ServisFirst Bancshares, Inc.

RATINGS

ServisFirst Bancshares, Inc.	
Action: Affirmed	12/15/2023
Outlook/Watch LTR	**Stable**
Senior Unsecured Debt	**BBB+**
Subordinated Debt	**BBB**
Short-Term Debt	**K2**

ServisFirst Bank	
Action: Affirmed	12/15/2023
Outlook/Watch LTR	**Stable**
Deposit	**A-**
Senior Unsecured Debt	**A-**
Subordinated Debt	**BBB+**
Short-Term Deposit	**K2**
Short-Term Debt	**K2**

FINANCIAL SNAPSHOT

SFBS (%)	9M23	YE22
Total Assets ($B)	16.0	14.6
ROAA	1.49	1.71
NIM	2.90	3.32
NCO Ratio	0.11	0.08
NPA Ratio	0.20	0.15
TCE Ratio	8.7	8.8
CET1 Ratio	10.7	9.5
Loans/Core Dep	95	107

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Company Profile

- ServisFirst Bancshares, Inc. (NYSE: SFBS) ("the company"), headquartered in Birmingham, Alabama, is a $16.0 billion-asset bank holding company that conducts operations through its lead subsidiary, ServisFirst Bank. With a branch-light network of 32 offices, SFBS' footprint primarily covers prominent southeastern MSAs, situated in contiguous states of Alabama, Tennessee, Georgia, Florida, the Carolinas, and Virginia. Traditionally a commercially focused bank by nature, SFBS' business model focuses "loan making and deposit taking", targeting small-to-medium sized businesses in its operating footprint, and generally shuns non-traditional, non-lending business lines. Complementing the company's spread lending operations is SFBS' sizeable correspondent banking business, which provides clearing, liquidity, credit, settlement, and international services to a network of approximately 350 small community banks in the Mid-Atlantic and Southeastern parts of the nation.
- SFBS' loan portfolio is a reflection of its business model, with nearly 90% of its $11.6 billion loan book allocated to commercial lending. C&I lending (including owner-occupied CRE and agriculture) represent the largest proportion of loans at 45% of total, followed closely by investor CRE (inclusive of multifamily and C&D lending) at 44%. Consumer exposure is relatively modest, with residential mortgage and consumer lending combined accounting for 11% of loans.

Key Credit Considerations

- SFBS' ratings are supported by a durable earnings profile that we consider stronger than peers'. In this regard, the company's ROA and RORWA have averaged 1.7% and 2.1%, respectively, since 2018, buoyed by a low cost expense base that is bolstered by a branch-lite business model. As a result, SFBS' efficiency ratio, which generally tracks in the low-30% range, is consistently one of the strongest in KBRA's rated universe. Though we recognize that the company's commercially focused business model is a narrow one, leading to a heavily spread reliant revenue profile, we also acknowledge that fee income business lines at banks, while providing earnings diversity, can at times be less profitable from a margin perspective, and we appreciate that the lack of meaningful fee income lines of business partly explain the company's strong efficiency. SFBS' earnings in recent quarters have been pressured by interest rate headwinds, but we consider 9M23 ROA of 1.49% to be solid considering the more challenging operating environment.
- The behavior of SFBS' deposit base during the banking industry volatility of March 2023 is also supportive of the company's ratings. Given a deposit base that contains 1) a greater amount of uninsured and uncollateralized deposits than most (49% of total at 3Q23) and 2) a not insignificant number of deposits from correspondent banking clients, which historically range anywhere from 15% - 30% of total, KBRA believed that SFBS was somewhat more vulnerable to funding stresses following the failures of select regional banks in March. However, the company's deposit base performed about as well as could be expected in the days immediately following the failures of SVB and SBNY, in our opinion, with manageable deposit outflows mainly related to correspondent banking clients proactively increasing their own balance sheet liquidity. More specifically, in the six business days following March 10, 2023 (the date of SVB's failure), total deposits at SFBS declined by a cumulative $245 million, representing a modest 2% decline from YE22 levels. By the end of March, deposit levels had stabilized and, and the company ended 1Q23 with a higher level of deposits than both the beginning of March and YE22.
- Partially constraining SFBS' ratings are NPA and NCO ratios that have occasionally exceeded that of similarly rated institutions. KBRA's assessment of SFBS' capital profile balances the company's lower than peer capital ratios (10.7% CET1 ratio in 3Q23) with its ability to accrete core capital rapidly through strong earnings & a conservative approach to shareholder payouts.

Rating Sensitivities

+ The Stable Outlook reflects KBRA's view that a rating change is not expected in the near term.

– Considering capital ratios that are currently below peer, a more aggressive capital management strategy could have negative rating implications. While not expected, material deterioration in credit quality or the company's liquidity profile would also be viewed negatively.

KBRA Bank & Bank Holding Company Global Rating Methodology November 8, 2021. KBRA ESG Global Rating Methodology June 16, 2021.

This report has been updated on December 15, 2023 to revise text relating to the company's information systems.

Financial Metrics

SERVISFIRST BANCSHARES, INC.

