ServisFirst Bancshares, Inc.

Ratings

ServisFirst Bancshares, Inc.	
Action: Affirmed	**4/23/19**
Senior Unsecured Debt	BBB+
Subordinated Debt	BBB
Short-Term Debt	K2

ServisFirst Bank	
Action: Affirmed	**4/23/19**
Deposit	A-
Senior Unsecured Debt	A-
Subordinated Debt	BBB+
Short-Term Deposit	K2
Short-Term Debt	K2

KBRA Global Bank & Bank Holding Company Methodology dated February 19, 2016.

Outlook/Watch

ServisFirst Bancshares, Inc.	
Long-Term Ratings	Stable

ServisFirst Bank	
Long-Term Ratings	Stable

Financial Snapshot

SFBS (%)	1Q19	YE18
Total Assets ($B)	8.3	8.0
ROAA	1.75	1.88
NIM	3.56	3.79
NCO Ratio	0.20	0.20
NPA Ratio	0.49	0.50
TCE Ratio	8.9	8.8
CET1 Ratio	10.3	10.1
Loans/Core Dep	NR	101

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Company Profile

- Based in Birmingham, Alabama, ServisFirst Bancshares, Inc. (NASDAQ: SFBS) ("ServisFirst" or "the Company"), with total assets of $8.3 billion as of March 31, 2019, is the bank holding company of ServisFirst Bank ("the Bank"). SFBS operates with a limited branch network, comprised of 20 branches and one loan production office, located in five contiguous southeastern states, though 60% of branches are based in the Company's home state of Alabama.
- SFBS' streamlined business model focuses on providing commercial banking, cash management, private banking, and correspondent banking services, primarily to businesses and their owners, professionals and affluent consumers.
- SFBS' loan portfolio reflects a balanced risk profile in terms of industry concentration as well as portfolio mix. CRE represented 38% of loans, with the owner-occupied CRE comprising 22% of loans and investor CRE comprising 16%, while C&I accounted for 37%, followed by residential mortgage (10%), and C&D loans (8%). The remainder of the portfolio included multi-family, agricultural, and a nominal consumer loan component.
- Since its inception in 2005, SFBS has grown primarily through organic expansion, with a bolt on acquisition of Metro Bank in 2015, which strategically extended the Company's footprint to the Atlanta MSA where SFBS now operates three branches.

Ratings Rationale

- ServisFirst's ratings are supported by above-peer profitability and favorable asset quality metrics, as well as the Company's higher touch, commercially oriented business model that operates with a limited branch network, enabling the efficiency ratio to remain below 40% over a multi-year period. SFBS' comparatively strong core earnings, including ROA in excess of 1.7% for five consecutive quarters, have been driven by the Company's favorable efficiency and solid NIM, while credit costs have been manageable.
- Constraints to the ratings include the Company's spread-derived revenue stream and elevated deposit costs, though absorbable given the strength of SFBS' operating efficiency.
- The Stable Outlook for ServisFirst's long-term ratings incorporates the expectation that the Company's current credit profile, underpinned by its above-peer earnings performance, favorable asset quality metrics, and proven market strategy, would remain relatively consistent in a less constructive economic environment.

Drivers of Rating Change

The long-term ratings of the Bank and its parent share a Stable Outlook, and in KBRA's view, a rating upgrade in the near future is not expected. However, meaningful diversification of the revenue stream, along with stable to stronger capital measures and the ability to manage rising deposit costs while maintaining peer leading earnings, could facilitate positive ratings momentum.	+
The ratings of SFBS incorporate a certain degree of resilience based upon KBRA's stress testing. Therefore, a rating downgrade in the near term is unlikely. Still, significant deterioration in earnings or asset quality could pressure the ratings. Moreover, aggressive capital management or funding pressure that impairs earnings could lead to negative rating outcomes.	–

1Q19 Performance and Highlights

Key Financial Ratios (%)	1Q19	4Q18	1Q18
ROAA	1.75	1.85	1.91
NIM	3.56	3.63	3.81
Efficiency	34.4	30.7	34.5
Net Charge-offs / Average Loans	0.20	0.30	0.10
NPA / Total Loans + OREO	0.49	0.50	0.26
Common Equity Tier 1 (CET1) Ratio	10.3	10.1	9.9
Tier 1 / Risk Weighted Assets (RWA)	10.3	10.1	9.9

- SFBS' results for 1Q19 were largely consistent with KBRA's expectations, including peer leading returns and efficiency, supported by the Company's limited branch network, despite the impact of seasonal sluggishness generally observed in the first quarter.
- Performance measures remained strong with a reported ROA of above 1.7%, supported by a solid NIM, despite modest compression, and lower provisions for loan losses.
- Average loan and deposit balances reflected solid growth, rising 3% and 4%, respectively, compared to the preceding quarter.
- NIM declined 7 bps sequentially, primarily due to an increase in excess funds in 1Q19, coupled with rising deposit costs (up 20 bps, to 1.65% for interest bearing deposits in 1Q19), which outpaced yield expansion. That said, SFBS' low operating expenses associated with its limited branch footprint continued to insulate bottom line results from deposit pricing pressure.
- While sound, asset quality improved marginally in 1Q19 after NPAs and NCOs increased in the linked quarter largely due to the migration of a $10.4 million idiosyncratic credit relationship with a traditional C&I company based in Alabama to nonaccrual status. Management charged off $2 million of the balance in 4Q18 and continues to work to liquidate the related assets. Net charge-offs to average loans also improved by 10 bps and remained minimal, with an NCO ratio of 0.20% for 1Q19. The allowance for loan loss remained flat from multiple preceding quarters at 1.05% of total loans, and is viewed as sufficient.
- SFBS' capital ratios remained comfortable in view of its risk profile, including a TCE ratio tracking comfortably above 8%.

