

# ServisFirst Bancshares, Inc.

## RATINGS

ServisFirst Bancshares, Inc.	
Action: Affirmed	12/13/24
Outlook/Watch LTR	Stable
Senior Unsecured Debt	BBB+
Subordinated Debt	BBB
Short-Term Debt	K2

ServisFirst Bank	
Action: Affirmed	12/13/24
Outlook/Watch LTR	Stable
Deposit	A-
Senior Unsecured Debt	A-
Subordinated Debt	BBB+
Short-Term Deposit	K2
Short-Term Debt	K2

## FINANCIAL SNAPSHOT

SFBS (%)	9M24	2023
Total Assets (\$B)	16.4	16.1
ROAA	1.34	1.37
NIM	2.78	2.82
NCO Ratio	0.09	0.10
NPA Ratio	0.29	0.19
TCE Ratio	9.5	8.9
CET1 Ratio	11.1	10.9
Loans/Core Dep	101	94

## ANALYTICAL CONTACTS

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## Company Profile

- ServisFirst Bancshares, Inc. (NYSE: SFBS) ("the company"), headquartered in Birmingham, Alabama, is a \$16.4 billion-asset bank holding company that conducts operations through its lead subsidiary, ServisFirst Bank. With a branch-light network of 34 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 380 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 \$12.3 billion loan book allocated to commercial lending. Investor CRE (inclusive of multifamily and C&D lending) represents the largest proportion of loans at 45% of total, followed closely by C&I (including owner-occupied CRE and agriculture). Consumer exposure is relatively modest, with residential mortgage and consumer lending combined accounting for 11% of loans.

## Key Credit Considerations

- SFBS' ratings continue to be supported by its stronger-than-peer earnings profile – one that has been acutely tested over the past two years in the backdrop of a distinctly rising rate environment. In this regard, as a traditionally liability sensitive institution (a function of a rate sensitive deposit base featuring large, sophisticated commercial customers), SFBS' earnings have reset lower since cyclical peaks in 2022 (FY22 ROA of 1.71%), largely due to a contracting NIM and declining net interest income. However, given the company's comparatively high starting point, recent earnings performance has remained better than peer by a significant margin (SFBS 9M24 ROA of 1.34% vs. rating category average of 0.85%). We view this relatively strong earnings performance favorably, noting that it occurred during the most volatile interest rate environment since the Volcker era. Such performance in a challenging environment gives us a degree of comfort with the company's admittedly narrow business model, which is heavily spread reliant and lacks meaningful amounts of fee income.
- We also view the improvement in SFBS' capital profile favorably. As a reminder, strong loan growth during 2020 – 2022 resulted in a notable decline in the company's capital metrics, with the CET1 ratio troughing at 9.4% in 3Q22 and representing a level we considered a relative "floor" for SFBS' maintenance of its ratings. Since that time, SFBS has undergone a multi-year effort to improve its core capital metrics, and as of 3Q24, the company's CET1 ratio has risen 180+ bps from its 2022 low point to 11.2%. With that said, risk-weighted core capital ratios remain modestly below peers in the rating category.
- While a modest degree of negative risk rating migration has been evidenced at SFBS through 9M24 (a trend hardly dissimilar to peers), the company's asset quality, as measured by NCOs and NPAs, remains rather strong. Furthermore, we believe the 3Q24 climb in the company's criticized and classified loan ratio (+70 bps QoQ to 2.7%) is largely temporary in nature and related to delayed payments due to Hurricane Helene. We add that developments with these credits since quarter-end have been positive, with one of the loans paid off in its entirety (\$10 million), and the developer has returned to current payment status on seven of the eight remaining loans.

## Rating Sensitivities

- +** The Stable Outlook reflects KBRA's view that a rating change is not expected over the medium 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.



