

ServisFirst Bancshares, Inc.

Ratings

ServisFirst Bancshares, Inc.	
Action: Affirmed	4/23/21
Senior Unsecured Debt	BBB+
Subordinated Debt	BBB
Short-Term Debt	K2

ServisFirst Bank	
Action: Affirmed	4/23/21
Deposit	A-
Senior Unsecured Debt	A-
Subordinated Debt	BBB+
Short-Term Deposit	K2
Short-Term Debt	K2

[KBRA Bank & Bank Holding Company Global Rating Methodology](#) dated October 16, 2019.

Outlook/Watch

ServisFirst Bancshares, Inc.	
Long-Term Ratings	Stable

ServisFirst Bank	
Long-Term Ratings	Stable

Financial Snapshot

SFBS (%)	1Q21	YE20
Total Assets (\$B)	12.6	11.9
ROAA	1.72	1.60
NIM	3.20	3.32
NCO Ratio	0.02	0.36
NPA Ratio	0.25	0.30
TCE Ratio	8.0	8.2
CET1 Ratio	10.7	10.5
Loans/Core Dep	NR	90

Analytical Contacts

Amina Ouattara, Associate Director
+1 (301) 969-3187
amina.ouattara@kbra.com

Leah Hallfors, Director
+1 (301) 969-3242
leah.hallfors@kbra.com

Joe Scott, Senior Managing Director
+1 (646) 731-2438
joe.scott@kbra.com

Company Profile

- Headquartered in Birmingham, Alabama, ServisFirst Bancshares, Inc. (NASDAQ: SFBS) ("ServisFirst" or "the company") conducts operations through its lead subsidiary, ServisFirst Bank ("the bank"), via a branch-light network of 23 branches. Recently surpassing \$10 billion in assets, SFBS' footprint covers prominent southeastern MSAs, situated in contiguous states of Alabama, Tennessee, South Carolina, Georgia, and Florida.
- The company's high-touch, commercial-oriented banking franchise provides cash management, private banking, and correspondent banking services, primarily targeting businesses and high net worth consumers.
- ServisFirst's loan portfolio appears balanced in terms of industry concentration and reflects an expertise in C&I lending, which constituted 58% of total loans (including 20% owner-occupied CRE). Investor CRE represented 24% of loans (including 4% multi-family), while C&D accounted for 7% and residential mortgage stood at 8% at YE20.
- Since its inception in 2005, SFBS has prioritized organic expansion, supplemented by the strategic acquisition of Metro Bank in 2015, which extended the company's footprint to the Atlanta MSA. We expect the company will pursue expansion in current and contiguous southeastern markets through talent acquisition of top bankers over the near-term.

Key Credit Considerations

- ServisFirst's ratings are underpinned by a seasoned management team that has consistently demonstrated a conservative risk appetite, centered on the development of strong relationships with local borrowers.
- The ratings reflect SFBS' strong core and risk-adjusted earnings through the cycle, with ROA in the 1.5%-1.9% range in recent quarters, despite the challenging operating environment. Additionally, KBRA views SFBS' branch-light business model that remains centered on commercial banking as a competitive advantage which, coupled with a solid culture of expense control, has contributed to a better-than-peer efficiency ratio of below 35%.
- Despite a moderate uptick in credit loss experience in recent periods, asset quality ratios have remained in line with peers as of 1Q21. We consider ServisFirst a disciplined underwriter with solid credit monitoring procedures in place.
- Constraints to the ratings include SFBS' spread-reliant revenue stream with minimal contribution from fee-based income sources, in part, due to management's expertise in and focus on a C&I business model, which has proven successful. Compared to larger regional institutions, the company's operations are geographically concentrated, though we note SFBS' focus on attractive southeastern MSAs.
- While ServisFirst's core capitalization remains adequate relative to its current risk profile, it continues to track at the lower end of its peer group. As the company executes its growth strategy, we would expect a stable to improving capital profile. Regarding the pandemic, we believe that the company's aggregate exposure to sensitive industries is manageable at ~13% of loans, including a 4% exposure to senior living facilities.

Rating Sensitivities

A rating upgrade in the near term is not expected given the Stable Rating Outlook. Although not anticipated over the medium term, a significant increase in revenue and product diversification could provide positive rating momentum over time. Stronger capital ratios, combined with the maintenance of healthy earnings and asset quality measures would be viewed positively.

A significant deterioration in asset quality performance leading to a substantial decline in profitability metrics or a material decline in capital measures could have negative rating implications.

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1Q21 Performance and Highlights

Key Financial Ratios (%)	1Q21	4Q20	1Q20
ROAA	1.72	1.74	1.54
NIM	3.20	3.27	3.58
Efficiency	28.7	28.1	33.1
Net Charge-Offs / Average Loans	0.02	0.41	0.26
NPAs / Total Loans + OREO	0.25	0.29	0.51
Loan Loss Reserves / Total Loans	1.12	1.04	1.13
Tangible Common Equity Ratio	8.0	8.2	9.3
Common Equity Tier 1 (CET1) Ratio	10.7	10.5	10.7