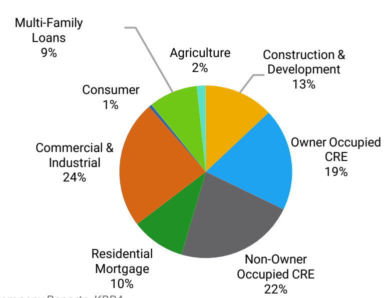
	3Q23	2Q23	1Q23	4Q22	3Q22	YTD23	2022	2021	2020	2019	2018
Balance Sheet ($ millions)											
Loans (HFI)	11,641	11,605	11,630	11,688	11,279	11,641	11,688	9,533	8,466	7,261	6,533
Average Earning Assets	14,958	13,828	13,932	13,778	13,763	14,239	14,172	13,052	10,203	8,326	7,028
Total Assets	16,044	15,073	14,567	14,596	13,890	16,044	14,596	15,449	11,933	8,948	8,007
Core Deposits	12,318	11,534	11,050	10,923	10,432	12,318	10,923	11,896	9,425	7,069	6,494
Total Deposits	13,142	12,288	11,615	11,547	11,052	13,142	11,547	12,453	9,976	7,530	6,916
Total Equity	1,401	1,363	1,339	1,297	1,242	1,401	1,297	1,152	992	842	715
Tangible Common (TCE)	1,387	1,349	1,326	1,284	1,228	1,387	1,284	1,138	978	828	700
Income Statement ($ millions)											
Net Interest Income	99.7	101.3	108.3	122.4	126.4	309.3	470.9	384.5	338.0	287.6	262.7
Noninterest Income	8.1	8.6	6.3	7.2	8.9	23.0	40.0	29.5	28.3	23.7	21.3
Noninterest Expense	41.6	38.5	39.7	38.4	42.7	119.8	158.3	129.8	109.7	101.8	94.0
Provision for Loan Losses	4.3	6.7	4.2	7.1	15.6	15.1	37.6	31.5	42.4	22.6	21.4
Net Income	53.3	53.5	58.0	67.7	64.0	164.8	251.5	207.7	169.6	149.2	136.9
Performance Measures (%)											
Return on Average Assets	1.38%	1.49%	1.61%	1.90%	1.78%	1.49%	1.71%	1.54%	1.60%	1.73%	1.88%
Return on Average Equity	15.2%	15.8%	17.6%	21.5%	20.7%	16.2%	20.7%	19.3%	18.6%	19.2%	20.8%
Return on Risk-Weighted Assets	1.63%	1.66%	1.71%	1.99%	1.83%	1.62%	1.91%	2.11%	2.09%	2.02%	2.11%
Net Interest Margin (TE)	2.67%	2.93%	3.11%	3.56%	3.68%	2.90%	3.32%	2.95%	3.32%	3.47%	3.79%
Average Loan Yield	6.18%	5.92%	5.62%	5.36%	4.81%	5.91%	4.73%	4.42%	4.45%	5.16%	4.97%
Cost of Interest-Bearing Deposits	3.88%	3.32%	2.64%	1.71%	0.77%	3.31%	0.80%	0.35%	0.70%	1.59%	1.16%
Loans / Earning Assets	77%	84%	84%	83%	79%	82%	75%	67%	80%	82%	87%
Noninterest Income / Op. Revenue	8%	8%	6%	6%	7%	7%	8%	7%	8%	8%	8%
Efficiency Ratio	39%	35%	35%	30%	32%	36%	31%	31%	30%	33%	33%
Asset Quality (%)											
NPA / Loans + OREO	0.20%	0.20%	0.16%	0.15%	0.16%	0.20%	0.15%	0.14%	0.30%	0.61%	0.50%
LLR / Loans (HFI)	1.31%	1.31%	1.28%	1.25%	1.25%	1.31%	1.25%	1.22%	1.04%	1.05%	1.05%
LLR / NPL	674%	667%	830%	828%	851%	674%	828%	964%	464%	212%	247%
NCO / Average Loans	0.15%	0.12%	0.05%	0.06%	0.11%	0.11%	0.08%	0.03%	0.36%	0.32%	0.20%
Provision / NCO (x)	1.0	2.0	2.7	4.0	5.2	1.6	4.7	11.3	1.5	1.0	1.8
NPA Change Rate	(2%)	30%	2%	1%	6%	30%	35%	(48%)	(43%)	34%	88%
Capital (%)											
TCE Ratio	8.7%	9.0%	9.1%	8.8%	8.9%	8.7%	8.8%	7.4%	8.2%	9.3%	8.8%
Leverage Ratio	9.4%	9.8%	9.5%	9.3%	8.8%	9.4%	9.3%	7.4%	8.2%	9.1%	9.1%
CET1 Ratio	10.7%	10.4%	10.0%	9.5%	9.4%	10.7%	9.5%	10.0%	10.5%	10.5%	10.1%
Tier 1 Ratio	10.7%	10.4%	10.0%	9.6%	9.4%	10.7%	9.6%	10.0%	10.5%	10.5%	10.1%
Total Capital Ratio	12.3%	11.9%	11.5%	11.0%	11.0%	12.3%	11.0%	11.6%	12.2%	12.3%	12.0%
Leverage & Funding (%)											
Loans / Deposits	89%	94%	100%	101%	102%	89%	101%	77%	85%	97%	94%
Loans / Core Deposits	95%	101%	105%	107%	108%	95%	107%	80%	90%	103%	101%
Core Deposits / Total Funding	84%	84%	84%	83%	83%	84%	83%	84%	87%	88%	89%
Double Leverage (Incl TRuPS)	104%	104%	104%	105%	105%	104%	105%	105%	106%	107%	109%
RWA / Total Assets	84%	90%	94%	95%	97%	84%	95%	73%	77%	88%	87%

Source: KBRA Financial Intelligence (KFI), Company Reports, Y9C, KBRA
Note: Beginning in 2020, NIM for BHCs with assets less than $5 billion is not TE due to reporting limitations

Loan Composition

($ millions)	3Q23	2022	2021	2020	2019
Construction & Development	1,510	1,532	1,103	594	521
Owner Occupied CRE	2,238	2,199	1,874	1,693	1,587
Non-Owner Occupied CRE	2,606	2,631	2,124	1,687	1,331
Residential Mortgage	1,176	1,148	828	726	651
Commercial & Industrial	2,787	3,062	2,878	3,188	2,594
Consumer	66	64	63	63	61
Multi-Family Loans	1,069	869	459	316	300
Leases	0	0	0	0	0
Agriculture	184	172	191	200	208
Other	10	11	14	12	15
Total Loans	11,647	11,690	9,534	8,480	7,268
Loans Held for Sale (HFS)	6	2	1	14	6
Loans Held for Investment (HFI)	11,641	11,688	9,533	8,466	7,261
Annual Loan Growth	3%	23%	12%	17%	11%
Investor CRE / Total Loans	45%	43%	39%	31%	30%
C&D / Risk-Based Capital	91%	100%	84%	53%	54%
Investor CRE / Risk-Based Capital	315%	331%	286%	238%	228%

