

ServisFirst Bancshares, Inc.

**Analytical Contacts:**

Amina Ouattara, Senior Analyst
aouattara@kbra.com, (301) 969-3187

Joe Scott, Managing Director
jscott@kbra.com, (646) 731-2438

Leah Hallfors, Associate Director
lhalfors@kbra.com, (301) 969-3242

Table of Contents

Executive Summary.....3
 Key Rating Drivers3
 Outlook.....3
 Recent Results6
 Financial Metrics4
 Comparative Statistics5
 Rating Rationale.....6
 Key Quantitative Rating Determinants6
 Liquidity6
 Asset Quality8
 Capital Adequacy8
 Earnings9
 Key Qualitative Rating Determinants 10
 Market Strategy 10
 Risk Management..... 12
 Liquidity Management..... 12
 Economic and Regulatory Framework 13
 External Support..... 13
 Drivers of Rating Change 13

Executive Summary

Kroll Bond Rating Agency (KBRA) has affirmed and assigned the following ratings for Birmingham, AL ServisFirst Bancshares, Inc. (NASDAQ: SFBS) (“ServisFirst”, or “the Company”) and ServisFirst Bank (“the Bank”).

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	Assigned
	Short-Term Deposit	K2	N/A	Affirmed
	Short-Term Debt	K2	N/A	Affirmed

Ratings are based on KBRA’s [Global Bank and Bank Holding Company Rating Methodology](#) published on February 19, 2016.

Key Rating Drivers

ServisFirst Bancshares, Inc.’s ratings are supported by consistent earnings metrics, strong asset-quality metrics, and a proven market strategy that bolsters cost efficiency. The ratings are also underpinned by SFBS’s experienced management team, and established market share in key geographies. The ratings are primarily constrained by the Company’s relatively low capital ratios, significant concentration in commercial and industrial (C&I) and commercial real estate (CRE) lending, though 61% of the CRE loans are owner occupied. Secondary constraints include SFBS’s spread-derived revenue stream, and compact geographic footprint.

Credit Strengths

- Consistent earnings metrics
- Strong asset quality
- Proven market strategy that bolsters cost efficiency
- Experienced management team
- Established market share in key geographies

Credit Constraints

- Relatively low capital ratios
- Spread reliant income
- Lending portfolio concentrated in C&I and CRE loans
- Compact geographic footprint

Outlook

The Outlook for the long-term ratings of ServisFirst Bancshares remains Stable, reflective of the resilience of SFBS’s capital and earnings to KBRA’s forward-looking economic stress scenarios. The Stable Outlook assumes the continuation of or improvement in financial performance as well as the expectation of solid internal capital generation.

With \$6.3 billion in assets as of December 31, 2016, ServisFirst Bancshares, Inc. is a Birmingham, Alabama domiciled bank holding company for ServisFirst Bank, a full-service commercial bank, offering commercial banking, cash management, private banking, and correspondent banking services. The Bank was founded in 2005 following an initial capital raise of \$35 million, marking, what was then, the largest capital raise by a de novo bank in the state of Alabama. ServisFirst Bancshares, Inc. operates an efficient branch network of 19 offices located in five contiguous southeastern states, though operations are largely concentrated in Alabama. The Bank's strategy is centered on a conservative yet efficient and scalable business model that focuses on close relationships with both bankers and clients. The metropolitan statistical areas (MSA) of Birmingham-Hoover, Huntsville, Montgomery, Dothan, and Mobile, Alabama; Pensacola-Ferry Pass-Brent and Tampa-St. Petersburg-Clearwater, Florida; Atlanta-Sandy Springs-Roswell, Georgia; Charleston, South Carolina; and Nashville, Tennessee represent SFBS's primary markets.

Since its inception, ServisFirst's growth has been focused on organic originations, supplemented by strategic acquisition opportunities. Going forward, SFBS intends to focus primarily on organic growth, within its current footprint.