# Financial Metrics

SERVISFIRST BANCSHARES, INC.											
	3Q24	2Q24	1Q24	4Q23	3Q23	YTD24	2023	2022	2021	2020	2019
<b>Balance Sheet (\$ millions)</b>											
Loans (HFI)	12,338	12,333	11,881	11,659	11,641	12,338	11,659	11,688	9,533	8,466	7,261
Average Earning Assets	15,938	15,165	15,474	15,656	14,958	15,526	14,593	14,172	13,052	10,203	8,326
Total Assets	16,449	16,050	15,722	16,130	16,044	16,449	16,130	14,596	15,449	11,933	8,948
Core Deposits	12,257	12,422	11,907	12,431	12,318	12,257	12,431	10,923	11,896	9,425	7,069
Total Deposits	13,147	13,259	12,751	13,274	13,142	13,147	13,274	11,547	12,453	9,976	7,530
Total Equity	1,570	1,510	1,476	1,440	1,401	1,570	1,440	1,297	1,152	992	842
Tangible Common (TCE)	1,556	1,496	1,462	1,426	1,387	1,556	1,426	1,284	1,138	978	828
<b>Income Statement (\$ millions)</b>											
Net Interest Income	115.1	105.9	102.5	101.7	99.7	323.5	410.9	470.9	384.5	338.0	287.6
Noninterest Income	8.6	8.9	8.9	7.4	8.1	26.4	30.4	40.0	29.5	28.3	23.7
Noninterest Expense	45.7	42.3	46.4	58.3	41.6	134.4	178.0	158.3	129.8	109.7	101.8
Provision for Loan Losses	5.7	5.9	4.4	3.6	4.3	15.9	18.7	37.6	31.5	42.4	22.6
Net Income	59.9	52.1	50.0	42.1	53.3	162.1	206.9	251.5	207.7	169.6	149.2
<b>Performance Measures (%)</b>											
Return on Average Assets	1.44%	1.32%	1.25%	1.04%	1.38%	1.34%	1.37%	1.71%	1.54%	1.60%	1.73%
Return on Average Equity	15.6%	14.3%	13.7%	11.9%	15.2%	14.6%	15.1%	20.7%	19.3%	18.6%	19.2%
Return on Risk-Weighted Assets	1.68%	1.51%	1.44%	1.24%	1.63%	1.55%	1.56%	1.91%	2.11%	2.09%	2.02%
Net Interest Margin (TE)	2.89%	2.80%	2.66%	2.60%	2.67%	2.78%	2.82%	3.32%	2.95%	3.32%	3.47%
Average Loan Yield	6.66%	6.44%	6.37%	6.37%	6.18%	6.49%	6.02%	4.73%	4.42%	4.45%	5.16%
Cost of Interest-Bearing Deposits	4.14%	4.04%	4.01%	4.09%	3.88%	4.06%	3.53%	0.80%	0.35%	0.70%	1.59%
Loans / Earning Assets	78%	80%	76%	74%	77%	78%	80%	75%	67%	80%	82%
Noninterest Income / Op. Revenue	7%	8%	8%	7%	8%	8%	7%	8%	7%	8%	8%
Efficiency Ratio	37%	37%	42%	53%	39%	38%	40%	31%	31%	30%	33%
<b>Asset Quality (%)</b>											
NPA / Loans + OREO	0.29%	0.29%	0.30%	0.19%	0.20%	0.29%	0.19%	0.15%	0.14%	0.30%	0.61%
LLR / Loans (HFI)	1.30%	1.28%	1.31%	1.32%	1.31%	1.30%	1.32%	1.25%	1.22%	1.04%	1.05%
LLR / NPL	479%	453%	447%	712%	674%	479%	712%	828%	964%	464%	212%
NCO / Average Loans	0.09%	0.10%	0.06%	0.09%	0.15%	0.09%	0.10%	0.08%	0.03%	0.36%	0.32%
Provision / NCO (x)	2.0	1.9	2.4	1.4	1.0	2.1	1.6	4.7	11.3	1.5	1.0
NPA Change Rate	(0%)	3%	57%	(3%)	(2%)	61%	26%	35%	(48%)	(43%)	34%
<b>Capital (%)</b>											
TCE Ratio	9.5%	9.3%	9.3%	8.9%	8.7%	9.5%	8.9%	8.8%	7.4%	8.2%	9.3%
Leverage Ratio	9.5%	9.8%	9.4%	9.1%	9.4%	9.5%	9.1%	9.3%	7.4%	8.2%	9.1%
CET1 Ratio	11.2%	10.9%	11.1%	10.9%	10.7%	11.2%	10.9%	9.5%	10.0%	10.5%	10.5%
Tier 1 Ratio	11.3%	10.9%	11.1%	10.9%	10.7%	11.3%	10.9%	9.6%	10.0%	10.5%	10.5%
Total Capital Ratio	12.8%	12.4%	12.6%	12.4%	12.3%	12.8%	12.4%	11.0%	11.6%	12.2%	12.3%
<b>Leverage &amp; Funding (%)</b>											
Loans / Deposits	94%	93%	93%	88%	89%	94%	88%	101%	77%	85%	97%
Loans / Core Deposits	101%	99%	100%	94%	95%	101%	94%	107%	80%	90%	103%
Core Deposits / Total Funding	83%	86%	84%	85%	84%	83%	85%	83%	84%	87%	88%
Double Leverage (Incl TRuPS)	104%	104%	104%	104%	104%	104%	104%	105%	105%	106%	107%
RWA / Total Assets	86%	88%	87%	84%	84%	86%	84%	95%	73%	77%	88%

