ServisFirst Bancshares, Inc.
Form 10-K
March 10, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2008

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)**

For the transition period from __________ to __________

Commission file number 0-53149

SERVISFIRST BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**26-0734029**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
3300 Cahaba Road, Suite 300 Birmingham, Alabama	**35223**
(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:

NONE

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

Common Stock, par value $.001 per share

(Titles of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No þ

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ	Smaller reporting company o
		(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company Yes o No þ

As of June 30, 2008, the aggregate market value of the voting common stock held by non-affiliates of the registrant, based on a price of $25.00 per share of Common Stock, was $105,543,720.

Indicate the number of shares outstanding of each of the registrant s classes of common stock as of the latest practicable date: the number of shares outstanding as of February 28, 2009, of the registrant s only issued and outstanding class of common stock, its $.001 per share par value common stock, was 5,376,922.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement, to be filed with the Securities and Exchange Commission in connection with its 2009 Annual Meeting of Shareholders are incorporated by reference in Part III of this annual report on Form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of our statements contained in this Form 10-K, including matters discussed under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations beginning on page 38, are forward-looking statements that are based upon our current expectations and projections about current events. Forward-looking statements relate to future events or our future financial performance and include statements about the competitiveness of the banking industry, potential regulatory obligations, our entrance and expansion into other markets, our other business strategies and other statements that are not historical facts. Forward-looking statements are not guarantees of performance or results. When we use words like may, plan, contemplate, anticipate, believe, intend, contir project, predict, estimate, could, should, would, will, and similar expressions, you should consider them a forward-looking statements, although we may use other phrasing. These forward-looking statements involve risks and uncertainties and are based on our beliefs and assumptions, and on the information available to us at the time that these disclosures were prepared and may not be realized due to a variety of factors, including, but not limited to, the following:

- the effects of the current economic recession and the possible continued deterioration of the United States economy, particularly deterioration of the economy in Alabama and the communities in which we operate;

- the effects of continued deleveraging of United States citizens and businesses;

- the current financial and banking crisis resulting in the massive devaluation of the assets and shareholders equity of many of the United States financial and banking institutions, including many preeminent institutions such as Washington Mutual, Inc., Citigroup, Inc., Wachovia Corporation, Bank of America Corporation, American International Group, Inc. (AIG), Lehman Brothers Holdings, Inc. and Bear Stearns Companies, Inc.;

- the effects of continued compression of the residential housing industry, the subprime mortgage crisis and rising unemployment;

- credit risks, including credit risks resulting from the devaluation of collateralized debt obligations (CDOs) and/or structured investment vehicles to which we currently have no direct exposure;

- the Emergency Economic Stabilization Act of 2008 including its Troubled Asset Relief Program (TARP), American Recovery and Reinvestment Act of 2009, and other governmental monetary and fiscal policies and legislative and regulatory changes;

- the effect of changes in interest rates on the level and composition of deposits, loan demand and the values of loan collateral, securities and interest sensitive assets and liabilities;

- the effects of terrorism and efforts to combat it;

- the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in our market area and elsewhere, including institutions operating regionally, nationally and internationally, together with competitors offering banking products and services by mail, telephone and the Internet;

- the effect of any merger, acquisition or other transaction to which we or our subsidiary may from time to time be a party, including our ability to successfully integrate any business that we acquire; and

- the failure of our assumptions underlying the establishment of our loan loss reserves.

All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this Cautionary Note. Our actual results may differ significantly from those we discuss in these forward-looking statements. For certain other factors, risks and uncertainties that could cause our actual results to differ materially from estimates and projections contained in these forward-looking statements, please read the Risk Factors in Item 1a. beginning on page 23.

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PART I

ITEM 1. BUSINESS

Overview

We are a bank holding company within the meaning of the Bank Holding Company Act of 1956 headquartered in Birmingham, Alabama. Through our wholly-owned bank subsidiary, we operate eight full service banking offices located in Jefferson, Shelby, Madison, Montgomery and Houston Counties of the metropolitan statistical areas (hereinafter, and more commonly, referred to as MSAs) of Birmingham-Hoover, Huntsville, Montgomery and Dothan, Alabama. As of December 31, 2008, we had total assets of approximately $1.2 billion, total loans of approximately $968.2 million, total deposits of approximately $1.0 billion and total stockholders equity of approximately $86.8 million.

We were originally incorporated as a Delaware corporation in August 2007 for the purpose of acquiring all of the common stock of ServisFirst Bank, an Alabama banking corporation (separately referred to herein as the Bank), formed on April 28, 2005 and commenced operations on May 2, 2005. On November 29, 2007, we became the sole shareholder of the Bank by virtue of a plan of reorganization and agreement of merger pursuant to which a wholly-owned subsidiary formed for the purpose of the reorganization was merged with and into the Bank with the Bank surviving and each shareholder of the Bank exchanged their shares of the Bank s common stock for an equal number of shares of our common stock.

We were organized to facilitate the Bank s ability to serve its customers requirements for financial services. The holding company structure provides flexibility for expansion of our banking business through the possible acquisition of other financial institutions, the provision of additional banking-related services which the traditional commercial bank may not provide under present laws and additional financing alternatives such as the issuance of trust preferred securities, of which we issued $15 million on September 2, 2008 through our Delaware statutory trust subsidiary, ServisFirst Capital Trust I. We have no present plans to acquire any operating subsidiaries in addition to the Bank, but we may make acquisitions in the future if we deem them to be in the best interest of our stockholders. Any such acquisitions would be subject to applicable regulatory approvals and requirements.