- ServisFirst Bancshares, Inc.'s results for 1Q21 were in line with KBRA's expectations and Stable Outlook, reflecting the durability of the franchise. SFBS reported comparatively strong earnings (ROA of 1.72%)— despite muted loan growth in 1Q21, bolstered by consistently better than peer operating expense, representing only 1% of average earnings assets in the first quarter of 2021, while credit losses remained nominal. Provisions were more normalized in 1Q21, following elevated levels observed during 9M20, on an improving economic outlook.
- NII was essentially flat from the linked quarter and reflected the impact of paydowns on loan balances as well as a \$1.6 million increase in PPP loan fees and improved noninterest income, driven by higher credit card income. Meanwhile, provision for credit losses as a percentage of average loans increased by 5 bps, while SFBS reported a moderate uptick in noninterest expense. Altogether, net income for 1Q21 was flat sequentially. We note the efficiency ratio is better than the industry median at 28.7% in 1Q21; SFBS recorded a 2.5% linked-quarter increase in core operating expense, driven by system conversion and the addition of new talent, in line with management's guidance as the company recently crossed \$10 billion in assets.
- While NIM benefitted from a 4 bp sequential uptick in loan yield (4.47% in 1Q21), as well as a 5 bp sequential improvement in the cost of deposits (26 bps in 1Q21), excess liquidity (19% of average earnings assets) continues to hamper NIM. Management's goal is to replace low yielding PPP loans with higher yielding loans by the end of 2021, which is expected to help the NIM.
- Asset quality measures continued to trend positively, including a reduction in OREO during 1Q21. The NPA ratio was 25 bps, while the net charge-offs were negligible. Loan loss reserves were modestly bumped up (by 8 bps) from the linked quarter to 1.26 % (excluding PPP loans). The modest increase in reserves reflects a prudent stance considering pandemic-driven qualitative factors, though economic conditions remain stable in the company's footprint. Exposure to COVID-sensitive industries remained below average and deferrals declined from an already negligible level.
- SFBS' regulatory capital ratios remained adequate, supported by sustained internal capital generation through retained earnings (79% earnings retention rate). Core capitalization ratios remained stable, with the CET1 ratio at 10.7% at 1Q21. Further, on balance sheet liquidity appears ample, though inflated by the deposit influx from government stimulus programs. Overall, we believe that the company is well equipped to face reasonable credit pressures, while appropriately responding to its liquidity and customer needs.
- Management indicated the imminent entry in a new market through talent acquisition of new bankers.

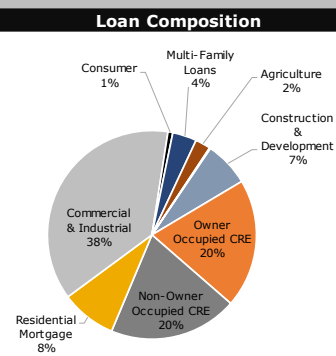
Financial Metrics

SUMMARY FINANCIAL HIGHLIGHTS SERVISFIRST BANCSHARES, INC.										
	4Q20	3Q20	2Q20	1Q20	4Q19	2020	2019	2018	2017	2016
Balance Sheet (\$ millions)										
Loans (HFI)	8,466	8,509	8,315	7,569	7,261	8,466	7,261	6,533	5,851	4,912
Average Earning Assets	11,217	10,780	10,080	8,734	8,672	10,203	8,326	7,028	6,229	5,519
Total Assets	11,933	11,395	11,012	9,365	8,948	11,933	8,948	8,007	7,082	6,370
Core Deposits	9,425	9,154	8,792	7,289	7,069	9,425	7,069	6,494	5,749	4,971
Total Deposits	9,976	9,674	9,343	7,833	7,530	9,976	7,530	6,916	6,092	5,420
Total Equity	992	949	914	881	842	992	842	715	607	523
Tangible Common (TCE)	978	935	900	867	828	978	828	700	592	508
Income Statement (\$ millions)										
Net Interest Income	92.1	85.1	83.2	77.6	75.8	338.0	287.6	262.7	227.4	187.1
Noninterest Income	8.2	8.1	5.8	6.1	7.1	28.3	23.7	21.3	19.0	17.3
Noninterest Expense	28.2	26.5	27.6	27.4	25.6	109.7	101.8	94.0	85.9	80.2
Provision for Loan Losses	6.3	12.3	10.3	13.6	5.9	42.4	22.6	21.4	23.2	13.4
Net Income	51.0	43.4	40.4	34.8	41.0	169.6	149.2	136.9	93.1	81.5
Performance Measures (%)										
Return on Average Assets	1.75%	1.55%	1.55%	1.53%	1.82%	1.60%	1.73%	1.88%	1.43%	1.42%
Return on Average Equity	20.91%	18.53%	18.37%	16.14%	19.93%	18.56%	19.16%	20.77%	16.39%	16.65%
Net Interest Margin (TE)	3.29%	3.17%	3.32%	3.57%	3.51%	3.32%	3.47%	3.79%	3.68%	3.43%
Efficiency Ratio	28.1%	28.5%	31.0%	32.7%	30.9%	29.9%	32.7%	33.1%	34.8%	39.2%
Noninterest Income / Op. Revenue	8%	9%	7%	7%	9%	8%	8%	8%	8%	8%
Loans / Earning Assets	76%	78%	83%	84%	82%	80%	82%	87%	86%	81%
Cost of Interest-Bearing Deposits	0.45%	0.59%	0.69%	1.14%	1.34%	0.70%	1.59%	1.16%	0.69%	0.57%
Average Loan Yield	4.45%	4.27%	4.28%	4.85%	5.03%	4.45%	5.16%	4.97%	4.61%	4.46%
Asset Quality (%)										
NPA / Loans + OREO	0.30%	0.39%	0.34%	0.54%	0.61%	0.30%	0.61%	0.50%	0.30%	0.44%
LLR / Loans (HFI)	1.04%	1.09%	1.10%	1.13%	1.05%	1.04%	1.05%	1.05%	1.02%	1.06%
LLR / NPL	464%	348%	416%	252%	212%	464%	212%	247%	549%	307%
NCO / Average Loans	0.41%	0.54%	0.20%	0.26%	0.37%	0.36%	0.32%	0.20%	0.29%	0.11%
Provision / NCO (x)	0.7	1.1	2.5	2.9	0.9	1.5	1.0	1.8	1.5	2.7
NPA Change Rate	(24%)	18%	(31%)	(7%)	(5%)	(43%)	34%	88%	(20%)	66%
Capital (%)										
TCE Ratio	8.2%	8.2%	8.2%	9.3%	9.3%	8.2%	9.3%	8.8%	8.4%	8.0%
Leverage Ratio	8.2%	8.2%	8.5%	9.4%	9.1%	8.2%	9.1%	9.1%	8.5%	8.2%
CET 1 ratio	10.5%	11.2%	11.3%	10.5%	10.5%	10.5%	10.5%	10.1%	9.5%	9.8%
Tier 1 Ratio	10.5%	11.2%	11.3%	10.5%	10.5%	10.5%	10.5%	10.1%	9.5%	9.8%
Total Capital Ratio	12.2%	13.1%	13.3%	12.3%	12.3%	12.2%	12.3%	12.0%	11.5%	11.8%
Leverage & Funding (%)										
Loans / Deposits	85%	88%	89%	97%	97%	85%	97%	94%	96%	91%
Loans / Core Deposits	90%	93%	95%	104%	103%	90%	103%	101%	102%	99%
Core Deposits / Total Funding	87%	88%	88%	86%	88%	87%	88%	89%	89%	85%
Loans / Total Assets	71%	75%	76%	81%	81%	71%	81%	82%	83%	77%
Double Leverage (Incl TRuPS)	106%	107%	107%	107%	107%	106%	107%	109%	110%	110%
RWA / Total Assets	77%	72%	71%	87%	88%	77%	88%	87%	88%	82%

