

## ServisFirst Bancshares, Inc.

### Ratings

ServisFirst Bancshares, Inc.	
Action: <b>Affirmed</b>	4/23/20
Senior Unsecured Debt	BBB+
Subordinated Debt	BBB
Short-Term Debt	K2

ServisFirst Bank	
Action: <b>Affirmed</b>	4/23/20
Deposit	A-
Senior Unsecured Debt	A-
Subordinated Debt	BBB+
Short-Term Deposit	K2
Short-Term Debt	K2

KBRA Bank & Bank Holding Company Global  
Rating Methodology dated October 16, 2019.

### Outlook/Watch

ServisFirst Bancshares, Inc.	
Long-Term Ratings	Stable

ServisFirst Bank	
Long-Term Ratings	Stable

### Financial Snapshot

SFBS (%)	1Q20	YE19
Total Assets (\$B)	9.4	8.9
ROAA	1.54	1.73
NIM	3.58	3.47
NCO Ratio	0.26	0.32
NPA Ratio	0.47	0.52
TCE Ratio	9.3	9.3
CET1 Ratio	10.7	10.5
Loans/Core Dep	NR	103

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### Company Profile

- Headquartered in Birmingham, Alabama, ServisFirst Bancshares, Inc. (NASDAQ: SFBS) ("ServisFirst" or "the company"), with approximately \$9.4 billion in assets, \$7.6 billion in loans, and \$7.8 billion in deposits, conducts operations through its lead subsidiary, ServisFirst Bank ("the bank") via a branch-light network. The company's key operating markets encompass economically vibrant southeastern MSAs, situated in five contiguous states, including Alabama, Tennessee, South Carolina, Georgia, and Florida.
- SFBS' business model focuses on commercial banking, cash management, private banking, and correspondent banking services, primarily targeting businesses and their owners, professionals and affluent consumers. The loan portfolio appears well balanced by type and in terms of industry concentration, with 58% represented by C&I loans (including 22% owner-occupied CRE), followed by 22% ICRE (including 4% multi-family), 9% residential mortgage, and 7% C&D comprising the bulk of loans.
- Since its formation in 2005, SFBS has grown primarily through organic expansion, with a bolt on acquisition of Metro Bank in 2015, which strategically extended the company's footprint to the Atlanta MSA where SFBS now operates three branches.

### Key Credit Considerations

The ratings were affirmed due to the following key credit considerations:

- ServisFirst's ratings continue to be supported by better than peer profitability measures, with ROA in the range of 1.5%-1.9% in recent quarters. Also supporting the company's strong profitability is a branch-light business model focused on commercial banking combined with solid expense control, contributing to an efficiency ratio of below 35% for a multi-year trend.
- While SFBS has experienced periods of moderately elevated credit costs, in part due to enhanced credit administration, the company's strong core profitability has been able to absorb the expenses. Further, SFBS' ratings are reinforced by an experienced management team that has consistently demonstrated a conservative approach to risk management, underpinned by strong relationship banking and knowledge of local borrowers. In the context of the uncertainties related to the impact of the coronavirus pandemic, KBRA notes that the company's phase 1 direct exposure to industries highly susceptible to COVID-19, such as hospitality (2% of loans) and retail (4% of loans), appears comparatively limited.
- Constraints to the ratings include the company's spread-reliant revenue stream with minimal contribution from fee-based income sources. Moreover, compared to larger regional institutions, the company is relatively geographically concentrated.

KBRA continues to monitor the potential direct and indirect effects of the Coronavirus on the banking and other sectors. Please refer to our publication [Coronavirus \(COVID-19\): U.S. Banks Stable Despite Uncertainties](#).

### Rating Sensitivities

A rating upgrade in the near term is not expected. Over time, increased revenue diversity including the expansion of fee-based revenues, greater scale/diversification of operations, stable capital measures, and the maintenance of healthy asset quality would be viewed positively.

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A rating downgrade in the near term is unlikely. However, material deterioration in asset quality metrics, beyond COVID-19, to levels worse than peers or viewed as systemic could pressure the ratings. Moreover, aggressive capital management or a significant decline in core earnings to below peer levels could lead to negative rating outcomes.

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## ESG Considerations

KBRA's ratings incorporate all material credit factors including those that relate to Environmental, Social and Governance (ESG) factors. While ESG factors may influence ratings, it is important to underscore that KBRA's ratings do not incorporate value-based judgments. Throughout our analysis, KBRA captures the impact of ESG factors in the same manner as all other credit-relevant factors. More information on ESG Considerations for the Financial Institutions sector can be found [here](#). ESG factors that have impact on this rating analysis include strong risk management and corporate governance.