We are headquartered at 3300 Cahaba Road, Suite 300, Birmingham, Alabama 35223 (Jefferson County). In addition to the Jefferson County headquarters, the Bank currently operates through two offices in the Birmingham-Hoover, Alabama MSA (one office in Jefferson County and one office in North Shelby County), two offices in the Huntsville, Alabama MSA (Madison County), two offices in the Montgomery, Alabama MSA (Montgomery County) and one office in the Dothan, Alabama MSA (Houston County) which constitute our primary service areas. We also serve certain adjacent areas to our primary service areas. Our principal business is to accept deposits from the public and to make loans and other investments. Our principal source of funds for loans and investments are demand, time, savings, and other deposits (including negotiable orders of withdrawal, or NOW accounts) and the amortization and prepayment of loans and borrowings. Our principal sources of income are interest and fees collected on loans, interest and dividends collected on other investments and service charges. Our principal expenses are interest paid on savings and other deposits (including NOW accounts), interest paid on our other borrowings, employee compensation, office expenses and other overhead expenses.

Markets

Service Areas

Birmingham is located in central Alabama approximately 90 miles northwest of Montgomery, Alabama, 146 miles west of Atlanta, Georgia, and 148 miles southwest of Chattanooga, Tennessee. Birmingham is intersected by U.S. Interstates 20, 59 and 65. Jefferson County includes the major business area of downtown Birmingham. North Shelby County also encompasses a growing business community and affluent residential areas. With two offices in Jefferson County and one in north Shelby County, we believe we are well positioned to access the most affluent areas of the Birmingham-Hoover MSA.

We also operate in Madison County of the Huntsville, Alabama MSA, Montgomery County of the Montgomery, Alabama MSA and Houston County of the Dothan, Alabama MSA. We believe the Huntsville market offers substantial growth as one of the strongest technology economies in the nation, with over 300 companies performing sophisticated government, commercial and university research. Huntsville has one of the highest concentrations of engineers in the United States and one of the highest concentrations of Ph.D.s. Huntsville is

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located in North Alabama off U.S. Interstate 65 between Birmingham and Nashville, Tennessee. Montgomery is the capital and one of the largest cities in Alabama and home to the Hyundai Motor Manufacturing plant which began production in May 2005. Montgomery is located in central Alabama between Birmingham and Mobile, Alabama and is intersected by U.S. Interstates 65 (connecting Birmingham and Mobile, Alabama) and 85 (connecting Montgomery to Atlanta, Georgia). With two offices in each of Madison and Montgomery Counties and one in Houston County, we believe that we have a base of banking resources to service such counties. Dothan is located in the Southeastern corner of the State of Alabama near the Georgia and Florida State lines and is 35 miles from U.S. Interstate 10 which runs through the panhandle of Florida connecting Mobile, Alabama to Tallahassee, Florida. Dothan, Alabama is also intersected by U.S. Highways 231, 431 and 84 which are common trucking lanes and has access to railroad and the Chattahoochee River.

We conduct a general consumer and commercial banking business, emphasizing personal banking services to commercial firms, professionals and affluent consumers located in our service areas. We believe the current market, as well as the prospects for the future, presents opportunity for a locally owned and operated financial institution. Specifically, we believe that our primary service areas will be in need of local institutions to service customer and deposit attrition resulting from the acquisitions during the last few years of Alabama headquartered banks, including SouthTrust Corporation by Wachovia Corporation (which has now been acquired by Wells Fargo & Company), AmSouth Bancorp, Inc. by Regions Financial Corporation, Compass Bancshares, Inc. by Banco Bilbao Vizcaya Argentaria and Alabama National Bancorporation (operating as First American Bank) by RBC Centura Banks. We believe that a community-based bank such as the Bank can better identify and serve local relationship banking needs than can an office or subsidiary of such larger banking institutions.

Local Economy of Service Areas

Birmingham. We believe that Jefferson and Shelby Counties offer us a growing and diverse economic base in which to operate. From 2000 to 2007, Jefferson and Shelby Counties population increased a combined 4.0%. In comparison, the growth rate in the state of Alabama was 2.3% during the same period. From 2008 to 2012, the total population of Jefferson and Shelby Counties is projected to grow from 837,488 to 856,840, representing a 2.3% total growth rate, and the number of households in the Birmingham area is expected to expand by approximately 3.1% between 2008 and 2012. As measured by population, Jefferson County is the largest county in Alabama, largely due to the size of the city of Birmingham.

The median household income in Jefferson and Shelby Counties in 2007 was $48,449, and the average household income was $67,125. From 2000 to 2007, the average household income rose 21.8% in Jefferson and Shelby Counties. According to the *American City Business Journals*, Birmingham is reported to have had an income growth rate over the past 25 years of 292% which is the highest in the 100 top metropolitan areas. Furthermore, *Fortune* magazine recently published an article on December 22, 2008 which named Birmingham as the 4th best real estate market of the 100 top U.S. markets projecting a price decline of only 0.60% for 2009 and a modest price increase in 2010.

The economic makeup of the Birmingham area is very diverse. Even though Birmingham once depended on the steel industry to provide most of the employment in the city, Birmingham is now home to a diverse array of industries. Birmingham is a center for finance, health care, education, manufacturing, research, engineering, transportation, construction and distribution. Despite the recent acquisitions of SouthTrust Corporation, AmSouth Bancorporation and Compass Bancshares, Inc., Birmingham still serves as the headquarters for four Fortune 1,000 companies, Regions Financial Corporation, Vulcan Materials, HealthSouth Corporation, and Protective Life Corp., and continues to foster a well-rounded business community that we believe will continue to attract businesses to the area. Moreover, Birmingham serves as headquarters to six of the country s top-performing private companies on the elite Forbes 500 list including O Neal Steel and Drummond Coal.