Sources: 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						Loan Composition	
(\$ millions)	3Q24	2023	2022	2021	2020		
Construction & Development	1,440	1,520	1,532	1,103	594		
Owner Occupied CRE	2,442	2,257	2,199	1,874	1,693		
Non-Owner Occupied CRE	2,861	2,619	2,631	2,124	1,687		
Residential Mortgage	1,418	1,255	1,148	828	726		
Commercial & Industrial	2,680	2,732	3,062	2,878	3,188		
Consumer	60	63	64	63	63		
Multi-Family Loans	1,243	1,038	869	459	316		
Leases	0	0	0	0	0		
Agriculture	192	170	172	191	200		
Other	11	10	11	14	12		
Total Loans	12,347	11,664	11,690	9,534	8,480		
Loans Held for Sale (HFS)	8	5	2	1	14		
Loans Held for Investment (HFI)	12,338	11,659	11,688	9,533	8,466		
Annual Loan Growth	6%	0%	23%	12%	17%		
Investor CRE / Total Loans	45%	45%	43%	39%	31%		
C&D / Risk-Based Capital	80%	90%	100%	84%	53%		
Investor CRE / Risk-Based Capital	309%	311%	331%	286%	238%		

Sources: KFI, Company Reports, KBRA

Deposit Composition						Deposit Composition	
(\$ millions)	3Q24	2023	2022	2021	2020		
Domestic Deposits							
Demand Deposits	2,576	2,643	3,321	4,800	2,789		
NOW & ATS	2,362	2,396	1,846	1,462	1,307		
MMDA & Savings	6,965	7,079	5,517	5,378	5,062		
Time Deposits							
Retail Time (<\$250,000)	355	313	289	306	317		
Jumbo Time (>\$250,000)	889	842	574	507	500		
Foreign Deposits	0	0	0	0	0		
Total Deposits	13,147	13,274	11,547	12,453	9,976		
Total Core Deposits	12,257	12,431	10,923	11,896	9,425		
Total Noninterest Bearing Deposits	2,576	2,643	3,321	4,800	2,789		
Annual Core Deposit Growth Rate	(0%)	14%	(8%)	26%	33%		