Financial Metrics

ServisFirst Bancshares, Inc.					
Key Statistics	2016	2015	2014	2013	2012
Total Assets (000s)	\$6,370,448	\$5,095,509	\$4,098,679	\$3,519,740	\$2,906,314
Total Loans / Total Assets	77.18%	82.91%	82.12%	81.45%	82.20%
Nonperforming Assets / Total Assets	0.34%	0.26%	0.41%	0.64%	0.69%
Nonperforming Assets / Tangible Equity + Reserves	3.91%	2.76%	3.81%	6.83%	7.72%
Reserves / Total Assets	0.81%	0.85%	0.87%	0.87%	0.90%
Reserves / Nonperforming Assets	237.21%	329.93%	211.40%	136.84%	131.01%
Net Charge-Offs / Average Total Assets	0.08%	0.10%	0.13%	0.25%	0.17%
Net Charge-Offs / Provisions	36.75%	39.36%	51.59%	66.14%	53.54%
Loan Loss Provisions / Average Total Assets	0.22%	0.25%	0.25%	0.38%	0.32%
Total Deposits / Total Assets	85.09%	82.89%	82.91%	85.79%	86.42%
Total Loans/ Total Deposits	90.70%	100.02%	99.05%	94.94%	95.12%
Total Equity (000s)	\$522,512	\$448,770	\$406,961	\$297,192	\$233,257
Net Revenue (000s)	\$190,993	\$162,811	\$130,734	\$108,623	\$92,480
Tier 1 / RWA	9.78%	9.73%	11.75%	10.00%	9.89%
Total Equity - Intangible Assets / Total Assets	7.97%	8.51%	9.93%	8.44%	8.03%
Net Interest Margin	3.39%	3.70%	3.63%	3.75%	3.74%
Net Interest Income / Total Revenue	91.54%	92.38%	92.63%	92.46%	92.67%
Noninterest Income / Total Revenue	8.46%	7.62%	7.37%	7.54%	7.33%
Return on Average Assets	1.42%	1.39%	1.40%	1.33%	1.31%
Return on Equity	15.59%	14.16%	12.87%	14.00%	14.77%
Efficiency Ratio	39.22%	42.03%	40.26%	38.46%	40.28%
Double Leverage	109.90%	101.70%	90.08%	105.82%	113.71%

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

ServisFirst Bank					
Key Statistics	2016	2015	2014	2013	2012
Total Assets (000s)	\$6,370,072	\$5,095,134	\$4,098,628	\$3,519,541	\$2,906,246
Total Loans / Total Assets	77.18%	82.91%	82.12%	81.46%	82.20%
Nonperforming Assets / Total Assets	0.34%	0.26%	0.41%	0.64%	0.69%
Nonperforming Assets / Tangible Equity + Reserves	3.58%	2.72%	4.19%	6.49%	6.88%
Reserves / Total Assets	0.81%	0.85%	0.87%	0.87%	0.90%
Reserves / Nonperforming Assets	237.21%	329.93%	211.40%	136.84%	131.01%
Net Charge-Offs / Average Assets	0.08%	0.10%	0.13%	0.25%	0.17%
Net Charge-Offs / Provisions	36.75%	39.36%	51.59%	66.14%	53.54%
Loan Loss Provisions / Average Total Assets	0.22%	0.25%	0.25%	0.38%	0.32%
Total Deposits / Total Assets	85.19%	83.85%	84.41%	85.87%	86.53%
Total Loans / Total Deposits	90.60%	98.89%	97.29%	94.86%	95.00%
Total Equity (000s)	\$574,261	\$456,407	\$366,609	\$314,484	\$265,179
Net Revenue (000s)	\$193,853	\$164,751	\$131,866	\$109,949	\$94,652
Tier 1 / RWA	10.78%	9.90%	10.58%	10.59%	10.58%
Total Equity - Intangible Assets / Total Assets	8.78%	8.66%	8.94%	8.94%	9.12%
Net Interest Margin	3.44%	3.75%	3.67%	3.79%	3.82%
Net Interest Income / Total Revenue	91.66%	92.46%	92.69%	92.54%	92.82%
Noninterest Income / Total Revenue	8.34%	7.54%	7.31%	7.46%	7.18%
Return on Average Assets	1.46%	1.42%	1.43%	1.36%	1.37%
Return on Total Equity	14.57%	14.27%	14.61%	13.60%	13.57%
Efficiency Ratio	38.36%	41.22%	39.40%	37.62%	39.12%