Financial Metrics

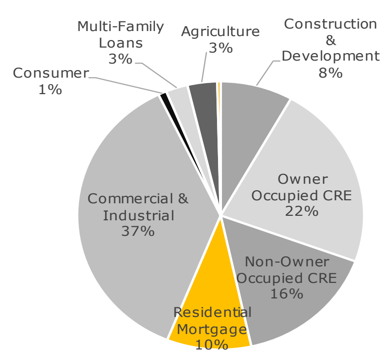
Summary Financial Highlights - ServisFirst Bancshares, Inc.	4Q18	3Q18	2Q18	1Q18	4Q17	2018	2017	2016	2015	2014
Balance Sheet ($ millions)										
Loans (HFI)	6,533	6,364	6,130	5,928	5,851	6,533	5,851	4,912	4,216	3,360
Average Earning Assets	7,514	7,132	6,795	6,672	6,711	7,028	6,229	5,519	4,384	3,595
Total Assets	8,007	7,518	7,085	7,012	7,082	8,007	7,082	6,370	5,096	4,099
Core Deposits	6,494	6,108	5,722	5,635	5,749	6,494	5,749	4,971	3,798	3,066
Total Deposits	6,916	6,505	6,086	5,977	6,092	6,916	6,092	5,420	4,224	3,398
Total Equity	715	681	655	629	607	715	607	523	449	407
Tangible Common (TCE)	701	667	640	614	592	701	592	508	433	367
Income Statement ($ millions)										
Net Interest Income	68.9	66.9	64.5	62.4	61.4	262.7	227.4	187.1	162.3	130.6
Noninterest Income	5.6	5.4	5.5	4.9	4.9	21.3	19.0	17.3	13.0	10.4
Noninterest Expense	23.3	23.2	24.0	23.5	21.2	94.0	85.9	80.2	73.4	56.8
Provision for Loan Losses	6.5	6.6	4.1	4.1	9.1	21.4	23.2	13.4	12.8	10.3
Net Income	36.2	34.6	33.5	32.6	21.2	136.9	93.1	81.5	63.5	52.4
Performance Measures (%)										
Return on Average Assets	1.86%	1.89%	1.90%	1.88%	1.21%	1.88%	1.43%	1.42%	1.39%	1.40%
Return on Average Equity	21.0%	20.4%	20.6%	21.1%	14.1%	20.8%	16.4%	16.6%	14.6%	14.6%
Net Interest Margin (FTE)	3.71%	3.80%	3.86%	3.81%	3.69%	3.79%	3.68%	3.43%	3.75%	3.69%
Efficiency Ratio	31.3%	32.0%	34.3%	34.9%	32.0%	33.1%	34.8%	39.2%	41.9%	40.3%
Noninterest Income / Op. Revenue	7.5%	7.5%	7.8%	7.2%	7.4%	7.5%	7.7%	8.5%	7.4%	7.4%
Loans / Earning Assets	86%	87%	88%	88%	85%	87%	86%	81%	87%	85%
Cost of Interest-bearing Deposits	1.46%	1.26%	1.03%	0.84%	0.78%	1.16%	0.69%	0.57%	0.52%	0.51%
Average Loan Yield	5.16%	5.07%	4.91%	4.73%	4.71%	4.97%	4.61%	4.46%	4.47%	4.45%
Asset Quality (%)										
NPA / Loans + OREO	0.50%	0.32%	0.33%	0.26%	0.30%	0.50%	0.30%	0.44%	0.31%	0.50%
LLR / Loans (HFI)	1.05%	1.05%	1.05%	1.05%	1.02%	1.05%	1.02%	1.06%	1.03%	1.06%
LLR / NPL	247%	450%	455%	624%	549%	247%	549%	307%	559%	355%
NCO / Average Loans	0.30%	0.26%	0.13%	0.10%	0.57%	0.20%	0.29%	0.11%	0.13%	0.17%
Provision / NCO (x)	1.4	1.7	2.1	2.8	1.1	1.8	1.5	2.7	2.5	1.9
NPA Change Rate	60.0%	2.7%	27.7%	-10.3%	-6.5%	88.2%	-20.0%	66.2%	-21.9%	-15.9%
Capital (%)										
TCE Ratio	8.77%	8.89%	9.05%	8.78%	8.38%	8.77%	8.38%	7.99%	8.53%	8.95%
Leverage Ratio	9.08%	9.26%	9.20%	8.95%	8.51%	9.08%	8.51%	8.22%	8.55%	9.91%
CET1 ratio	10.12%	10.08%	10.08%	9.87%	9.51%	10.12%	9.51%	9.78%	9.72%	NR
Tier 1 Ratio	10.13%	10.09%	10.08%	9.88%	9.52%	10.13%	9.52%	9.78%	9.73%	11.75%
Total Capital Ratio	12.05%	12.05%	12.10%	11.90%	11.52%	12.05%	11.52%	11.84%	11.95%	13.38%
Leverage & Funding (%)										
Loan / Deposit	94%	98%	101%	99%	96%	94%	96%	91%	100%	99%
Loans / Core Deposits	101%	104%	107%	105%	102%	101%	102%	99%	111%	110%
Double Leverage (Incl TRuPS)	109%	109%	110%	110%	110%	109%	110%	110%	102%	90%