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

Sources: KFI, Company Reports, KBRA



## Comparative Statistics

### Peer Comparison Trends

Time Period	KBRA Peers			KBRA Peers			KBRA Peers		
	SFBS	BBB+	\$10-\$100BN	SFBS	BBB+	\$10-\$100BN	SFBS	BBB+	\$10-\$100BN
	9M24	9M24	9M24	2023	2023	2023	2022	2022	2022
<b>Balance Sheet (\$ in mlns)</b>									
Total Assets	16,449	19,795	28,187	16,130	18,922	27,205	14,596	17,822	25,725
Total Risk Weighted Assets	14,115	15,126	20,283	13,504	14,693	19,786	13,889	14,127	19,249
Loans (HFI)	12,338	14,133	17,514	11,659	13,562	16,968	11,688	12,554	16,271
Total Deposits	13,147	15,874	20,580	13,274	15,137	19,771	11,547	14,401	19,537
Average Loans / Average Earning Assets	78%	77%	71%	74%	76%	70%	83%	72%	68%
<b>Performance Measures (%)</b>									
Return on Average Assets	1.35%	0.85%	0.84%	1.37%	1.02%	0.89%	1.71%	1.24%	1.20%
Return on Average Equity	14.7%	7.7%	7.6%	15.1%	9.4%	8.8%	20.7%	11.5%	11.6%
Return on Risk-Weighted Assets	1.57%	1.14%	1.21%	1.52%	1.34%	1.25%	1.99%	1.67%	1.68%
Net Interest Margin (TE)	2.79%	3.31%	3.05%	2.82%	3.42%	3.16%	3.32%	3.49%	3.20%
Average Loan Yield	6.52%	6.13%	6.39%	6.02%	5.76%	6.08%	4.73%	4.61%	4.58%
Cost of Interest Bearing Deposits	4.08%	2.99%	3.21%	3.53%	2.25%	2.51%	0.80%	0.45%	0.61%
Noninterest Income / Op. Revenue	8%	19%	25%	7%	17%	24%	8%	18%	25%
Efficiency Ratio	38%	68%	66%	40%	61%	64%	31%	56%	59%
<b>Asset Quality (%)</b>									
NPA / Loans + OREO	0.29%	0.57%	0.70%	0.19%	0.49%	0.60%	0.15%	0.39%	0.54%
LLR / Loans (HFI)	1.30%	1.23%	1.21%	1.32%	1.21%	1.18%	1.25%	1.19%	1.17%
LLR / NPL	479%	334%	269%	712%	387%	319%	828%	477%	434%
NCO / Average Loans	0.09%	0.12%	0.22%	0.10%	0.14%	0.23%	0.08%	0.07%	0.09%
<b>Capital (%)</b>									
TCE Ratio	9.5%	8.5%	9.0%	8.9%	8.4%	8.5%	8.8%	7.7%	7.9%
Leverage Ratio	9.5%	10.0%	10.3%	9.1%	9.9%	10.0%	9.3%	9.7%	9.8%
CET1 Ratio	11.2%	12.2%	13.5%	10.9%	12.0%	13.2%	9.5%	11.5%	12.6%
Tier 1 Ratio	11.3%	12.7%	14.0%	10.9%	12.6%	13.7%	9.6%	12.1%	13.1%
Total Capital Ratio	12.8%	15.1%	15.8%	12.4%	14.9%	15.4%	11.0%	14.4%	14.8%
<b>Leverage &amp; Funding (%)</b>									
Noninterest Bearing / Total Dep.	20%	27%	24%	20%	27%	25%	29%	35%	30%
Loans / Deposits	94%	89%	86%	88%	89%	86%	101%	87%	86%
Loans / Core Deposits	101%	100%	103%	94%	100%	104%	107%	93%	98%
RWA / Total Assets	86%	77%	74%	84%	78%	74%	95%	79%	75%
Double Leverage (Incl TruPS)	104%	101%	99%	104%	101%	100%	105%	102%	101%
<b>Loan Portfolio (%)</b>									
C&I Loans / Total Loans	22%	16%	18%	23%	16%	18%	26%	17%	19%
Investor CRE / Total Loans	45%	40%	34%	45%	41%	34%	43%	41%	34%
Investor CRE / Risk-Based Capital	309%	253%	211%	311%	255%	216%	331%	255%	218%
C&D Loans / Total Loans	12%	8%	7%	13%	8%	7%	13%	9%	7%
C&D Loans / Risk-Based Capital	80%	49%	41%	90%	53%	45%	100%	55%	46%