## 1Q 2020 Performance and Highlights

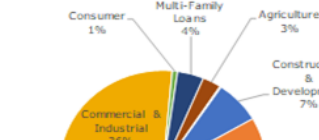
Key Financial Ratios (%)	1Q 2020	4Q 2019	1Q 2019
ROAA	1.54	1.80	1.75
NIM	3.58	3.47	3.56
Efficiency	33.1	30.9	34.4
Net Charge-offs / Average Loans	0.26	0.36	0.20
NPAs / Total Loans + OREO	0.47	0.52	0.41
Common Equity Tier 1 (CET1) Ratio	10.7	10.5	10.3
Tier 1 / Risk Weighted Assets (RWA)	10.7	10.5	10.3

- ServisFirst Bancshares, Inc. reported strong pre-provision earnings of 2.5% in 1Q20, driven by solid loan growth and low operating expenses. As a result of the CARES Act, SFBS opted to delay CECL implementation. As such, the allowance for loan losses as a percentage of total loans increased by 8 bps, to 1.13%, over the linked quarter on the basis of economic scenarios related to the COVID-19 pandemic. Management remains confident that this level of reserves is adequate, given its strong pre-provision earnings power. SFBS continues to monitor its phase 1 exposure and does not have any exposure above 4% to any specific industry; the aggregate direct exposure to phase 1 industries highly susceptible to COVID-19 was ~12% as of March 31, 2020.
- Loan and deposit balances increased proportionally by 16% on an annualized basis, over the linked quarter. Notably, NIM continued to expand despite the low interest rate environment (up 11 bps from the linked quarter), as declining deposits costs offset decreases in loan yields. SFBS is expected to benefit from PPP loans (3,309 loans and \$914 million in funding approved through 4/17/20) in future quarters as the company is comparatively well positioned to add new clients given its low exposure to COVID susceptible industries. Presently, focus is on current clients. Excluding the impact of PPP, NIM is expected to track near 3.60% in 2Q20.
- Noninterest income was slightly lower over the prior quarter on lower mortgage banking income, though the company continues to evaluate ways to diversify its revenue streams. Noninterest income is expected to benefit in future quarters from fees associated with PPP.
- SFBS' asset quality metrics remained healthy, with NPAs declining marginally, while net charge-offs declined 10 bps from the linked quarter.
- SFBS' capital ratios remained healthy relative to its business complexity and risk profile, supported by strong internal capital generation, evidenced by a solid multiperiod TCE ratio tracking above 9%. Overall, KBRA maintains a positive view of SFBS' financial durability and expects the company to effectively respond to its customers' needs, while preserving adequate capital positions. The company has no material capital expenditure planned for the near term.