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

Loan Composition

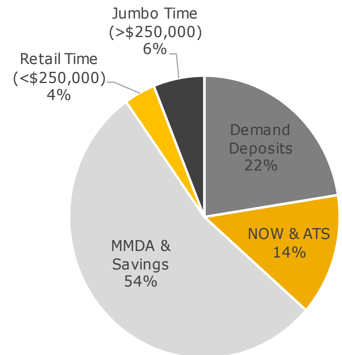
($ millions)	2018	2017	2016	2015	2014
Construction & Development	533	581	335	243	209
Owner Occupied CRE	1,464	1,329	1,172	1,015	794
Non-Owner Occupied CRE	1,045	749	641	527	343
Residential Mortgage	622	608	541	452	339
Commercial & Industrial	2,404	2,211	1,934	1,721	1,458
Consumer	61	60	53	53	44
Multi-Family Loans	161	128	92	71	55
Leases	-	-	-	-	-
Agriculture	219	173	140	133	118
Other	25	18	8	9	6
Total Loans	6,534	5,856	4,916	4,225	3,366
Loans Held for Sale (HFS)	0	4	5	8	6
Loans Held for Investment (HFI)	6,533	5,851	4,912	4,216	3,360
Annual Loan Growth	11.6%	19.1%	16.4%	25.5%	17.4%
Investor CRE / Total Loans	27%	25%	22%	21%	19%
C&D / Risk-Based Capital (RBC)	64%	81%	54%	46%	46%
Non-Owner Occupied CRE / RBC	212%	207%	179%	164%	136%

Loan Composition



Deposit Composition					
($ millions)	2018	2017	2016	2015	2014
Domestic Deposits					
Demand Deposits	1,557	1,440	1,282	1,053	810
NOW & ATS	964	991	800	662	183
MMDA & Savings	3,715	3,089	2,811	2,006	2,005
Time Deposits					
Retail Time (<$250,000)	258	229	80	79	68
Jumbo Time (>$250,000)	422	343	448	424	332
Foreign Deposits	-	-	-	-	-
Total Deposits	6,916	6,092	5,420	4,224	3,398
Total Core Deposits	6,494	5,749	4,971	3,798	3,066
Total Non-interest Bearing	1,557	1,440	1,282	1,053	810
Annual Core Deposit Growth Rate	13.0%	15.6%	30.9%	23.9%	14.6%