Loan Composition

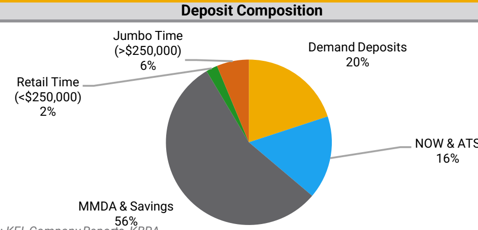


Source: KFI, Company Reports, KBRA

Deposit Composition

($ millions)	3Q23	2022	2021	2020	2019
Domestic Deposits					
Demand Deposits	2,621	3,321	4,800	2,789	1,750
NOW & ATS	2,136	1,846	1,462	1,307	994
MMDA & Savings	7,267	5,517	5,378	5,062	4,058
Time Deposits					
Retail Time (<$250,000)	294	289	306	317	267
Jumbo Time (>$250,000)	825	574	507	500	461
Foreign Deposits	0	0	0	0	0
Total Deposits	13,142	11,547	12,453	9,976	7,530
Total Core Deposits	12,318	10,923	11,896	9,425	7,069
Total Noninterest Bearing Deposits	2,621	3,321	4,800	2,789	1,750
Annual Core Deposit Growth Rate	18%	(8%)	26%	33%	9%

Deposit Composition



Source: KFI, Company Reports, KBRA

Source: KBRA Financial Intelligence (KFI), Company Reports, Y9C, KBRA

Comparative Statistics

Peer Comparison Trends									
		KBRA Peers	Benchmark		KBRA Peers	Benchmark		KBRA Peers	Benchmark
	SERVISFIRST BANCSHARES, INC.	BBB+	$10-$100BN	SERVISFIRST BANCSHARES, INC.	BBB+	$10-$100BN	SERVISFIRST BANCSHARES, INC.	BBB+	$10-$100BN
Time Period	**YTD3Q23**	**YTD3Q23**	**YTD3Q23**	**2022**	**2022**	**2022**	**2021**	**2021**	**2021**
Balance Sheet ($ in mlns)									
Total Assets	16,044	18,810	27,038	14,596	17,765	26,396	15,449	16,190	26,103
Total Risk Weighted Assets	13,542	14,624	19,602	13,889	14,060	19,737	11,289	11,506	17,951
Loans (HFI)	11,641	13,288	16,537	11,688	12,442	16,222	9,533	10,188	14,083
Total Deposits	13,142	15,125	19,152	11,547	14,400	19,188	12,453	13,475	19,350
Average Loans / Average Earning Assets	77.3%	75.3%	69.5%	83.4%	71.4%	67.3%	61.2%	70.5%	66.8%
Performance Measures (%)									
Return on Average Assets	1.50%	1.07%	0.89%	1.71%	1.23%	1.12%	1.54%	1.37%	1.35%
Return on Average Equity	16.3%	10.1%	8.9%	20.7%	11.6%	11.1%	19.3%	12.1%	12.0%
Return on Risk-Weighted Assets	1.62%	1.43%	1.29%	1.99%	1.67%	1.61%	2.09%	1.99%	1.93%
Net Interest Margin (TE)	2.91%	3.43%	3.09%	3.32%	3.47%	3.12%	2.95%	3.23%	2.87%
Average Loan Yield	5.94%	5.70%	5.89%	4.73%	4.61%	4.50%	4.42%	4.36%	4.07%
Cost of Interest Bearing Deposits	3.33%	2.08%	2.27%	0.80%	0.45%	0.59%	0.35%	0.22%	0.24%
Noninterest Income / Op. Revenue	6.9%	17.5%	23.9%	7.8%	18.7%	25.2%	7.1%	22.1%	28.4%
Efficiency Ratio	36.0%	60.9%	64.6%	31.0%	56.5%	59.3%	31.3%	57.3%	59.3%
Asset Quality (%)									
NPA / Loans + OREO	0.20%	0.48%	0.68%	0.15%	0.39%	0.68%	0.14%	0.50%	0.63%
LLR / Loans(HFI)	1.31%	1.20%	1.25%	1.25%	1.19%	1.21%	1.22%	1.26%	1.17%
LLR / NPL	674%	386%	345%	828%	475%	480%	964%	378%	390%
NCO / Average Loans	0.11%	0.13%	0.14%	0.08%	0.07%	0.08%	0.03%	0.08%	0.08%
Capital (%)									
TCE Ratio	8.7%	7.7%	8.3%	8.8%	7.6%	8.1%	7.4%	8.5%	9.0%
Leverage Ratio	9.4%	9.8%	8.6%	9.3%	9.6%	9.8%	7.4%	9.2%	9.5%
CET1 Ratio	10.7%	11.9%	13.9%	9.5%	11.6%	13.0%	10.0%	12.1%	13.1%
Tier 1 Ratio	10.7%	12.4%	14.5%	9.6%	12.1%	13.6%	10.0%	12.7%	13.6%
Total Capital Ratio	12.3%	14.8%	16.2%	11.0%	14.4%	15.3%	11.6%	15.1%	15.3%
Leverage & Funding (%)									
Noninterest Bearing / Total Dep.	19.9%	28.4%	25.9%	28.8%	34.7%	30.2%	38.5%	34.8%	31.8%
Loans / Deposits	88.6%	86.9%	87.4%	101.2%	85.8%	86.3%	76.6%	75.8%	78.2%
Loans / Core Deposits	94.6%	98.8%	104.2%	107.0%	92.7%	97.7%	80.1%	79.5%	86.5%
RWA / Total Assets	84.4%	77.7%	74.6%	95.2%	78.4%	75.2%	73.1%	70.0%	68.8%
Double Leverage (Incl TruPS)	104.4%	101.7%	99.3%	104.6%	102.8%	100.5%	105.3%	102.4%	100.9%
Loan Portfolio (%)									
C&I Loans / Total Loans	23.9%	16.0%	17.3%	26.2%	16.8%	18.0%	30.2%	16.7%	18.9%
Investor CRE / Total Loans	44.9%	40.1%	34.8%	43.4%	39.6%	34.7%	39.2%	38.7%	33.6%
Investor CRE / Risk-Based Capital	315%	249%	218%	331%	248%	220%	286%	233%	208%
C&D Loans / Total Loans	13.0%	8.4%	7.2%	13.1%	8.6%	7.3%	11.6%	8.0%	6.8%
C&D Loans / Risk-Based Capital	91.0%	52.2%	44.9%	100.0%	53.2%	46.0%	84.4%	47.9%	41.4%

*Annualized **NIM is presented as TE unless data is not available

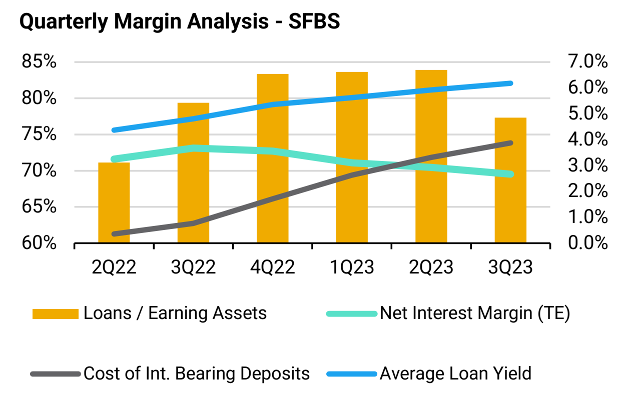
Sources: KBRA Financial Intelligence (KFI), Company Reports, KBRA

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.

