| Issue 175,500 shares of common stock upon exercise of stock options | - | - | 926 | - | - | - | 926 |
| Issue 125 shares of REIT preferred stock | - | - | - | - | - | 125 | 125 |
| Stock-based compensation expense | - | - | 337 | - | - | - | 337 |
| Other comprehensive income, net of tax | - | - | - | - | 993 | - | 993 |
| Net income | - | - | - | 22,519 | - | - | 22,519 |
| Balance, March 31, 2017 | $ - | $ 53 | $217,195 | $327,029 | $ 369 | $ 502 | $ 545,148 |
| | | | | | | | |
| Balance, December 31, 2017 | $ - | $ 53 | $217,693 | $389,554 | $ (198) | $ 502 | $ 607,604 |
| Common dividends declared, $0.11 per share | - | - | - | (5,846) | - | - | (5,846) |
| Issue 173,836 shares of common stock upon exercise of stock options | - | - | 852 | - | - | - | 852 |
| 30,003 shares of common stock withheld in net settlement upon exercise of stock options | - | - | (1,247) | - | - | - | (1,247) |
| Stock-based compensation expense | - | - | 238 | - | - | - | 238 |
| Other comprehensive income, net of tax | - | - | - | - | (4,907) | - | (4,907) |
| Net income | - | - | - | 32,603 | - | - | 32,603 |
| Balance, March 31, 2018 | $ - | $ 53 | $217,536 | $416,311 | $ (5,105) | $ 502 | $ 629,297 |

**See Notes to Consolidated Financial Statements.**

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**SERVISFIRST BANCSHARES, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In thousands) (Unaudited)**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| OPERATING ACTIVITIES | | |
| Net income | $32,603 | $22,519 |
| Adjustments to reconcile net income to net cash provided by | | |
| Deferred tax expense (benefit) | 1,554 | (369) |
| Provision for loan losses | 4,139 | 4,986 |
| Depreciation | 832 | 752 |
| Accretion on acquired loans | (72) | (143) |
| Amortization of core deposit intangible | 67 | 72 |
| Net amortization of debt securities available for sale | 623 | 1,001 |
| Decrease (increase) in accrued interest and dividends receivable | 400 | (250) |
| Stock-based compensation expense | 238 | 337 |
| Increase (decrease) in accrued interest payable | 2,852 | (187) |
| Proceeds from sale of mortgage loans held for sale | 24,720 | 32,501 |
| Originations of mortgage loans held for sale | (24,265) | (33,526) |
| Gain on sale of debt securities available for sale | (4) | - |
| Gain on sale of mortgage loans held for sale | (518) | (899) |
| Net gain on sale of other real estate owned and repossessed assets | - | (36) |
| Write down of other real estate owned and repossessed assets | 254 | - |
| Operating losses (income) of tax credit partnerships | 29 | (22) |
| Increase in cash surrender value of life insurance contracts | (777) | (724) |
| Net change in other assets, liabilities, and other operating activities | (3,790) | 3,202 |
| Net cash provided by operating activities | 38,885 | 29,214 |
| INVESTMENT ACTIVITIES | | |
| Purchase of securities available for sale | (54,666) | (53,885) |
| Proceeds from maturities, calls and paydowns of securities available for sale | 20,376 | 23,357 |
| Proceeds from sale of debt securities available for sale | 5,100 | - |
| Purchase of securities held to maturity | - | (9,786) |
| Proceeds from maturities, calls and paydowns of securities held to maturity | - | 293 |
| Purchase of equity securities | - | (10) |
| Increase in loans | (78,664) | (243,562) |
| Purchase of premises and equipment | (556) | (6,844) |
| Proceeds from sale of other real estate owned and repossessed assets | 874 | 426 |
| Net cash used in investing activities | (107,536) | (290,011) |
| FINANCING ACTIVITIES | | |
| Net (decrease) increase in non-interest-bearing deposits | (32,734) | 10,835 |
| Net decrease in interest-bearing deposits | (81,553) | (69,614) |
| Net increase in federal funds purchased | 24,602 | 2,297 |
| Repayment of Federal Home Loan Bank advances | (100) | (100) |

| | | |
|---|---|---|
| Proceeds from sale of preferred stock, net | - | 125 |
| Proceeds from exercise of stock options | 852 | 926 |
| Taxes paid in net settlement of tax obligation upon exercise of stock options | (1,247 ) | - |
| Dividends paid on common stock | (2,650 ) | (2,105 ) |
| Net cash used in financing activities | (92,830 ) | (57,636 ) |
| Net decrease in cash and cash equivalents | (161,481) | (318,433) |
| Cash and cash equivalents at beginning of period | 477,586 | 783,997 |
| Cash and cash equivalents at end of period | $316,105 | $465,564 |
| SUPPLEMENTAL DISCLOSURE | | |
| Cash paid for: | | |
| Interest | $8,721 | $7,652 |
| Income taxes | 2,902 | 652 |
| Income tax refund | - | (181 ) |
| NONCASH TRANSACTIONS | | |
| Other real estate acquired in settlement of loans | $175 | $553 |
| Internally financed sales of other real estate owned | - | 49 |
| Dividends declared | 5,846 | 2,641 |

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**SERVISFIRST BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2018**

**(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 recurring nature. The consolidated results of operations are not necessarily indicative of the consolidated results of operations which ServisFirst Bancshares, Inc. (the "Company") may achieve for future interim periods or the entire year. For further information, refer to the consolidated financial statements and footnotes included in the Company's Form 10-K for the year ended December 31, 2017.

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

### Revenue Recognition

Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers ("ASC 606")*, provides guidance for reporting revenue from the entity's contracts to provide goods or services to customers. The guidance requires recognition of revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of our revenue-generating transactions are excluded from the scope of ASC 606, including revenue generated from financial instruments, such as securities and loans. Revenue-generating transactions that are within the scope of ASC 606, classified within non-interest income, are described as follows:

- Deposit account service charges – represent service fees for monthly activity and maintenance on customer accounts. Attributes can be transaction-based, item-based or time-based. Revenue is recognized when our performance obligation is completed which is generally monthly for maintenance services or when a transaction is processed. Payment for such performance obligations are generally received at the time the performance obligations are satisfied.
- Credit card rewards program membership fees – represent memberships in our credit card rewards program and are paid annually by our cardholders at the time they open an account and on each anniversary. Revenue is recognized ratably over the membership period.

Other non-interest income primarily includes income on bank owned life insurance contracts, letter of credit fees and gains on sale of loans held for sale, none of which are within the scope of ASC 606.

**NOTE 2 - CASH AND CASH EQUIVALENTS**

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

**NOTE 3 - EARNINGS PER COMMON SHARE**

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| | (In Thousands, Except Shares and Per Share Data) | |
| Earnings per common share | | |
| Weighted average common shares outstanding | 53,082,322 | 52,745,335 |
| Net income available to common stockholders | $32,603 | $22,519 |
| Basic earnings per common share | $0.61 | $0.43 |
| | | |
| Weighted average common shares outstanding | 53,082,322 | 52,745,335 |
| Dilutive effects of assumed conversions and exercise of stock options and warrants | 1,101,078 | 1,388,387 |
| Weighted average common and dilutive potential common shares outstanding | 54,183,400 | 54,133,722 |
| Net income available to common stockholders | $32,603 | $22,519 |
| Diluted earnings per common share | $0.60 | $0.42 |

**NOTE 4 - SECURITIES**

The amortized cost and fair value of available-for-sale and held-to-maturity securities at March 31, 2018 and December 31, 2017 are summarized as follows:

| | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | Fair Value |
|---|---|---|---|---|
| March 31, 2018 | (In Thousands) | | | |
| Available for sale debt securities | | | | |
| U.S. Treasury and government sponsored agencies | $58,025 | $ 5 | $ (777 ) | $57,252 |
| Mortgage-backed securities | 294,582 | 609 | (6,874 ) | 288,318 |
| State and municipal securities | 123,123 | 522 | (856 ) | 122,789 |
| Corporate debt | 91,409 | 1,376 | (509 ) | 92,276 |
| Total | $567,139 | $ 2,512 | $ (9,016 ) | $560,635 |
| Held to maturity debt securities | | | | |
| State and municipal securities | $250 | $ - | $ - | $250 |
| Total | $250 | $ - | $ - | $250 |
| | | | | |
| December 31, 2017 | | | | |
| Available for sale debt securities | | | | |
| U.S. Treasury and government sponsored agencies | $55,567 | $ 38 | $ (249 ) | $55,356 |
| Mortgage-backed securities | 278,177 | 1,006 | (2,685 ) | 276,498 |
| State and municipal securities | 134,641 | 761 | (553 ) | 134,849 |
| Corporate debt | 69,996 | 1,416 | (35 ) | 71,377 |
| Total | $538,381 | $ 3,221 | $ (3,522 ) | $538,080 |
| Held to maturity debt securities | | | | |
| State and municipal securities | $250 | $ - | $ - | $250 |
| Total | $250 | $ - | $ - | $250 |

The amortized cost and fair value of debt securities as of March 31, 2018 and December 31, 2017 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.

| | March 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | (In thousands) | | | |
| Available for sale debt securities | | | | |
| Due within one year | $45,864 | $45,909 | $22,122 | $22,172 |
| Due from one to five years | 194,445 | 193,930 | 160,773 | 160,563 |

| | | | | |
|---|---|---|---|---|
| Due from five to ten years | 29,371 | 29,472 | 73,362 | 74,684 |
| Due after ten years | 2,877 | 3,006 | 3,947 | 4,163 |
| Mortgage-backed securities | 294,582 | 288,318 | 278,177 | 276,498 |
| | $567,139 | $560,635 | $538,381 | $538,080 |
| | | | | |
| Held to maturity debt securities | | | | |
| Due from one to five years | $250 | $250 | $250 | $250 |
| | $250 | $250 | $250 | $250 |