In recent years, Birmingham s technology sector, health care sector and manufacturing sector have grown substantially. Birmingham is home to the largest nonprofit independent research laboratory in the Southeast, Southern Research Institute. Additionally, the University of Alabama at Birmingham ranks among the top medical centers in securing federal research and development funds. Finally, Mercedes-Benz U.S. International and Honda Motor Company have each built automobile assembly plants in the area which have provided tremendous growth in

Birmingham s manufacturing sector. The presence of these firms provides an opportunity for us to market our products and services to businesses and professionals.

Unless otherwise stated, the foregoing and other pertinent data can be found on the Birmingham Regional Chamber of Commerce s and the FDIC s websites.

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Huntsville. Huntsville, Madison County, is the life-center for North Alabama and has seen steady growth since the 1960 s. Today there are nearly one million people within a 50-mile radius of Huntsville. The metropolitan population is diverse and rich in culture, with many residents moving into the area as a technology destination from all 50 states and numerous countries including Japan, Korea and Germany. According to the 2007 estimate, the Huntsville, Alabama MSA (which includes Madison and Limestone Counties) had a population of 386,632 people, up 12.9% from the 2000 U.S. Census, and Madison County s population was 312,734, up 13.0% from the 2000 Census. According to a 2006 estimate, the average household income was $65,374 for the Huntsville, Alabama MSA, $66,949 for Madison County and $64,501 for the City of Huntsville. The City of Madison reported an average household income of $72,432 according to the 2000 U.S. Census.

We believe that Huntsville offers substantial growth as one of the strongest technology economies in the nation and one of the highest concentrations of engineers and Ph.D.s in the United States. Huntsville has a number of major government programs including NASA programs such as the Space Station and Space Shuttle Propulsion and U.S. Army programs such as National Space and Missile Defense Command and Army Aviation. Huntsville has also grown to be one of the largest research parks in the world and was ranked number one in the state for announced new and expanding jobs from 2004 to 2006 according to the Alabama Development Office, and Huntsville announced more than 3,500 more jobs in 2007. Huntsville was named as *Forbes* Best Place to Live to Weather the Economy in November of 2008. Further, *Forbes* named Huntsville one of its Leading Cities for Business for six years in a row including 2008. Huntsville is home to the highest concentration of *Inc. 500 Companies* in the United States and also a number of offices of Fortune 500 companies. Major employers in Huntsville include, among others, the U.S. Army/Redstone Arsenal, the Boeing Company, NASA/Marshall Space Flight Center, Intergraph Corporation, Benchmark Electronics, ADTRAN, Inc., Northrop Grumman, LG Electronics, Inc., Lockheed Martin, and Toyota Motor Manufacturing of Alabama.

In September 2005, the Base Realignment and Closure Commission, or BRAC, approved the relocation of the majority of the United States Missile Defense Agency s development and management work, along with the headquarters of the Army Space & Missile Defense Command, to Huntsville. Furthermore, BRAC approved the movement of the Army Materiel Command to Huntsville, which will be a four-phased program with all of the 5,000 jobs to be filled by January 2011. In addition to these jobs, the move is expected to bring another 10,000 support jobs. Construction has also begun on a massive $223 million building for the Missile Defense Agency in 2008 that is expected to bring 2,246 jobs to Redstone. The Hudson-Alpha Institute for Biotechnology opened its 260,000 square foot facility in November 2007, with 12 biotechnology companies housed there representing the for-profit side of development focused on using the code generated by the Human Genome Project to produce drugs and treatment. Total employment for the Institute is expected to be 1,063 jobs. Verizon Wireless has built a 152,000 square foot Alabama headquarters and customer service center in Thorton Research Park in which it has invested $44 million and expects to create 1,300 new jobs in the area. A second plant for International Truck and Engine Corp. at Jetplex Industrial Park started in 2008 and will add 70 jobs. Other notable expansions include Raytheon, Northrop Grumman, and Booz Allen Hamilton. Bridge Street Towne Centre opened in November of 2007, with about 24 stores and several restaurants complete, many new to Huntsville. A 100-acre lifestyle center in Cummings Research Park includes a lake with paddleboats and gondolas, 14-screen Monaco Pictures, trails, and office space. A Publix anchored retail development was completed in 2008 for the first development on County Line Road in Madison. Another large development to be anchored by Wal-Mart is expected to complete construction in 2010 in west Madison.

The foregoing and other pertinent data is available on the Huntsville/Madison County Chamber of Commerce s and the FDIC s websites.

Montgomery. Montgomery is the second largest city and is the capital of Alabama. We have identified Montgomery as a high growth market for us as it has led Alabama in job growth from 1990 to 2006. Over that 17 year period, the Montgomery County employment base has grown by 22%, the number of unemployed persons had dropped by 31% and the labor force has increased by 19%. The areas per capita income grew from $18,500 in 1990 to $35,130 in 2005, an increase of 90%. Today, Montgomery County has the third highest per capita income in the state behind only Shelby and Jefferson counties. Montgomery has remained the fourth most populated county in Alabama.

More than $1 billion has been spent on the revitalization of downtown Montgomery and the Riverfront development including over $180 million on a downtown four star hotel complex as well as $29 million on the renovation of the adjacent Convention Center. Downtown Montgomery also has a new $35 million baseball stadium as well a new intermodal parking facility and two additional parking decks are in progress. Also, the Montgomery Regional Airport has just completed a $40 million renovation and expansion project.