Deposit Compostion



Comparative Statistics

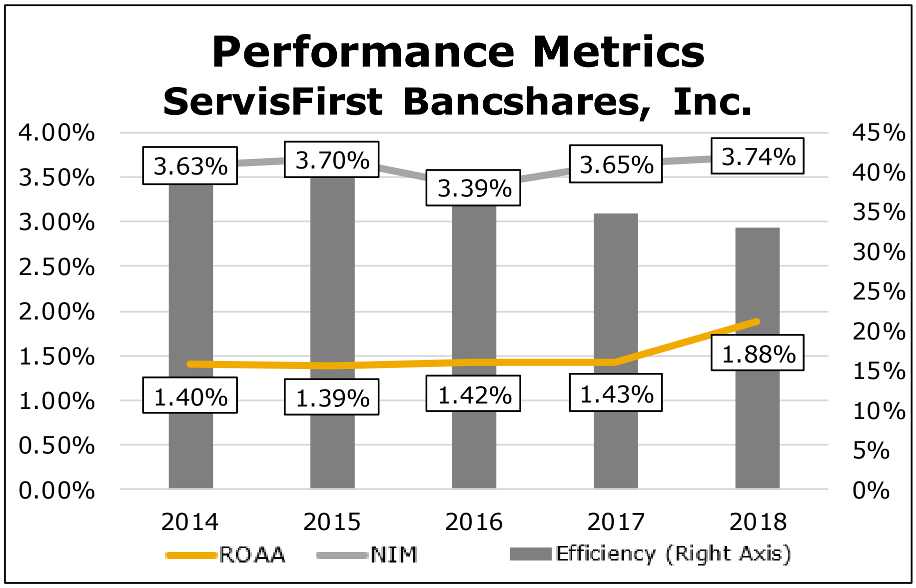
Rated BHC Peer Comparison as of December 31, 2018	ServisFirst Bancshares, Inc.	United Community Banks, Inc.	Renasant Corporation	Ameris Bancorp	CenterState Bank Corporation	The First Bancshares, Inc.	Median BBB+ Rated BHC
Total Assets (000s)	$8,007,382	$12,576,300	$12,934,878	$11,443,515	$12,337,588	$3,004,811	$9,434,252
Total Equity (000s)	$714,701	$1,457,553	$2,043,913	$1,456,347	$1,971,344	$363,254	$1,101,668
Performance Measures							
Return on Average Assets	1.88%	1.35%	1.28%	1.25%	1.43%	0.88%	1.27%
Return on Equity	19.16%	11.40%	7.19%	8.31%	7.94%	5.84%	9.64%
Net Interest Margin	3.74%	3.94%	3.99%	3.87%	4.36%	3.90%	3.68%
Efficiency Ratio	33.09%	57.69%	63.64%	62.79%	60.19%	72.45%	57.60%
Noninterest Income / Total Revenue	7.5%	18.2%	26.2%	24.4%	19.5%	18.8%	19.1%
Asset Quality							
Nonperforming Assets / Loans + OREO	0.50%	0.30%	0.38%	0.88%	0.49%	1.65%	0.57%
Reserves / Nonperforming Assets	208.26%	245.13%	137.32%	38.02%	97.58%	29.35%	127.37%
Net Charge-Offs / Average Loans	0.20%	0.07%	0.05%	0.19%	0.02%	0.01%	0.08%
Provisions / Net Charge-Offs	175.31%	137.44%	170.46%	120.88%	619.06%	1308.64%	133.94%
Capital							
CET1	10.12%	12.16%	11.05%	10.07%	11.86%	11.53%	10.89%
Tier 1 / RWA	10.13%	12.42%	12.10%	11.07%	12.27%	12.21%	11.17%
Funding & Leverage							
Total Loans / Total Deposits	94.5%	79.7%	93.7%	89.4%	88.4%	84.0%	95.9%
Total Loans / Core Deposits	100.6%	87.5%	100.2%	101.4%	95.1%	87.6%	106.4%
Total Loans / Total Assets	81.6%	66.8%	73.4%	75.4%	67.9%	68.7%	73.0%
Double Leverage	108.9%	104.8%	109.6%	115.9%	101.7%	119.7%	105.3%
Ratings and Outlook							
KBRA Long-Term Rating (BHC)	BBB+	BBB+	BBB+	BBB	BBB+	BBB	
Outlook	Stable	Stable	Stable	Positive	Stable	Stable	

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

Key Quantitative Rating Determinants

The quantitative financial fundamentals of the Bank are reflected in the Primary Credit Rating of A-, which is 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



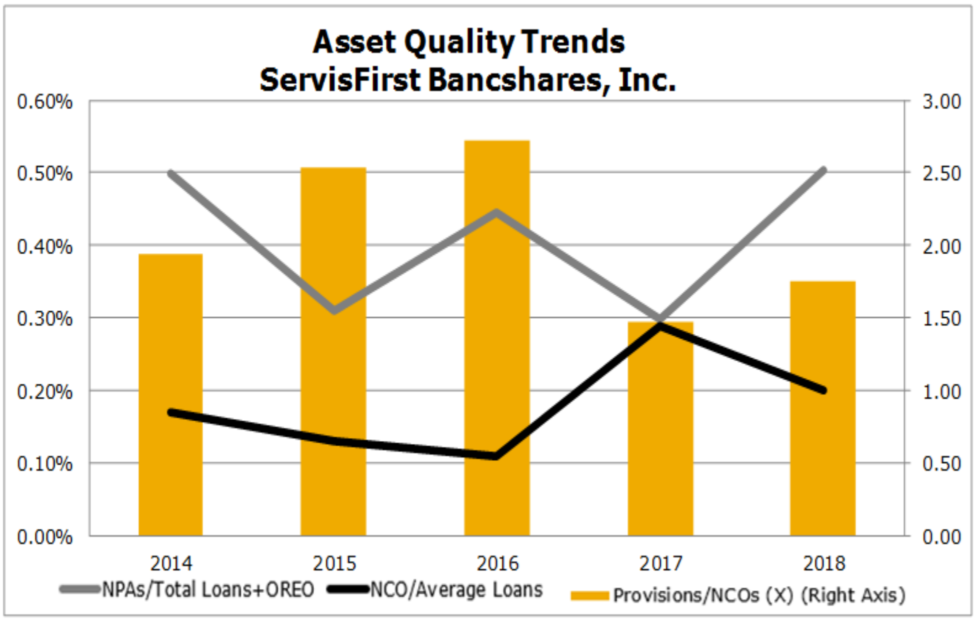
Data Source: ServisFirst Bancshares, Inc.'s Forms FR Y-9C