Data Source: ServisFirst Bank's Forms FFIEC 041

Comparative Statistics

Rated Peer Comparison as of December 31, 2016						
Key Statistics	ServisFirst Bancshares, Inc.	United Community Banks, Inc.	Capital Bank Financial Corp.	Renasant Corporation	Ameris Bancorp	National Commerce Corporation
Total Assets (000s)	\$6,370,448	\$10,715,518	\$9,937,050	\$8,699,851	\$6,892,032	\$1,950,784
Total Loans / Total Assets	77.18%	64.86%	74.53%	73.34%	77.92%	76.94%
Nonperforming Assets / Total Assets	0.34%	0.33%	0.84%	0.78%	1.14%	0.28%
Nonperforming Assets / Tangible Equity + Reserves	3.91%	3.61%	7.82%	8.96%	14.93%	2.90%
Reserves / Total Assets	0.81%	0.57%	0.43%	0.49%	0.35%	0.62%
Reserves / Nonperforming Assets	237.21%	175.18%	51.62%	63.35%	30.52%	220.80%
Net Charge-Offs / Average Total Assets	0.08%	0.06%	0.08%	0.08%	0.05%	0.05%
Net Charge-Offs / Provisions	36.75%	-2602.31%	138.51%	96.02%	51.97%	30.08%
Loan Loss Provisions / Average Total Assets	0.22%	0.00%	0.05%	0.09%	0.09%	0.18%
Total Deposits / Total Assets	85.09%	80.66%	79.34%	81.14%	80.89%	85.49%
Total Loans/ Total Deposits	90.70%	80.41%	93.94%	90.39%	96.32%	90.00%
Total Equity Capital (000s)	\$522,512	\$1,075,735	\$1,292,047	\$1,232,883	\$646,437	\$229,735
Net Revenue (000s)	\$190,993	\$402,328	\$297,685	\$426,165	\$322,919	\$77,900
Tier 1 / RWA	9.78%	11.23%	13.49%	12.86%	9.69%	11.46%
Total Equity - Intangible Assets / Total Assets	7.97%	8.49%	10.30%	8.16%	7.27%	9.07%
Net Interest Margin	3.39%	3.42%	3.59%	4.13%	4.07%	4.13%
Net Interest Income / Total Revenue	91.54%	77.23%	86.92%	69.40%	69.47%	82.79%
Noninterest Income / Total Revenue	8.46%	22.77%	13.08%	30.60%	30.53%	17.21%
Return on Average Assets	1.42%	1.00%	0.73%	1.08%	1.15%	1.00%
Return on Equity	15.59%	9.36%	4.50%	7.38%	11.15%	7.77%
Efficiency Ratio	39.22%	59.77%	69.54%	67.23%	66.22%	60.49%
Double Leverage	109.90%	112.07%	104.06%	105.03%	119.28%	97.09%

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

Recent Results

During the first quarter of 2017, ServisFirst reported consistent operating performance with regard to the quarter ended December 31, 2016. Earnings metrics benefited from an improved balance sheet in addition to rising interest rates. As of March 31, 2017, net income was \$22.5 million, compared to \$21.7 million for the prior quarter. For the three months ended March 31, 2017, the return on average assets (ROAA) of 1.45% and the return on average equity of 17.09% were up compared to 1.39% and 16.71%, respectively, at December 31, 2016. The net interest margin was 3.53% at March 31, 2017, compared to 3.30% in the prior quarter. The efficiency ratio continued to improve and stood at 37.58%, compared with 39.96% at December 31, 2016. In the first quarter of 2017, average loans increased 6.4% to \$5.00 billion compared to the previous quarter, while average total deposits increased 0.9% to \$5.32 billion, compared with \$5.27 billion at December 31, 2016. Asset quality remained strong, as nonperforming assets moderately decreased to 0.27%, compared with 0.34% for the linked quarter. However, net charge-offs to total average loans increased from 0.09% to 0.24% at March 31, 2017, primarily due to a \$2.2 million commercial and industrial loan that was fully charged off during the quarter. Capital ratios continued to decline compared to the previous quarter, though remained comfortably above the regulatory standards for "well capitalized". As of March 31, 2017, Tier 1 risk-based and total risk-based capital ratios stood at 9.68% and 11.66%, compared to 9.78% and 11.84%, respectively, at December 31, 2016.

Rating Rationale

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.

The BBB+ rating of ServisFirst Bancshares, Inc. is notched off the Bank's rating of A-, taking into account structural subordination of SFBS's liabilities to the Bank's, as well as other BHC factors such as regulatory restrictions and double leverage. In turn, A- and BBB+ generally map to short-term ratings of K2 on KBRA's short-term rating scale. Following KBRA's notching guidelines, subordinated debt is rated one notch below the Bank's and BHC's senior unsecured debt, resulting in ratings of BBB+ and BBB, respectively.

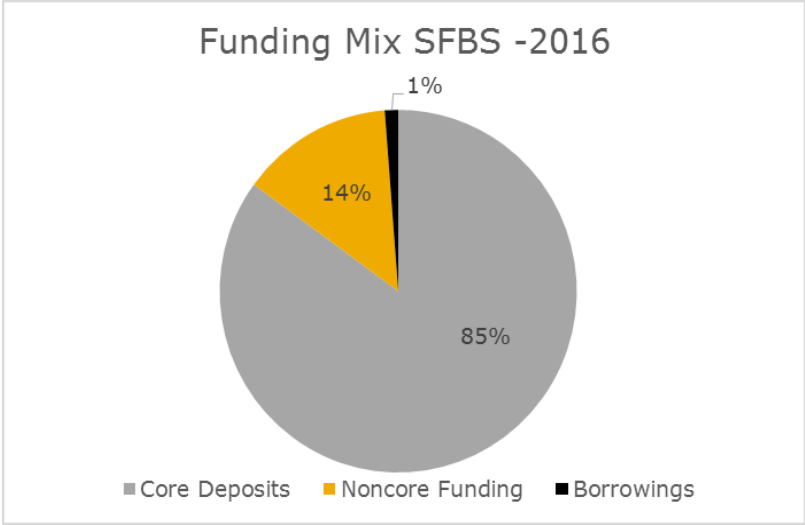
Key Quantitative Rating Determinants

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.