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

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



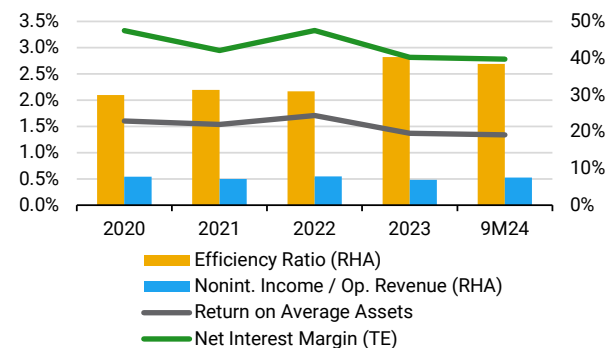
## Key Quantitative Rating Determinants

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

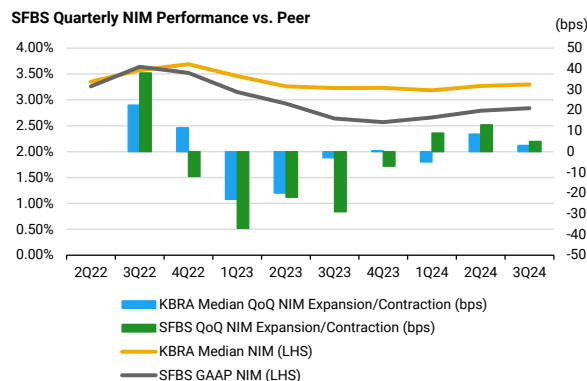
Following a period of declining earnings during the Federal Reserve's most recent rising rate cycle, SFBS' earnings have shown improvement in 2024, with ROA rising each sequential quarter in the year-to-date. As a reminder, being a liability sensitive institution entering rising rate environment that began in 1Q22, SFBS' net interest margin declined more than most and fell 95 bps in 2023 compared to a KBRA universal median decline of 45 bps (see chart below). Given SFBS' earnings are spread reliant (the company's fee income levels are, by management's purposeful design, lower than peer), ROA fell as a result and eventually troughed in 4Q23 at 1.04%. However, since that time, comparative interest rate stability has allowed for mostly stable funding costs and, as liability repricing has slowed, upwards repricing of fixed rate assets have begun to take hold of net interest income/NIM story through 9M24. Notably, SFBS' net interest income through 9M24 rose 5% vs. the same period and 2023, while its NIM has risen each consecutive quarter during the year for a combined +27 bps (to 2.84% in 3Q24). Also supporting YTD24 earnings has been a modest re-leveraging of the balance sheet (loans to earning assets ratio of 78% in 3Q24 vs. 74% at YE23), as well as continued controlled credit costs (trailing-twelve-month provision to average loans ratio of 0.16%). Fee income, traditionally an inconsequential contributor to SFBS' earnings and comprised mostly of card interchange and deposit services fees, rose 15% (+\$3.4 million) through 9M24 compared to 9M23.

Performance Metrics - SFBS



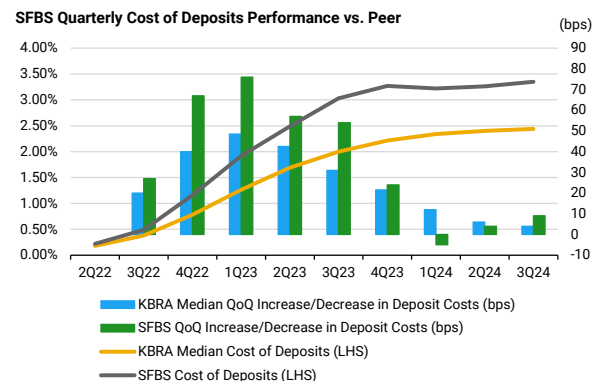
Sources: KFI, Company Reports, KBRA

SFBS Quarterly NIM Performance vs. Peer



Sources: KFI, Company Reports, KBRA

SFBS Quarterly Cost of Deposits Performance vs. Peer



Sources: KFI, Company Reports, KBRA

With respect to SFBS' go-forward earnings, we believe the company is likely to be a significant benefactor of falling short-term interest rates (should they materialize as industry participants broadly expect). With a high beta funding model that includes a significant amount of funding indexed to short-term rates (including SFBS' ~\$2.2 billion of correspondent banking deposits), we would expect SFBS' funding base to reprice more quickly and to a more significant degree than most peers in a down rate environment. Additionally, we would expect this liability repricing to more than compensate for potentially declining interest earning asset rates, which will likely still be supported, to a degree, by legacy low yielding pandemic-era loan repricing higher. Should the above occur, we would anticipate NIM

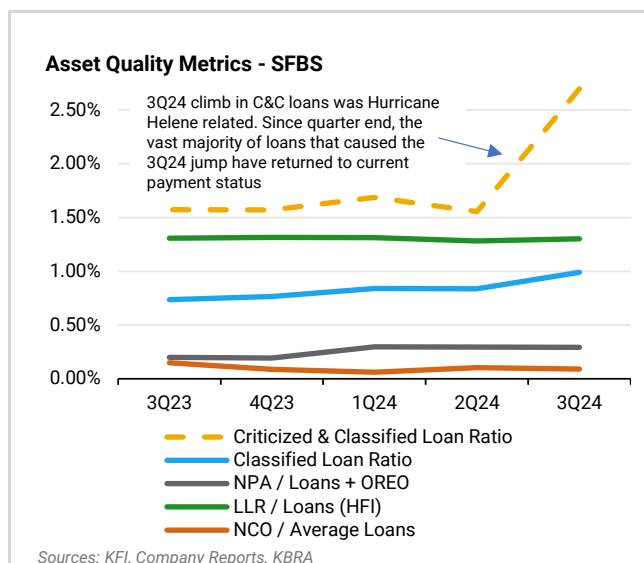


expansion at SFBS in 2025. We add that SFBS' 3Q24 10-Q discloses that a 100-bp decline in interest over the next 12 months would result in a 1.2% increase in net interest income (assuming a stable balance sheet).