## Financial Metrics

SUMMARY FINANCIAL HIGHLIGHTS SERVISFIRST BANCSHARES, INC.										
	4Q19	3Q19	2Q19	1Q19	4Q18	2019	2018	2017	2016	2015
<b>Balance Sheet (\$ millions)</b>										
Loans (HFI)	7,261	7,022	6,968	6,660	6,533	7,261	6,533	5,851	4,912	4,216
Average Earning Assets	8,672	8,628	8,173	7,831	7,514	8,326	7,028	6,229	5,519	4,384
Total Assets	8,948	9,005	8,740	8,311	8,007	8,948	8,007	7,082	6,370	5,096
Core Deposits	7,069	7,286	6,981	6,668	6,494	7,069	6,494	5,749	4,971	3,798
Total Deposits	7,530	7,724	7,405	7,084	6,916	7,530	6,916	6,092	5,420	4,224
Total Equity	842	810	778	745	715	842	715	607	523	449
Tangible Common (TCE)	828	796	764	731	700	828	700	592	508	433
<b>Income Statement (\$ millions)</b>										
Net Interest Income	75.8	73.0	70.1	68.8	68.9	287.6	262.7	227.4	187.1	162.3
Noninterest Income	7.1	5.9	5.8	4.9	5.6	23.7	21.3	19.0	17.3	13.0
Noninterest Expense	25.6	24.9	26.0	25.3	23.3	101.8	94.0	85.9	80.2	73.4
Provision for Loan Losses	5.9	7.0	4.9	4.9	6.5	22.6	21.4	23.2	13.4	12.8
Net Income	41.0	37.6	35.6	35.0	36.2	149.2	136.9	93.1	81.5	63.5
<b>Performance Measures (%)</b>										
Return on Average Assets	1.82%	1.69%	1.68%	1.72%	1.86%	1.73%	1.88%	1.43%	1.42%	1.39%
Return on Average Equity	19.93%	18.85%	18.68%	19.15%	21.02%	19.16%	20.77%	16.39%	16.65%	14.56%
Net Interest Margin (TE)	3.51%	3.40%	3.46%	3.52%	3.71%	3.47%	3.79%	3.68%	3.43%	3.75%
Efficiency Ratio	30.9%	31.5%	34.3%	34.4%	31.3%	32.7%	33.1%	34.8%	39.2%	41.9%
Noninterest Income / Op. Revenue	8.5%	7.5%	7.6%	6.7%	7.5%	7.6%	7.5%	7.7%	8.5%	7.4%
Loans / Earning Assets	82%	81%	83%	84%	86%	82%	87%	86%	81%	87%
Cost of Interest-Bearing Deposits	1.34%	1.67%	1.73%	1.62%	1.46%	1.59%	1.16%	0.69%	0.57%	0.52%
Average Loan Yield	5.03%	5.21%	5.22%	5.18%	5.16%	5.16%	4.97%	4.61%	4.46%	4.47%
<b>Asset Quality (%)</b>										
NPA / Loans + OREO	0.61%	0.66%	0.54%	0.49%	0.50%	0.61%	0.50%	0.30%	0.44%	0.31%
LLR / Loans (HFI)	1.05%	1.10%	1.02%	1.05%	1.05%	1.05%	1.05%	1.02%	1.06%	1.03%
LLR / NPL	212%	188%	222%	258%	247%	212%	247%	549%	307%	559%
NCO / Average Loans	0.37%	0.49%	0.22%	0.20%	0.30%	0.32%	0.20%	0.29%	0.11%	0.13%
Provision / NCO (x)	0.9	0.8	1.3	1.5	1.4	1.0	1.8	1.5	2.7	2.5
NPA Change Rate	(5%)	23%	16%	(1%)	60%	34%	88%	(20%)	66%	(22%)
<b>Capital (%)</b>										
TCE Ratio	9.3%	8.9%	8.8%	8.8%	8.8%	9.3%	8.8%	8.4%	8.0%	8.5%
Leverage Ratio	9.1%	8.9%	9.0%	9.0%	9.1%	9.1%	9.1%	8.5%	8.2%	8.6%
CET 1 ratio	10.5%	10.4%	10.2%	10.3%	10.1%	10.5%	10.1%	9.5%	9.8%	9.7%
Tier 1 Ratio	10.5%	10.4%	10.2%	10.3%	10.1%	10.5%	10.1%	9.5%	9.8%	9.7%
Total Capital Ratio	12.3%	12.3%	12.0%	12.2%	12.0%	12.3%	12.0%	11.5%	11.8%	12.0%
<b>Leverage &amp; Funding (%)</b>										
Loans / Deposits	97%	91%	94%	94%	94%	97%	94%	96%	91%	100%
Loans / Core Deposits	103%	96%	100%	100%	101%	103%	101%	102%	99%	111%
Core Deposits / Total Funding	88%	89%	88%	88%	89%	88%	89%	89%	85%	82%
Double Leverage (Incl TRuPS)	107%	108%	108%	109%	109%	107%	109%	110%	110%	102%
Risk Weighted Density	88%	84%	85%	86%	87%	88%	87%	88%	82%	87%

Data Source: ServisFirst Bancshares, Inc.'s forms FR Y-9C

Loan Composition						
(\$ millions)	2019	2018	2017	2016	2015	<div>Loan Composition</div> 
Construction & Development	521	533	581	335	243	
Owner Occupied CRE	1,587	1,464	1,329	1,172	1,015	
Non-Owner Occupied CRE	1,331	1,045	749	641	527	
Residential Mortgage	651	622	608	541	452	
Commercial & Industrial	2,594	2,404	2,211	1,934	1,721	
Consumer	61	61	60	53	53	
Multi-Family Loans	300	161	128	92	71	
Leases	0	0	0	0	0	
Agriculture	208	219	173	140	133	
Other	15	25	18	8	9	
Total Loans	7,268	6,534	5,856	4,916	4,225	
Loans Held for Sale (HFS)	6	0	4	5	8	
Loans Held for Investment (HFI)	7,261	6,533	5,851	4,912	4,216	
Annual Loan Growth	11%	12%	19%	16%	26%	
Investor CRE / Total Loans	30%	27%	25%	22%	21%	
C&D / Risk-Based Capital (RBC)	54%	64%	81%	54%	46%	
Non-Owner Occupied CRE / RBC	228%	212%	207%	179%	164%	

(\$millions)	Deposit Composition					Deposit Composition
	2019	2018	2017	2016	2015	
Domestic Deposits						
Demand Deposits	1,750	1,557	1,440	1,282	1,053	
NOW & ATS	994	964	991	800	662	
MMDA & Savings	4,058	3,715	3,089	2,811	2,006	
Time Deposits						
Retail Time (<\$250,000)	267	258	229	80	79	
Jumbo Time (>\$250,000)	461	422	343	448	424	
Foreign Deposits	0	0	0	0	0	
Total Deposits	7,530	6,916	6,092	5,420	4,224	
Total Core Deposits	7,069	6,494	5,749	4,971	3,798	
Total Non-interest Bearing	1,750	1,557	1,440	1,282	1,053	
Annual Core Deposit Growth Rate	9%	13%	16%	31%	24%	