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

The following table identifies, as of March 31, 2018 and December 31, 2017, the Company's investment securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months. At March 31, 2018, 73 of the Company's 797 debt securities had been in an unrealized loss position for 12 or more months. The Company does not intend to sell these securities, and it is more likely than not that the Company will not be required to sell the securities before recovery of their amortized cost, which may be maturity; accordingly, the Company does not consider these securities to be other-than-temporarily impaired at March 31, 2018. 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) | | | | | |
| March 31, 2018: | | | | | | |
| U.S. Treasury and government sponsored agencies | $(635) | $54,191 | $(142) | $2,881 | $(777) | $57,072 |
| Mortgage-backed securities | (4,046) | 200,071 | (2,828) | 71,042 | (6,874) | 271,113 |
| State and municipal securities | (716) | 64,676 | (140) | 6,642 | (856) | 71,318 |
| Corporate debt | (509) | 26,389 | - | - | (509) | 26,389 |
| Total | $(5,906) | $345,327 | $(3,110) | $80,565 | $(9,016) | $425,892 |
| | | | | | | |
| December 31, 2017: | | | | | | |
| U.S. Treasury and government sponsored agencies | $(151) | $33,401 | $(98) | $2,926 | $(249) | $36,327 |
| Mortgage-backed securities | (986) | 140,432 | (1,699) | 75,903 | (2,685) | 216,335 |
| State and municipal securities | (450) | 66,637 | (103) | 6,648 | (553) | 73,285 |
| Corporate debt | (35) | 6,955 | - | - | (35) | 6,955 |
| Total | $(1,622) | $247,425 | $(1,900) | $85,477 | $(3,522) | $332,902 |

**NOTE 5 – LOANS**

The following table details the Company's loans at March 31, 2018 and December 31, 2017:

| | March 31, | December 31, |
|---|---|---|

| | 2018 | 2017 |
|---|---|---|
| | (Dollars In Thousands) | |
| Commercial, financial and agricultural | $2,329,904 | $2,279,366 |
| Real estate - construction | 506,050 | 580,874 |
| Real estate - mortgage: | | |
| Owner-occupied commercial | 1,349,679 | 1,328,666 |
| 1-4 family mortgage | 581,498 | 603,063 |
| Other mortgage | 1,099,482 | 997,079 |
| Subtotal: Real estate - mortgage | 3,030,659 | 2,928,808 |
| Consumer | 61,714 | 62,213 |
| Total Loans | 5,928,327 | 5,851,261 |
| Less: Allowance for loan losses | (62,050) | (59,406) |
| Net Loans | $5,866,277 | $5,791,855 |

| | 2018 | 2017 |
|---|---|---|
| Commercial, financial and agricultural | 39.30 % | 38.96 % |
| Real estate - construction | 8.54 % | 9.93 % |
| Real estate - mortgage: | | |
| Owner-occupied commercial | 22.77 % | 22.71 % |
| 1-4 family mortgage | 9.81 % | 10.30 % |
| Other mortgage | 18.54 % | 17.04 % |
| Subtotal: Real estate - mortgage | 51.12 % | 50.05 % |
| Consumer | 1.04 % | 1.06 % |
| 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(s) or by the fair value, less cost to acquire and sell, of any underlying collateral.

- Special Mention – loans with potential weakness that may, if not reversed or corrected, weaken the credit or inadequately protect the Company's position at some future date. These loans are not adversely classified and do not expose an institution to sufficient risk to warrant an adverse classification.

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

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

Loans by credit quality indicator as of March 31, 2018 and December 31, 2017 were as follows:

| March 31, 2018 | Pass | Special Mention | Substandard | Doubtful | Total |
|---|---|---|---|---|---|
| | (In Thousands) | | | | |
| Commercial, financial and agricultural | $2,272,468 | $32,900 | $ 24,536 | $ - | $2,329,904 |
| Real estate - construction | 497,846 | 6,623 | 1,581 | - | 506,050 |
| Real estate - mortgage: | | | | | |
| Owner-occupied commercial | 1,338,307 | 7,401 | 3,971 | - | 1,349,679 |
| 1-4 family mortgage | 576,792 | 1,599 | 3,107 | - | 581,498 |
| Other mortgage | 1,078,797 | 13,732 | 6,953 | - | 1,099,482 |
| Total real estate - mortgage | 2,993,896 | 22,732 | 14,031 | - | 3,030,659 |
| Consumer | 61,623 | 4 | 87 | - | 61,714 |
| Total | $5,825,833 | $62,259 | $ 40,235 | $ - | $5,928,327 |

| December 31, 2017 | Pass | Special Mention | Substandard | Doubtful | Total |
|---|---|---|---|---|---|
| | (In Thousands) | | | | |
| Commercial, financial and agricultural | $2,225,084 | $27,835 | $ 26,447 | $ - | $2,279,366 |
| Real estate - construction | 572,657 | 6,691 | 1,526 | - | 580,874 |

| | | | | | |
|---|---|---|---|---|---|
| Real estate - mortgage: | | | | | |
| Owner-occupied commercial | 1,317,113 | 7,333 | 4,220 | - | 1,328,666 |
| 1-4 family mortgage | 598,222 | 1,599 | 3,242 | - | 603,063 |
| Other mortgage | 976,348 | 18,122 | 2,609 | - | 997,079 |
| Total real estate - mortgage | 2,891,683 | 27,054 | 10,071 | - | 2,928,808 |
| Consumer | 62,083 | 42 | 88 | - | 62,213 |
| Total | $5,751,507 | $61,622 | $ 38,132 | $ - | $5,851,261 |

Loans by performance status as of March 31, 2018 and December 31, 2017 were as follows:

| March 31, 2018 | Performing | Nonperforming | Total |
|---|---|---|---|
| | (In Thousands) | | |
| Commercial, financial and agricultural | $2,320,887 | $ 9,017 | $2,329,904 |
| Real estate - construction | 506,050 | - | 506,050 |
| Real estate - mortgage: | | | |
| Owner-occupied commercial | 1,349,373 | 306 | 1,349,679 |
| 1-4 family mortgage | 580,953 | 545 | 581,498 |
| Other mortgage | 1,099,482 | - | 1,099,482 |
| Total real estate - mortgage | 3,029,808 | 851 | 3,030,659 |
| Consumer | 61,633 | 81 | 61,714 |
| Total | $5,918,378 | $ 9,949 | $5,928,327 |

| December 31, 2017 | Performing | Nonperforming | Total |
|---|---|---|---|
| | (In Thousands) | | |
| Commercial, financial and agricultural | $2,269,642 | $ 9,724 | $2,279,366 |
| Real estate - construction | 580,874 | - | 580,874 |
| Real estate - mortgage: | | | |
| Owner-occupied commercial | 1,328,110 | 556 | 1,328,666 |
| 1-4 family mortgage | 602,604 | 459 | 603,063 |
| Other mortgage | 997,079 | - | 997,079 |
| Total real estate - mortgage | 2,927,793 | 1,015 | 2,928,808 |
| Consumer | 62,127 | 86 | 62,213 |
| Total | $5,840,436 | $ 10,825 | $5,851,261 |

Loans by past due status as of March 31, 2018 and December 31, 2017 were as follows:

| March 31, 2018 | 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 | $309 | $ 10,495 | $ 418 | $11,222 | $ 8,599 | $2,310,083 | $2,329,904 |
| Real estate - construction | - | 7,619 | - | 7,619 | - | 498,431 | 506,050 |
| Real estate - mortgage: | | | | | | | |
| Owner-occupied commercial | 115 | 3,664 | - | 3,779 | 306 | 1,345,594 | 1,349,679 |
| 1-4 family mortgage | 564 | 1,365 | 217 | 2,146 | 328 | 579,024 | 581,498 |
| Other mortgage | 381 | 14,827 | - | 15,208 | - | 1,084,274 | 1,099,482 |
| Total real estate - mortgage | 1,060 | 19,856 | 217 | 21,133 | 634 | 3,008,892 | 3,030,659 |
| Consumer | 19 | 24 | 43 | 86 | 38 | 61,590 | 61,714 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total | $1,388 | $ 37,994 | $ 678 | $40,060 | $ 9,271 | $5,878,996 | $5,928,327 |

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| December 31, 2017 | 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 | $1,410 | $ 5,702 | $ 12 | $7,124 | $ 9,712 | $2,262,530 | $2,279,366 |
| Real estate - construction | 56 | 997 | - | 1,053 | - | 579,821 | 580,874 |
| Real estate - mortgage: | | | | | | | |
| Owner-occupied commercial | - | 3,664 | - | 3,664 | 556 | 1,324,446 | 1,328,666 |
| 1-4 family mortgage | 430 | 850 | - | 1,280 | 459 | 601,324 | 603,063 |
| Other mortgage | 5,116 | - | - | 5,116 | - | 991,963 | 997,079 |
| Total real estate - mortgage | 5,546 | 4,514 | - | 10,060 | 1,015 | 2,917,733 | 2,928,808 |
| Consumer | 131 | 23 | 48 | 202 | 38 | 61,973 | 62,213 |
| Total | $7,143 | $ 11,236 | $ 60 | $18,439 | $ 10,765 | $5,822,057 | $5,851,261 |