As its capital city, the State of Alabama employs approximately 9,500 persons in Montgomery as well as numerous service providers. Montgomery is also home to Maxwell Gunter Air Force Base which employs 12,280 persons and the Air University, the worldwide center for US Air Force education. In May of 2005, Hyundai Motor Manufacturing Alabama opened its Montgomery manufacturing plant which was built with a capital investment of over $1.4 billion. That plant now employs over 3,500 people and is now producing two Hyundai models and has been further expanded with the addition of a new engine plant. That engine plant will also serve the new Kia manufacturing facility currently being built in West Point Georgia. The area has also benefited from the nearly 30 top tier Hyundai suppliers who have invested over $550 million in new plant facilities producing almost 8,000 additional jobs.

The foregoing and other pertinent data can be found on the Montgomery Area Chamber of Commerce s and the FDIC s websites and recent publications of the Montgomery Area Chamber of Commerce, including an article written for them by Dr. Keivan Deravi, Ph. D., a professor of economics at Auburn University Montgomery.

Dothan. Dothan, Houston County, is located in the southeastern corner of Alabama and is conveniently placed near the Florida panhandle and Georgia state line. We believe this location to be a great market entry due to its central hub, its accessibility to large distribution centers, its home to several major corporations, and its lack of personalized banking services currently being provided. According to the FDIC, Dothan s deposit base has grown 36.2% during the past 6 years. Furthermore, Dothan s two largest deposit holders are Regions Bank and Wachovia Bank, N.A. (formerly SouthTrust Bank and now part of Wells Fargo & Company), each of which have undergone substantial changes in recent years which we believe provides an opportunity for a new bank such as us. We believe the citizens of Dothan demand the personal service provided by the Bank making it a more viable option for the current residents versus large institutions such as Regions Bank and Wells Fargo Bank.

According to the 2006 Census, the Dothan, Alabama MSA had a population of 138,234 people. Houston County consisted of around 95,660 people, showing a 9.2% increase from the 2000 Census. The Dothan, Alabama MSA has seen continued improvements in its unemployment rate, as it has decreased from 5% to 3% since 2000. Along with that, Houston County is seeing a constant increase in its average per job wage, from as low $25,000 in 2000 to just under $35,000 in 2006.

We believe Dothan to be a growing market with greater needs considering the wide array of industries being serviced. The Dothan area, while being known as the peanut capital, is also home to several major corporations including General Electric, Michelin, Sony, Pemco World Aviation, International Paper, Globe Motors, AAA Cooper-Headquarters, and many more. Also, the strong presence of trucking and its strategic positioning in the Southeast market attracts distribution related projects to the Dothan MSA. For example, the development of the Houston County Distribution Park has allowed companies to take advantage of the 352-acre tract to serve consumers in the Southeast region of the United States. It being only minutes from the Florida state line, the large lots can serve distribution-related projects up to 1.2 million square feet in size.

Dothan is a hub of healthcare for southeast Alabama, southwest Georgia and north Florida areas with two regional hospitals, Southeast Alabama Regional Medical Center employing 2,000 medical professionals, and Flowers Hospital employing 1,400 medical professionals. The area also has a strong history in the expansion of aviation jobs in Alabama through Enterprise-Ozark Community College (avionics and aviation mechanic training) and Fort Rucker-the Army Aviation Center of the United States. The highly specialized Dothan Airport Industrial Park offers the land and infrastructure to house aviation related projects with runway access to facilities.

The existence of these industries and the constant growth allows an opportunity for the Bank to enter this market and flourish. The foregoing and other pertinent data can be found on the Dothan Chamber of Commerce s and the FDIC s websites.

Deposit Growth in Our Markets

Total deposits in Jefferson and Shelby Counties grew from approximately $14.5 billion in June 2001 to approximately $21.6 billion in June 2008, representing a compound average annual growth rate of approximately 5.86% over the period. Deposits in Madison County grew from approximately $3.2 billion in June 2001 to approximately $5.2 billion in June 2008, representing a compound average annual growth rate of approximately 7.18% over the period. Deposits in Montgomery County grew from approximately $2.9 billion in June 2001 to

approximately $5.6 billion in June 2008, representing a compound average annual growth rate of approximately 9.86% over the period. Deposits in Houston County grew from approximately $1.3 billion in June 2001 to approximately $1.8 billion in June 2008, representing a compound average annual growth rate of approximately 4.76% over the period. While our markets have been negatively affected by the current recession and credit crisis, we believe that each of our markets will continue to grow and believe that many local affluent professionals and small business customers will do their banking with local, autonomous institutions that offer a higher level of personalized service.

Competition

All phases of our business are highly competitive. We are subject to intense competition from various financial institutions and other companies or firms that offer financial services. The Bank competes for deposits with other commercial banks, savings and loan associations, credit unions and issuers of commercial paper and other securities, such as money-market and mutual funds. In making loans, the Bank is expected to compete with other commercial banks, savings and loan associations, consumer finance companies, credit unions, leasing companies and other lenders.

We currently conduct business principally through our eight banking offices. Based upon the latest data available on the FDIC s website as of June 30, 2008, and our records, our total deposits in the Birmingham-Hoover MSA ranked 10th among 50 financial institutions, and represented approximately 2.01% of the total deposits in the Birmingham-Hoover MSA. Our total deposits in the Huntsville MSA would rank us 7th among 24 financial institutions, and represented approximately 3.88% of the total deposits in the Huntsville MSA. Our total deposits in the Montgomery MSA would rank us 11th among 20 financial institutions, and represented approximately 1.82% of the total deposits in the Montgomery MSA. We were not operating in Dothan in June 2008, the date of the latest FDIC data. Currently, we have one office in Dothan. Together, deposits for all institutions in Jefferson, Shelby, Montgomery, Madison, and Houston Counties represented approximately 44.64% of all the deposits in the State of Alabama.