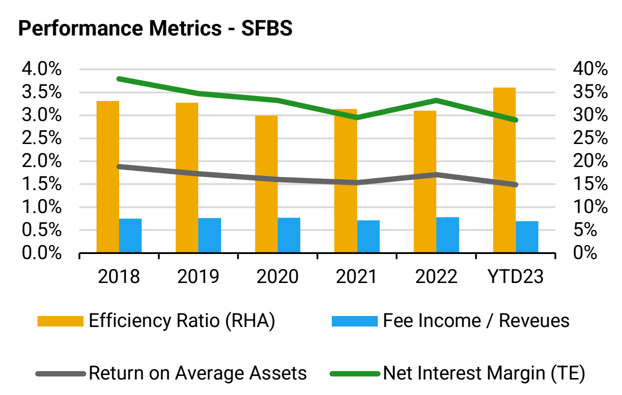
Performance

SFBS' 9M23 earnings performance has been pressured by similar headwinds facing the banking industry at large. Most notably, the funding pressures initially brought on by the rise in market interest rates beginning in early 2022 accelerated in 1Q23, most significantly after the failure of select regional banks in March. The more competitive funding environment and a system-wide decline in deposits due to both the Federal Reserve's quantitative tightening program, as well as a rotation of funds into higher yielding fixed income securities, has resulted in rising deposit costs for essentially all of KBRA's rated banks. SFBS has been no exception in this regard, and the company's large dollar, commercially focused deposit base, while displaying relative durability during the volatility of March 2023 (see "Funding & Liquidity" section for more detail), is especially rate sensitive. The combination of its commercially focused deposit base and the company's correspondent banking business (which parks a considerable amount of its client's deposits in Fed Funds) has contributed to a through-the-cycle deposit beta that is among the highest of its peers, and SFBS' cost of deposits (3.03% in 3Q23) has risen by 236 bps through 9M23. Climbing funding costs have more than outweighed a comparatively smaller rise in loan yields (+81 bps YTD23 to 6.13%) and the company's NIM has suffered as a result, falling 88 bps from 4Q22 to 2.64% in 3Q23. Efforts to prioritize liquidity and manage the loan-to-deposit ratio lower during 2023 also hampered NIM via a negative earning asset mix shift (note: Though a declining loan-to-deposit ratio hurts NIM from an earning asset mix perspective, KBRA views a lower loan-to-deposit ratio favorably from a liquidity standpoint, all else equal). NIM contraction and falling loan balances have predictably weighed SFBS' net interest income, which fell 11% in 9M23 compared to 9M22. Despite headwinds in the company's spread lending business, SFBS' 9M23 ROA of 1.49% remains solid, in our opinion. A YTD23 efficiency ratio of 36%, while higher than in years past partly due to lower revenue, continues to support earnings, and credit costs remain subdued (9M23 provision expense of $15 million, or 0.12% of average loans).



Sources: KFI, Company Reports, KBRA

On a historical basis, SFBS' earnings performance has compared favorably vs. peers. The company's strong returns are driven by a low expense base (SFBS reflects one of the lowest efficiency ratios in KBRA's rated universe), bolstered by a commercially focused, branch-lite business model and strong back-office operations. In addition, earnings exhibit appropriately risk-priced assets, with generally above average loan yields compared to similarly rated peers. Though the company has faced earnings headwinds similar to peers over the past 12 – 18 months (mainly interest rate environment related), SFBS' reported ROA, which averaged 1.7% from 2018-2022, has consistently been one of the strongest in KBRA's rated universe for nearly its entire contemporary operating history. Furthermore, while many banks reported returns in the pandemic era (2020-2021) that were elevated compared to historical norms, we consider SFBS' recent earnings track record as more "core" in nature considering the company

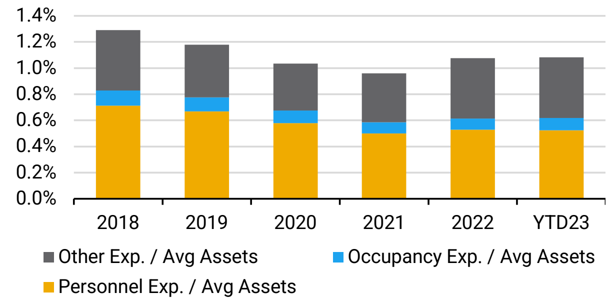


Sources: KFI, Company Reports, KBRA

did not benefit from 1) the recent cyclical and temporary residential mortgage refinance boom given its relative focus on commercial, as opposed to retail, clients and 2) reserve releases that were otherwise recognized by many peers when anticipated pandemic era losses failed to materialize. We also add that the company's performance during the global financial crisis was sound, having been profitable in every quarter since 4Q 2005. Somewhat constraining our view of SFBS' earnings profile is a comparative lack of fee income (typically 7% - 8% of total revenue). That said, we recognize that fee income business lines at banks, while providing earnings diversity, can at times be less profitable from a margin perspective (for example, in the case of wealth management/advisory businesses and, more recently, mortgage banking), and we appreciate that the lack of meaningful fee income lines of business partly explain the company's strong efficiency ratio.

Strong historical performance aside, we believe SFBS' earnings, like others', will be challenged over the short term, though we expect marginal incremental improvement in quarters to come, at least in terms of the company's NIM. Management believes the margin is likely to trough in 4Q23 or 1Q24 as earning asset repricing slowly begins to overtake easing deposit pressures. After loans fell ~1 though 9M23, an expected return to loan growth should also prove beneficial to NIM. Even so, we believe a material shift in the interest rate environment is needed for SFBS' earnings, as measured on an ROA basis, to return to levels seen in prior years. Though not our expectation, a downside risk to earnings could be a sharp increase in provision expense should the credit environment meaningfully deteriorate.