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 the following homogeneous loan pools by loan type: 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 five 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 months ended March 31, 2018 and March 31, 2017. 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 March 31, 2018 | | | | |
| Allowance for loan losses: | | | | | |
| Balance at December 31, 2017 | $32,880 | $4,989 | $21,022 | $515 | $59,406 |
| Charge-offs | (1,088) | - | (381) | (88) | (1,557) |
| Recoveries | 4 | 7 | 42 | 9 | 62 |
| Provision | 3,991 | (858) | 923 | 83 | 4,139 |
| Balance at March 31, 2018 | $35,787 | $4,138 | $21,606 | $519 | $62,050 |
| | Three Months Ended March 31, 2017 | | | | |
| Allowance for loan losses: | | | | | |
| Balance at December 31, 2016 | $28,872 | $5,125 | $17,504 | $392 | $51,893 |
| Charge-offs | (2,855) | - | (266) | (75) | (3,196) |
| Recoveries | 190 | 16 | 2 | 1 | 209 |
| Provision | 2,500 | (316) | 2,722 | 80 | 4,986 |
| Balance at March 31, 2017 | $28,707 | $4,825 | $19,962 | $398 | $53,892 |
| | As of March 31, 2018 | | | | |
| Allowance for loan losses: | | | | | |
| Individually Evaluated for Impairment | $5,877 | $120 | $432 | $49 | $6,478 |
| Collectively Evaluated for Impairment | 29,910 | 4,018 | 21,174 | 470 | 55,572 |
| Loans: | | | | | |
| Ending Balance | $2,329,904 | $506,050 | $3,030,659 | $61,714 | $5,928,327 |
| Individually Evaluated for Impairment | 24,536 | 1,625 | 16,328 | 87 | 42,576 |
| Collectively Evaluated for Impairment | 2,305,368 | 504,425 | 3,014,331 | 61,627 | 5,885,751 |
| | As of December 31, 2017 | | | | |
| Allowance for loan losses: | | | | | |
| Individually Evaluated for Impairment | $4,276 | $120 | $1,163 | $50 | $5,609 |
| Collectively Evaluated for Impairment | 28,604 | 4,869 | 19,859 | 465 | 53,797 |
| Loans: | | | | | |
| Ending Balance | $2,279,366 | $580,874 | $2,928,808 | $62,213 | $5,851,261 |
| Individually Evaluated for Impairment | 26,447 | 1,571 | 12,404 | 88 | 40,510 |
| Collectively Evaluated for Impairment | 2,252,919 | 579,303 | 2,916,404 | 62,125 | 5,810,751 |

The following table presents details of the Company’s impaired loans as of March 31, 2018 and December 31, 2017, respectively. Loans which have been fully charged off do not appear in the table.

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| | March 31, 2018 | | | For the three months ended March 31, 2018 | |
|---|---|---|---|---|---|
| | 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 | $6,176 | $6,953 | $ - | $6,165 | $ 71 |
| Real estate - construction | 628 | 631 | - | 632 | 8 |
| Real estate - mortgage: | | | | | |
| Owner-occupied commercial | 2,604 | 2,771 | - | 2,789 | 38 |
| 1-4 family mortgage | 2,258 | 2,258 | - | 2,256 | 25 |
| Other mortgage | 5,090 | 5,090 | - | 5,114 | 63 |
| Total real estate - mortgage | 9,952 | 10,119 | - | 10,159 | 126 |
| Consumer | 38 | 38 | - | 39 | 1 |
| Total with no allowance recorded | 16,794 | 17,741 | - | 16,995 | 206 |
| | | | | | |
| With an allowance recorded: | | | | | |
| Commercial, financial and agricultural | 18,360 | 25,182 | 5,877 | 19,809 | 147 |
| Real estate - construction | 997 | 997 | 120 | 997 | 14 |
| Real estate - mortgage: | | | | | |
| Owner-occupied commercial | 3,664 | 3,664 | - | 3,664 | 50 |
| 1-4 family mortgage | 850 | 850 | 151 | 850 | 12 |
| Other mortgage | 1,862 | 1,862 | 281 | 1,862 | 20 |
| Total real estate - mortgage | 6,376 | 6,376 | 432 | 6,376 | 82 |
| Consumer | 49 | 49 | 49 | 50 | 1 |
| Total with allowance recorded | 25,782 | 32,604 | 6,478 | 27,232 | 244 |
| | | | | | |
| Total Impaired Loans: | | | | | |
| Commercial, financial and agricultural | 24,536 | 32,135 | 5,877 | 25,974 | 218 |
| Real estate - construction | 1,625 | 1,628 | 120 | 1,629 | 22 |
| Real estate - mortgage: | | | | | |
| Owner-occupied commercial | 6,268 | 6,435 | - | 6,453 | 88 |
| 1-4 family mortgage | 3,108 | 3,108 | 151 | 3,106 | 37 |
| Other mortgage | 6,952 | 6,952 | 281 | 6,976 | 83 |
| Total real estate - mortgage | 16,328 | 16,495 | 432 | 16,535 | 208 |
| Consumer | 87 | 87 | 49 | 89 | 2 |
| Total impaired loans | $42,576 | $50,345 | $ 6,478 | $44,227 | $ 450 |

| | December 31, 2017 | | | For the twelve months ended December 31, 2017 | |
|---|---|---|---|---|---|
| | | | | | Interest |

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Income Recognized In Period |
|---|---|---|---|---|---|
| | (In Thousands) | | | | |
| With no allowance recorded: | | | | | |
| Commercial, financial and agricultural | $10,036 | $16,639 | $ - | $16,417 | $ 571 |
| Real estate - construction | 574 | 577 | - | 663 | 31 |
| Real estate - mortgage: | | | | | |
| Owner-occupied commercial | 2,640 | 2,806 | - | 2,875 | 159 |
| 1-4 family mortgage | 2,262 | 2,262 | - | 2,289 | 93 |
| Other mortgage | 746 | 746 | - | 727 | 44 |
| Total real estate - mortgage | 5,648 | 5,814 | - | 5,891 | 296 |
| Consumer | 38 | 39 | - | 42 | 3 |
| Total with no allowance recorded | 16,296 | 23,069 | - | 23,013 | 901 |
| | | | | | |
| With an allowance recorded: | | | | | |
| Commercial, financial and agricultural | 16,411 | 16,992 | 4,276 | 17,912 | 651 |
| Real estate - construction | 997 | 997 | 120 | 997 | 56 |
| Real estate - mortgage: | | | | | |
| Owner-occupied commercial | 3,914 | 3,914 | 601 | 3,801 | 215 |
| 1-4 family mortgage | 980 | 980 | 281 | 1,113 | 54 |
| Other mortgage | 1,862 | 1,862 | 281 | 1,862 | 80 |
| Total real estate - mortgage | 6,756 | 6,756 | 1,163 | 6,776 | 349 |
| Consumer | 50 | 50 | 50 | 42 | 3 |
| Total with allowance recorded | 24,214 | 24,795 | 5,609 | 25,727 | 1,059 |
| | | | | | |
| Total Impaired Loans: | | | | | |
| Commercial, financial and agricultural | 26,447 | 33,631 | 4,276 | 34,329 | 1,222 |
| Real estate - construction | 1,571 | 1,574 | 120 | 1,660 | 87 |
| Real estate - mortgage: | | | | | |
| Owner-occupied commercial | 6,554 | 6,720 | 601 | 6,676 | 374 |
| 1-4 family mortgage | 3,242 | 3,242 | 281 | 3,402 | 147 |
| Other mortgage | 2,608 | 2,608 | 281 | 2,589 | 124 |
| Total real estate - mortgage | 12,404 | 12,570 | 1,163 | 12,667 | 645 |
| Consumer | 88 | 89 | 50 | 84 | 6 |
| Total impaired loans | $40,510 | $47,864 | $ 5,609 | $48,740 | $ 1,960 |

Troubled Debt Restructurings ("TDR") at March 31, 2018, December 31, 2017 and March 31, 2017 totaled $18.8 million, $20.6 million and $7.3 million, respectively. At March 31, 2018, the Company had a related allowance for loan losses of $5.1 million allocated to these TDRs, compared to $4.3 million at December 31, 2017 and $2.3 million at March 31, 2017. There were no modifications made to new TDRs or renewals of existing TDRs for the three months ended March 31, 2018 and 2017.

No TDRs which were modified in the previous twelve months (i.e., the twelve months prior to default) defaulted during the three months ended March 31, 2018 or 2017. For purposes of this disclosure, default is defined as 90 days past due and still accruing or placement on nonaccrual status.

**NOTE 6 - EMPLOYEE AND DIRECTOR BENEFITS**

**Stock Options**

At March 31, 2018, the Company had stock incentive plans as described below. The compensation cost that has been charged to earnings for the plans was approximately $238,000 and $337,000 for the three months ended March 31, 2018 and 2017, respectively.

The Company's 2005 Amended and Restated Stock Incentive Plan allows for the grant of stock options to purchase up to 6,150,000 shares of the Company's common stock. The Company's 2009 Amended and Restated Stock Incentive Plan authorizes the grant of up to 5,550,000 shares and allows for the issuance of Stock Appreciation Rights, Restricted Stock, Stock Options, Non-stock Share Equivalents, Performance Shares or Performance Units. Both plans allow for the grant of incentive stock options and non-qualified stock options, and option awards are granted with an exercise price equal to the fair market value of the Company's common stock at the date of grant. The maximum term of the options granted under the plans is ten years.

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

| | 2018 | 2017 |
|---|---|---|
| Expected volatility | 23.43 % | 29.00 % |
| Expected dividends | 1.07 % | 0.43 % |

| | | |
|---|---|---|
| Expected term (in years) | 6 | 6 |
| Risk-free rate | 2.67 % | 2.08 % |

The weighted average grant-date fair value of options granted during the three months ended March 31, 2018 and 2017 was $10.41 and $11.91, respectively.