SFBS has consistently delivered peer leading returns, reflected in a multi-year core ROA of above 1.4%. While bottom line results in 2018 benefited from a reduced tax rate, SFBS' reported ROA of nearly 1.9% was reflective of the Company's highly efficient branch network and resilient NIM, despite rising funding costs, while credit costs have been manageable. Healthy loan expansion of 12% was driven by ongoing diversification efforts to grow C&I (up 34% YoY) and owner-occupied CRE loans (up 20% YoY). These favorable shifts in SFBS' asset mix supported loan yield expansion of 36 bps year-over-year, to 4.97% for 2018. Together, these efforts supported annual NIM expansion of 9 bps, despite rising deposit costs (up 47 bps YoY, to 1.16% in 2018), which outpaced increases in loan yields. With a highly spread-reliant revenue profile (93% of revenue), noninterest income continues to be a minor contributor to earnings presently, though may become more meaningful as the Company builds its credit card program within its correspondent banking network. SFBS' earnings performance has been reinforced by a strong efficiency ratio tracking below 40% for a multi-year period. SFBS's operating efficiency is sustained by the Company's limited branch network, with single branches typically holding an average of $345.8 million in deposits, as of December 31, 2018. Additionally, SFBS utilizes an integrated technology platform as well as a centralized risk infrastructure and credit management platform, while outsourcing select procedures to third party vendors. Altogether, these strategies partially offset the burden of rising funding costs. Furthermore, SFBS' track record of delivering above peer earnings performance, including manageable credit losses in challenging economic conditions as demonstrated by the Company's ability to navigate the financial crisis profitably, reflects the conservative and disciplined culture of its management team, which has remained largely intact from the financial crisis. KBRA recognizes the management team's ability to navigate through various economic cycles, and considers the Company well equipped to produce reasonably sound returns in the foreseeable future.

Asset Quality

Credit quality remained healthy and favorable in 2018, as expected, given the Company's strong credit culture and the generally benign credit environment. The NPA ratio increased marginally as of year-end

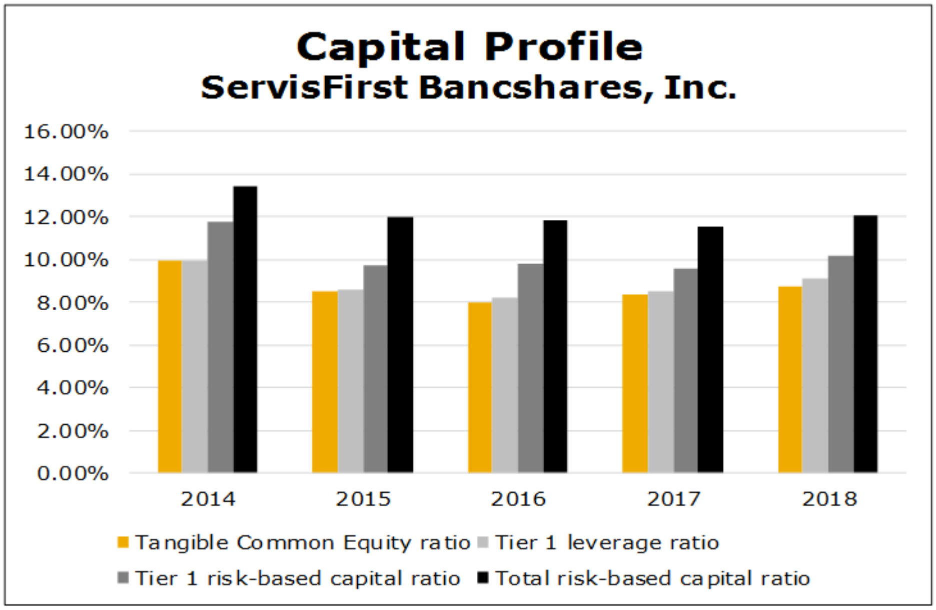
2018 largely due to one idiosyncratic relationship involving a $10.4 million credit with an Alabama based traditional C&I company that moved to nonaccrual in the fourth quarter, which the Company is working to liquidate. The NCO ratio improved year-over-year following an uptick in 4Q17 related to an aggressive strategy enacted to charge-off certain problem assets, primarily a $5.8 million charge-off on one commercial loan, in light of the benefits linked to the latest tax reform. Still, credit quality indicators, including the NPA and NCO ratios, remained in line with those for similarly situated peers as of YE18. Reflective of management's conservative credit culture, historical asset quality metrics have been comparatively healthy, including through the crisis years, which, as mentioned, the Company navigated profitably. Provisioning for loan losses has remained largely consistent with past practices, though was moderately up in 2018 due to the aforementioned credit migrations.



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

Capital

After declining in 2015 related to the acquisition of Metro Bank, SFBS' capital levels have generally held relatively stable in recent years, albeit in the lower bracket of similarly situated peers. Metrics in 2018 increased marginally owing to higher retained earnings. Meanwhile, the TCE ratio has tracked comfortably above 8% for a multi-year period. The Company has strong internal capital generation capability and has demonstrated the ability to access capital market funds. Most recently, the Company completed a $30 million subordinated debt offering in November of 2017 and used approximately $20 million of the proceeds to redeem higher cost subordinated notes due in 2022, while the remainder was held for general corporate purposes. While moderately below peer, KBRA considers ServisFirst's current capital position and capital management strategies as sufficient in view of the institution's risk profile, though notes that a decline in current capital measures or the adoption of more aggressive capital management could pressure the ratings. The double leverage ratio of approximately 109% does not pose a concern.