Liquidity

ServisFirst Bank operates a deposit rich franchise, sustained by a traditional banking model. Core deposits continue to be the primary source of funding for the Bank, representing 78.03% of total assets at December 31, 2016. Deposit levels reflect consistent growth and have increased 28.32% year over year to \$5.4 billion, at December 31, 2016. The deposit base remains well diversified by customer and large deposits consist of operating accounts of long term commercial and industrial relationships. In terms of products, money market deposits and other savings accounts made up over half of the core deposits base,

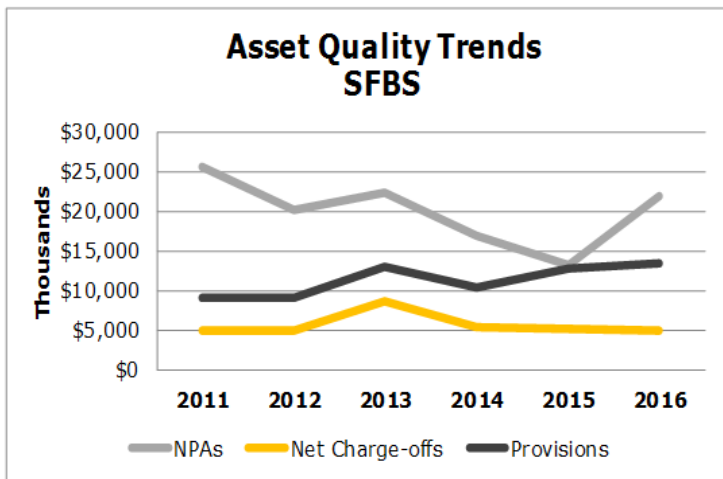
followed by demand deposits, which represented the other significant component of the deposit mix at December 31, 2016. Noncore funding, which comprised time deposits of \$100,000 and more and federal funds purchased and repos, decreased compared to year-end 2015 and remained below the average for BHCPR peer group 2.¹ Nonetheless, the cost of all interest-bearing funds was moderately up from year-end 2015, to 0.64% at December 31, 2016, ranking in the 59th percentile of BHCPR peer group 2.



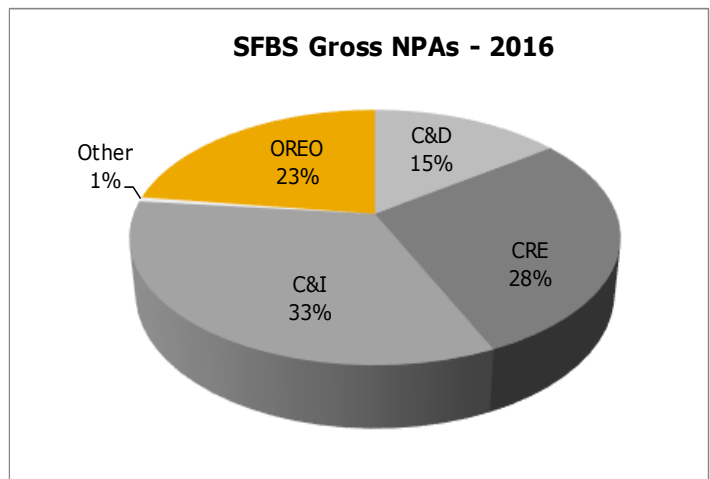
ServisFirst maintains a large and increasing correspondent-banking network that constitutes a practical source of short-term funding. At December 31, 2016, the Bank had a total amount of \$378 million available in lines of credit with 20 institutions². In addition, the Bank has a line of credit with the Federal Reserve Bank, totaling \$ 1 billion at December 31, 2016. Overall, the Bank liquidity position remains ample, meanwhile the proportion of liquid assets to total assets increased to 16.90%, and compared favorably to the average for BHCPR peer group 2, at year-end 2016. Furthermore, the investment securities portfolio constitutes another source of short-term liquidity, though remains small, representing only 7.62% of total assets at December 31, 2016. The \$485.7 million portfolio was largely 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 3.1 years. At December 31, 2016, mortgage-backed securities represented 51% of the investment portfolio, followed by state and municipal securities (30%), corporate debt (10%), U.S. treasury and government agencies (9%). All MBS are pass-through and SFBS does not have any structured investment vehicles or private-label MBS. Moreover, the holding company reported cash on hand of \$56.85 million as of December 31, 2016.

¹ Bank Holding Company Performance Report – bank holding companies with consolidated assets between \$3 billion and \$10 billion.

² These lines are subject to certain restrictions and in some cases collateral requirements.