The following table summarizes stock option activity during the three months ended March 31, 2018 and 2017:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (years) | Aggregate Intrinsic Value (In Thousands) |
|---|---|---|---|---|
| Three Months Ended March 31, 2018: | | | | |
| Outstanding at January 1, 2018 | 1,666,834 | $ 10.68 | 5.5 | $ 51,377 |
| Granted | 10,250 | 41.21 | 9.9 | (4 ) |
| Exercised | (173,836 ) | 4.90 | 3.4 | 6,244 |
| Forfeited | (1,000 ) | 25.41 | 8.5 | 15 |
| Outstanding at March 31, 2018 | 1,502,248 | 11.54 | 5.5 | $ 43,978 |
| Exercisable at March 31, 2018 | 672,600 | $ 5.48 | 3.9 | $ 23,770 |
| Three Months Ended March 31, 2017: | | | | |
| Outstanding at January 1, 2017 | 2,026,334 | $ 9.00 | 6.2 | $ 57,636 |
| Granted | 51,500 | 38.10 | 9.8 | (89 ) |
| Exercised | (175,500 ) | 5.28 | 5.0 | 5,459 |
| Forfeited | (27,000 ) | 21.55 | 8.8 | 401 |
| Outstanding at March 31, 2017 | 1,875,334 | 9.96 | 6.2 | $ 49,540 |
| Exercisable at March 31, 2017 | 928,236 | $ 5.12 | 4.6 | $ 29,013 |

As of March 31, 2018, there was $1,847,000 of total unrecognized compensation cost related to non-vested stock options. The cost is expected to be recognized on the straight-line method over the next 2.4 years.

**Restricted Stock**

The Company periodically grants restricted stock awards that vest upon service conditions. Dividend payments are made during the vesting period. The value of restricted stock 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 March 31, 2018, there was $841,000 of total unrecognized compensation cost related to non-vested restricted stock. As of March 31, 2018, non-vested restricted stock had a weighted average remaining time to vest of 1.6 years.

**NOTE 7 - 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 March 31, 2018 and December 31, 2017 were not material.

**NOTE 8 – RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS**

In February 2018, the FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income* (Topic 220); *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The amendments in this ASU require a reclassification from / to accumulated other comprehensive income and to / from retained earnings for stranded tax effects resulting from the change in the newly enacted federal corporate income tax rate. Consequently, the amendments in this ASU eliminates the stranded tax effects associated with the change in the federal corporate income tax rate in the Tax Cuts and Jobs Act of 2017. The amendments in this ASU are effective for all entities for fiscal year beginning after December 15, 2018 with early adoption allowed. The Bank elected to early adopt this ASU as of December 31, 2017. The effect of the adoption of this ASU was to decrease accumulated other comprehensive income by $43,000 with the offset to retained earnings as recorded in the statement of changes in stockholders' equity. This represents the difference between the historical corporate income tax rate and the newly enacted 21% corporate income tax rate.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU replaces most existing revenue recognition guidance in GAAP. The new standard was effective for the Company on January 1, 2018. Adoption of ASU 2014-09 did not have a material impact on the Company’s consolidated financial statements and related disclosures as the Company’s primary sources of revenues are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of ASU 2014-09. The Company’s revenue recognition pattern for revenue streams within the scope of ASU 2014-09, including but not limited to service charges on deposit accounts and credit card fees, did not change significantly from current practice. See below for additional information related to revenue generated from contracts with customers.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments Overall (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in ASU 2016-01: (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 became effective for the Company on January 1, 2018. Accordingly, the calculation of fair value of the loan portfolio was refined to incorporate exit pricing, but had no material impact on our fair value disclosures. See Note 10 – Fair Value Measurement.

**NOTE 9 – RECENT ACCOUNTING PRONOUNCEMENTS**

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. In January 2018, the FASB issued a proposal to allow an additional transition method that would allow entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company leases many of its banking offices under lease agreements it classifies as operating leases. Management currently anticipates recognizing a right-of-use asset and a lease liability associated with its long-term operating leases, which among other things, will increase the amount of risk-weighted assets it reports in the calculation of its regulatory capital ratios.

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 has contracted with a third-party provider to implement enhanced modeling techniques that incorporate the loss measurement requirements in these amendments as part of adopting the ASU.

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities.* The amendments shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this ASU are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The amendments should be applied on a modified retrospective basis, with a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The amendments in this ASU will not impact the Company's financial statements as it has always amortized premiums to the first call date.

**NOTE 10 - FAIR VALUE MEASUREMENT**

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

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

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

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

*Impaired Loans*. Impaired loans are measured and reported at fair value when full payment under the loan terms is not probable. Impaired loans are carried at the present value of expected future cash flows using the loan's existing rate in a discounted cash flow calculation, or the fair value of the collateral if the loan is collateral-dependent. Expected cash flows are based on internal inputs reflecting expected default rates on contractual cash flows. This method of estimating fair value does not incorporate the exit-price concept of fair value described in Accounting Standards Codification ("ASC") 820-10 and would generally result in a higher value than the exit-price approach. For loans measured using the estimated fair value of collateral less costs to sell, fair value is generally determined based on appraisals performed by certified and licensed appraisers using inputs such as absorption rates, capitalization rates, and market comparables, adjusted for estimated costs to sell. Management modifies the appraised values, if needed, to take into account recent developments in the market or other factors, such as changes in absorption rates or market conditions from the time of valuation, and anticipated sales values considering management's plans for disposition. Such modifications to the appraised values could result in lower valuations of such collateral. Estimated costs to sell are based on current amounts of disposal costs for similar assets. These measurements are classified as Level 3 within the valuation hierarchy. Impaired loans are subject to nonrecurring fair value adjustment upon initial recognition or subsequent impairment. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly based on the same factors identified above. The amount recognized as an impairment charge related to impaired loans that are measured at fair value on a nonrecurring basis was $2,345,000 during the three months ended March 31, 2018, and $2,978,000 during the three months ended March 31, 2017.

*Other Real Estate Owned*. Other real estate assets ("OREO") acquired through, or in lieu of, foreclosure are held for sale and are initially recorded at the lower of cost or fair value, less selling costs. Any write-downs to fair value at the time of transfer to OREO are charged to the allowance for loan losses subsequent to foreclosure. Values are derived from appraisals of underlying collateral and discounted cash flow analysis. Appraisals are performed by certified and licensed appraisers. Subsequent to foreclosure, valuations are updated periodically and assets are marked to current fair value, not to exceed the new cost basis. In the determination of fair value subsequent to foreclosure, management also considers other factors or recent developments, such as changes in absorption rates and market conditions from the time of valuation, and anticipated sales values considering management's plans for disposition, which could result in adjustment to lower the property value estimates indicated in the appraisals. These measurements are classified as Level 3 within the valuation hierarchy. A loss on the sale and write-downs of OREO of $254,000 and $30,000 was recognized during the three months ended March 31, 2018 and 2017, 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.

There was one residential real estate loan with a balance of $175,000 foreclosed and classified as OREO as of March 31, 2018 compared to none as of December 31, 2017.

No residential real estate loans were in the process of being foreclosed as of March 31, 2018 and December 31, 2017.

The following table presents the Company's financial assets and financial liabilities carried at fair value on a recurring basis as of March 31, 2018 and December 31, 2017:

| | Fair Value Measurements at March 31, 2018 Using | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Assets Measured on a Recurring Basis: | (In Thousands) | | | |
| Available for sale debt securities: | | | | |
| U.S. Treasury and government sponsored agencies | $ - | $ 57,252 | $ - | $ 57,252 |
| Mortgage-backed securities | - | 288,318 | - | 288,318 |
| State and municipal securities | - | 122,789 | - | 122,789 |
| Corporate debt | - | 85,673 | 6,603 | 92,276 |
| Total assets at fair value | $ - | $ 554,032 | $ 6,603 | $ 560,635 |

| | Fair Value Measurements at December 31, 2017 Using | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Assets Measured on a Recurring Basis: | (In Thousands) | | | |
| Available for sale debt securities: | | | | |
| U.S. Treasury and government sponsored agencies | $ - | $ 55,356 | $ - | $ 55,356 |
| Mortgage-backed securities | - | 276,498 | - | 276,498 |
| State and municipal securities | - | 134,849 | - | 134,849 |
| Corporate debt | - | 64,877 | 6,500 | 71,377 |
| Total assets at fair value | $ - | $ 531,580 | $ 6,500 | $ 538,080 |

The following table presents the Company's financial assets and financial liabilities carried at fair value on a nonrecurring basis as of March 31, 2018 and December 31, 2017:

| | Fair Value Measurements at March 31, 2018 Using | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Assets Measured on a Nonrecurring Basis: | (In Thousands) | | | |
| Impaired loans | $ - | $ - | $ 36,098 | $ 36,098 |
| Other real estate owned and repossessed assets | - | - | 5,748 | 5,748 |
| Total assets at fair value | $ - | $ - | $ 41,846 | $ 41,846 |

| | Fair Value Measurements at December 31, 2017 Using | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Assets Measured on a Nonrecurring Basis: | (In Thousands) | | | |
| Impaired loans | $ - | $ - | $ 34,901 | $ 34,901 |
| Other real estate owned | - | - | 6,701 | 6,701 |
| Total assets at fair value | $ - | $ - | $ 41,602 | $ 41,602 |

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:

**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:** The carrying value of Federal Home Loan Bank and Federal Reserve Bank stock approximates fair value based on the redemption provision of the investments. Within equity securities, we hold and investment in a fund that qualifies us for Community Reinvestment Act credits. This investment is classified in Level 1 of the fair value hierarchy.