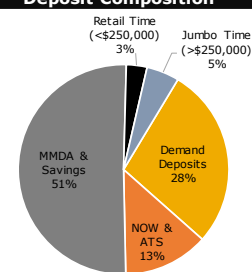
Data Sources: FR Y-9C and FR Y-9LP



Loan Composition					
(\$ millions)	2020	2019	2018	2017	2016
Construction & Development	594	521	533	581	335
Owner Occupied CRE	1,693	1,587	1,464	1,329	1,172
Non-Owner Occupied CRE	1,687	1,331	1,045	749	641
Residential Mortgage	726	651	622	608	541
Commercial & Industrial	3,188	2,594	2,404	2,211	1,934
Consumer	63	61	61	60	53
Multi-Family Loans	316	300	161	128	92
Leases	0	0	0	0	0
Agriculture	200	208	219	173	140
Other	12	15	25	18	8
Total Loans	8,480	7,268	6,534	5,856	4,916
Loans Held for Sale (HFS)	14	6	0	4	5
Loans Held for Investment (HFI)	8,466	7,261	6,533	5,851	4,912
Annual Loan Growth	17%	11%	12%	19%	16%
Investor CRE / Total Loans	31%	30%	27%	25%	22%
C&D / Risk-Based Capital (RBC)	53%	54%	64%	81%	54%
Non-Owner Occupied CRE / RBC	238%	228%	212%	207%	179%



Deposit Composition					
(\$ millions)	2020	2019	2018	2017	2016
Domestic Deposits					
Demand Deposits	2,789	1,750	1,557	1,440	1,282
NOW & ATS	1,307	994	964	991	800
MMDA & Savings	5,062	4,058	3,715	3,089	2,811
Time Deposits					
Retail Time (<\$250,000)	317	267	258	229	80
Jumbo Time (>\$250,000)	500	461	422	343	448
Foreign Deposits	0	0	0	0	0
Total Deposits	9,976	7,530	6,916	6,092	5,420
Total Core Deposits	9,425	7,069	6,494	5,749	4,971
Total Non-interest Bearing	2,789	1,750	1,557	1,440	1,282
Annual Core Deposit Growth Rate	33%	9%	13%	16%	31%