Source: Regulatory Filings



Source: Regulatory Filings

Asset Quality

ServisFirst’s credit quality reflects a conservative and disciplined asset management culture. At December 31, 2016, asset quality metrics remained strong compared to both post crisis metrics and the averages for the KBRA BBB+ rated peers, despite a slight uptick in nonperforming loans reported during the last quarter of 2016. As of December 31, 2016, nonperforming assets represented 0.34% of total assets and 3.91% of tangible equity plus reserves, as compared with 0.26% and 2.76%, respectively, for the year ended December 31, 2015. At December 31, 2016, the aforementioned ratios for the KBRA BBB+ rated peers, expressed as averages, were 0.45% and 5.20%, respectively. Furthermore, ample reserves coupled with a low ratio of net charge-offs to average total assets, provide additional strength to SFBS’s asset quality. At December 31, 2016, both ratios decreased to 237.21% and 0.08% from 329.93% and 0.10%, respectively, for the year ended December 31, 2015.

At year-end 2016, total classified loans were \$128.8 million, or 2.6% of total loans, compared to \$117.0 million, or 2.8% of total loans, at December 31, 2015. Of note, there were no classified loans amongst the Company’s top ten relationships as of year-end 2016. SFBS continues to foster a relationship-based business model and diligently monitors problematic loans.

Capital Adequacy

Since 2005, ServisFirst has demonstrated its capability to raise public funds through the capital market. Capital levels have been relatively stable despite a rapid asset growth. As of December 31, 2016, the holding company reported Tier 1 risk-based, total risk-based, and leverage ratios of 9.78%, 11.84%, and 8.22%, respectively. Although the Company’s capital ratios at both bank and bank holding company levels stood well above regulatory requirements for well-capitalized status, as of year-end 2016, they fell below the averages for the KBRA BBB+ rated peers. However, the double leverage ratio of 109.9% was more favorable than the average for the KBRA BBB+ rated peers.

Regulatory Capital Ratios- ServisFirst Bancshares, Inc.					
	2016	2015	2014	2013	2012
Tier 1 leverage ratio	8.22%	8.55%	9.91%	8.48%	8.43%
Tier 1 risk-based capital ratio	9.78%	9.73%	11.75%	10.00%	9.89%
Total risk-based capital ratio	11.84%	11.95%	13.38%	11.73%	11.78%

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

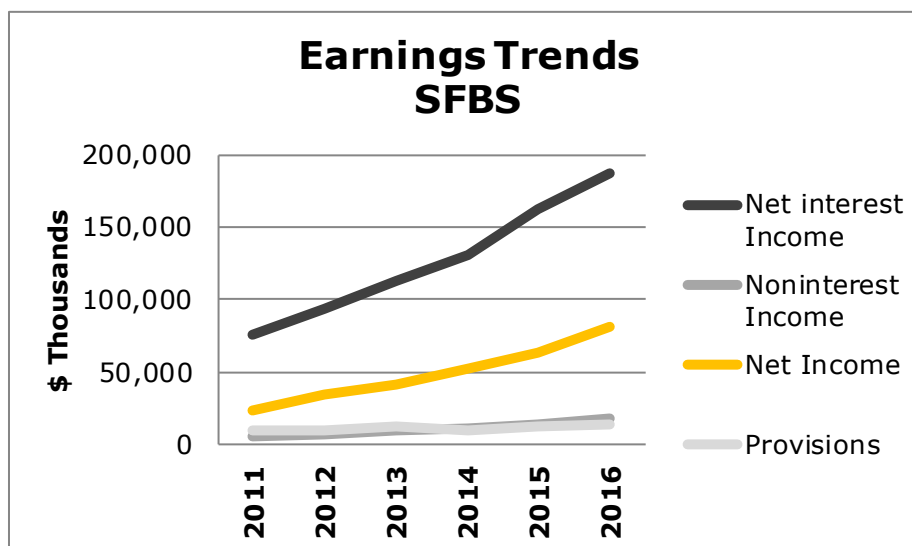
Regulatory Capital Ratios- ServisFirst Bank					
	2016	2015	2014	2013	2012
Tier 1 leverage ratio	9.06%	8.71%	8.92%	8.98%	9.03%
Tier 1 risk-based capital ratio	10.78%	9.90%	10.58%	10.59%	10.58%
Total risk-based capital ratio	11.79%	10.89%	11.62%	11.64%	11.66%

Data Source: ServisFirst Bank's Forms FFIEC 041

Earnings

ServisFirst remained profitable through the most recent financial crisis, and its earnings metrics demonstrate consistency. In 2016, SFBS derived 91.54% of its revenues from net interest income sources. The net income stood at \$81.5 million and the return on average assets was 1.42%, compared to net income of \$63.5 million and an ROAA of 1.39%, reported in 2015. Net interest income increased 15.3% to \$187.09 million in 2016, compared to \$162.27 million in 2015, primarily driven by higher interest and fees earned on loans. Meanwhile, noninterest income increased by 33.1% to \$18.1 million in 2016, but remains low, ranking in the 7th percentile of BHCPR peer group 2. As of December 31, 2016, the Company's net interest margin stood at 3.39%, below the average for KBRA BBB+ rated peers.