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

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

The carrying amount, estimated fair value, and placement in the fair value hierarchy of the Company's financial instruments as of March 31, 2018 and December 31, 2017 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 nonrecurring basis.

| | March 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (In Thousands) | | | |
| Financial Assets: | | | | |
| Level 1 inputs: | | | | |
| Cash and due from banks | $118,223 | $118,223 | $238,062 | $238,062 |
| Level 2 inputs: | | | | |
| Available for sale debt securities | $554,032 | $554,032 | $531,580 | $531,580 |
| Equity securities | 1,026 | 1,026 | 1,034 | 1,034 |
| Federal funds sold | 197,882 | 197,882 | 239,524 | 239,524 |
| Mortgage loans held for sale | 4,522 | 4,522 | 4,459 | 4,459 |
| Bank owned life insurance contracts | 128,296 | 128,296 | 127,519 | 127,519 |
| Level 3 Inputs: | | | | |
| Available for sale debt securities | $6,603 | $6,603 | $6,500 | $6,500 |
| Held to maturity debt securities | 250 | 250 | 250 | 250 |
| Loans, net | 5,830,178 | 5,769,403 | 5,756,954 | 5,712,441 |
| Financial Liabilities: | | | | |
| Level 2 inputs: | | | | |
| Deposits | $5,977,387 | $5,969,531 | $6,091,674 | $6,086,085 |
| Federal funds purchased | 326,399 | 326,399 | 301,797 | 301,797 |
| Other borrowings | 64,739 | 65,799 | 64,832 | 65,921 |

**NOTE 11 – SUBSEQUENT EVENTS**

The Company has evaluated all subsequent events through the date of this filing to ensure that this Form 10-Q includes appropriate disclosure of events both recognized in the financial statements as of March 31, 2018, and events which occurred subsequent to March 31, 2018 but were not recognized in the financial statements. As of the date of this filing, there were no subsequent events that the Company believed require recognition or disclosure.

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

The following discussion and analysis is designed to provide a better understanding of various factors relating to the results of operations and financial condition of ServisFirst Bancshares, Inc. (the "Company") and its wholly owned subsidiary, ServisFirst Bank (the "Bank"). This discussion is intended to supplement and highlight information contained in the accompanying unaudited consolidated balance sheets as of March 31, 2018 and December 31, 2017 and consolidated statements of income for the three months ended March 31, 2018 and March 31, 2017.

### 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 expressior 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, but not limited to: 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; 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. Accordingly, you should not place undue reliance on any forward-looking statements, which speak only as of the date made. The Company 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 20 full-service banking offices located in Alabama, Tampa Bay, Florida, the panhandle of Florida, the greater Atlanta, Georgia metropolitan area, Charleston, South Carolina, and Nashville, 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. 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, interest paid on our other borrowings, employee compensation, office expenses and other overhead expenses.

**Overview**

As of March 31, 2018, we had consolidated total assets of $7.01 billion, down $70.6 million, or 1.0%, from total assets of $7.08 billion at December 31, 2017. Total loans were $5.93 billion at March 31, 2018, up $77.0 million, or 1.3%, from $5.85 billion at December 31, 2017. Total deposits were $5.98 billion at March 31, 2018, down $114.3 million, or 1.9%, from $6.09 billion at December 31, 2017.

Net income available to common stockholders for the quarter ended March 31, 2018 was $32.6 million, up $10.1 million, or 44.9%, from $22.5 million for the quarter ended March 31, 2017. Basic and diluted earnings per common share were $0.61 and $0.60, respectively, for the three months ended March 31, 2018, compared to $0.43 and $0.42, respectively, for the corresponding period in 2017. An increase in net interest income of $10.4 million and a decrease in income tax expense of $775,000 for the comparative periods contributed to the increase in net income. Partially offsetting these were increases in salary expenses and other operating expenses. Changes in income and expenses are more fully explained in “Results of Operations” below.

**Critical Accounting Policies**

The accounting and financial policies of the Company conform to U.S. GAAP and to general practices within the banking industry. To prepare consolidated financial statements in conformity with U.S. generally accepted accounting principles, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, valuation of foreclosed real estate, deferred taxes, and fair value of financial instruments are particularly subject to change. Information concerning our accounting policies with respect to these items is available in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

**Financial Condition**

**Cash and Cash Equivalents**

At March 31, 2018, we had $197.9 million in federal funds sold, compared to $239.5 million at December 31, 2017. We also maintain balances at the Federal Reserve Bank of Atlanta, which earn interest. At March 31, 2018, we had $51.8 million in balances at the Federal Reserve, compared to $150.3 million at December 31, 2017. Our decrease in federal funds sold and balances at the Federal Reserve were the result of loan growth and a decline in deposits during the first quarter of 2018.

**Investment Securities**

Debt securities available for sale totaled $560.6 million at March 31, 2018 and $538.1 million at December 31, 2017. Investment securities held to maturity totaled $0.3 million at March 31, 2018 and $0.3 million at December 31, 2017. We had pay downs of $12.0 million on mortgage-backed securities and calls and maturities of $9.6 million on municipal securities during the first three months of 2018. We bought $2.9 million of U.S. Treasury and government sponsored agency securities, $22.2 million of municipal securities and $29.2 million of mortgage-backed securities during the first three months of 2018.

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 seek to balance the market and credit risks against the potential investment return, make investments compatible with the pledge requirements of any deposits of public funds, maintain compliance with regulatory investment requirements, and assist certain public entities with their financial needs. The investment committee has

full authority over the investment portfolio and makes decisions on purchases and sales of securities. The entire portfolio, along with all investment transactions occurring since the previous board of directors meeting, is reviewed by the board at each monthly meeting. The investment policy allows portfolio holdings to include short-term securities purchased to provide us with needed liquidity and longer term securities purchased to generate level income for us over periods of interest rate fluctuations.

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

All securities held are traded in liquid markets. As of March 31, 2018, we owned certain restricted securities of the Federal Home Loan Bank with an aggregate book value and market value of $30,000 and certain securities of First National Bankers Bank in which we invested $0.4 million. We had no investments in any one security, restricted or liquid, in excess of 10% of our stockholders’ equity.

The Company does not invest in collateralized debt obligations (“CDOs”). We have purchased $92.3 million of bank holding company subordinated notes since 2016. All such bonds were rated BBB or better by Kroll Bond Rating Agency at the time of our investment in them. All other corporate bonds had a Standard and Poor’s or Moody’s rating of A-1 or better when purchased. The total investment portfolio as of March 31, 2018 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 $266.8 million and $284.2 million as of March 31, 2018 and December 31, 2017, respectively.

**Loans**

We had total loans of $5.93 billion at March 31, 2018, up $0.08 billion, or 1.3%, compared to $5.85 billion at December 31, 2017. At March 31, 2018, the percentage of our total loans in each of our markets was as follows:

| | Percentage of Total Loans in MSA | |
|---|---|---|
| Birmingham-Hoover, AL MSA | 43.1 | % |
| Huntsville, AL MSA | 9.5 | % |
| Dothan, AL MSA | 9.1 | % |
| Montgomery, AL MSA | 6.4 | % |
| Mobile, AL MSA | 6.4 | % |
| Total Alabama MSAs | 74.5 | % |
| Pensacola-Ferry Pass-Brent, FL MSA | 6.3 | % |
| Tampa-St. Petersburg-Clearwater, FL MSA | 2.6 | % |
| Total Florida MSAs | 8.9 | % |
| Atlanta-Sandy Springs-Roswell, GA MSA | 4.5 | % |
| Nashville-Davidson-Murfreesboro-Franklin, TN MSA | 8.6 | % |
| Charleston-North Charleston, SC MSA | 3.5 | % |

**Asset Quality**

The allowance for loan losses is established and maintained at levels management deems adequate to absorb anticipated credit losses from identified and otherwise inherent risks in the loan portfolio as of the balance sheet date. In assessing the adequacy of the allowance for loan losses, management considers its evaluation of the loan portfolio, past due loan experience, collateral values, current economic conditions and other factors considered necessary to maintain the allowance at an adequate level. Our management believes that the allowance was adequate at March 31, 2018.

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

guidelines.

| March 31, 2018 | Amount | Percentage of loans in each category to total loans |
|---|---|---|
| | (In Thousands) | |
| Commercial, financial and agricultural | $35,787 | 39.30 % |
| Real estate - construction | 4,138 | 8.54 % |
| Real estate - mortgage | 21,606 | 51.12 % |
| Consumer | 519 | 1.04 % |
| Total | $62,050 | 100.00 % |

| December 31, 2017 | Amount | Percentage of loans in each category to total loans |
|---|---|---|
| | (In Thousands) | |
| Commercial, financial and agricultural | $32,880 | 38.96 % |
| Real estate - construction | 4,989 | 9.93 % |
| Real estate - mortgage | 21,022 | 50.05 % |
| Consumer | 515 | 1.06 % |
| Total | $59,406 | 100.00 % |

**Nonperforming Assets**

Total nonperforming loans, which include nonaccrual loans and loans 90 or more days past due and still accruing, decreased to $9.9 million at March 31, 2018 compared to $10.8 million at December 31, 2017. Of this total, nonaccrual loans of $9.3 million at March 31, 2018 represented a net decrease of $1.5 million from nonaccrual loans at December 31, 2017. Excluding credit card accounts, there were three loans 90 or more days past due and still accruing totaling $629,000 at March 31, 2018, compared to no loans 90 or more days past due and still accruing at December 31, 2017. Troubled Debt Restructurings ("TDR") at March 31, 2018 and December 31, 2017 were $18.8 million and $20.6 million, respectively. There were no loans newly classified as a TDR or renewals of existing TDRs for the three months ended March 31, 2018 or 2017.