## Comparative Statistics

Rated BHC Peer Comparison as of December 31, 2019							
	ServisFirst Bancshares, Inc.	The First Bancshares, Inc.	United Community Banks, Inc.	Renasant Corporation	CenterState Bank Corporation	Ameris Bancorp	Median BBB+ Rated BHC
Total Assets (000s)	\$8,947,653	\$3,941,045	\$12,918,667	\$13,400,618	\$17,142,025	\$18,242,579	\$10,735,871
Total Equity (000s)	\$842,180	\$543,658	\$1,635,692	\$2,125,689	\$2,896,718	\$2,469,582	\$1,205,558
<b>Performance Measures</b>							
Return on Average Assets	1.73%	1.26%	1.46%	1.30%	1.42%	1.11%	1.33%
Return on Equity	17.7%	8.0%	11.4%	7.9%	7.8%	6.5%	9.3%
Net Interest Margin	3.45%	3.98%	4.02%	4.02%	4.28%	3.87%	3.74%
Efficiency Ratio	32.7%	59.4%	56.0%	62.6%	59.4%	66.7%	59.1%
Noninterest Income / Total Revenue	7.6%	17.8%	18.9%	25.4%	21.5%	27.3%	19.7%
<b>Asset Quality</b>							
Nonperforming Assets / Loans + OREO	0.61%	1.85%	0.38%	0.42%	0.41%	0.67%	0.51%
Reserves / Nonperforming Assets	173%	29%	183%	123%	81%	39%	127%
Net Charge-Offs / Average Loans	0.32%	0.00%	0.14%	0.04%	0.09%	0.09%	0.14%
Provisions / Net Charge-Offs	1.0x	-35.6x	1.1x	1.8x	1.1x	1.9x	1.2x
<b>Capital</b>							
CET1	10.5%	12.5%	13.0%	11.1%	11.3%	9.9%	11.1%
Tier 1 / RWA	10.5%	13.0%	13.2%	12.1%	11.3%	9.9%	11.4%
<b>Funding &amp; Leverage</b>							
Total Loans / Total Deposits	97%	85%	81%	98%	92%	103%	95%
Total Loans / Total Assets	81%	66%	69%	75%	71%	79%	72%
Double Leverage	107%	114%	111%	108%	103%	109%	107%

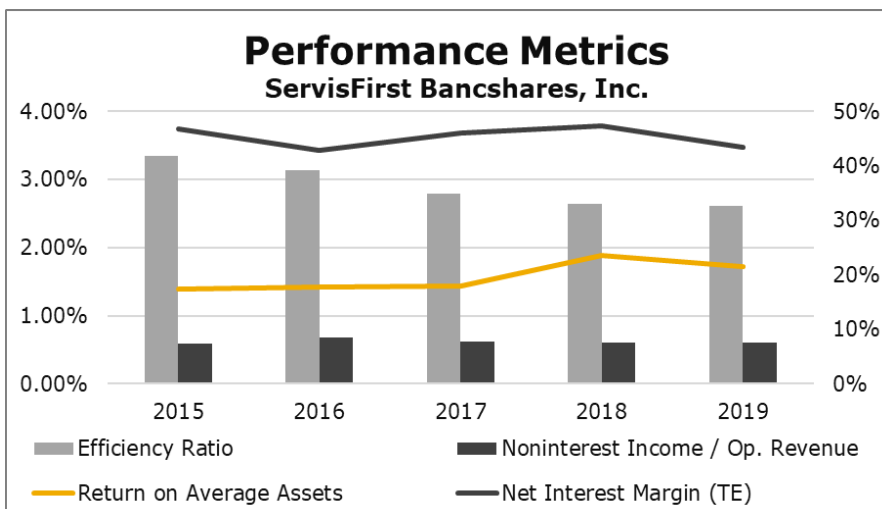
Data sources: FR Y-9C and FR Y-9LP

## Key Quantitative Rating Determinants

The quantitative financial fundamentals of the bank are derived from the analysis of the bank's intrinsic financial strength and potential adjustments due to KBRA's stress testing as well as an analysis of current and historical financial metrics.