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

Comparative Statistics

Peer Comparison Trends									
Time Period	SERVISFIRST BANCSHARES, INC.			Benchmark \$10-\$100BN			KBRA Peers BBB+		
	2020	2020	2020	2019	2019	2019	2018	2018	2018
Balance Sheet									
Total Assets	11,932,654	26,965,324	15,652,816	8,947,653	22,764,049	13,309,388	8,007,382	20,385,796	11,889,062
Total Risk Weighted Assets	9,129,247	18,983,392	11,287,796	7,834,541	17,590,646	10,463,353	6,968,095	15,578,891	9,247,577
RWA / Total Assets	77%	70%	72%	88%	77%	79%	87%	77%	78%
Loans (HFI)	8,465,688	16,999,881	10,704,223	7,261,451	15,207,588	9,488,398	6,533,499	13,722,884	8,438,197
Total Deposits	9,975,724	20,995,474	12,619,826	7,530,433	16,804,770	9,600,462	6,915,708	15,199,742	8,574,480
Loans / Deposits	85%	85%	86%	97%	94%	93%	94%	92%	93%
Loans / Core Deposits	90%	95%	94%	103%	108%	103%	101%	105%	103%
Average Loans / Average Earning Assets	83%	76%	81%	85%	79%	83%	92%	79%	78%
Performance Measures									
ROAA	1.60%	0.64%	0.57%	1.73%	1.27%	1.27%	1.88%	1.28%	1.20%
ROAE	18.6%	5.4%	5.1%	19.2%	10.2%	9.9%	20.8%	10.7%	10.5%
Return on Risk Weighted Assets	2.09%	0.99%	0.82%	1.97%	1.67%	1.61%	2.16%	1.70%	1.64%
Average Loan Yield	4.27%	4.10%	4.18%	4.98%	4.80%	4.95%	4.74%	4.64%	4.75%
Cost of Interest Bearing Dep.	0.70%	0.53%	0.58%	1.59%	1.06%	1.16%	1.16%	0.75%	0.79%
NIM	3.32%	3.07%	3.24%	3.46%	3.49%	3.67%	3.75%	3.52%	3.49%
Noninterest Bearing / Total Dep.	28%	29%	31%	23%	25%	26%	23%	26%	25%
Noninterest Inc. / Total Rev.	8%	27%	22%	8%	24%	21%	8%	24%	20%
Efficiency	30%	68%	68%	33%	59%	58%	33%	60%	58%
Asset Quality									
NCO / Average Loans	0.34%	0.23%	0.20%	0.31%	0.17%	0.16%	0.19%	0.17%	0.13%
NPA / Loans + OREO	0.30%	0.71%	0.70%	0.61%	0.63%	0.57%	0.50%	0.67%	0.61%
LLR / NPL	464%	328%	299%	212%	399%	418%	247%	290%	197%
LLR / Loans(HFI)	1.04%	1.47%	1.52%	1.05%	0.83%	0.75%	1.05%	0.88%	0.78%
Capital									
TCE	8.2%	9.2%	9.0%	9.3%	9.7%	9.4%	8.8%	9.3%	8.9%
CET1	10.5%	12.6%	12.0%	10.5%	12.3%	11.4%	10.1%	12.2%	11.3%
Tier 1 Leverage	8.2%	9.5%	9.3%	9.1%	10.2%	9.4%	9.1%	10.0%	9.2%
Loan Portfolio									
C&I Loans/Total Loans	38%	24%	23%	36%	20%	20%	37%	21%	19%
ICRE Loans/Total Loans	31%	33%	36%	30%	33%	37%	27%	33%	35%
C&D Loans / Total Loans	7%	7%	7%	7%	7%	8%	8%	7%	8%

Source: Company's FR Y-9-C and KBRA Financial Intelligence

*Annualized

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

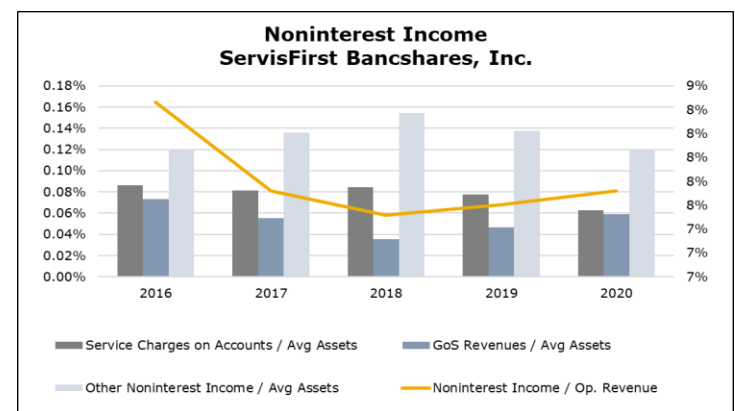
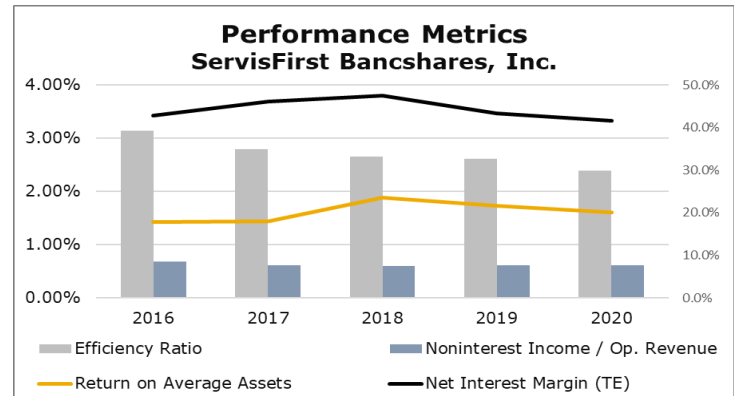
Key Quantitative Rating Determinants