OREO and repossessed assets decreased to $5.7 million at March 31, 2018, from $6.7 million at December 31, 2017. The total number of OREO and repossessed asset accounts was 12 for both March 31, 2018 and December 31, 2017. The following table summarizes OREO and repossessed asset activity for the three months ended March 31, 2018 and 2017:

| | Three months ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| | (In thousands) | |
| Balance at beginning of period | $6,701 | $4,988 |
| Transfers from loans and capitalized expenses | 175 | 553 |
| Proceeds from sales | (874) | (426) |
| Internally financed sales | - | (49) |
| Write-downs / net gain (loss) on sales | (254) | 36 |
| Balance at end of period | $5,748 | $5,102 |

The following table summarizes our nonperforming assets and TDRs at March 31, 2018 and December 31, 2017:

| | March 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Balance | Number of Loans | Balance | Number of Loans |
| | (Dollar Amounts In Thousands) | | | |
| Nonaccrual loans: | | | | |
| Commercial, financial and agricultural | $8,599 | 15 | $9,712 | 18 |
| Real estate - construction | - | - | - | - |
| Real estate - mortgage: | | | | |
| Owner-occupied commercial | 306 | 1 | 556 | 2 |

| | | | | |
|---|---|---|---|---|
| 1-4 family mortgage | 328 | 1 | 459 | 2 |
| Other mortgage | - | - | - | - |
| Total real estate - mortgage | 634 | 2 | 1,015 | 4 |
| Consumer | 38 | 1 | 38 | 1 |
| Total Nonaccrual loans: | $9,271 | 18 | $10,765 | 23 |
| | | | | |
| 90+ days past due and accruing: | | | | |
| Commercial, financial and agricultural | $418 | 3 | $12 | 3 |
| Real estate - construction | - | - | - | - |
| Real estate - mortgage: | | | | |
| Owner-occupied commercial | - | - | - | - |
| 1-4 family mortgage | 217 | 1 | - | - |
| Other mortgage | - | - | - | - |
| Total real estate - mortgage | 217 | 1 | - | - |
| Consumer | 43 | 19 | 48 | 24 |
| Total 90+ days past due and accruing: | $678 | 23 | $60 | 27 |
| | | | | |
| Total Nonperforming Loans: | $9,949 | 41 | $10,825 | 50 |
| | | | | |
| Plus: Other real estate owned and repossessions | 5,748 | 12 | 6,701 | 12 |
| Total Nonperforming Assets | $15,697 | 53 | $17,526 | 62 |
| | | | | |
| Restructured accruing loans: | | | | |
| Commercial, financial and agricultural | $10,328 | 6 | $11,438 | 6 |
| Real estate - construction | 997 | 1 | 997 | 1 |
| Real estate - mortgage: | | | | |
| Owner-occupied commercial | 3,664 | 2 | 3,664 | 2 |
| 1-4 family mortgage | 849 | 1 | 850 | 1 |
| Other mortgage | - | - | - | - |
| Total real estate - mortgage | 4,513 | 3 | 4,514 | 3 |
| Consumer | - | - | - | - |
| Total restructured accruing loans: | $15,838 | 10 | $16,949 | 10 |
| Total Nonperforming assets and restructured accruing loans | $31,535 | 63 | $34,475 | 72 |
| | | | | |
| Ratios: | | | | |
| Nonperforming loans to total loans | 0.17 % | | 0.19 % | |
| Nonperforming assets to total loans plus other real estate owned and repossessions | 0.26 % | | 0.30 % | |
| Nonperforming assets plus restructured accruing loans to total loans plus other real estate owned and repossessions | 0.53 % | | 0.59 % | |

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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 March 31, 2018, we had impaired loans of $42.6 million inclusive of nonaccrual loans, an increase of $2.1 million from $40.5 million as of December 31, 2017. We allocated $6.5 million of our allowance for loan losses at March 31, 2018 to these impaired loans, an increase of $0.9 million compared to $5.6 million as of December 31, 2017. A loan is considered impaired, based on current information and events, if it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the original loan agreement. Impairment does not always indicate credit loss, but provides an indication of collateral exposure based on prevailing market conditions and third-party valuations. Impaired loans are measured by either the present value of expected future cash flows discounted at each loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral-dependent. The amount of impairment, if any, and subsequent changes are included in the allowance for loan losses. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for nonaccrual status. Our credit risk management team performs verification and testing to ensure appropriate identification of impaired loans and that proper reserves are held on these loans.

Of the $42.6 million of impaired loans reported as of March 31, 2018, $24.6 million were commercial, financial and agricultural loans, $1.6 million were real estate – construction loans, $16.3 million were real estate - mortgage loans and $0.1 million were consumer loans.

**Deposits**

Total deposits decreased by $114.3 million to $5.98 billion at March 31, 2018 compared to $6.09 billion at December 31, 2017. We anticipate long-term sustainable growth in deposits through continued development of market share in our less mature markets and through organic growth in our mature markets.

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

**Borrowings**

Our borrowings consist of federal funds purchased and subordinated notes payable. We had $326.4 million and $301.8 million at March 31, 2018 and December 31, 2017, respectively, in federal funds purchased from correspondent banks that are clients of our correspondent banking unit. The average rate paid on these borrowings was 1.60% for the quarter ended March 31, 2018. Other borrowings consist of the following:

- $34.75 million of 5% Subordinated Notes due July 15, 2025, which were issued in a private placement in July 2015 and pay interest semi-annually;
- $30.0 million of 4.5% Subordinated Notes due November 8, 2027, which were issued in a private placement in November 2017 and pay interest semi-annually; and
- $0.1 million 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 was to decline due to a run-off in deposits, we have procedures that provide for certain actions under varying liquidity conditions. These actions include borrowing from existing correspondent banks, selling or participating loans, and curtailing loan commitments and funding. At March 31, 2018, liquid assets, which are represented by cash and due from banks, federal funds sold and unpledged available-for-sale securities, totaled $674.1 million. Additionally, the Bank had borrowing availability of approximately $533.0 million in unused federal funds lines of credit with regional banks, subject to certain restrictions and collateral requirements. We believe these sources of funding are adequate to meet immediate anticipated funding needs, but we may need additional funding if we are able to maintain our current growth rate into the future. Our management meets on a quarterly basis to review sources and uses of funding to determine the appropriate strategy to ensure an appropriate level of liquidity. At the current time, our long-term liquidity needs primarily relate to funds required to support loan originations and commitments and deposit withdrawals. Our regular sources of funding are from the growth of our deposit base, repayment of principal and interest on loans, the sale of loans and the renewal of time deposits. In addition, we have issued debt as described above under “Borrowings.”

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

The following table reflects the contractual maturities of our term liabilities as of March 31, 2018. The amounts shown do not reflect any early withdrawal or prepayment assumptions.

| | Payments due by Period | | | | |
|---|---|---|---|---|---|
| | Total | 1 year or less | 1 - 3 years | 3 - 5 years | Over 5 years |
| | (In Thousands) | | | | |
| Contractual Obligations (1) | | | | | |
| Deposits without a stated maturity | $5,404,267 | $- | $- | $- | $- |
| Certificates of deposit (2) | 573,120 | 348,958 | 142,438 | 81,674 | 50 |
| Federal funds purchased | 326,399 | 326,399 | - | - | - |
| Subordinated notes payable | 64,850 | 100 | - | - | 64,750 |
| Operating lease commitments | 16,818 | 3,113 | 5,899 | 4,633 | 3,173 |
| Total | $6,385,454 | $678,570 | $148,337 | $86,307 | $67,973 |

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

**Capital Adequacy**

As of March 31, 2018, 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 common equity Tier 1, Tier 1 risk-based, total risk-based, and Tier 1 leverage ratios as disclosed in the table below. Our management believes that we are well-capitalized under the prompt corrective action provisions as of March 31, 2018.

The following table sets forth (i) the capital ratios required by the FDIC and the Alabama Banking Department's leverage ratio requirement and (ii) our actual ratios of capital to total regulatory or risk-weighted assets, as of March 31, 2018, December 31, 2017 and March 31, 2017:

| | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of March 31, 2018: | | | | | | |
| CET 1 Capital to Risk Weighted Assets: | | | | | | |
| Consolidated | $619,494 | 9.87 % | $282,487 | 4.50% | N/A | N/A |
| ServisFirst Bank | 683,126 | 10.88% | 282,443 | 4.50% | $407,973 | 6.50 % |
| Tier 1 Capital to Risk Weighted Assets: | | | | | | |
| Consolidated | 619,996 | 9.88 % | 376,650 | 6.00% | N/A | N/A |
| ServisFirst Bank | 683,628 | 10.89% | 376,591 | 6.00% | 502,121 | 8.00 % |
| Total Capital to Risk Weighted Assets: | | | | | | |
| Consolidated | 747,185 | 11.90% | 502,200 | 8.00% | N/A | N/A |
| ServisFirst Bank | 746,178 | 11.89% | 502,121 | 8.00% | 627,651 | 10.00% |
| Tier 1 Capital to Average Assets: | | | | | | |
| Consolidated | 619,996 | 8.95 % | 277,205 | 4.00% | N/A | N/A |
| ServisFirst Bank | 683,628 | 9.87 % | 277,192 | 4.00% | 346,490 | 5.00 % |
| As of December 31, 2017: | | | | | | |
| CET 1 Capital to Risk Weighted Assets: | | | | | | |
| Consolidated | $593,111 | 9.51 % | $280,553 | 4.50% | N/A | N/A |
| ServisFirst Bank | 651,201 | 10.45% | 280,523 | 4.50% | $405,199 | 6.50 % |
| Tier 1 Capital to Risk Weighted Assets: | | | | | | |
| Consolidated | 593,613 | 9.52 % | 374,070 | 6.00% | N/A | N/A |
| ServisFirst Bank | 651,703 | 10.45% | 374,030 | 6.00% | 498,707 | 8.00 % |
| Total Capital to Risk Weighted Assets: | | | | | | |
| Consolidated | 718,151 | 11.52% | 498,760 | 8.00% | N/A | N/A |
| ServisFirst Bank | 711,609 | 11.42% | 498,707 | 8.00% | 623,384 | 10.00% |
| Tier 1 Capital to Average Assets: | | | | | | |
| Consolidated | 593,613 | 8.51 % | 278,970 | 4.00% | N/A | N/A |
| ServisFirst Bank | 651,703 | 9.35 % | 278,954 | 4.00% | 348,693 | 5.00 % |
| As of March 31, 2017: | | | | | | |
| CET 1 Capital to Risk Weighted Assets: | | | | | | |
| Consolidated | $530,034 | 9.67 % | $246,744 | 4.50% | N/A | N/A |
| ServisFirst Bank | 582,483 | 10.63% | 246,695 | 4.50% | $356,338 | 6.50 % |
| Tier 1 Capital to Risk Weighted Assets: | | | | | | |
| Consolidated | 530,536 | 9.68 % | 328,992 | 6.00% | N/A | N/A |
| ServisFirst Bank | 582,985 | 10.63% | 328,927 | 6.00% | 438,570 | 8.00 % |
| Total Capital to Risk Weighted Assets: | | | | | | |
| Consolidated | 639,597 | 11.66% | 438,656 | 8.00% | N/A | N/A |
| ServisFirst Bank | 637,377 | 11.63% | 438,570 | 8.00% | 548,212 | 10.00% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Tier 1 Capital to Average Assets: | | | | | | |
| Consolidated | 530,536 | 8.46 % | 250,867 | 4.00% | N/A | N/A |
| ServisFirst Bank | 582,985 | 9.30 % | 250,848 | 4.00% | 313,560 | 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 March 31, 2018, we had reserves of $0.5 million 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 March 31, 2018 and December 31, 2017 for the settlement of any repurchase demands by investors.