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. SFBS' reported ROA, which averaged 1.6% from 2019-2023, 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 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.

## Asset Quality

While a modest degree of negative risk rating migration has been evidenced at SFBS through 9M24 (a trend that we recognize is hardly dissimilar to peers), the company's asset quality, as measured by NCOs and NPAs, remains rather strong. Net charge-offs have remained subdued (9M24 NCO ratio of 0.09%) while NPAs, though modestly higher than YE23 levels, are still a contained 0.29% of loans + OREO. Elsewhere, NPLs within SFBS' commercial real estate portfolio (the company's largest loan segment) continue to be de minimis (0.10% of segment loans as of 3Q24) and largely unchanged from recent period levels. While we admit the company's asset quality measures continue to display strength, we also appreciate that NCOs and NPAs are somewhat narrow metrics in which to evaluate a bank's "pipeline" of problem loans. In this regard, when examining more comprehensive indicators of bank asset quality, SFBS' criticized and classified ("C&C") loan ratio rose 70 bps (or +\$122 million) in 3Q24 to 2.70%. However, we judge the jump in C&C loans in 3Q24 as temporary in nature, with management commenting that a workforce housing real estate developer had payments delayed due to Hurricane Helene. SFBS' exposure to the developer totals roughly \$97 million across nine different projects and, out of an abundance of caution, the company elected to downgrade the projects to special mention (management also added that outside of this relationship, there were no other material inflows into C&C during the quarter). We add that developments with this credit since quarter-end have been positive, with one of the loans paid off in its entirety (\$10 million), and the developer has returned to current payment status on seven of the eight remaining loans. We would therefore expect a significant decline in SFBS' C&C loans when the company reports its YE24 10-K. Ultimately, considering problem asset levels at SFBS and the broader banking industry as a whole remain close to historical lows, we continue to believe it more likely than not that credit metrics will rise closer to pre-pandemic historical averages. Nevertheless, we think that any credit deterioration at SFBS will be gradual and digestible, not to mention anticipated, and note that the company's 3Q24 LLR of 1.30% is adequate to absorb expected credit losses.



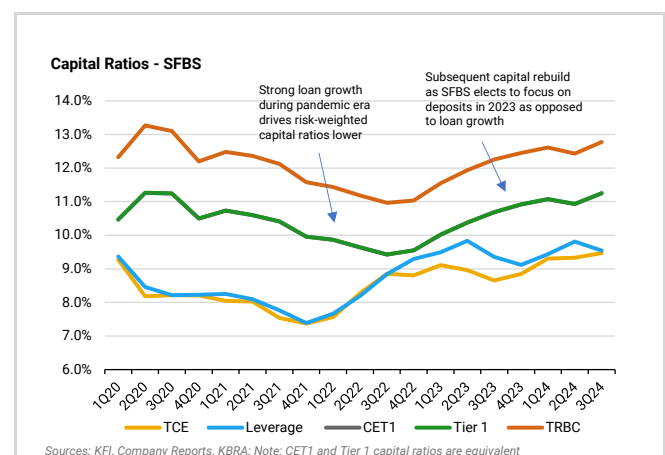


Regarding SFBS' historical asset quality performance, though the company was a considerably smaller institution entering the global financial crisis (~\$800 million in assets as of 4Q07), SFBS was a comparably strong performer during an otherwise challenging period, with net credit losses from 2008 through 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' \$12.3 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 45%. The underwriting of the company's \$1.2 billion Sunbelt-focused multifamily book appears solid, with the bank typically demanding 30% - 35% of equity at origination. 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 12% of total loans (\$1.4 billion), is larger than select 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 (42% 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 (18%), manufacturing (9%), 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 \$106 million in 3Q24.