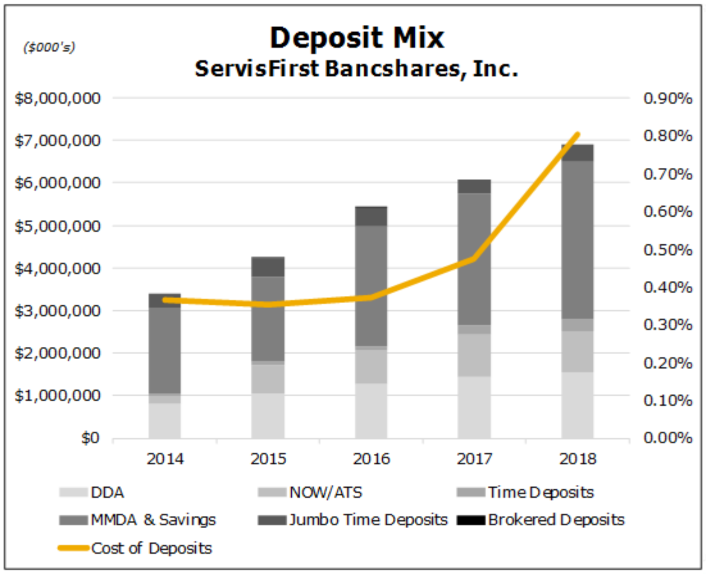
Source: FR Y-9C

Funding & Liquidity

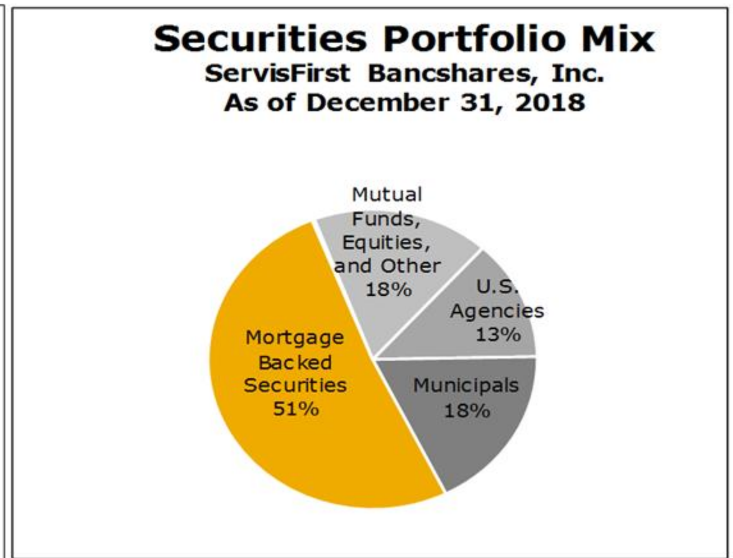
Core deposits continue to be the primary source of funding for the Bank, representing 94% of total deposits at December 31, 2018. Moreover, the loan to core deposit ratio has been comparatively low in recent years, with a 2018 measure of 101%. The deposit base remains well diversified by customer and many large deposits are associated with operating accounts of long-term C&I relationships. SFBS also benefits from a 23% noninterest bearing deposit component. While rising deposit costs are moderately elevated (cost of interest-bearing deposits of 1.46% in 4Q18), SFBS' solid bottom line has capacity to absorb the increases. Moreover, noncore funding utilization is healthy (10% of funding mix as of YE18) and was largely comprised of jumbo time deposits and fed funds purchases & repos.

Beyond deposits, ServisFirst's ample liquidity profile is highlighted by a large and growing correspondent-banking network that constitutes a practical source of short-term funding. Partnerships are relationship driven and, thus, offer a relatively stable source of funding as well as additional strategic rationale, including the growing aforementioned credit card program. In addition, the Bank had a total amount of $567 million available in lines of credit with more than 25 institutions in 2018[1]. The investment securities portfolio constitutes another source of short-term liquidity, though remains relatively small, representing less than 10% of total assets at year-end 2018. The $648.6 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 3 years. Management intends to maintain at least $2-5 million of cash at the holding company, which comfortably covers debt service expense.

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



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



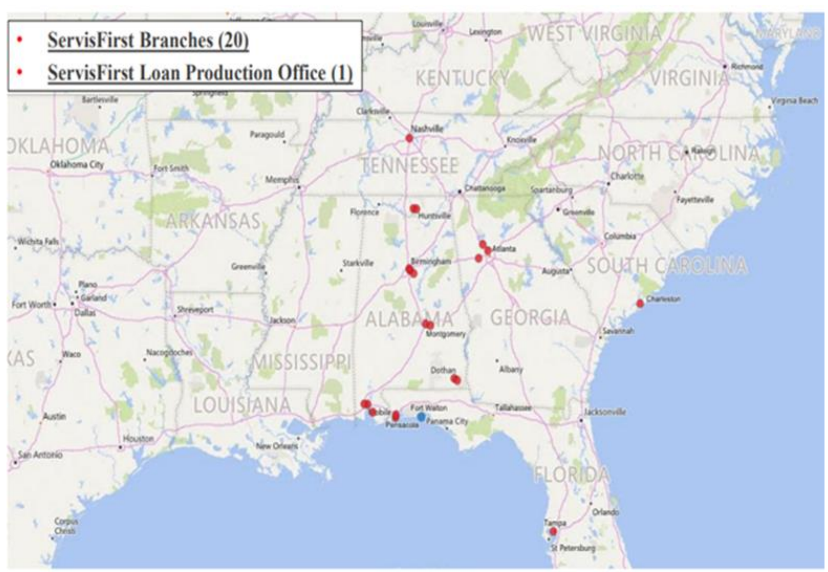
Data Source: ServisFirst Bancshares, Inc.'s Forms FR Y-9C