Operating Expense - SFBS

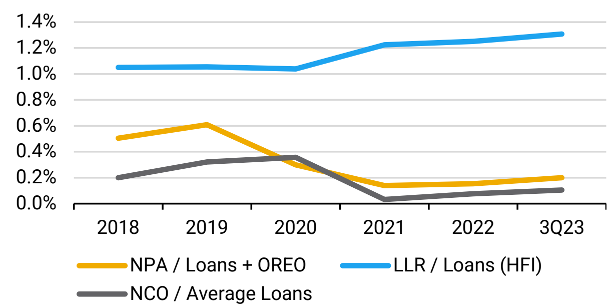


Sources: KFI, Company Reports, KBRA

Asset Quality

SFBS' asset quality performance through 9M23 remains sound, with a YTD23 NCO ratio of 11 bps largely unchanged from the prior year. Additionally, while NPAs have risen modestly since YE22 (related ratio of 0.20% in 3Q23 vs. 0.15% at YE22, they remain well below historical norms. However, early signs of potential credit normalization have developed in recent periods (a development both hardly inconsistent with peers and unsurprising, in our view, given the unsustainably strong credit environment of the past decade plus). Criticized assets totaled \$183 million as of 3Q23, marking a 12% increase since YE22, but remain lower as a percent of total loans than pre-pandemic. Elsewhere, classified assets (a narrower measure of potential problem assets) have also risen moderately since YE22 (+3%) but remain de minimus on a relative basis (0.74% of total loans as of 3Q23). Ultimately, we continue to believe that a slowing economy will lead to a migration of credit metrics closer to historical averages at both SFBS and the broader banking industry at large. Nevertheless, we think that any credit deterioration at SFBS will be gradual and digestible, not to mention anticipated, and note that the company's 3Q23 LLR of 1.31% is adequate to absorb expected credit losses.

Asset Quality Trends - SFBS



Sources: KFI, Company Reports, KBRA

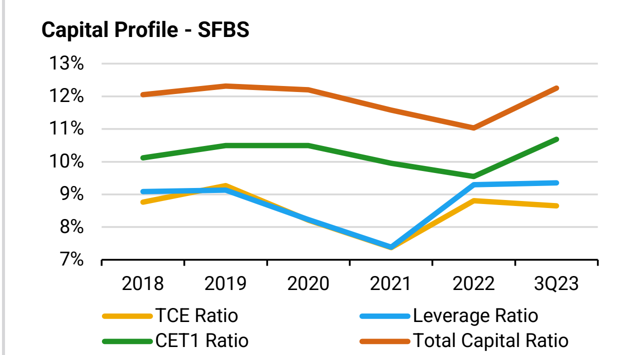
Regarding SFBS' historical asset quality performance, though the company was a considerably smaller institution entering the global financial crisis (~\$800 million in assets as of 4Q07), SFBS was a comparably strong performer during an otherwise challenging period, with net credit loss from 2008 through 2010 averaging 0.52%. The company also performed relatively well during the brief period of economic disruption caused by COVID-19 (though KBRA recognizes that extraordinary fiscal and monetary support during this time likely supported credit quality industry wide). While we view SFBS' credit track record favorably in its totality, we also acknowledge that the company has, at times, reported NCO and NPA ratios that exceed peers'. However, we attribute this, at least in part, to the company's commercially focused business model that naturally leads to a degree of "chunkiness" in its loan portfolio, meaning that an isolated large dollar loan relationship can contribute to noise in reported metrics.

SFBS' $11.6 billion loan portfolio is primarily commercially focused, with residential mortgage and consumer loans comprising just 11% of total. Investor CRE (including multifamily) comprises the largest proportion of the loan book at 44%. The underwriting of the company's $1.1 billion multifamily book appears solid, with the bank typically demanding 30% - 35% of equity at origination. Properties in the multifamily portfolio are focused in the Sunbelt and no special mention or substandard loans have been recorded since 2Q22. Office exposure is modest at 3% of total loans. Risk mitigants of the office portfolio include a focus on suburban properties, no material exposure to downtown urban properties, and a modest average loan size of $1.5 million. The company's largest office exposure is a suburban medical building, which we believe is more insulated from the secular shifts and work from home trends affecting central business districts. We also appreciate the company's comparatively lower exposure to the nursing/assisted living sector (3% of loans). While we believe SFBS underwrites its construction and development ("C&D") lending appropriately, we highlight that the company's C&D book, at 13% of total loans ($1.5 billion), is larger than most peers and commercially focused (as opposed to residential) All things equal, we view C&D lending as a higher loss vertical, evidenced by the sector's performance in past economic cycles.

The company's C&I portfolio (43% of loans) targets privately held businesses with $2 to $250 million in annual sales, professionals, and affluent individuals. We consider the C&I book sufficiently diversified in terms of industry concentration and the largest three industry exposures are retail (17%), manufacturing (10%), and healthcare (9%), with other industries representing smaller percentages. As mentioned, select lending relationships in the C&I portfolio are sizable and can impact reported asset quality metrics should they deteriorate. We view positively the company's limited exposure to shared national credits, which totaled $98 million in 3Q23.

Capital

While 2022 marked a year of robust loan growth at SFBS (+23% YoY) and unsurprisingly pressured risk-weighted capital ratios, with the related CET1 metric bottoming at 9.4% in 3Q22, management has since rebuilt capital higher. After spending the duration of 2022 in the 9% range, SFBS' CET1 capital ratio has risen 114 bps through 9M23 on continued strong (though declining) earnings, low shareholder distributions, and declining loan balances. As a result, the company's 3Q23 CET1 ratio of 10.7% marks the highest level seen at the company since 1Q21. That said, though we appreciate the company's recent capital build, we note that SFBS' risk-weighted core capital ratios remain modestly below rating category peers. Somewhat offsetting SFBS' lower risk-weighted capital measures is the company's comparatively stronger TCE ratio (8.7% in 3Q23). Moreover, while many peer institutions saw significant declines in their TCE ratio in 2022 due to unrealized losses in their securities portfolios, the limited growth of SFBS' securities book during the low interest rate environment for the pandemic era (though, as mentioned, the company arguably traded loan growth for securities growth during this time frame) allowed for less pressure on its TCE as interest rated moved higher. Resultingly, SFBS was one of the few institutions in our ratings universe that actually saw a rise in its TCE ratio over the course of 2022 (7.4% at YE21 vs. 8.8% at YE22), and the metrics has remained relatively steady through 9M23. The company's TCE ratio, if adjusted for unrealized losses on its held-to-maturity portfolio, would be 8.2% - a level we think compares favorably vs. peers.