## Capital

SFBS' capital profile as of 3Q24 marks a distinct improvement from that reflected during the pandemic era. As a reminder, strong loan growth during 2020 – 2022 (average annual loan growth of 17% over that time period) resulted in a leveraging of the balance sheet, a sharp climb in RWA density, and correspondingly, a notable decline in capital ratios. In this regard, the company's CET1 ratio troughed at 9.4% in 3Q22 – a level distinctly lower than peer and one we considered a relative "floor" for SFBS' maintenance of its ratings. However, since that time, SFBS has undergone a multi-year effort to improve its core capital metrics, and as of 3Q24, the company's CET1 ratio has risen 180+ bps from its 2022 low point to 11.2%. With that said, risk-weighted core capital ratios remain modestly below peers in the rating category. Given the company's narrower business model focused on large-dollar real estate lending and spread revenue, as well as greater than peer C&D exposure (12% of loans), KBRA believes SFBS should manage risk-weighted capital more in line with rating category medians. SFBS' TCE ratio (9.5% as of 3Q24), a non-risk weighted core capital ratio unaffected by SFBS' elevated RWA density (itself a function of a commercially concentrated loan portfolio), compares more favorably to peer medians.





**SFBS Core Capital Ratios vs. Peer**

	3Q24			2023			2022		
	SFBS	KBRA BBB+ Peers	KBRA Rated Bank (All Banks)*	SFBS	KBRA BBB+ Peers	KBRA Rated Bank (All Banks)*	SFBS	KBRA BBB+ Peers	KBRA Rated Bank (All Banks)*
CET1 Ratio	11.2%	12.2%	11.9%	10.9%	12.0%	11.2%	9.5%	11.5%	10.8%
TCE Ratio	9.5%	8.5%	8.8%	8.9%	8.3%	8.2%	8.8%	7.6%	8.5%

\*Represents the median related ratio of all KBRA's publicly traded, rated banks

Source: KBRA, Company Reports

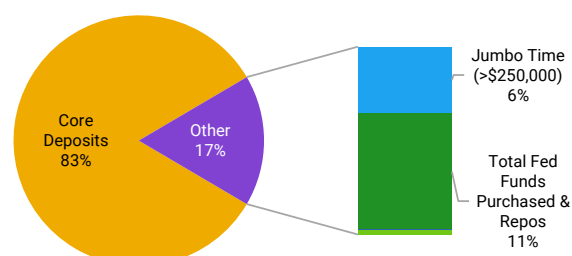
A positive trait of SFBS' capital profile is the company's ability to accrete core capital rapidly and organically, which is a function of both the company's strong earnings and a historical reluctance to participate in share buybacks given the company traditionally trades at a stark premium to tangible book value. 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 2023. Furthermore, while management has suggested the possibility of raising its dividend, given a dividend payout ratio that has averaged 25% in recent years, we would not expect an increase in the dividend to change our view on the company's capital management policy. All in all, though 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), narrower business model (spread revenue focused), and loan portfolio (somewhat elevated concentration in large-dollar CRE/C&D lending) suggests it should maintain risk-weighted capital at levels more in line with peer. Even so, given the recent multi-year runup in capital metrics, we do not expect a material increase in related ratios from 3Q24 levels.

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

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, with larger depositor relationships in the commercial banking, law, and commercial/ institutional building construction sectors. 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 375 partner banks. Deposits from these relationships have at times comprised anywhere from 15% – 30% of SFBS' total deposits. As a note, deposits sourced from SFBS' correspondent banking unit peaked at nearly \$4 billion (31% of total deposits) in late 2021, coinciding with the extraordinarily liquid environment of the time related to monetary and fiscal stimulus efforts to combat COVID. Since that time, correspondent banking deposits have normalized totaling \$2.2 billion as of 3Q24 (197% of 3Q24 deposit balances). 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 12%, 15%, and 19%, 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.