Market	Number of Branches	Our Market Deposits	Total Market Deposits	Ranking	Market Share Percentage
		(Dollar amounts in millions)			
Alabama:					
Birmingham-Hoover MSA	3	$490.7	$24,369.0	10/50	2.01%
Huntsville MSA	2	231.7	5,975.2	7/24	3.88%
Montgomery MSA	2	125.1	6,854.8	11/20	1.82%

Our retail and commercial divisions operate in highly competitive markets. We compete directly in retail and commercial banking markets with other commercial banks, savings and loan associations, credit unions, mortgage brokers and mortgage companies, mutual funds, securities brokers, consumer finance companies, other lenders and insurance companies, locally, regionally and nationally. Many of our competitors compete using offerings by mail, telephone, computer, and/or the Internet. Interest rates, both on loans and deposits, and prices of services are significant competitive factors among financial institutions generally. Office locations, types and quality of services and products, office hours, customer service, a local presence, community reputation and continuity of personnel are also important competitive factors that we emphasize.

Many other commercial or savings institutions currently have offices in our primary market areas. These institutions include many of the largest banks operating in Alabama, including some of the largest banks in the country. Many of our competitors serve the same counties we serve. Virtually every type of competitor for business of the type we serve has offices in Birmingham, Huntsville, Montgomery and Dothan, Alabama. In our Birmingham, Huntsville, Montgomery and Dothan market areas, our six largest competitors are generally Regions Bank, Wachovia Bank, N.A. (now a part of Wells Fargo & Company), Royal Bank of Canada, Compass Bank (owned by Banco Bilboa Vizcaya Argentaria), Colonial Bank and First Commercial Bank. These institutions, as well as other competitors of ours, have greater resources, have broader geographic markets, have higher lending limits, offer various services that we do not offer and can better afford and make broader use of media advertising, support services, and electronic technology than we can. To offset these competitive disadvantages, we depend on our reputation as having greater personal service, consistency, and flexibility and the ability to make credit and other business decisions quickly.

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Business Strategy

Management Philosophy

Our philosophy is to operate as an urban bank emphasizing prompt, personalized customer service to the individuals and businesses located in our primary service areas. We believe this philosophy has attracted and will continue to attract customers and capture market share historically controlled by other financial institutions operating in the market. Our management and employees will focus on recognizing customers needs and delivering products and services to meet those targeted needs. We aggressively market to businesses, professionals and affluent consumers that may be underserved by the large regional banks that operate in their service areas. We believe that local ownership and control allows us to serve customers more efficiently and effectively and will aid in our growth and success.

Operating Strategy

In order to achieve the level of prompt, responsive service that we believe is necessary to attract customers and to develop our image as an urban bank with a community focus; we have employed the following operating strategies:

Quality Employees. We strive to hire highly trained and seasoned staff. Staff are trained to answer questions about all of our products and services so that the first employee the customer encounters can usually resolve most questions the customer may have.

Experienced Senior Management. Our senior management has extensive experience in the banking industry, as well as substantial business and banking contacts in the Birmingham-Hoover, Huntsville, Montgomery and Dothan, Alabama MSAs.

Relationship Banking. We focus on cross-selling financial products and services to our customers. Our customer-contact employees are highly trained so that they recognize customer needs and can meet those needs with a sophisticated array of products and services offered by us. We view cross-selling as a means to leverage relationships and help provide useful financial services to retain customers, attract new customers and remain competitive.

Community-Oriented Directors. Our board of directors for the holding company and the Bank currently consists of residents of Birmingham, but we also have a non-voting advisory board of directors in each of the Huntsville, Montgomery and Dothan markets. Each of these directors represents a wide array of business experience and community involvement in the service areas in which they reside. As residents of our primary service area, they are sensitive and responsive to the needs of our proposed customers. In addition, these directors bring substantial business and banking contacts to us.

Highly Visible Offices. Our headquarters are highly visible in Birmingham s south Jefferson County, downtown Huntsville, downtown Montgomery and downtown Dothan. We believe that a highly visible headquarters building gives us a powerful presence in the market.

Individual Customer Focus. We focus on providing individual service and attention to our target customers, which include privately-held businesses with $2 million to $250 million in sales, professionals, and affluent consumers. As our employees, officers and directors become familiar with our customers on an individual basis, they are able to respond to credit requests quickly.

Market Segmentation and Advertising. We utilize traditional advertising media such as local periodicals and local event sponsorships to increase awareness of us. The majority of our marketing and advertising efforts, however, are focused on leveraging our management s, directors , advisory directors , and stockholders existing relationship network.

Telephone and Internet Banking Services. We offer various banking services by telephone through a 24-hour voice response unit and through Internet banking arrangements.

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Growth Strategy

Since we believe that growth and expansion of our operations are significant factors in our success, we have implemented the following growth strategies:

Capitalize on Community Orientation. We seek to capitalize on the extensive relationships that our management, directors, advisory directors and stockholders have with businesses and professionals in the Birmingham, Huntsville, Montgomery and Dothan markets. We believe that these market sectors are not adequately served by the existing banks in such areas.

Emphasize Local Decision-Making. We emphasize local decision-making by experienced bankers. We believe this helps us attract local businesses and service-minded customers.

Offer Fee-Generating Products and Services. Our range of services, pricing strategies, interest rates paid and charged, and hours of operation are structured to attract our target customers and increase our market share. We strive to offer the businessperson, professional, entrepreneur and consumer the best loan services available while pricing these services competitively.