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

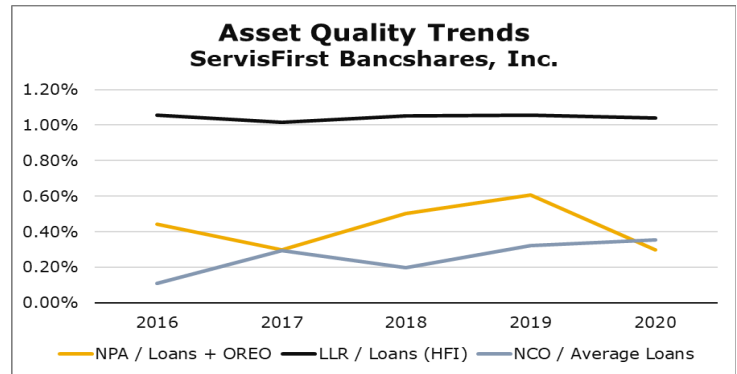
SFBS' multi-year earnings track record has been consistently within the top quartile of similarity sized peers, underscored by manageable credit costs and a keen focus on expense control, supported by a branch-light banking model. Aligned with historical trends, the company delivered a solid core ROA north of 1.5% for the year 2020, amid the pandemic-driven economic downturn. While the impact of COVID-19 has been relatively benign within the company's footprint, the increase in provisions to 0.52% of average loans for 2020, compared to 0.33% in 2019, was primarily due to a modest uptick in net charge-offs during the second half of the year. Nonetheless, ServisFirst's provisions for 2020 were comparatively lower than similarly sized peers operating in markets more significantly impacted by COVID-19. On a risk-adjusted basis, SFBS reported ROA of 2.09% in 2020, well above the average for similarly situated peers. The net interest margin has been resilient, considering the diluting impact of excess liquidity (13 bps), in addition to a 71 bp decline in average loan yields to 4.45% in 2020 compared to 2019. Of note, approximately 68% of SFBS' loan portfolio had a fixed rate as of December 31, 2020. Still, 66% of variable rate loans have a floor at an average rate of 4.29%, limiting further material decline in loan yields, stemming from repricing activities. Among the factors that benefited the 3.31% NIM in 2020, we noted lower funding costs (31 bps in 2020 versus 1.05% in 2019), as well as accretion of net fees on PPP loans of \$11.5 million during 2020 that added 54 bps to loan yields. Further, the potential repricing of ~\$530 million CD maturing in 2021 is expected to result in a \$2.3 million annual reduction in interest expense in 2021. Noninterest income contribution remained flat (~8% of total revenues) in 2020, tracking below the median for similarly situated peers. While stronger mortgage banking revenues contributed to fee income in 2020, service charges on deposit accounts and credit cards fees remained the primary sources of noninterest income. With regard to its expanding scale, SFBS is not expected to be significantly impacted by the Durbin amendment (effective July 2022) given its commercially focused business model, though expects a \$950,000 annual reduction in revenue.

The company's robust expense control is a key driver of its strong bottom line reflected by an efficiency ratio that has tracked below 35% for a multi-year period. The company's operating efficiency is driven by a select branch network, with single branches typically holding an average of \$475 million in deposits, as of December 31, 2020, while overhead expense continues to outperform peers with a ratio of 1.04% for 2020. In recent years, ServisFirst has also leveraged its technological platform to sustain operating efficiency and has been disciplined with regard to onboarding new employees. Overall, SFBS' track record of delivering above peer earnings performance, including through challenging economic conditions as demonstrated by the company's ability to navigate the global financial crisis profitably, reflects the conservative and disciplined culture of its management team, which has been stable.



Asset Quality

Reflective of the company's conservative underwriting and risk management standards, ServisFirst's asset quality performance has generally tracked in line with peers with manageable NPA and NCO levels. Management has been proactive in addressing problem loans throughout the challenging operating environment in 2020. As such, in recent quarters, credit costs have demonstrated some volatility due to the lumpiness of certain C&I credits within the loan portfolio, though have remained digestible. Following the charge-off and payoff of certain problematic credits, the NPA ratio decreased to 30 bps at YE20, compared to 61 bps at YE19. Management reported four loans on nonaccrual at YE20, the majority of which were related to previously impaired loans. Meanwhile, the NCO ratio for 2020 remained largely unchanged from 2019, at 36 bps, despite a moderate uptick in NCOs during the second half of the year. Of the 41 bps of NCOs in 4Q20, just over half was due to two credits related to borrower misrepresentations on C&I relationships, while management reported only one COVID-19 related charge-off involving a bus company that was severely impacted by the pandemic. The allowance for loan and lease losses has remained largely consistent with past practices, at 1.04% of total loans (1.16% excluding PPP loans); meanwhile, LLRs covered more than 4x NPLs, more than doubling compared to YE19. ServisFirst retroactively adopted CECL as of January 1, 2020, which had a minimal impact of \$2 million on reserves. While the company's reserves are below the average for similarly sized peers, when considering SFBS' sound capital and strong earnings power, we view loss absorption capacity as solid.