Of note, the Bank has a strong culture of cost control, as evidenced by its "branch-light" approach that encompasses a resourceful and efficient branch network. SFBS uses a leveraged technology platform as well as a centralized risk infrastructure and credit platform, while outsourcing select procedures such as data processing, loan servicing, and deposit processing. As a result, the Company has been able to control noninterest expense. In 2016, noninterest expense increased 9.5%, to \$81 million, compared to year-end 2015. However, the rise in noninterest expense is largely attributable to higher salary and employee-benefits expenses, equipment and occupancy expenses, and professional-services expenses. Nonetheless, the Company's efficiency ratio decreased compared with the previous year's, and stood at 39.22%.



Source: Regulatory Filings

Looking forward at 2017, and given the prospective economic strength of the southern markets, ServisFirst appears well positioned to deliver operating results at least similar to its historical performance. Both loans and deposits are expected to achieve double-digit growth. Equity analyst consensus indicates that the Company's earnings per share (EPS) at year-end 2018 will rise at least 18 basis points, above the current year-end average estimates. KBRA expects ROAA to remain at or above current levels. Moreover, management intends to continue to draw on the expertise of industry contacts, including its growing correspondent banking network.

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. Overall, SFBS scored in the average-to-strong category for qualitative factors using publicly available data obtained from annual reports, earnings statements, management presentations, and regulatory reports.

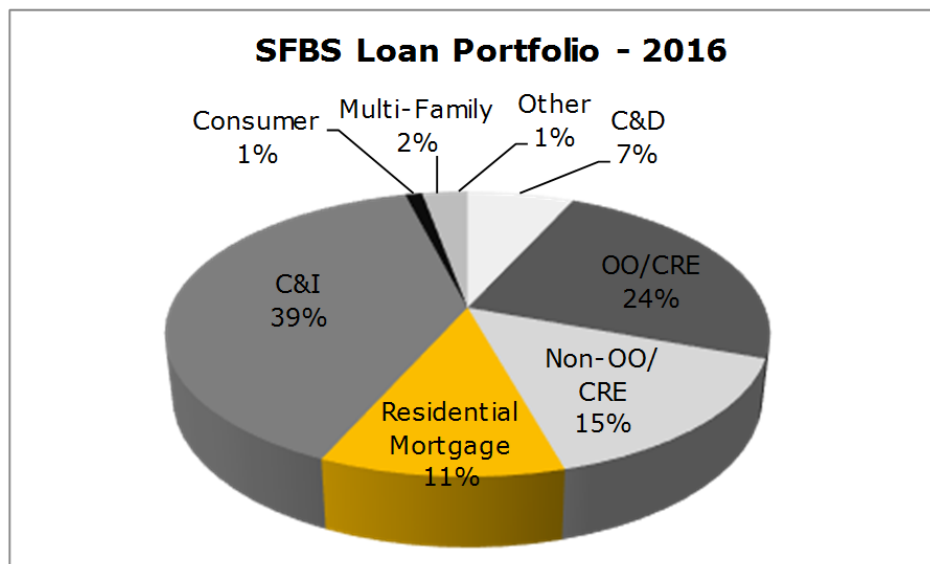
Market Strategy

Business Lines

Based in Birmingham, Alabama, ServisFirst Bancshares, Inc. is the bank holding company of ServisFirst Bank, founded in May of 2005 after an initial capital raise of \$35 million, which represented the largest capital raise by a de novo bank in Alabama's history. ServisFirst Bank is a full-service bank primarily engaged in commercial banking, cash management, private banking, and providing services to professional consumers. In addition, SFBS has a correspondent-banking business serving approximately 300 small community banks.

ServisFirst Bancshares, Inc. has grown to \$6.3 billion in assets as of December 31, 2016, encompassing a branch network of 19 offices that span Alabama, Florida, Tennessee, Georgia, and South Carolina. The metropolitan statistical areas (MSA) of Birmingham-Hoover, Huntsville, Montgomery, Dothan, and Mobile, Alabama; Pensacola-Ferry-Pass-Brent and Tampa-St-Petersburg-Clearwater, Florida; Atlanta-Sandy-Springs-Roswell, Georgia; Charleston-North Charleston, South Carolina; and Nashville-Davidson-Murfreesboro-Franklin, Tennessee represent SFBS's primary markets. ServisFirst has been able to secure significant market share in the key markets located in its home state of Alabama as well as in its targeted regions in Florida.