### Performance

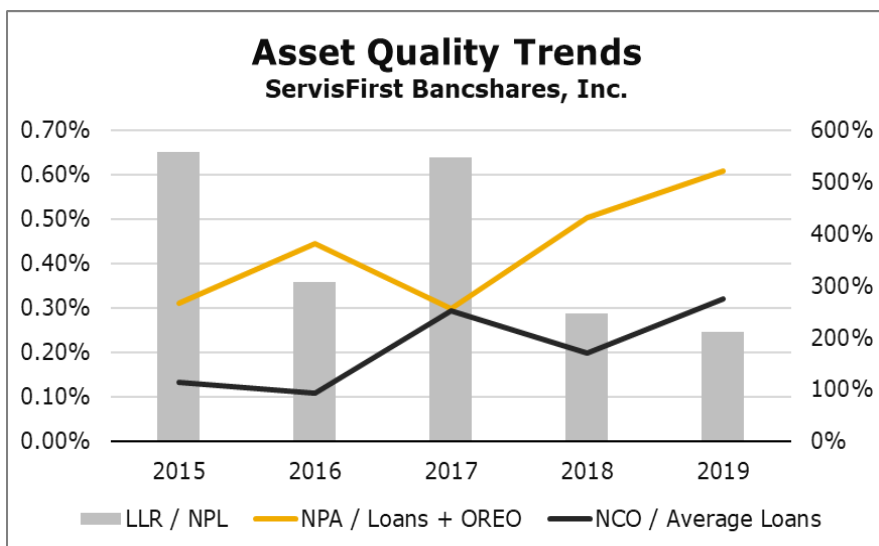
SFBS has demonstrated strong core profitability for a multi-year trend, supported by solid organic loan growth and a low expense base owing to a limited branch network and a focus on expense control. The company delivered strong loan growth of 11% year-over-year, supported by the addition of bankers in Charleston, Nashville, and west Florida. While heightened cost of interest-bearing deposits impacted the NIM during the first half of 2019, the repricing of money market accounts during the second half of the year was beneficial, offsetting much of the margin pressure. Overall, the cost of deposits improved notably to a level more in line with peers (1.05% for 4Q19 as compared to an average of 0.93% for peers). While the current low rate environment continues to pressure yields, management see opportunity to improve loan pricing through diverse opportunities in markets where the company has recently added talent.



Noninterest income remained a minor revenue contributor, representing 8% of total revenue in 2019, though management is examining ways to increase fee income, specifically through higher credit card fees and service charges. Service charges on deposit accounts, mortgage banking, and credit cards account for the primary sources of fee income. Noninterest expense remained well controlled, contributing to a strong efficiency ratio tracking below 35% for a multi-year period. The company's below peer operating efficiency is driven by a select branch network, with single branches typically holding an average of \$376.5 million in deposits, as of December 31, 2019, while overhead expense remained significantly better than the average for similarly situated peer at 0.9% for the full-year 2019. In recent years, the company also leveraged its technological platform to improve efficiency and has been disciplined with regard to adding talent, including carefully considering its needs in specific business functions and assessing opportunities created by market disruption within its footprint. Furthermore, SFBS' track record of delivering above peer earnings performance, including through challenging economic conditions as demonstrated by the company's ability to navigate the financial crisis profitably, reflects the conservative and disciplined culture of its management team, which has been stable.

### Asset Quality

ServisFirst's asset quality performance has reflected rising NPA levels in recent quarters, yet overall remain in line with peers. Moreover, the company has experienced periods of elevated, albeit absorbable, credit costs reflective of the lumpiness of certain credits within the loan portfolio and a proactive approach to eliminating impaired credits. At YE19, the NPA ratio increased marginally to 61 bps, compared to 50 bps at YE18, largely due to two relationships totaling \$15 million, including a \$10 million credit involving rural hospital systems in Nashville and a \$5 million C&I credit that moved to nonaccrual. Credit costs increased to 49 bps in 3Q19, encompassing a \$2 million charge-off related to the aforementioned hospital facility, while the balance was a result of management's broad-based attempt to remain proactive in credit quality administration. Overall, historical asset quality metrics have been comparatively healthy, including through the crisis years, which, as mentioned, the company navigated profitably. KBRA continues to actively monitor the company's asset quality trends and loan migrations. The allowance for loan and lease losses has remained largely consistent with past practices, at 1.05% of total loans. Under the CARES Act, the company has elected to delay the adoption of CECL. The new methodology is not expected to have a material impact to SFBS' reserve. With regard to COVID-19 development, SFBS continues to monitor its phase 1 exposure and, as mentioned, does not have any exposure above 4% to any specific industry as of March 31, 2020.



<b>ServisFirst Bank</b> <b>Portfolios Potentially Impacted By Pandemic</b> <b>March 31, 2020</b> <i>000's</i>				
	Outstanding Loan Balance	Outstanding as a % of Total Loans	Total Loan Commitment	Watchlist
Hotels and Motels	\$130,064	1.72%	\$147,926	\$0
Entertainment & Recreation	\$62,764	0.83%	\$74,650	\$133
Restaurants	\$202,201	2.67%	\$239,386	\$2,548
Oil and Gas	\$73,409	0.97%	\$84,540	\$3,333
Retail CRE	\$267,242	3.53%	\$278,977	\$4,893
Trucking	\$141,841	1.87%	\$172,110	\$80

Source: Management Presentation



### Capital

SFBS' capital ratios are considered healthy relative to its business complexity and risk profile, albeit in the lower bracket of similarly situated peers. Following a sharp decline in 2015 related to the acquisition of Metro Bank, the company's capital metrics have marginally edged upward owing to higher retained earnings. In November 2017, the company completed a \$30 million subordinated debt offering and used approximately \$20 million of the proceeds to redeem higher cost subordinated notes due in 2022, while the remainder was held for general corporate purposes. KBRA views ServisFirst's current capital position, including a TCE ratio modestly above 9% at YE19, and capital management as appropriate in view of the institution's risk profile, though notes that a decline in current capital measures or the adoption of more aggressive capital management could pressure the ratings. The double leverage ratio of approximately 107% does not pose a concern.