Office Strategy. We have opened two offices in Jefferson County, one, our headquarters in the Mountain Brook, Alabama area in 2005, and one in downtown Birmingham in 2006, one in north Shelby County in the Greystone area in 2006, two offices in Huntsville in 2006, two offices in Montgomery in 2007, and one office in Dothan in 2008.

Lending Services

Lending Policy

Our lending policies have been established to support the banking needs of our primary market areas. Consequently, we aggressively seek high-quality loans within a limited geographic area and in competition with other well-established financial institutions in our primary service areas who have greater resources and lending limits than we have.

Our loan portfolio as of December 31, 2008 was comprised as follows:

Loan Type	**Dollar amount (In thousands)**	**Percentage of portfolio**
Commercial, financial and agricultural	$ 325,968	33.67%
Real estate construction	235,162	24.29%
Real estate mortgage:		
Owner occupied commercial	147,197	15.20%
1-4 family	137,019	14.15%
Other	93,412	9.65%
Total real estate mortgage	377,628	39.00%
Consumer	29,475	3.04%
Total loans	$ 968,233	100.00%

Loan Approval and Review

Our loan approval policies provide for various levels of officer lending authority. When the total amount of loans to a single borrower exceeds an individual officer s lending authority, further approval must be obtained from the regional CEO and/or the Chief Executive Officer, Chief Risk Officer or Chief Credit Officer, based on our loan policies.

Commercial Loans

Commercial lending is directed principally toward businesses and professional service firms whose demand for funds falls within our legal lending limits. We also make loans to small- to medium-sized businesses in our primary service areas for purposes such as new or upgrades to plant and equipment, inventory acquisition and various working capital purposes. Typically, targeted borrowers have annual sales between $2 and $250 million. This category of loans includes loans made to individual, partnership or corporate borrowers, and such loans are obtained for a variety of business purposes. We offer a variety of commercial lending products to meet the needs of business and professional service firms in our service areas. These commercial lending products include seasonal loans, bridge loans and term loans for working capital, expansion of the business, or acquisition of property, plant and equipment. We also offer business lines of credit. The repayment terms of our commercial loans will vary according to the needs of each customer.

Commercial loans will usually be collateralized. Generally, business assets are used and may consist of general intangibles, accounts receivables, inventory, equipment, or real estate. Collateral is subject to risk relative to conversion to a liquid asset if necessary as well as risks associated with degree of specialization, mobility and general collectability in a default situation. To mitigate this risk to collateral, it is underwritten to strict standards including valuations and general acceptability based on our ability to monitor its ongoing health and value.

Our commercial loans are primarily underwritten on the basis of the borrower s cash flow, expected ability to service its debt from income and degree of management expertise. As a general practice, we take as collateral a security interest in any available real estate, equipment or other personal property, although some commercial loans may be made on an unsecured basis in limited circumstances. This type loan may be subject to many different types of risk, which will differ depending on the particular industry a borrower is engaged in, including fraud, bankruptcy, economic downturn, deteriorated or non-existent collateral, and changes in interest rates such as the recent economic recession and credit market crisis. General risks to an industry such as the recent economic recession and credit market crisis, or segment of an industry, are monitored by senior management on an ongoing basis. When warranted, individual borrowers who may be at risk due to an industry condition may be more closely analyzed and reviewed at a credit review committee or board of directors level. On a regular basis, commercial and industrial borrowers are required to submit statements of financial condition relative to their business to us for review. These statements are analyzed for trends and the loan is assigned a risk grade accordingly. Based on this risk grade, the loan may receive an increased degree of scrutiny by management up to and including additional loss reserves being required.

Real Estate Loans

We make commercial real estate loans, construction and development loans and residential real estate loans.

Commercial Real Estate. Commercial real estate loan terms generally are limited to five years or less, although payments are usually structured on a longer amortization basis. Interest rates may be fixed or adjustable, although rates generally will not be fixed for a period exceeding five years. In addition, we generally will require personal guarantees from the principal owners of the property supported by a review by our management of the principal owners personal financial statements.

Commercial real estate offers some risks not found in traditional residential real estate lending. Repayment is dependent upon successful management and marketing of properties and on the level of expense necessary to maintain the property. Repayment of these loans may be adversely affected by conditions in the real estate market or the general economy. Also, commercial real estate loans typically involve relatively large loan balances to a single borrower. To mitigate these risks, we monitor our loan concentration. This type loan generally has a shorter maturity than other loan types giving us an opportunity to reprice, restructure or decline to renew the credit. As with other loans, all commercial real estate loans are graded depending upon strength of credit and performance. A higher risk grade will bring increased scrutiny by our management and the board of directors.

Construction and Development Loans. We make construction and development loans both on a pre-sold and speculative basis. If the borrower has entered into an agreement to sell the property prior to beginning construction, then the loan is considered to be on a pre-sold basis. If the borrower has not entered into an agreement to sell the property prior to beginning construction, then the loan is considered to be on a speculative basis. Construction and development loans are generally made with a term of 12 to 24 months, and interest is paid monthly. The ratio of the loan principal to the value of the collateral as established by independent appraisal typically will not exceed 80% of residential construction loans. Speculative construction loans will be based on the borrower s financial strength and cash flow position. Development loans are generally limited to 75% of appraised value. Loan proceeds will be disbursed based on the percentage of completion and only after the project has been inspected by an experienced construction lender or third-party inspector. During times of economic stress, this type loan has typically had a greater degree of risk than other loan types as has been evident in the current credit crisis which has resulted in numerous construction loan defaults among many commercial bank loan portfolios including a number of Alabama based banks such as Regions Financial Corporation and Colonial Bancgroup, Inc. which have reported substantial impaired and defaulted real estate development loans in 2008. To mitigate that risk, our board of directors and management reviews the entire portfolio on a periodic basis and we internally track and monitor these loans closely. On a quarterly basis, the portfolio is segmented by market area to allow analysis of exposure and a comparison to current inventory levels in these areas. We have increased our allocation within our loan loss reserve for construction loans from $3.5 million at the end of 2007 to $5.5 million at the end of 2008 as charge-offs for construction loans increased from $953,000 for 2007 to $2.3 million for 2008.