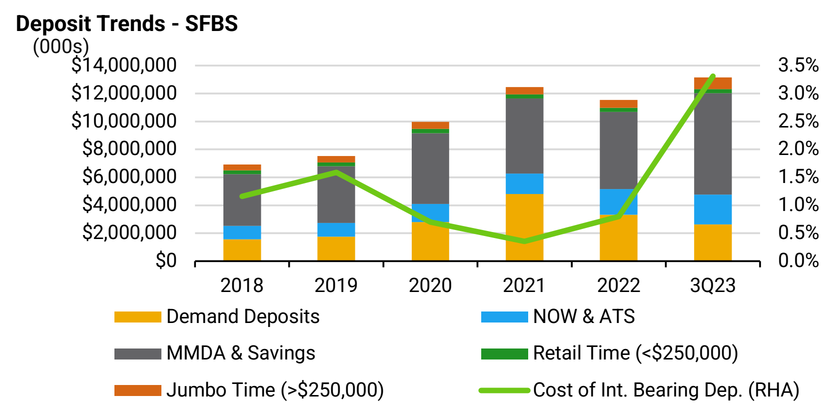


Sources: KFI, Company Reports, KBRA

A positive trait of SFBS' capital profile is the company's ability to accrete core capital rapidly and organically, which is a function of both the company's strong earnings and a modest dividend payout ratio that has traditionally tracked in the 20 – 25% range. Core capital generation is therefore strong, and even more so in periods where management intentionally dials back loan growth, an example of which can be seen in the 12-month period ending 3Q23 where SFBS' CET1 capital ratio rose by nearly 130 bps. Additionally, the company has historically not participated in share repurchases. All in all, while KBRA assesses SFBS' capital profile as adequate for the rating category, we ultimately believe that the composition of the company's balance sheet (RWA density often exceeds that of peers) and loan portfolio (elevated C&D exposure) suggests it should maintain capital at levels higher than that reflected at 3Q23. On a go-forward basis, we would expect capital to build modestly at SFBS as the company balances earnings retention with loan growth.

With respect to the company's capital stack, supplementing SFBS' core capital base is ~$65 million of subordinated debt, of which $30 million was issued via a private placement in November 2017 (note rate of 4.5%; due November 2027) and $35 million was issued a private placement in October 2020 (note rate of 4.0%; due October 2030). SFBS' currently reflects double leverage of 104%.

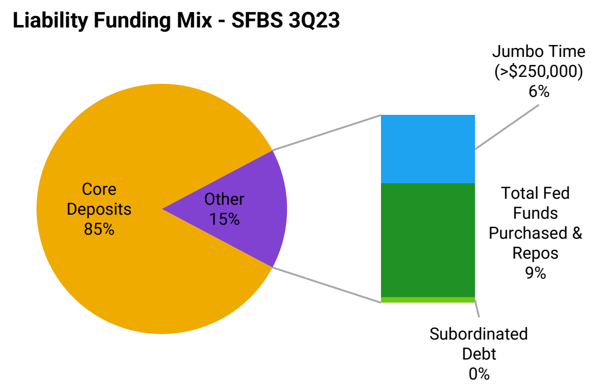
Funding & Liquidity



Sources: KFI, Company Reports, KBRA

Given its business model, SFBS' deposit base is naturally commercial focused, with commercial deposits generally representing over 80% of total deposits. Such deposit accounts are typically longstanding relationships with local businesses and government agencies, as well as settlement accounts from correspondent banks and trust accounts. Larger depositor relationships are in commercial banking, law, and commercial/institutional building construction sectors. Considering the focus on large dollar commercial client deposits, SFBS' deposit base unsurprisingly reflects a degree of "chunkiness", and the company's largest 5, 10, and 20 deposit relationships represent 11%, 15%, and 20%, of total deposits, respectively. While KBRA generally views large, concentrated deposit relationships as somewhat of a risk, we also recognize that many of SFBS' largest depositors are municipal/public funds, which we consider more stable given they are almost always collateralized by highly rated and liquid securities and paid a near market interest rate. Somewhat unique to SFBS' funding profile is the company's correspondent banking business that provides clearing, liquidity, credit, settlement, and international services to a network of over 360 partner banks. Deposits from these relationships have at times comprised anywhere from 15% – 30% of SFBS' total deposits. As of 3Q23, deposits associated with the correspondent banking business totaled $2.1 billion, or 16% of total.

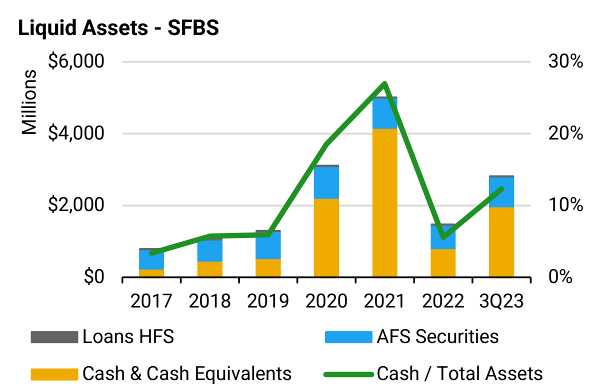
With respect to the stability of the company's funding base during the period of volatility in March 2023 centered around the failure of select regional banks, we believe the company performed about as well as could be expected, especially when considering ~49% of SFBS' deposits are uninsured and uncollateralized. While SFBS certainly saw deposit outflows in the days immediately following the failures of SVB and SBNY, the outflows were manageable in nature and were mainly related to correspondent banking clients proactively increasing their own balance sheet liquidity as opposed to any concerns about the safety and soundness of SFBS. More specifically, in the six business days following 3/10/23 (the date of SVB's failure), total deposits at SFBS declined by a cumulative $245 million, representing a modest 2% decline from YE22 levels. By the end of March, deposit levels had stabilized and even grown, and the company ended 1Q23 with a higher level of deposits than both the beginning of the March as well as YE22 (core deposits also climbed in the month of March vs. YE22). Furthermore, we also highlight that SFBS was able to address any and all deposit outflows during the March industry volatility with on-balance sheet liquidity instead of drawing on FHLB advances or brokered deposits. We attribute the relative stability of SFBS' deposit base during the March turmoil to a number of factors. First, as mentioned, some of the company's largest depositors are municipal funds that both fully collateralized and paid attractive interest rates, meaning they had little incentive or necessity to move funds out of SFBS for the purposes out of safety concerns or for better yields. Secondly, 70% of all correspondent banking deposit balances are tied to settlement relationships (i.e., checking accounts), which we believe lends to a degree of stability for those funds. Thirdly, SFBS' history with their correspondent banking clients is a long one, and the vast majority of the bank's accounts have been with the company for at least three years.