Key Qualitative Rating Determinants

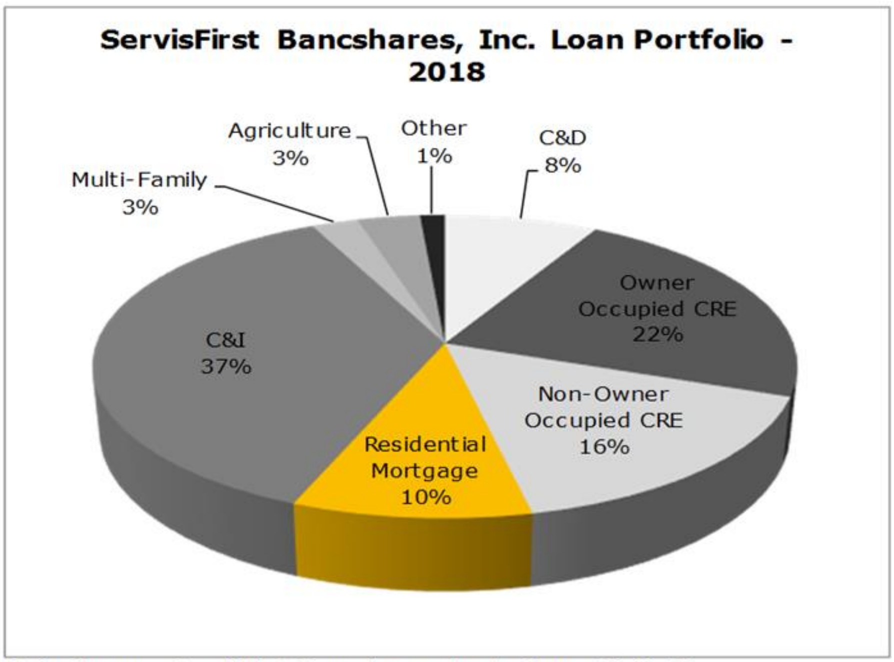
The qualitative aspects of ServisFirst Bancshares, Inc. were assessed using a scoring model that focuses on four key factors: market strategy, risk management, liquidity management, and the economic and regulatory framework. For the most part, SFBS scored above average. For qualitative aspects, KBRA 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

ServisFirst's streamlined business model focuses on providing commercial banking, cash management, private banking, and correspondent banking services to businesses and their owners, professionals, and affluent consumers. Primarily operating in the affluent MSAs of Alabama (12 branches), Florida (4 branches), Georgia (3 branches), South Carolina (1 branch), and Tennessee (1 branch), SFBS has captured significant share of key markets located in its home state of Alabama, as well as in targeted regions of Florida. In addition, SFBS has a sizeable correspondent banking network of approximately 330 small community banks with relationships throughout the mid and southeastern parts of the nation.



Reflective of the Company's business model, which is focused on traditional commercial banking, SFBS' $6.5 billion loan portfolio included CRE loans representing 38% of loans, with the owner-occupied CRE comprising 22% of loans and investor CRE comprising 16%, while C&I loans accounted for 37%, followed by residential mortgage (10%), and C&D loans (8%) at year-end 2018. The remainder of the portfolio comprised multi-family, agricultural, and a nominal consumer loan component. Overall, the loan book reflected a balanced risk profile in terms of industry concentration as well as portfolio mix. As previously noted, management is expected to target in-market C&I and owner-occupied CRE growth. Specifically, SFBS notes growth opportunities within its existing footprint including Birmingham, Huntsville, Montgomery, Dothan, and Mobile, Alabama and contiguous, economically vibrant southeastern markets such as Pensacola and Tampa Bay, FL; Nashville, TN; Charleston, SC; and Atlanta, GA. As such, SFBS is heavily spread-reliant (+90% of revenue) and is expected to remain so for the near-term as management continues to push traditional commercial offerings. That said, management intends to meaningfully build its credit card platform offered through its sizable correspondent banking network, which could contribute materially to fee-based revenue generation over time.