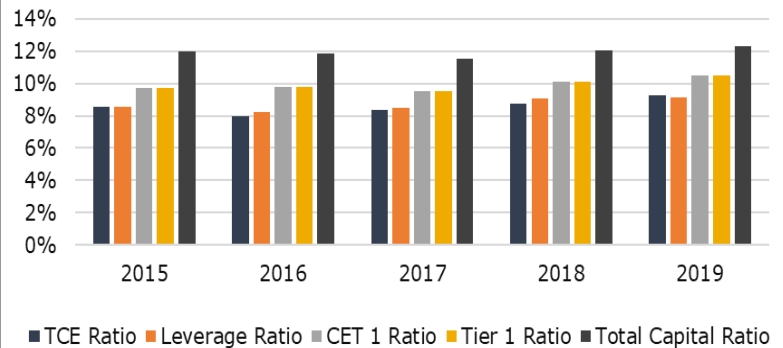
### Funding & Liquidity

Core deposits remain the primary source of funding for the company, comprising 87% of total funding at December 31, 2019. Despite its branch-light network, ServisFirst generally maintains a healthy loan to core deposit ratio of 103% at YE19. The deposit base remains well diversified by customer and many large deposits are associated with operating accounts of long-term C&I relationships. SFBS also benefits from a 23% noninterest bearing deposit component. Moreover, as mentioned, the cost of deposits improved in the latter half of 2019 owing to repricing efforts. SFBS' noncore funding utilization remained below peer average, representing 13% of the funding mix as of YE19, and was largely comprised of jumbo time deposits and fed funds purchases & repos.

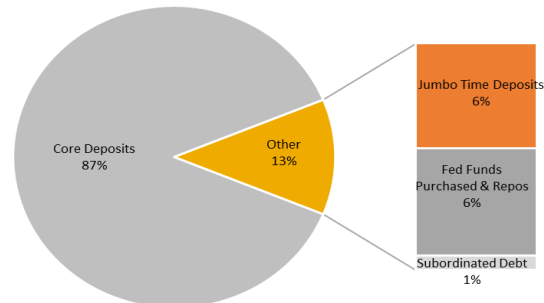
Beyond deposits, ServisFirst's ample liquidity profile is highlighted by a large and growing correspondent-banking network that constitutes a practical source of short-term funding. Partnerships are relationship driven and, thus, offer a relatively stable source of funding as well as additional strategic rationale, including the growing aforementioned credit card program. In addition, the bank had \$792 million available in lines of credit with 29 institutions in 2019<sup>1</sup>. The investment securities portfolio constitutes another source of accessible liquidity, though remains relatively small, representing less than 10% of total assets at YE19. The \$465.2 million portfolio was all classified as available for sale, and appears conservative, as investments are primarily in U.S. government and sponsored agencies, and mortgage backed securities, with an

<sup>1</sup> These lines are subject to certain restrictions and in some cases collateral requirements.

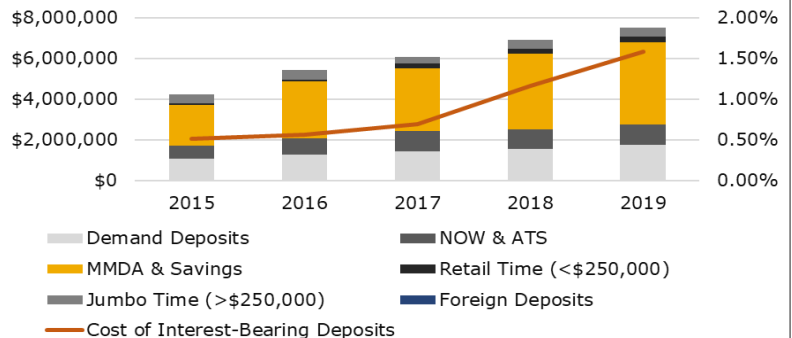
### Capital Profile ServisFirst Bancshares, Inc.