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Residential Real Estate Loans. Our residential real estate loans consist of residential second mortgage loans, residential construction loans and traditional mortgage lending for one-to-four family residences. We will originate and maintain fixed rate mortgages with long-term maturity and balloon payments generally not exceeding five years. The majority of our fixed rate loans are sold in the secondary mortgage market. All loans are made in accordance with our appraisal policy, with the ratio of the loan principal to the value of collateral as established by independent appraisal generally not exceeding 80%. Risks associated with these loans are generally less significant than those of other loans and involve fluctuations in the value of real estate, bankruptcies, economic downturn and customer financial problems; however, real estate has recently experienced a period of declining prices which negatively affects real estate collateralized loans but this negative effect has to date been more prevalent in regions of the United States other than our primary service areas; however, homes in our primary service areas may experience significant price declines in the future. We have not made and do not expect to make any Alt-A or subprime loans.

Consumer Loans

We offer a variety of loans to retail customers in the communities we serve. Consumer loans in general carry a moderate degree of risk compared to other loans. They are generally more risky than traditional residential real estate but less risky than commercial loans. Risk of default is usually determined by the well being of the local economies. During times of economic stress there is usually some level of job loss both nationally and locally, which directly affects the ability of the consumer to repay debt. Risk on consumer type loans is generally managed though policy limitations on debt levels consumer borrowers may carry and limitations on loan terms and amounts depending upon collateral type.

Various types of consumer loans include the following:

- home equity loans open and closed end;
- vehicle financing;
- loans secured by deposits; and
- secured and unsecured personal loans.

The various types of consumer loans all carry varying degrees of risk. Loans secured by deposits carry little or no risk. Home equity lines carry additional risk because of the increased difficulty of converting real estate to cash in the event of a default and have become particularly risky as housing prices decline thereby reducing and in some cases eliminating a home owner s equity relative to their primary mortgage. To date, homes in our primary service areas have not experienced the severe price declines of homes in other regions of the United States; however, homes in our service areas have experienced some price declines in the past year. Our current underwriting policy allows home equity lines less than 90% of current market value. Although this appears high, our historical losses for Helocs have been very small (28 basis points last year). We also require the customer to carry adequate insurance coverage to pay all mortgage debt in full if the collateral is destroyed. Vehicle financing carries additional risks over loans secured by real estate in that the collateral is declining in value over the life of the loan and is mobile. Risks inherent in vehicle financing are managed by matching the loan term with the age and remaining useful life of the collateral to try to ensure the customer always has an equity position and is never upside down. Collateral is protected by requiring the customer to carry insurance showing us as loss payee. We also have a blanket policy that covers us in the event of a lapse in the borrower s coverage and also provides assistance in locating collateral when necessary. Secured personal loans carry additional risks over the previous types in that they are generally smaller and made to borrowers with somewhat limited financial resources and credit histories. These loans are secured by a variety of collateral with varying degrees of marketability in the event of default. Risk on these types of loans is managed primarily at the underwriting level with strict adherence to debt to income ratio limitations and conservative collateral valuations. Other unsecured personal loans carry the greatest degree of risk in the consumer portfolio. Without collateral, we are completely dependent on the commitment of the borrower to repay and the stability of the borrower s income stream. Again, primary risk management occurs at the underwriting stage with strict adherence to debt to income ratios, time in present job and in industry and policy guidelines relative to loan size as a percentage of net worth and liquid assets.

Commitments and Contingencies

As of December 31, 2008, we had commitments to extend credit beyond current fundings of approximately $294.5 million, had issued standby letters of credit in the amount of approximately $32.7 million, and had commitments for credit card arrangements of approximately $11.3 million. The following table allocates to each loan category our commitments to extend credit beyond current fundings:

Loan Type	Dollar amount (In thousands)	Percentage of contractual obligations
Commercial, financial and agricultural	$ 201.5	68.40%
Real estate construction	38.2	12.99%
Real estate mortgage	41.7	14.16%
Consumer	13.1	4.45%
Total loans	$ 294.5	100.00%

Policy for Determining the Loan Loss Allowance

The allowance for loan losses represents our management s assessment of the risk associated with extending credit and its evaluation of the quality of the loan portfolio. In calculating the adequacy of the loan loss allowance, our management evaluates the following factors:

- the asset quality of individual loans;
- changes in the national and local economy and business conditions/development, including underwriting standards, collections, charge-off and recovery practices;
- changes in the nature and volume of the loan portfolio;
- changes in the experience, ability and depth of our lending staff and management;
- changes in the trend of the volume and severity of past dues and classified loans; and trends in the volume of non-accrual loans, troubled debt restructurings and other modifications as has occurred in the residential mortgage markets and particularly for residential construction and development loans;
- possible deterioration in collateral segments or other portfolio concentrations;
- historical loss experience (when available) used for pools of loans (i.e. collateral types, borrowers, purposes, etc.);
- changes in the quality of our loan review system and the degree of oversight by our board of directors;
- the effect of external factors such as competition and the legal and regulatory requirement on the level of estimated credit losses in our current loan portfolio; and
- off-balance sheet credit risks.

These factors are evaluated monthly and changes in the asset quality of individual loans are evaluated as needed.