Sources: KFI, Company Reports, KBRA

The composition of SFBS's deposit base, one that features large and sophisticated commercial clients as well as a sizable portion of corresponding banking relationships, is unsurprisingly an expensive one when market interest rates are rising. More often than not, the company's commercial depositors are considerably more rate sensitive than small dollar consumer/retail clients and demand a premium interest rate as a result. Additionally, the downstream banks that participate in SFBS' correspondent banking business typically also demand a near market interest rate. For example, KBRA notes that the weighted average rate paid to some of SFBS' larger correspondent bank relationships was ~5.47% in September 2023 compared to a target Fed Funds range of 5.25% - 5.50%. These characteristics result in a 3Q23 cost of deposits of 3.03% that is one of the highest in KBRA's rated universe. Still, KBRA recognizes that, when accounting for the fact that SFBS is spared a portion of occupancy and staffing costs otherwise incurred by peers due to its branch light business model, the company's "all-in" deposit costs may compare more in line with other institutions than its reported deposit costs suggest.

SFBS' current liquidity profile includes $2.1 billion in cash comprising ~13% of total assets, though we acknowledge that a seasonal liquidity build in 3Q23 modestly overstates where the company has historically managed its cash to total assets ratio. Excluding the ultra-liquid environment of the pandemic era, SFBS has typically managed its cash to total assets ratio closer to the 5% – 6% range and we would expect the company to revert to this range in coming quarters as they deploy cash into loan growth. In addition to its on-balance sheet cash, we estimate SFBS has approximately $3.0 billion of available contingent funding via FHLB advances, unused fed funds lines, and unpledged securities. Internal company policy limits allow for up to $3.6 billion of brokered deposit capacity, none of



Sources: KFI, Company Reports, KBRA

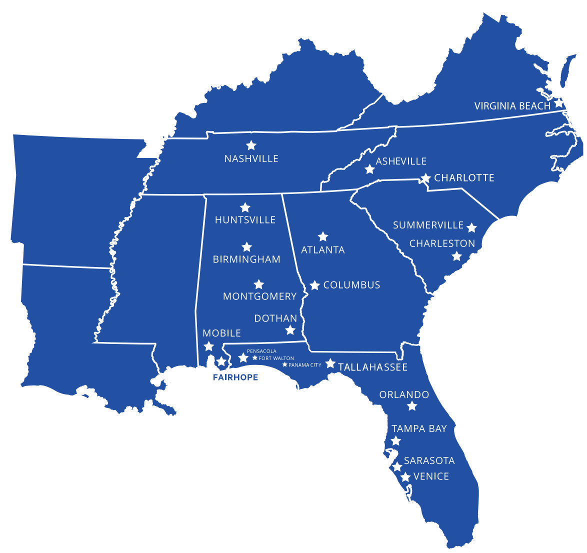
which was used as of 3Q23. SFBS has worked to manage its previously elevated loan to deposits ratio downward to a level more aligned with peers in recent periods (3Q23 ratio of 89% vs. 102% in 3Q22). The company's adjusted loan to deposit ratio when including correspondent fed funds purchased would be 81% in 3Q23. We estimate SFBS' liquidity coverage ratio of its uninsured and uncollateralized deposits (a combined $6.4 billion) to be 140% as of 3Q23 (and 83% if excluding the company's available brokered deposit capacity). Acknowledging that the company's deposit base was tested during industry volatility earlier in the year and displayed relative stability, we continue to believe SFBS should maintain a higher level of liquidity than peers given the composition of its deposit base.

Key Qualitative Rating Determinants

The qualitative aspects of SFBS 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 SFBS:

Market Strategy

Since its formation in 2005, SFBS' 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 (8 branches), Georgia (3 branches), South Carolina (2 branch), North Carolina (2 branches), Tennessee (1 branch), and most recently in April 2023, the company expanded into Virginia with a branch in Virginia Beach. SFBS has captured significant deposit market share (6%) 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-Atlantic and Southeastern parts of the nation. The company reflects a more narrow and less diversified business model than most, electing to focus on "loan making and deposit taking", and generally shuns non-traditional, non-lending business lines. However, though the lack of material fee income businesses results in a comparative lack of revenue diversity, it also helps keep SFBS' cost structure low, and allows the company's efficiency ratio to be one of the strongest in KBRA's universe.



Source: Company Website

SFBS' 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. Since the beginning of 2021, Rodney R. Rushing has been appointed Chief Operating Officer. Mr. Rushing joined SFBS in 2010 and was tasked with the development of the correspondent banking division. Prior to joining the company, Mr. Rushing's career was focused on correspondent banking and audit expertise, and he served as an Executive Vice President at Compass Bank (now BBVA) during his 39-year banking career. In November 2023, SFBS announced the retirement of its current CFO, William Foshee (effective February 2024. Mr. Foshee joined the company in 2005, and has served as EVP, Chief Financial Officer, and Treasurer of SFBS since 2007. Kirk Pressley, having joined SFBS in July 2023, will replace Mr.