### Liability Funding Mix ServisFirst Bancshares, Inc. As of December 31, 2019



### Deposit Trends ServisFirst Bancshares, Inc.



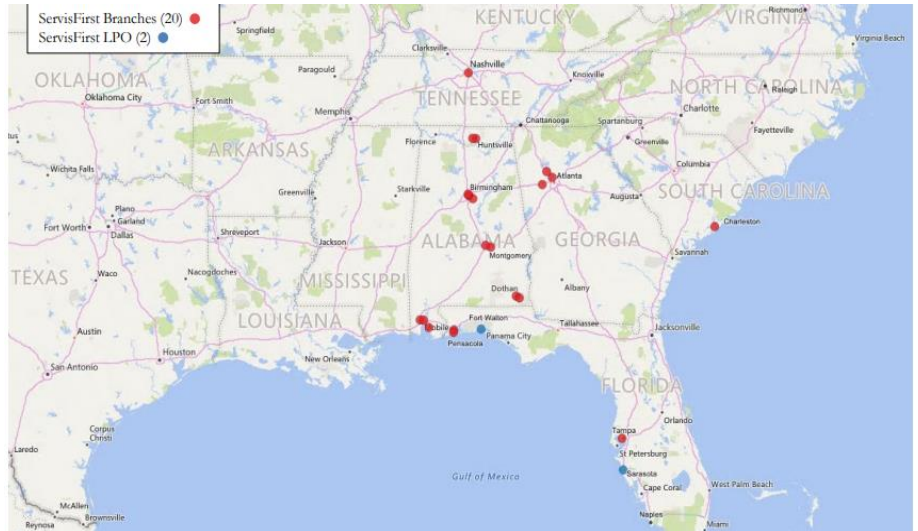
effective duration of approximately 2.3 years. Management intends to maintain at least \$5 million of cash at the holding company, which comfortably covers debt service expense. The dividend payout ratio remained conservative at 22.64%.

## Key Qualitative Rating Determinants

The qualitative aspects of ServisFirst Bancshares, Inc. were assessed using a scorecard that focuses on four key factors: market strategy, risk management, liquidity management, and the operating environment. For the most part, the bank scored above average for qualitative factors. For qualitative aspects, KBRA relies principally on discussions with management supplemented by publicly available data, regulatory filings and KBRA's view of the economic and regulatory environment. The following describes KBRA's qualitative assessment for ServisFirst Bancshares, Inc.:

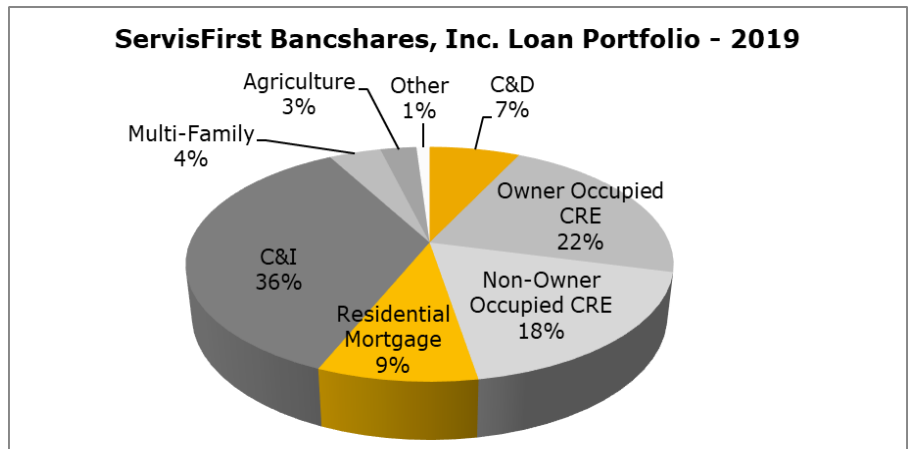
### Market Strategy

Established in 2005, ServisFirst's streamlined business model focuses on traditional commercial banking, cash management, private banking, and correspondent banking services. The company targets businesses and their owners, professionals, and affluent consumers and primarily operates in urban areas of Alabama (12 branches), Florida (4 branches), Georgia (3 branches), South Carolina (1 branch), and Tennessee (1 branch). SFBS has captured significant share of key markets located in its home state of Alabama, as well as in targeted regions of Florida. In addition, SFBS has a sizeable correspondent banking network of approximately 350 small community banks with relationships throughout the mid and southeastern parts of the nation.



Source: Management Presentation

ServisFirst's \$7.3 billion loan portfolio is largely centered in C&I (58% of loans, including 22% owner-occupied CRE) and investor CRE loans (22%, including 4% multi-family), followed by residential mortgage (9%), and C&D loans (7%) at year-end 2019. The remainder of the portfolio is comprised of agricultural loans and a nominal consumer loan component. Overall, the loan book is well balanced in terms of industry concentration as well as portfolio mix. Management continues to target in-market C&I and owner-occupied CRE growth. That said, the company remains largely spread-reliant (+90% of revenue) and based on management's preference for a straightforward commercial banking model, we do not anticipate the addition of nonbank business lines or a material increase in noninterest income contribution in the near-term, though the company continues to evaluate ways to enhance fee income. The credit card program offered through its sizable correspondent banking network remains the primary contributor of fee-based revenue.