Financial instruments whose contract amounts represent credit risk at March 31, 2018 are as follows:

| | March 31, 2018 (In Thousands) |
|---|---|
| Commitments to extend credit | $1,960,905 |
| Credit card arrangements | 108,451 |
| Standby letters of credit | 47,339 |
| | $2,116,695 |

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.

**Results of Operations**

**Summary of Net Income**

Net income and net income available to common stockholders for the three months ended March 31, 2018 was $32.6 million compared to net income and net income available to common stockholders of $22.5 million for the three months ended March 31, 2017. The increase in net income was primarily attributable to a $10.4 million increase in net interest income as a result of growth in average earning assets, a $775,000 decrease in income tax expense resulting from lower corporate tax rates enacted by the Tax Cuts and Jobs Act in December 2017 and a $323,000 increase in non-interest income, offset by a $2.2 million increase in non-interest expense.

Basic and diluted net income per common share were $0.61 and $0.60, respectively, for the three months ended March 31, 2018, compared to $0.43 and $0.42, respectively, for the corresponding period in 2017. Return on average assets for the three months ended March 31, 2018 was 1.91% compared to 1.45% for the corresponding period in 2017, and return on average stockholders' equity for the three months ended March 31, 2018 was 21.40% compared to 17.09% for the corresponding period in 2017.

**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 $10.1 million, or 19.2%, to $62.6 million for the three months ended March 31, 2018 compared to $52.5 million for the corresponding period in 2017. This increase was primarily attributable to a $630.0 million increase in average earning assets, or 10.4%, year over year. The taxable-equivalent yield on interest-earning assets increased from 4.03% to 4.51% year over year. The yield on loans for the three months ended March 31, 2018 was 4.80% compared to 4.51% for the corresponding period in 2017. The cost of total interest-bearing liabilities increased to 0.95% for the three months ended March 31, 2018 from 0.68% for the corresponding period in 2017. Net interest margin for the three months ended March 31, 2018 increased 28 basis points to 3.81% from 3.53% for the corresponding period in 2017.

The following table shows, for the three months ended March 31, 2018 and March 31, 2017, the average balances of each principal category of our assets, liabilities and stockholders' equity, and an analysis of net interest revenue. The accompanying tables reflect changes in our net interest margin as a result of changes in the volume and rate of our interest-earning assets and interest-bearing liabilities for the same periods. Changes as a result of mix or the number of days in the periods have been allocated to the volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each. The tables are presented on a taxable-equivalent basis where applicable:

Average Consolidated Balance Sheets and Net Interest Analysis

On a Fully Taxable-Equivalent Basis

For the Three Months Ended March 31,

(Dollar Amounts In Thousands)

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | 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) (2) | | | | | | |
| Taxable | $5,847,443 | $69,321 | 4.81 % | $4,976,933 | $55,282 | 4.50 % |
| Tax-exempt (3) | 36,357 | 364 | 4.06 | 27,322 | 318 | 4.72 |
| Total loans, net of unearned income | 5,883,800 | 69,685 | 4.80 | 5,004,255 | 55,600 | 4.51 |
| Mortgage loans held for sale | 3,698 | 41 | 4.50 | 5,637 | 57 | 4.10 |
| Investment securities: | | | | | | |
| Taxable | 435,747 | 2,745 | 2.52 | 368,349 | 2,087 | 2.27 |
| Tax-exempt (3) | 120,270 | 770 | 2.56 | 132,578 | 1,145 | 3.45 |
| Total investment securities (4) | 556,017 | 3,515 | 2.53 | 500,927 | 3,232 | 2.58 |
| Federal funds sold | 131,472 | 551 | 1.70 | 234,460 | 519 | 0.90 |
| Equity securities | 1,030 | 4 | 1.57 | 1,030 | 4 | 1.57 |
| Interest-bearing balances with banks | 96,012 | 379 | 1.60 | 295,648 | 586 | 0.80 |
| Total interest-earning assets | $6,672,029 | $74,175 | 4.51 % | $6,041,957 | $59,998 | 4.03 % |
| Non-interest-earning assets: | | | | | | |
| Cash and due from banks | 68,309 | | | 59,697 | | |
| Net premises and equipment | 59,709 | | | 44,739 | | |
| Allowance for loan losses, accrued interest and other assets | 140,558 | | | 138,289 | | |
| Total assets | $6,940,605 | | | $6,284,682 | | |
| | | | | | | |
| Liabilities and stockholders' equity: | | | | | | |
| Interest-bearing liabilities: | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Interest-bearing demand deposits | $899,311 | $1,143 | 0.52 % | $789,273 | $733 | 0.38 % |
| Savings deposits | 53,269 | 41 | 0.31 | 50,461 | 41 | 0.33 |
| Money market accounts | 3,027,176 | 6,711 | 0.90 | 2,694,225 | 3,876 | 0.58 |
| Time deposits (5) | 576,857 | 1,726 | 1.21 | 530,000 | 1,332 | 1.02 |
| Total interest-bearing deposits | 4,556,613 | 9,621 | 0.86 | 4,063,959 | 5,982 | 0.60 |
| Federal funds purchased | 297,051 | 1,171 | 1.60 | 359,747 | 766 | 0.86 |
| Other borrowings | 64,805 | 781 | 4.89 | 55,239 | 717 | 5.26 |
| Total interest-bearing liabilities | $4,918,469 | $11,573 | 0.95 % | $4,478,945 | $7,465 | 0.68 % |
| Non-interest-bearing liabilities: | | | | | | |
| Non-interest-bearing demand deposits | 1,389,217 | | | 1,254,496 | | |
| Other liabilities | 15,007 | | | 16,809 | | |
| Stockholders' equity | 621,004 | | | 535,232 | | |
| Unrealized losses on securities | (3,092 ) | | | (800 ) | | |
| Total liabilities and stockholders' equity | $6,940,605 | | | $6,284,682 | | |
| Net interest income | | $62,602 | | | $52,533 | |
| Net interest spread | | | 3.56 % | | | 3.35 % |
| Net interest margin | | | 3.81 % | | | 3.53 % |

(1) Non-accrual loans are included in average loan balances in all periods.  Loan fees of $749,000 and $775,000 are included in interest income in the first quarter of 2018 and 2017, respectively.

(2) Accretion on acquired loan discounts of $72,000 and $143,000 are included in interest income in the first quarter of 2018 and 2017, respectively.

(3) Interest income and yields are presented on a fully taxable equivalent basis using a tax rate of 21% for the first quarter of 2018 and 35% for the first quarter of 2017.

(4) Unrealized losses of $3,963,000 and $1,232,000 are excluded from the yield calculation in the first quarter of 2018 and 2017, respectively.

(5) Accretion on acquired CD premiums of $0 and $32,000 are included in interest in the first quarter of 2018 and 2017, respectively.

| | For the Three Months Ended March 31, 2018 Compared to 2017 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 | $ 10,139 | $ 3,900 | $ 14,039 |
| Tax-exempt | 94 | (48) | 46 |
| Total loans, net of unearned income | 10,233 | 3,852 | 14,085 |
| Mortgages held for sale | (21) | 5 | (16) |
| Debt securities: | | | |
| Taxable | 409 | 249 | 658 |
| Tax-exempt | (99) | (276) | (375) |
| Total debt securities | 310 | (27) | 283 |
| Federal funds sold | (295) | 327 | 32 |
| Equity securities | - | - | - |
| Interest-bearing balances with banks | (555) | 348 | (207) |
| Total interest-earning assets | 9,672 | 4,505 | 14,177 |
| | | | |
| Interest-bearing liabilities: | | | |
| Interest-bearing demand deposits | 112 | 298 | 410 |
| Savings | 2 | (2) | - |
| Money market accounts | 527 | 2,308 | 2,835 |
| Time deposits | 125 | 269 | 394 |
| Total interest-bearing deposits | 766 | 2,873 | 3,639 |
| Federal funds purchased | (152) | 557 | 405 |
| Other borrowed funds | 118 | (54) | 64 |
| Total interest-bearing liabilities | 732 | 3,376 | 4,108 |
| Increase in net interest income | $ 8,940 | $ 1,129 | $ 10,069 |

Our growth in loans continues to drive favorable volume component change and overall change. We have also experienced favorable variance relating to the interest rate component because yields on loans have increased slightly more than rates paid on deposits. 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.