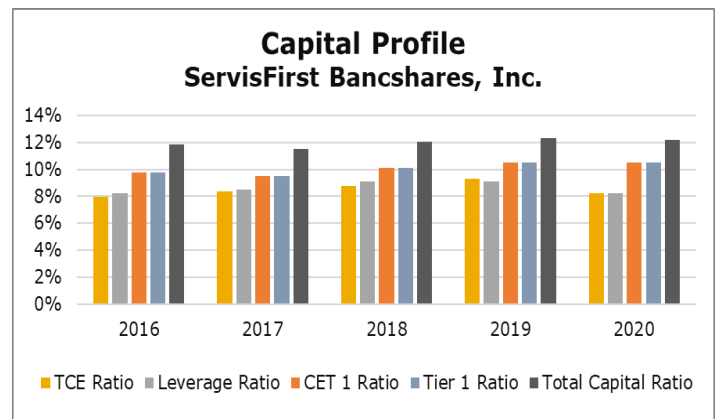
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Taking a historical view of the company's asset quality performance, we note comparatively healthy performance, including through the global financial crisis, which the company navigated profitably. SFBS' loan portfolio appears fairly diversified in terms of industry concentration, however, includes some sizable/lumpy exposures, primarily within the C&I book. That said, we consider SFBS to be conservative underwriters and the commercial loan book to be well managed with diligent monitoring practices and minimal nonperforming loans. Moreover, refreshed LTV and DCSR ratios appear in line with the industry standards and regulatory guidelines. Meanwhile, the investor CRE to risk-based capital concentration continues to be within the company's internal policy limit at 238% at the end of 2020.

With regard to COVID-vulnerable industries, SFBS' aggregate exposure of ~13% of total loans, in considered average compared to KBRA peers, despite the inclusion of 4% exposure to senior living facilities. That said, none of these loans were in deferral as of December 31, 2020. Representing less than 1% of total loans, deferred loans were entirely composed of consumer loans at the end of 2020. ServisFirst originated 4,900 loans totaling \$1.05 billion in 2020 through the PPP, \$900 million of which remained outstanding at YE20. Further, SFBS reported accretion of net fees on PPP loans of \$11.5 million during 2020.

Capital

ServisFirst's management team has taken a generally conservative and consistent approach to capital management over time. While capital ratios are considered adequate relative to the company's risk profile, they remained in the lower bracket of similarly situated peers. The TCE ratio has generally tracked slightly below 9% despite solid organic growth through the years, while regulatory capital ratios, specifically CET1, have been trending upward following the 2015 acquisition of Metro Bank, reaching 10.5% in recent years. Also included in the company's capital stack is \$64.8 million in subordinated debt. The company raised \$34.8 million subordinated debt in 2020 through a private placement, the proceeds of which, were used to refinance previous debentures. KBRA views ServisFirst's current capital position and management standards as appropriate with respect to the institution's risk profile and considering the nonrecurrent impact of PPP loans going forward. That said, we note that a decline in current capital measures or the adoption of aggressive capital management standards could pressure the ratings as the company's business profile becomes more complex. The double leverage ratio of 106% as of year-end 2020 does not pose a concern.

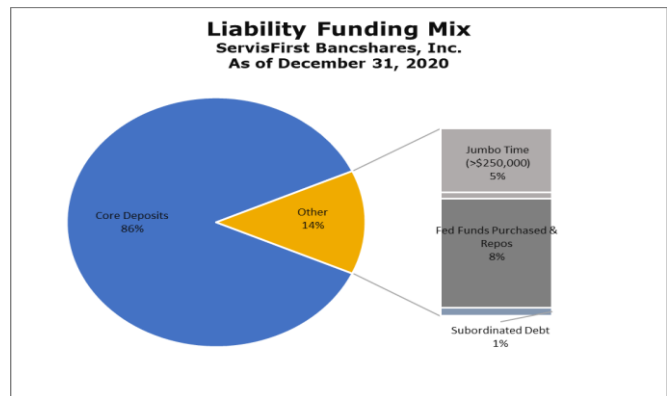
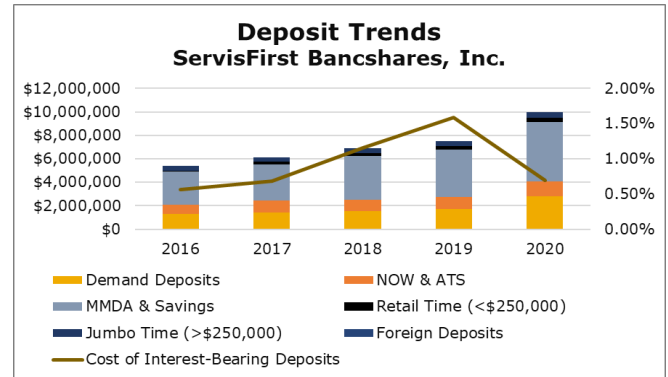


management standards as appropriate with respect to the institution's risk profile and considering the nonrecurrent impact of PPP loans going forward. That said, we note that a decline in current capital measures or the adoption of aggressive capital management standards could pressure the ratings as the company's business profile becomes more complex. The double leverage ratio of 106% as of year-end 2020 does not pose a concern.

Funding & Liquidity

Core deposits remain the primary source of funding for the company, comprising 86% of total funding at December 31, 2020. Despite its branch-light network, ServisFirst generally maintains a healthy liquidity position including a loan to core deposit ratio of 90% at YE20. While government stimulus programs contributed to inflow of deposits in 2020, management anticipates that a majority of these funds will remain with the bank. The deposit base remained well diversified by customer and many large deposits are associated with operating accounts of long-term C&I relationships. SFBS also benefits from a 28% noninterest bearing deposit component. Moreover, the cost of deposits (0.31% at YE20), reflected the impact of low interest rates and repricing trends. SFBS' noncore funding utilization remained below peer average, representing 14% of the funding mix as of YE20, and was mainly comprised of fed funds purchases & repos and jumbo time deposits.