ServisFirst's management team is considered conservative and experienced, with established tenures in the banking industry. Top executives and regional CEOs have strong backgrounds and prior experience working at larger banking institutions. The President and CEO, Thomas A. Broughton, III, founded the company in 2005 after initial capital raise of \$35 million. Prior to SFBS, Mr. Broughton was the President and CEO of First Commercial Bank (acquired by Synovus Financial, 1992); subsequently, he was appointed regional CEO for Synovus. KBRA notes that under the leadership of



Mr. Broughton, the company has achieved high double digits organic growth since inception, while retaining profitability and maintaining strong asset quality metrics. Additionally, SFBS' historical earnings reflect steady growth and compare favorably among peers. Notably, despite reporting lower earnings during the crisis years, SFBS remained profitable through the downturn. In addition, a core strength of the bank resides in its select branch network, which has proven to be efficient, focusing on the optimization of each branch location. Furthermore, the company operates a scalable and decentralized business model where regional CEOs drive revenue. In tandem with these strategies, ServisFirst's expansion targets organic growth opportunities in footprint and select, southern markets with strong growth prospects and access to experienced bankers. The company believes that this approach supports its mission of delivering high quality customer service, while facilitating the development of long-term, multiple channel relationships. Overall, SFBS appears well positioned within its key operating markets with a clearly defined business model.

### **Risk Management**

SFBS' risk management framework appears comprehensive with a measured risk appetite for traditional lending business lines. SFBS utilizes a centralized risk and credit platform to ensure uniformity across all businesses, which supports decentralized, regional oversight. Regional CEOs manage processes at individual regional bank locations, while adhering to corporate policies and procedures.

ServisFirst's strong credit administration is evidenced by its historically sound asset quality metrics, though the company is currently much larger with a more complex operating function, compared to its size during the great recession. Lending authority is granted to individual loan officers based on seniority. Commitments to single borrowers that exceed officers' limits require further approval from the regional CEO and/or senior management, including a regional credit officer. Loan officers use a nine-point risk grade scale to assign risk grades to lending relationships and are responsible for reporting any changes in the risk grade of a loan in a timely fashion.

General risks associated with CRE lending are partially mitigated by shorter maturities and diligent monitoring of borrower concentration in addition to well defined lending tolerances. As of YE19, the top three industries within the CRE portfolio included real estate (23%), healthcare & social assistance (13%), and the service industry (11%), while manufacturing, healthcare and social assistance, and wholesale trade represented the top three industries within the C&I portfolio. The investor CRE to total risk-based capital ratio remained comfortably within regulatory guidelines at 228% as of December 31, 2019. At the same time, the C&D portfolio represented 7% of total loans and 54% of total risk-based capital, and management's appetite for C&D is not expected to change materially in the near term. Controls for real-estate construction loans, specifically, include weekly monitoring of any past due accounts and monthly credit review for all watch list classified loans, including the development of aggressive action plans, while loans for new construction are generally restricted to established builders with a proven history of successful turnovers. Moreover, SFBS generally avoids funding undeveloped property. Policy limits for LTVs conform to regulatory guidelines, while DSC ratios are based on product type. SFBS maintains a small energy lending portfolio with exposure of approximately \$36.2 million at year-end 2019. Moreover, the company's outstanding exposure to SNCs was \$65.6 million as of December 31, 2019, most of which are deposit relationship driven.

### **Liquidity Management**

ServisFirst's liquidity risk oversight and monitoring appears similar to that of peers with comprehensive review processes in place and established tolerances. The company assesses liquidity on a weekly basis through systematic monitoring and performs internal liquidity stress testing. While primarily deposit funded, the bank also has access to varied sources of market funds. If necessary, the bank can post additional collateral to meet liquidity requirements and has access to borrowing lines with correspondent banks. Furthermore, liquidity requirements are sufficiently covered by the company's available cash and other liquidity sources for a 12 month or greater duration. With respect to interest rate risk, the balance sheet depicts an asset sensitive bias. All scenarios modeled remained within established policy guidelines.

### **Operating Environment**

Overall, the U.S. banking system has a strong regulatory framework. Since the 2008 financial crisis, banking institutions have adjusted to additional rules and regulations resulting from the Dodd-Frank Wall Street Reform and Consumer Protection Act and Basel III standards. Despite some easing of regulatory burden, particularly for small to mid-sized banks in recent years, regulatory standards and oversight remain strong for the U.S. banking system. The latest research on this and other topics can be found [here](#).

## External Support

Pursuant to the 2010 Dodd-Frank Act, U.S. regulators created a resolution regime with the goal of preventing a systemic crisis if a systemically important bank fails. For non-systemically important depositories such as the bank, KBRA believes that uninsured depositors could benefit from some degree of extraordinary systemic support. However, KBRA does not foresee any regulatory support being extended to creditors or investors at the bank or its BHC.

## Rating Approach

KBRA's ratings supported by the following factors: i) a quantitative view of the bank's financial fundamentals, including stress testing, ii) a qualitative assessment of the bank's management and market strategy, and iii) the incorporation of potential external systemic support. KBRA's ratings for the bank holding company reflect the overall credit profile of the organization and the potential structural subordination of its liabilities to the liabilities of its subsidiary in an event of default or regulatory intervention. KBRA's short-term ratings are derived from senior long-term bank ratings. Consistent with KBRA's typical notching practices, subordinated debt is rated one notch below senior unsecured debt.

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