**Provision for Loan Losses**

The provision for loan losses represents the amount determined by management to be necessary to maintain the allowance for loan losses at a level capable of absorbing inherent losses in the loan portfolio. Our management reviews the adequacy of the allowance for loan losses on a quarterly basis. The allowance for loan losses calculation is segregated into various segments that include classified loans, loans with specific allocations and pass rated loans. A pass rated loan is generally characterized by a very low to average risk of default and in which management perceives

there is a minimal risk of loss. Loans are rated using a nine-point risk grade scale with loan officers having the primary responsibility for assigning risk grades and for the timely reporting of changes in the risk grades. Based on these processes, and the assigned risk grades, the criticized and classified loans in the portfolio are segregated into the following regulatory classifications: Special Mention, Substandard, Doubtful or Loss, with some general allocation of reserve based on various internal and external factors. At March 31, 2018, total loans rated Special Mention, Substandard, and Doubtful were $102.4 million, or 1.7% of total loans, compared to $99.8 million, or 1.7% of total loans, at December 31, 2017. Impaired loans are reviewed specifically and separately under FASB ASC 310-30-35, Subsequent Measurement of Impaired Loans, to determine the appropriate reserve allocation. Our management compares the investment in an impaired loan with the present value of expected future cash flow discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral, if the loan is collateral-dependent, to determine the specific reserve allowance. Reserve percentages assigned to non-impaired loans are based on historical charge-off experience adjusted for other risk factors. To evaluate the overall adequacy of the allowance to absorb losses inherent in our loan portfolio, our management considers historical loss experience based on volume and types of loans, trends in classifications, volume and trends in delinquencies and nonaccruals, economic conditions and other pertinent information. Based on future evaluations, additional provisions for loan losses may be necessary to maintain the allowance for loan losses at an appropriate level.

The provision for loan losses was $4.1 million for the three months ended March 31, 2018, a decrease of $0.9 million from $5.0 million for the three months ended March 31, 2017. Net credit charge-offs to quarter-to-date average loans were 0.10% for the first quarter of 2018, a 46 basis point decrease compared to 0.56% for the fourth quarter of 2017 and a 14 basis point decrease compared to 0.24% for the first quarter of 2017. Nonperforming loans decreased to $9.9 million, or 0.17% of total loans, at March 31, 2018 from $10.8 million, or 0.19% of total loans, at December 31, 2017, and were lower than $12.1 million, or 0.23% of total loans, at March 31, 2017. Impaired loans increased to $42.6 million, or 0.72% of total loans, at March 31, 2018, compared to $40.5 million, or 0.69% of total loans, at December 31, 2017. The allowance for loan losses totaled $62.1 million, or 1.05% of total loans, net of unearned income, at March 31, 2018, compared to $59.4 million, or 1.02% of loans, net of unearned income, at December 31, 2017.

**Noninterest Income**

Noninterest income totaled $4.9 million for the three months ended March 31, 2018, an increase of $323,000, or 7.1%, compared to the corresponding period in 2017. Service charges on deposit accounts increased $231,000 during the three months ended March 31, 2018, or 17.1%, from $1.4 million during the corresponding period in 2017, primarily the result of increased non-sufficient funds charges. Credit card income increased $399,000, or 33.8%, to $1.6 million during the three months ended March 31, 2018 compared to $1.2 million during the corresponding period in 2017. Spending on credit cards increased 38% for the same comparative period.

**Noninterest Expense**

Noninterest expense totaled $23.5 million for the three months ended March 31, 2018, an increase of $2.2 million, or 10.6%, compared to $21.3 million for the corresponding period in 2017.

Details of expenses are as follows:

- Salary and benefit expense increased $1.6 million, or 13.7%, to $13.3 million for the three months ended March 31, 2018 from $11.7 million for the corresponding period in 2017. We had 437 total employees as of March 31, 2018 compared to 417 as of March 31, 2017, a 4.8% increase. There was also an increase in incentive compensation expense in the first quarter of 2018 compared to the 2017 same period.

- Occupancy expense decreased $0.3 million, or 13.0%, to $2.0 million for the three months ended March 31, 2018 from $2.3 million for the corresponding period in 2017. A decrease in rental payments more than offset increased depreciation expense resulting from our fourth quarter 2017 move from our previous headquarters building, which was leased, to our new headquarters building, which is owned.

- FDIC insurance assessments increased $0.1 million as a result of asset growth, which impacts our assessment base.

- Expenses related to other real estate owned increased to $0.3 million for the three months ended March 31, 2018 from $0.1 million for the corresponding period in 2017. Write-downs in property values reflecting updated appraisals on three properties and construction of a water retention pond on another property contributed to this increase in OREO expenses.

- Other operating expenses increased $0.5 million, or 9.1%, to $6.0 million for the three months ended March 31, 2018 from $5.5 million for the corresponding period in 2017. Disputed debit card transaction write-offs, increases in data processing costs and increases in bank service charges related to our correspondent banking activities contributed to the increase in other operating expenses, but were partially offset by lower state sales taxes paid. The decrease in state sales tax relates to payments to our contractors for the construction of our new headquarters building during 2017.

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2018 | 2017 | $ change | % change |
| | (Dollars In Thousands) | | | |
| Noninterest income: | | | | |
| Service charges on deposit accounts | $ 1,585 | $ 1,354 | $ 231 | 17.1 % |
| Mortgage banking | 518 | 899 | (381 ) | (42.4 )% |
| Credit card income | 1,578 | 1,179 | 399 | 33.8 % |
| Securities gains | 4 | - | 4 | NM |
| Increase in cash surrender value life insurance | 777 | 724 | 53 | 7.3 % |
| Other operating income | 407 | 390 | 17 | 4.4 % |
| Total noninterest income | $ 4,869 | $ 4,546 | $ 323 | 7.1 % |
| | | | | |
| Noninterest expenses: | | | | |
| Salaries and employee benefits | $ 13,296 | $ 11,713 | $ 1,583 | 13.5 % |
| Equipment and occupancy expense | 1,954 | 2,250 | (296 ) | (13.2 )% |
| Professional services | 805 | 771 | 34 | 4.4 % |
| FDIC and other regulatory assessments | 1,133 | 997 | 136 | 13.6 % |
| Other real estate owned expense | 316 | 76 | 240 | 315.8 % |
| Other operating expenses | 6,008 | 5,460 | 548 | 10.0 % |
| Total non-interest expenses | $ 23,512 | $ 21,267 | $ 2,245 | 10.6 % |

**Income Tax Expense**

Income tax expense was $7.1 million for the three months ended March 31, 2018 versus $7.8 million for the same period in 2017. Lower corporate income tax rates resulting from the passage of the Tax Cuts and Jobs Act in December 2017 has resulted in lower effective tax rates. Our effective tax rate for the three months ended March 31, 2018 was 17.8%, compared to 25.8% for the corresponding period in 2017. We recognized excess tax benefits as a credit to our income tax expense from the exercise of stock options and vesting of restricted stock of $1.5 million in the first quarter of 2018, compared to $2.1 million in the first quarter of 2017. 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 and change in cash surrender value of bank-owned life insurance.

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 wholly-owned subsidiaries of a trust holding company, which in turn is an indirect 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.

**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 and 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, 2017, and there are no significant changes to our sensitivity to changes in interest rates since December 31, 2017 as disclosed in our Form 10-K.

**ITEM 4. CONTROLS AND PROCEDURES**

**CEO and CFO Certification**.

Appearing as exhibits to this report are Certifications of our Chief Executive Officer (“CEO”) and our Chief Financial Officer (“CFO”). The Certifications are required to be made by Rule 13a-14 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). This item contains the information about the evaluation that is referred to in the Certifications, and the information set forth below in this Item 4 should be read in conjunction with the Certifications for a more complete understanding of the Certifications.

**Evaluation of Disclosure Controls and Procedures**.

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

We conducted an evaluation (the “Evaluation”) of the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of our management, including our CEO and CFO, as of March 31, 2018. Based upon the Evaluation, our CEO and CFO have concluded that, as of March 31, 2018, 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. Management does not believe the Company or the Bank is 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, 2017, 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, 2017, which should be taken into consideration when reviewing the information contained in this report. There have been no material changes with regard to the risk factors previously disclosed in the Form 10-K. For other factors that may cause actual results to differ materially from those indicated in any forward-looking statement or projection contained in this report, see “Forward-Looking Statements” under Part 1, Item 2 above.

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## ITEM 5. OTHER INFORMATION

None.

## ITEM 6. EXHIBITS

(a) Exhibit:

| | |
|---|---|
| 31.01 | Certification of principal executive officer pursuant to Rule 13a-14(a). |
| 31.02 | Certification of principal financial officer pursuant to Rule 13a-14(a). |
| 32.01 | Certification of principal executive officer pursuant to 18 U.S.C. Section 1350. |
| 32.02 | Certification of principal financial officer pursuant to 18 U.S.C. Section 1350. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |

## SIGNATURES

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

**SERVISFIRST BANCSHARES, INC.**

| | | |
|---|---|---|
| Date: May 1, 2018 | By | /s/ Thomas A. Broughton III<br>Thomas A. Broughton III<br>President and Chief Executive Officer |
| Date: May 1, 2018 | By | /s/ William M. Foshee<br>William M. Foshee<br>Chief Financial Officer |

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