All of our loans are assigned individual risk grades when underwritten. We have established minimum general reserves based on the asset quality grade of the loan. General reserve factors are also applied based on historical losses and management s experience and common industry and regulatory guidelines.

After a loan is underwritten and booked, it is monitored or reviewed by the account officer, management, internal loan review, and external loan review personnel during the life of the loan. Payment performance is monitored monthly for the entire loan portfolio, account officers contact customers during the course of business, and may be able to ascertain if weaknesses are developing with the borrower, independent loan consultants perform an independent review annually, and federal and state banking regulators perform annual reviews of the loan portfolio. If weaknesses develop in an individual loan relationship and are detected, the loan is downgraded and higher reserves are assigned based upon management s assessment of the weaknesses in the loan that may affect full collection of the debt. If a loan does not appear to be fully collectible as to principal and interest, the loan is recorded as a non-accruing loan and further accrual of interest is discontinued while previously accrued but uncollected interest is reversed against income. If a loan will not be collected in full, the allowance for loan losses is increased to reflect our management s estimate of potential exposure of loss.

Our net loan losses to average total loans has increased to 0.41% for the year ended December 31, 2008 from 0.23% for the year ended December 31, 2007 and 0.28% for the year ended December 21, 2006. Historical performance, however, is not an indicator of future performance and forward results could differ materially particularly in the current real estate environment, economic recession and credit crisis. As of December 31, 2008, we had $7.7 million of non-accrual loans, all of which are secured real estate loans. We have allocated approximately $5.5 million of our allowance for loan losses for real estate construction loans and have a total loan loss reserve as of December 31, 2008 allocable to specific loan types of $7.0 million. We also currently maintain a general reserve which is not tied to any particular type of loan in the amount of approximately $3.6 million as of December 31, 2008, resulting in a total loan loss reserve of $10.6 million. Our management believes that based upon historical performance, known factors, overall judgment, and regulatory methodologies that the current methodology used to determine the adequacy of the allowance for loan losses is reasonable even in the face of the current residential housing market defaults and business failures (particularly of real estate developers) plaguing financial institutions in general.

Our allowance for loan losses is also subject to regulatory examinations and determinations as to adequacy, which may take into account such factors as the methodology used to calculate the allowance for loan losses and the size of the allowance for loan losses in comparison to a group of peer banks identified by the regulators. During their routine examinations of banks, regulatory agencies may require a bank to make additional provisions to its allowance for loan losses when, in the opinion of the regulators, credit evaluations and allowance for loan loss methodology differ materially from those of management.

While it is our policy to charge-off in the current period loans for which a loss is considered probable, there are additional risks of future losses that cannot be quantified precisely or attributed to particular loans or classes of loans. Because these risks include the state of the economy, our management s judgment as to the adequacy of the allowance is necessarily approximate and imprecise.

Investments

In addition to loans, we make investments in securities, primarily in mortgaged-backed securities and state and municipal securities. No investment in any of those instruments will exceed any applicable limitation imposed by law or regulation. The Bank s board of directors reviews the investment portfolio on an ongoing basis in order to ensure that the investments conform to the policy as set by the board of directors. The Bank s investment policy provides that no more than 40% of its total investment portfolio shall be composed of municipal securities.

The amortized cost, gross unrealized gains and losses and estimated fair value of our securities as of December 31, 2008 by type of security are shown below.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in Thousands)			
Securities available for sale:				
U.S. Treasury and government sponsored agencies	$ 5,093	$ 42	$ (18)	$ 5,117
Mortgage-backed securities	60,211	2,338	(5)	62,544
State and municipal securities	29,879	457	(857)	29,479
Corporate debt	5,971		(772)	5,199

Total securities	$ 101,154	$ 2,837	$ (1,652)	$ 102,339

All securities held are traded in liquid markets and we have no auction-rate securities. As of December 31, 2008, we owned certain restricted securities from the Federal Home Loan Bank with an aggregate book value of $2.4 million and First National Banker s Bank in which we invested $250,000. Neither of these securities have contractual maturities or quoted fair values, and no ready market exists for either of these securities. We had no investments in any one security, restricted or liquid, in excess of 10% of our stockholders equity.

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Deposit Services

We seek to establish solid core deposits, including checking accounts, money market accounts, savings accounts and a variety of certificates of deposit and IRA accounts. We currently have no brokered deposits. To attract deposits, the Bank employs an aggressive marketing plan throughout its service areas that features a broad product line and competitive services. The primary sources of core deposits are residents of, and businesses and their employees located in, our market areas. We have obtained deposits primarily through personal solicitation by our officers and directors, reinvestment in the community and our stockholders who have been a substantial source of deposits and referrals. We make deposit services accessible to customers by offering direct, deposit, wire transfer, night depository, banking by mail and remote capture for non-cash items. The Bank is a member of the FDIC and thus our deposits are FDIC insured. With regard to non-interest bearing transaction accounts, the Bank has opted into the Temporary Liquidity Guarantee Program by which the FDIC guarantees non-interest bearing deposit transaction accounts and NOW accounts with interest rates less than or equal to 0.50% through 2009. The following charts reflect our deposits as of December 31, 2008:

Deposits

Type of Deposit		(Dollars in Thousands)
Non-interest-bearing demand deposits	$	121,459
Interest-bearing demand deposits		147,113
Money market accounts		602,743
Savings accounts		777
Time deposits		25,920
Time deposits, over $100,000		139,307
Total	$	1,037,319

The scheduled maturities of time deposits at December 31, 2008 are as follows:

Maturity	$100,000 or more	Less than $100,000	Total
	(Dollars in Thousands)		
Three months or less	$		