SFBS carries a high balance of commercial loans with C&I and commercial real estate loans, each representing 39% of the lending portfolio. The balance is comprised of residential mortgage (11%), construction and development (7%), multifamily (2%), consumer (1%), and other (1%). Of note, approximately 61% of the CRE portfolio was owner occupied and the non-owner occupied CRE loans to total risk-based capital remained within regulatory guidance limits at 178.51%.



Source: Regulatory Filings

Management Profile and Strategy

ServisFirst has an experienced management team with established tenures in the banking industry. Top executives and regional CEOs have strong backgrounds and prior experience working at other banking institutions. Uniquely, SFBS's "branch-light" business strategy is centered on operating a highly efficient and limited branch network in order to minimize unnecessary operating expenses and branch overlap. Furthermore, the Company banks in a scalable and decentralized business model where regional CEOs drive revenue. In hand with this approach, ServisFirst is careful to select markets with strong growth prospects and a plentiful availability of experienced bankers. Moreover, the Company believes that this approach supports its mission of delivering high-quality customer service and facilitates the development of long-term, multiple-channel relationships.

SFBS's business model emphasizes organic loan and deposit growth supplemented by opportunistic expansion in its current target markets. Expansion is geared towards Southern markets, with a metropolitan focus and a broad network of experienced bankers. Overall, SFBS appears well positioned given market dynamics and management's risk appetite appears in line with the Company's business model. In terms of growth prospects, management reiterated its intention to continue to focus on organic growth opportunities within its footprint.

Revenue and Customer Profile

Lending is targeted to mid-market commercial customers largely consisting of privately held businesses with \$2 million to \$250 million in annual sales and high net worth individuals that the Company views as underserved by larger regional banks located in the various markets throughout Alabama, Florida, Georgia, and Tennessee. As noted, the Company emphasizes high quality customer service that promotes long-term, multiple product relationships with customers. Moreover, through its correspondent banking operations, which targets smaller community banks, SFBS currently serves approximately 300 community banks spanning the southeastern states.

SFBS's 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. Going forward, the Company foresees an opportunity to augment noninterest income—through, the execution of business opportunities arising from its network of correspondent banks.

Altogether, given SFBS’s high concentration of commercial lending, balanced by the support of an experienced management team and resilient earnings metrics, KBRA views ServisFirst’s market strategy as **average** to **strong**.

Risk Management

SFBS’s risk management framework appears comprehensive and the Company has not recorded any losses related to lapses in this area. The Company utilizes a centralized risk and credit platform to ensure uniformity across all businesses, which supports decentralized, regional oversight. Regional CEOs manage processes at individual branch locations, while adhering to corporate policies and procedures. Furthermore, management has a vested interest in the Company’s success, given that 14% of SFBS shares are owned by insiders. The remainder of the shares is held by approximately 97 institutions and mutual-fund owners.

ServisFirst has a conservative and prudent credit culture, as shown by its strong asset quality. Lending authority is granted to individual loan officers based on seniority. Commitments to single borrowers that exceed an officer’s limit, of amounts up to \$3 million, require further approval from the regional CEO and/or senior management, including a regional credit officer. Any credit \$3 million or greater must be approved by the CEO, chief credit officer, and COO. Additionally, the chief credit officer reviews all loans over \$1 million.

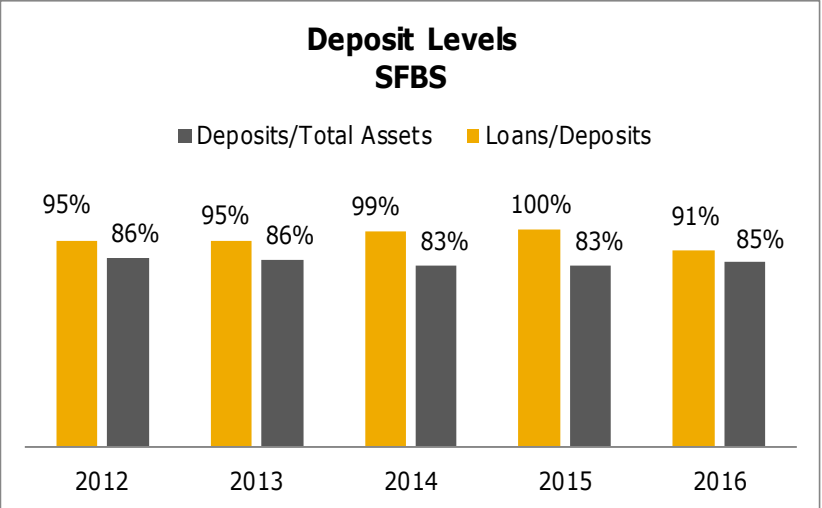
Loan officers use a nine-point risk grade scale to assign risk grades to lending relationships and are responsible for reporting any changes in the risk grade of a loan in a timely fashion. General risks associated with CRE lending are partially mitigated by shorter maturities and careful monitoring 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; monthly credit review for all watch-list-classified loans, including the development of aggressive action plans; and loans for new construction are generally restricted to established builders with a proven history of successful turnovers. Moreover, SFBS generally avoids funding undeveloped property.