Beyond deposits, ServisFirst's ample liquidity profile is highlighted by a large and growing correspondent-banking network that constitutes a readily available source of short-term funding. Partnerships are relationship driven and, thus, offer a relatively stable source of funding as well as additional strategic rationale, including the buildup of the credit card program. In addition, the bank had \$792 million available in lines of credit with 29 institutions in 2020¹. The investment securities portfolio constitutes another source of accessible liquidity, though remains relatively small, representing less than 10% of total assets at December 31, 2020. The \$887 million portfolio was all classified as available for sale, and appears conservative, as investments are primarily in U.S. government and sponsored agencies, and mortgage backed securities, with an effective duration of approximately 2.3 years. Management intends to maintain at least \$5 million of cash at the holding company, which comfortably covers debt service expense. The dividend payout ratio remained conservative at ~20%.



Key Qualitative Rating Determinants

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

Market Strategy

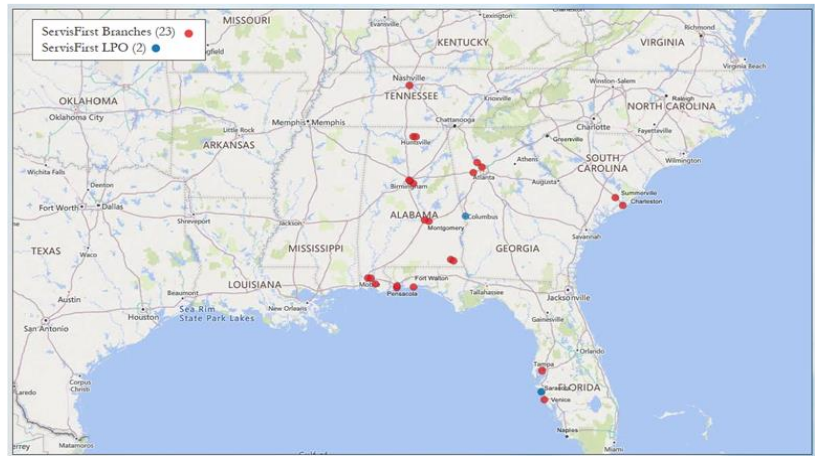
Established in 2005, ServisFirst's streamlined business model focuses on traditional commercial banking, cash management, private banking, and correspondent banking services. The company targets businesses and their owners, professionals, and affluent consumers and primarily operates in urban areas of Alabama (12 branches), Florida (5 branches), Georgia (2 branches), South Carolina (1 branch), and Tennessee (1 branch). SFBS has captured significant share of key markets located in its home state of Alabama, as well as in targeted regions of Florida. In addition, SFBS has a sizeable correspondent banking network of approximately 350 small community banks with relationships throughout the mid and southeastern parts of the nation.

ServisFirst's \$8.5 billion loan portfolio is largely centered in C&I (58% of loans, including 20% owner-occupied CRE) and investor CRE loans (24%, including 4% multi-family), followed by residential mortgage (8%), and C&D loans (7%) at year-end 2020. The remainder of the portfolio is comprised of agricultural loans and a nominal consumer loan component. Overall, the loan book is well balanced in terms of industry concentration as well as portfolio mix. Management continues to target in-market C&I and owner-occupied CRE growth. That said, the company remains largely spread-reliant (+90% of revenue) and based on management's preference for a straightforward commercial banking model, we do not anticipate the addition of nonbank business lines or a material increase in noninterest income contribution in the near-term, though the company continues to evaluate ways to enhance fee income. The credit card

¹ These lines are subject to certain restrictions and in some cases collateral requirements.

program offered through its sizable correspondent banking network remains the primary contributor of fee-based revenue.

ServisFirst's management team is considered conservative and experienced, with established tenures in the banking industry. Top executives and regional CEOs have strong backgrounds and prior experience working at larger banking institutions. The President and CEO, Thomas A. Broughton, III, founded the company in 2005 and 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 ServisFirst in 2010 and was tasked with the development of the correspondent banking division. Prior to joining ServisFirst, 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)



Source: Management Presentation

during his 38-year banking career. William Foshee joined the company in 2005, and has served as EVP, Chief Financial Officer, Treasurer and Secretary of ServisFirst since 2007. Prior to joining SFBS, Mr. Foshee served as the Chief Financial Officer of Heritage Financial Holding Corporation from 2002 until it was acquired in 2005. KBRA notes that under the leadership of Mr. Broughton, SFBS has achieved high double digits organic growth since inception, while retaining profitability and maintaining strong asset quality metrics. Additionally, SFBS' historical earnings reflect steady growth and compare favorably among peers. Notably, despite reporting lower earnings during the crisis years, SFBS remained profitable through the GFC. In addition, a core strength of ServisFirst resides in the select branch network, which has proven to be efficient, focusing on the optimization of each branch location. Furthermore, the company operates a scalable and decentralized business model in which regional CEOs drive revenue. In tandem with these strategies, ServisFirst's expansion targets organic growth opportunities in footprint and select, southern markets with strong growth prospects and access to experienced bankers. The company believes that this approach supports its mission of delivering high quality customer service, while facilitating the development of long-term, multiple channel relationships. Overall, SFBS appears well positioned within its key operating markets with a clearly defined business model.