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

ServisFirst's management team appears to be conservative and experienced, with established tenures in the banking industry. Top executives and regional CEOs have strong backgrounds and prior experience working at larger banking institutions. The President and CEO Thomas A. Broughton, III, founded the Company in 2005 after initial capital raise of $35 million. Prior to SFBS, Mr. Broughton was the President and CEO of First Commercial Bank (acquired by Synovus Financial, 1992); subsequently, he was appointed regional CEO for Synovus. KBRA notes that under the leadership of Mr. Broughton, the Company has grown organically at an average annual rate above 12% since inception, while retaining profitability and maintaining strong asset quality metrics. Additionally, SFBS' historical earnings reflect steady growth and compare favorably among peers. Notably, despite reporting lower earnings during the crisis years, SFBS remained profitable through the downturn. In addition, a core strength of the Bank resides in its limited branch network, which has proven to be efficient, focusing on the optimization of each branch location. Furthermore, the Company operates a scalable and decentralized business model where regional CEOs drive revenue. In tandem with these strategies, ServisFirst's expansion targets organic growth opportunities in footprint and select, southern markets with strong growth prospects and access to experienced bankers. Moreover, 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 given market dynamics with a clearly defined business model. Altogether KBRA views ServisFirst's market strategy as average to strong.

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 location, while adhering to corporate policies and procedures.

ServisFirst's strong credit administration is evidenced by its sound asset quality metrics. 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. Any credit of $5 million or greater must be approved by two of the three following CEO, Chief Credit Officer, and COO. Additionally, all relationships greater than $2 million in exposure are reviewed annually and discussed with the Chief Credit Officer. Loan officers use a nine-point risk grade scale to assign risk grades to lending relationships and are responsible for reporting any changes in the risk grade of a loan in a timely fashion.

General risks associated with CRE lending are partially mitigated by shorter maturities and diligent monitoring of borrower concentration in addition to well defined lending tolerances. As of December 31, 2018, the top three industries within the CRE portfolio included real estate (21%), the service industry (12%), and healthcare & social assistance (12%), while manufacturing, healthcare and assistance, and wholesale trade remained the top three industries within the C&I portfolio. The CRE to total risk-based capital ratio remained comfortably within regulatory guidelines at 208% as of December 31, 2018. At the same time, the C&D portfolio represented 8% of total loans and 64% 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 $53 million at year-end 2018. Moreover, the Company's exposure to SNCs stood at $72 million as of December 31, 2018, most of which are deposit relationship driven.

Furthermore, management has contracted a third-party vendor and anticipates a CECL compliant ALLL model in 2Q19. Management continues to invest in the Company's technological platform and to evaluate options to enhance infrastructure in preparation of crossing the $10 billion in assets mark. Altogether, ServisFirst scores average to strong for this category.

Liquidity Management

ServisFirst's liquidity risk oversight and monitoring appears similar to that of peers with comprehensive review processes in place and established tolerances. The Company assesses liquidity on a weekly basis through systematic monitoring and performs internal liquidity stress testing. While primarily deposit funded, the Bank also has access to varied sources of market funds. If necessary, the Bank can post additional collateral to meet liquidity requirements and has access to borrowing lines with correspondent banks. Furthermore, liquidity requirements are sufficiently covered by the Company's available cash and other liquidity sources for a 12 month or greater duration. With regard to the rising interest rate environment, SFBS appears to have a moderately asset-sensitive balance sheet at year-end 2018. SFBS continues to monitor its interest rate sensitivity on a regular basis. ServisFirst scores average for this component.

Economic and Regulatory Framework

Overall, the U.S. banking system has a strong regulatory framework. Banking institutions continue to adjust and comply with several additional rules and regulations resulting from the Dodd-Frank Wall Street Reform and Consumer Protection Act and the new Basel III standards. That said, the recent dynamic shift in tone surrounding the regulatory environment, enforcement, and the easing of regulatory burden, particularly for small to mid-size banks, have all led to an increase in uncertainty, which KBRA will be monitoring on an ongoing basis. The latest research on this and other topics can be found **here**. Despite this, ServisFirst Bancshares, Inc. scores strong for this category.

External Support

Pursuant to the 2010 Dodd-Frank Act, U.S. regulators have been in the process of creating a working resolution regime for large systemically important banks so that their potential failure does not lead to a systemic crisis. There is the possibility that the new U.S. administration may change this resolution regime as part of its review of the Dodd-Frank Act. KBRA believes that for the foreseeable future, non-systemically important depositories such as the Bank and uninsured depositors will benefit from some degree of extraordinary systemic support. However, KBRA does not foresee any regulatory support being extended to creditors or investors.

Ratings				
Entity	**Type**	**Rating**	**Outlook**	**Action**
ServisFirst Bancshares, Inc.	Senior Unsecured Debt	BBB+	Stable	Affirmed
	Subordinated Debt	BBB	Stable	Affirmed
	Short-Term Debt	K2	N/A	Affirmed
ServisFirst Bank	Deposit	A-	Stable	Affirmed
	Senior Unsecured Debt	A-	Stable	Affirmed
	Subordinated Debt	BBB+	Stable	Affirmed
	Short-Term Deposit	K2	N/A	Affirmed
	Short-Term Debt	K2	N/A	Affirmed

KBRA's ratings of A- and K2 for ServisFirst Bank 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 of BBB+ and K2 for ServisFirst Bancshares, Inc. 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.

In sequence, A- and BBB+ generally map to short-term ratings of K2 on KBRA's short-term rating scale. Following KBRA's notching practices, subordinated debt is rated one notch below ServisFirst Bank's and ServisFirst Bancshares, Inc.'s senior unsecured debt, resulting in ratings of BBB+ and BBB, respectively.