Foshee as CFO. Mr. Pressley was previously the CFO of BBVA Compass Bancshares prior to its acquisition by PNC. Elsewhere, a core strength of the company resides in its select branch network, which has proven to be efficient ($453 million average deposits per banking center), focusing on the optimization of each branch location. Furthermore, the company operates a scalable and decentralized business model in which regional CEOs drive revenue. Together 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. The company focuses on organic loan growth and strategically hires top producers in new desired markets.

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. SFBS' strong credit administration is evidenced by its historically sound asset quality metrics, though the company is currently much larger with more complex operations compared to its size during the Global Financial Crisis. 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. The company recently updated its risk governance and information security officer now reports directly to the Chief Risk Officer, becoming part of the risk management function. The company's Enterprise Risk Management (ERM) and Model Risk Management programs are continuing to be developed and implemented. The company hired an internal audit manager in 2021 and is in the process of shifting from outsourcing to co-sourcing internal audit going forward.

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. 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. Stress testing is conducted annually on ~30% of the loan portfolio and the results are reviewed by the Chief Credit Officer, and the Board. Meanwhile, quarterly stress tests are conducted on the balance sheet for interest rate risk and liquidity funding risk purposes, while capital is stress tested annually. These stress tests are performed by Darling Consulting Group and reviewed by the ALCO Committee. The Chief Risk Officer monitors, tracks, and reports all audit and regulatory recommendations to full remediation and validation. The Board audit committee monitors these findings as well.

Liquidity Management

SFBS' liquidity risk oversight is well-developed with a systematic weekly assessment of liquidity positions. Moreover, quarterly interest rate risk and liquidity stress tests are performed by a third party and reviewed by the internal ALCO committee. The bank was highly liquid— with a ratio of liquid assets to total assets at 31.8% as of 4Q21 and possessed a detailed contingency planning program with an appropriate wholesale funding capacity, as well as comprehensive cash flow and funds availability analysis. We view the bank's extensive correspondent banking network as an additional source for liquidity. With respect to interest rate risk, the balance sheet showed a neutral to slightly liability sensitive bias at YE21. All scenarios modeled remained within established policy guidelines.

As mentioned, the company's commercial deposit base that includes a number of large dollar relationships bears monitoring, in our opinion. That said, KBRA acknowledges that SFBS deposit base displayed relative stability in the March 2023 banking industry volatility, especially when considering ~49% of SFBS' deposits are uninsured and uncollateralized. More specifically, in the six business days following 3/10/23 (the date of SVB's failure), total deposits at SFBS declined by a cumulative $245 million, representing a modest 2% decline from YE22 levels. We estimate SFBS' liquidity coverage ratio of its uninsured and uncollateralized deposits (a combined $6.4 billion) to be 140% as of 3Q23 (and 83% if excluding the company's available brokered deposit capacity).

ESG Management

KBRA typically analyzes Environmental, Social, and Governance (ESG) factors through the lens of how management teams plan for and manage relevant ESG risks and opportunities. More information on KBRA's approach to ESG risk management in financial institution ratings can be found here. Over the medium-term, banks and other financial institutions will need to prioritize ESG risk management and disclosure with the likelihood of expansions in ESG-related regulation and rising investor focus on ESG issues.

KBRA analyzes many sector- and issuer-specific ESG issues but our analysis is often anchored around three core topics: climate change, with particular focus on greenhouse gas emissions; stakeholder preferences; and cybersecurity. Under environmental, as the effects of climate change evolve and become more severe, issuers are increasingly facing an emerging array of challenges and potential opportunities that can influence financial assets, operations, and capital planning. Under social, the effects of stakeholder preferences on ESG issues can impact the demand for an issuer's product and services, the strength of its global reputation and branding, its relationship with employees, consumers, regulators, and lawmakers, and, importantly, its cost of and access to capital. Under governance, as issuers continue to become more reliant on technology, cybersecurity planning and information management are necessary for most issuers, regardless of size and industry.

Environmental Factors

Although near term climate-related risks are believed by KBRA to be well contained, we note the bank is currently in the process of introducing practices that are more sustainable and are geared toward decreasing its overall carbon footprint, among other initiatives. The bank and most of its peers do not yet estimate carbon emissions, but Scope 1 emissions are believed to be modest compared with many other types of industries. Calculating Scope 3, which primarily refers to the emissions banks finance across their portfolios, is a challenge across the sector, not only for smaller regional banks but for large multinational banks as well. Banks and other financial institutions will need to address increasing stakeholder pressure to improve disclosure of carbon and other greenhouse gas emissions, as well as prepare for the possibility of increased carbon regulation and/or carbon taxes. In common with most peers, the company's direct loan exposure to carbon-intensive industries is considered minimal relative to the total loan portfolio. SFBS endeavors to protect the environment and safeguard future sustainability for the communities in which it operates and for society at large. Towards this end, the company encourages secure electronic communication and online banking to reduce overall paper use in our customer communications. In addition, SFBS encourages energy efficiency in its offices and branch locations. They engage in a comprehensive recycling program to limit waste of paper and to ensure proper disposal of electronic waste and other office products.

Social Factors

The bank has a strong social mission and is active in fostering economic development in its communities of operation, including small business lending and other lending, as well as other community banking services and Community Reinvestment Act (CRA) activities. SFBS received a Satisfactory" score for its latest CRA exam dated March 2023.

Governance Factors

An effective risk management framework includes the bank's process for identifying, assessing and responding to ESG-related risks and opportunities, such as ESG focused staff and resources, board oversight, ESG issues incorporated into capital allocation, cyber risk and fraud management.

For supplemental information on risk management and other governance considerations, please reference the qualitative rating determinants section, notably the Risk Management section. SFBS' data security policy prioritizes data security through robust information security and data privacy policies and processes. The company maintains strict adherence to all regulations and laws regarding data security and cybersecurity. Further, SFBS provides customer education on securing confidential information, monitoring account access, and preventing fraud and other breaches of security via its Fraud Prevention Education Center. In addition, SFBS ensures employees are monitoring for identity theft and other forms of cybersecurity threats. The company maintains comprehensive information security policies to protect and secure customer information and ensure the monitoring of all transactions to protect customer accounts via state-of-the-art intelligence technology and skilled fraud experts.

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. As the bank operates in the U.S. market, a well-developed economy with a AAA sovereign rating, there were no adjustments for country risk. In addition, the company is publicly traded, and the rating does not incorporate external support related to its ownership structure.

Ratings Approach

KBRA's ratings are 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.