### Liability Funding Mix - SFBS



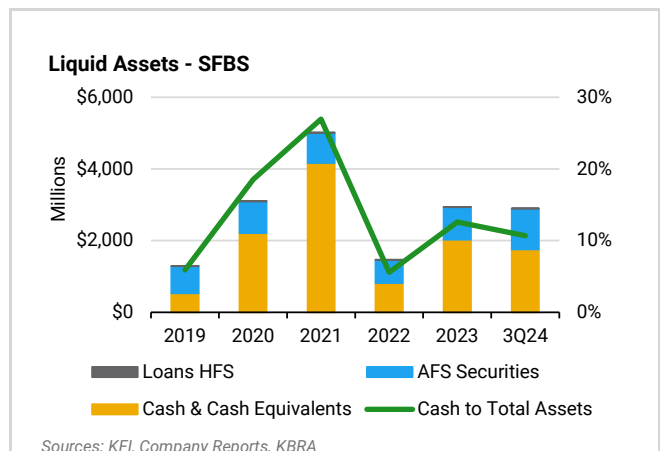
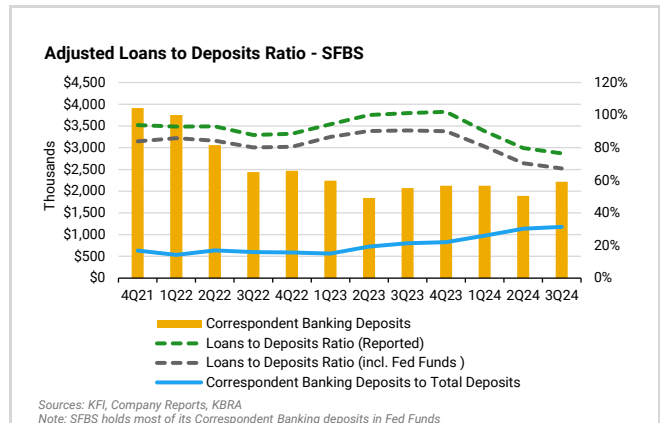
Sources: KFI, Company Reports, KBRA

Note: The entirety of SFBS' fed funds purchased balances are related to Correspondent Banking deposits



With a depositor base that is comprised mainly of large dollar, rate sensitive commercial client relationships, it is somewhat unsurprising that, at first glance, SFBS' deposit costs appear to be some of the highest in KBRA's universe (3.34% in 3Q24). Certainly, the company's deposit beta outpaced peers by a significant margin in the rising rate environment of 1Q22 – 2Q24, partly inspired by a significant amount of deposits indexed to short-term market interest rates. Additionally, the downstream banks that participate in SFBS' correspondent banking business typically also demand a rate equivalent to the fed funds rate (or, in some cases, modestly more) (note: SFBS parks nearly all of its deposits sourced from its correspondent banking unit in fed funds). However, despite a reported cost of deposits that screens as high compared to peers, 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 measure suggests. For example, SFBS' \$2.5 billion of correspondent banking deposits, though paid a market interest rate, carry with them negligible staffing expenses (the book is managed by a team of eight individuals) and occupancy costs (since they are not sourced via a branch network).

SFBS' current liquidity profile includes \$1.8 billion in cash comprising ~11% of total assets. 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 the company deploys cash into loan growth. In addition to its on-balance sheet cash, we estimate SFBS has approximately \$5.3 billion of available contingent funding via FHLB advances, the Fed discount window, and unused fed funds lines. Internal company policy limits allow for up to \$4.6 billion of brokered deposit capacity, none of which was used as of 3Q24. SFBS has worked to manage its previously elevated loan to deposits ratio downward to a level more aligned with peers in recent periods (3Q24 ratio of 94% vs. a recent peak of 102% in 3Q22). The company's adjusted loan to deposit ratio when including correspondent fed funds purchased would be 84% in 3Q24. We estimate SFBS' liquidity coverage ratio of its uninsured and uncollateralized deposits (a combined \$6.8 billion) to be 170% as of 3Q24 (and 109% if excluding the company's available brokered deposit capacity). Acknowledging that the company's deposit base was tested during industry volatility in March 2023 and displayed relative stability, we continue to believe SFBS should maintain a higher level of liquidity than peers given the degree of concentration reflected by its deposit base (largest 10 depositors represent 15% of total deposits).



## 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 average to 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), North Carolina (3 branches), South Carolina (2 branch), Tennessee (1 branch), and most recently in April 2023, the company expanded into Virginia with a branch in Virginia Beach. In addition, SFBS has a sizeable correspondent banking network of approximately 380 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. Deposits per banking center at SFBS are a high \$438 million and highlights 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 as opposed to whole-bank M&A.

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. The company has had a number of different CFOs in recent years, including Bud Foshee (retired February 2024) and, more recently, Kirk Pressley. Mr. Pressley's prior bank managerial experience included being the CFO of BBVA Compass Bancshares prior to its acquisition by PNC. On October 21, 2024, Mr. Pressley notified SFBS of his intention to resign from the position of CFO, effective October 31, 2024. SFBS, with the help of a third party search firm, is currently conducting a search to fill the open position (note: Ed Woodie, Senior Vice President, Controller, is serving as interim CFO).

## 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 cash to total assets at 11% as of 3Q24 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 as of 3Q24. 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 ~52% 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 \$6.8 billion) to be 170% as of 3Q24 (and 109% 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, 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.

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