Risk Management

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

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

With respect to its contemporary scale, the company anticipates relatively small economic and regulatory impact from crossing the \$10 billion threshold, given its commercial banking focus and the proactive leg work completed through recent years. ServisFirst 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 is in the process of hiring an internal audit manager in an effort to create separation between risk and audit and will begin performing some internal audit work in house. Enterprise risk management and model risk management programs are continuing to be developed, enhanced, and implemented. Changes in infrastructure and quality of information systems include shifting core processor.

General risks associated with CRE lending are partially mitigated by shorter maturities and diligent monitoring of borrower concentration in addition to well defined lending tolerances. As of December 31, 2020, the top three industries within the CRE portfolio included real estate (25%), healthcare & social assistance (12%), and the service industry (9%), while construction, healthcare and social assistance, and manufacturing represented the top three industries



within the C&I portfolio. The investor CRE to total risk-based capital ratio remained comfortably within regulatory guidelines at 238% as of December 31, 2020. At the same time, the C&D portfolio represented 7% of total loans and 53% of total risk-based capital, and management's appetite for C&D is not expected to change materially in the near term. Controls for real-estate construction loans, specifically, include weekly monitoring of any past due accounts and monthly credit review for all watch list classified loans, including the development of aggressive action plans, while loans for new construction are generally restricted to established builders with a proven history of successful turnovers. Moreover, SFBS generally avoids funding undeveloped property. Policy limits for LTVs conform to regulatory guidelines, while DSC ratios are based on product type. SFBS maintains a small energy lending portfolio with exposure of approximately \$51.5 million (0.6% of loans) at year-end 2020. Moreover, the company's outstanding exposure to SNCs was \$61.9 million as of February 28, 2021, most of which are deposit relationship driven.

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. At YE20, there were no concerns or issues with audit or exam findings. Please refer to the asset quality section beginning on page 6 for details on COVID-19 related information.

Liquidity Management

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

ESG Management

KBRA's ratings incorporate all material credit factors including those that relate to Environmental, Social and Governance (ESG) factors. While ESG factors may influence ratings, it is important to underscore that KBRA's ratings do not incorporate value-based judgments. Throughout our analysis, KBRA captures the impact of ESG factors in the same manner as all other credit-relevant factors. More information on KBRA's approach to ESG risk management can be found [here](#). An ESG factor that had a material impact on this rating was governance factors. Governance factors that had a significant impact of this rating analysis include the company's sound corporate governance and risk management framework. For supplementary information on risk management and other considerations, please reference the qualitative rating determinants section beginning on page 7.

Additional ESG information is presented in Appendix A at the end of this report. This information is not material to the rating, unless otherwise noted, but was uncovered during KBRA's due diligence process. Though not necessarily material now, the ESG factors listed in the additional information section may become more relevant to credit over time.

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.



Rating 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.



Appendix A: ESG Additional Information

Environmental-Related	Description and Other Information
Board oversight of climate-related issues and process for identifying, assessing and responding to risks/opportunities	Not available.
Influence of climate-related risks and opportunities on strategy/financial planning	None disclosed.
Process for identifying, assessing, and responding to climate-related risks and opportunities	None disclosed.
Any inherent climate-related risks with the potential to have a substantive financial or strategic impact on the business	None disclosed.
Calculation of CO2 emissions in current year	None disclosed.
Aspects of loan portfolio directed to renewable energy projects or lending opportunities in the area of energy efficiency	None disclosed.
Portion of loan portfolio to energy and other carbon-intensive industries	None disclosed.
Any facilities that are environmentally oriented, either LEED certified or enhanced	None disclosed.
Social-Related	
Number and amount of loans outstanding, past due, and non-accruing associated with programs designed to promote small business and community development	The company has no specific programs for small business or community development but emphasized and monitored by CRA Officer and Regional CEOs. Loans generated in 2020 were as follows: small business- \$456,703; small farm- \$13,020; and community development- \$289,030.
Any bank deposit or lending products geared toward low income customers as well as low-income housing, etc.	<p>The ServisFirst Affordable Housing Program is a home mortgage product designed for low-to-moderate income (LMI) customers. The loan program provides up to 100% financing for home purchases or refinances to LMI borrowers.</p> <p>Single family homes, warrantable condominiums, townhomes and planned unit developments (PUDs) may qualify if they are the borrowers' primary residence. The program's mortgage loans are limited to \$200,000 and the minimum credit score is 620. In 2020 there were 65 of these loans originated totaling \$9.4 million.</p>
Number of no-cost retail checking accounts provided to previously unbanked or underbanked customers	None.
Number of participants in financial literacy initiatives for unbanked, underbanked, or underserved customers	The bank partners with several community development organizations to instruct participants in free financial literacy education and perform free income tax preparation. The bank employees volunteered 357 hours of their time to provide these important services to 3,970 individuals in 2020.
Governance-Related	
Number of data breaches, percentage involving personally identifiable information (PII), and number of account holders affected	No data breaches reported.



Description of whistleblower policies and procedures	None disclosed.
Description of approach to identifying and addressing data security risks	-Threat Intelligence -Active monitoring systems -Monthly Security Reviews conducted by ISO
Total amount of monetary losses as a result of legal proceedings associated with fraud, insider trading, anti-trust, anti-competitive behavior, market manipulation, malpractice, or other related financial industry laws or regulations	None disclosed.
<i>Source: Company Reports and Management Presentations/Data</i>	

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