SFBS’s risk appetite includes operating a limited, highly efficient branch network, and the Company is methodical in de novo branch expansion. SFBS assesses potential markets for attractive demographics and strong growth prospects as well as a plentiful availability of experienced bankers. Management generally builds new banking teams using industry contacts and selects individuals with strong reputations that management members have previously worked with. Moreover, the Company has only completed one acquisition since its inception in 2005 (Metro Bank), which was well planned and consistent with the Company’s strategic vision.

In tandem with its highly efficient branch network, SFBS has a high-caliber technology infrastructure. SFBS utilizes a centralized risk infrastructure and credit platform, while outsourcing select procedures such as data processing, loan servicing, and deposit processing. As a result, ServisFirst has been able to reduce costs. In sum, ServisFirst scores **average** to **strong** for this category.

Liquidity Management

ServisFirst’s liquidity risk oversight and monitoring is adequate and similar to that



Source: Regulatory Filings

of peers, with comprehensive review processes in place and established tolerances. The Company assesses liquidity on a weekly basis through systematic monitoring and performs its own liquidity stress testing to ensure the ability to meet obligations in the event of a market disruption. With regard to the rising interest rate environment, SFBS appears to have a relatively liability-sensitive balance sheet. As of December 31, 2016, the interest rate sensitivity gap results showed that the Company remained within its internal policy limits, under diverse upward shifts in interest rate. SFBS continues to monitor its interest rate sensitivity on a regular basis.

While primarily deposit funded, the Bank also has access to varied sources of market funds and has borrowing capacity with the Federal Reserve. If necessary, the Bank can post additional collateral to meet liquidity requirements and has access to borrowing lines with correspondent banks. Furthermore, SFBS's liquidity requirements are sufficiently covered by the Company's available cash and other liquidity sources for a 12-month or greater duration. ServisFirst scores **average** for this component.

Economic and Regulatory Framework

SFBS is headquartered in the U.S., an advanced economy with a developed banking infrastructure and a relatively good 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. Nonetheless, the recent dynamic shift in timbre surrounding the regulatory environment, enforcement, and the potential easing of regulatory burden, 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](#). Notwithstanding, SFBS scores **strong** for this category.

External Support

Pursuant to the 2010 Dodd-Frank Act, U.S. regulators are in the process of creating a working resolution regime for large banks so that their potential failure does not lead to a systemic crisis. However, KBRA believes that for the foreseeable future, depositories such as the Bank and their uninsured depositors will benefit from some degree of extraordinary systemic support. The fact that the FDIC, when acting as a receiver of a bank holding company, can pay creditors at its discretion creates the expectation of governmental support.³ However, KBRA does not foresee any regulatory support being extended to ServisFirst or its investors.

Drivers of Rating Change

Rating Upgrade

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, diversification of revenue streams to include stable fee-based income, a significant improvement in capital, as well as diversification of the lending portfolio could lead to the consideration of an upgrade.

Rating Downgrade

The ratings assigned to 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, asset quality or capital metrics beyond the stress scenarios could pressure the ratings.

³ Statement by Jeffrey M. Lacker President, Federal Reserve Bank of Richmond before the Committee on Financial Services U.S. House of Representatives Washington, D.C., June 26, 2013.

© Copyright 2017, Kroll Bond Rating Agency, Inc., and/or its licensors and affiliates (together, "KBRA"). All rights reserved. All information contained herein is proprietary to KBRA and is protected by copyright and other intellectual property law, and none of such information may be copied or otherwise reproduced, further transmitted, redistributed, repackaged or resold, in whole or in part, by any person, without KBRA's prior express written consent. Ratings are licensed by KBRA under these conditions. Misappropriation or misuse of KBRA ratings may cause serious damage to KBRA for which money damages may not constitute a sufficient remedy; KBRA shall have the right to obtain an injunction or other equitable relief in addition to any other remedies. The statements contained in this report are based solely upon the opinions of KBRA and the data and information available to the authors at the time of publication of this report. All information contained herein is obtained by KBRA from sources believed by it to be accurate and reliable; however, KBRA ratings are provided "AS IS". No warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, or fitness for any particular purpose of any rating or other opinion or information is given or made by KBRA. Under no circumstances shall KBRA have any liability resulting from the use of any such information, including without limitation, for any indirect, special, consequential, incidental or compensatory damages whatsoever (including without limitation, loss of profits, revenue or goodwill), even if KBRA is advised of the possibility of such damages. The credit ratings, if any, and analysis constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. KBRA receives compensation for its rating activities from issuers, insurers, guarantors and/or underwriters of debt securities for assigning ratings and from subscribers to its website.