

ServisFirst Bancshares, Inc.

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Executive Summary

Kroll Bond Rating Agency (KBRA) has affirmed and assigned the following ratings for Birmingham, AL based **ServisFirst Bancshares, Inc.** (**NASDAQ: SFBS** or “the Company”) and its subsidiary **ServisFirst Bank** (the “Bank”), based on KBRA’s [Global Bank and Bank Holding Company Rating Methodology](#) published on January 28, 2015.

Ratings					
Entity	Type	Rating	Outlook	Action	
ServisFirst Bancshares, Inc. RSSD ID: 3635319	Senior Unsecured Debt	BBB+	Stable	Affirmed	
	Subordinated Debt	BBB	Stable	Affirmed	
	Short-Term Debt	K2		Affirmed	
ServisFirst Bank FDIC Certificate #: 57993	Deposit	A-	Stable	Affirmed	
	Senior Unsecured Debt	A-	Stable	Assigned	
	Short-Term Deposit	K2		Affirmed	
	Short-Term Debt	K2		Assigned	

ServisFirst Bancshares, Inc. is the Birmingham, Alabama domiciled bank holding company for ServisFirst Bank, a full service bank primarily engaged in commercial banking, cash management, private banking, and providing services to professional consumers. The Bank was founded in 2005 following an initial capital raise of \$35 million, marking the largest capital raise by a de novo bank in the state of Alabama. SF Intermediate Holding Company, Inc., was added in February of 2016 as a subsidiary of the Bank and houses SF Holdings 1, Inc., which operates real estate investment trust (REIT) subsidiaries. The Company recorded \$5.1 billion in consolidated assets as of December 31, 2015. Historically, SFBS’ growth has been focused on organic originations, supplemented by strategic acquisition opportunities.

Currently, SFBS operates a branch network of 19 offices located in five contiguous southeastern states, with most operations condensed 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 (MSAs) of Birmingham-Hoover, Huntsville, Montgomery, Dothan and Mobile, Alabama, Pensacola-Ferry Pass-Brent, Florida, Atlanta-Sandy Springs-Roswell, Georgia, Charleston-North Charleston, South Carolina and Nashville-Davidson-Murfreesboro-Franklin, Tennessee represent SFBS’ primary markets. In addition, ServisFirst Bancshares, Inc. operates a successful correspondent banking division that reinforces its operational efficiency. Going forward, SFBS intends to focus primarily on organic growth.

Key Rating Drivers

The ratings are based on SFBS’ sound financial fundamentals as indicated by an established market share, experienced management team, exceptional cost culture, as well as positive asset quality and earnings metrics. Constraints to the ratings include the Company’s high concentrations in commercial and industrial (C&I) lending, large exposure to real estate lending—although 68% of CRE and 1-4 family mortgage loans are owner-occupied, compact geographic footprint, elevated NPAs during the crisis largely impacted by impaired construction real estate loans, and spread reliant income.

KBRA’s ratings of BBB+ for ServisFirst Bancshares, Inc. is notched off of the Bank’s rating of A-, taking into account the structural subordination of SFBS’ liabilities to the Bank in an event of default or regulatory intervention as well as other BHC factors. In turn, A- and BBB+ generally map to short-term ratings of K2, on KBRA’s short-term rating scale.

Consistent with KBRA guidelines, ServisFirst Bancshares, Inc.’s subordinated debt is rated BBB, which is one notch below its senior unsecured debt rating.

Credit Strengths

- Established market share in key geographies
- Experienced management team
- Exceptional cost culture
- Remained profitable through the crisis years; earnings reflect consistent growth
- Demonstrated scalability
- Solid asset quality and improving capital ratios

Credit Constraints

- Concentrated geographic footprint
- Lending portfolio heavily concentrated in C&I lending (41%)
- Large exposure to real estate lending—although 68% of CRE and 1-4 family mortgage loans are owner-occupied
- Elevated NPAs during the crisis, largely impacted by impaired construction real estate loans
- Spread reliant income

Financial Metrics

ServisFirst Bancshares, Inc.					
Key Statistics	2015	2014	2013	2012	2011
Total Assets (000s)	\$5,095,509	\$4,098,679	\$3,519,740	\$2,906,314	\$2,461,047
Total Loans / Total Assets	82.91%	82.12%	81.45%	82.20%	75.11%
Nonperforming Assets / Total Assets	0.26%	0.41%	0.64%	0.69%	1.04%
Nonperforming Assets / Tangible Equity + Reserves	2.76%	3.81%	6.83%	7.72%	11.71%
Reserves / Total Assets	0.85%	0.87%	0.87%	0.90%	0.90%
Reserves / Nonperforming Assets	329.93%	211.40%	136.84%	131.01%	86.20%
Net Charge-Offs / Average Total Assets	0.10%	0.13%	0.25%	0.17%	0.21%
Net Charge-Offs / Provisions	39.36%	51.59%	66.14%	53.54%	55.94%
Loan Loss Provisions / Average Total Assets	0.25%	0.25%	0.38%	0.32%	0.38%
Total Deposits / Total Assets	82.89%	82.91%	85.79%	86.42%	87.12%
Total Loans/ Total Deposits	100.02%	99.05%	94.94%	95.12%	86.22%
Total Equity (000s)	\$448,770	\$406,961	\$297,192	\$233,257	\$196,292
Net Revenue (000s)	\$162,811	\$130,734	\$108,623	\$92,480	\$72,619
Tier 1 / RWA	9.73%	11.75%	10.00%	9.89%	11.39%
Total Equity - Intangible Assets / Total Assets	8.51%	9.93%	8.44%	8.03%	7.98%
Net Interest Margin	3.70%	3.63%	3.75%	3.74%	3.72%
Net Interest Income / Total Revenue	92.38%	92.63%	92.46%	92.67%	92.46%
Noninterest Income / Total Revenue	7.62%	7.37%	7.54%	7.33%	7.54%
Return on Average Assets	1.39%	1.40%	1.33%	1.31%	1.12%
Return on Equity	14.16%	12.87%	14.00%	14.77%	11.94%
Efficiency Ratio	42.03%	40.26%	38.46%	40.28%	45.91%
Double Leverage	101.70%	90.08%	105.82%	113.71%	113.99%

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

ServisFirst Bank					
Key Statistics	2015	2014	2013	2012	2011
Total Assets (000s)	\$5,095,134	\$4,098,628	\$3,519,541	\$2,906,246	\$2,460,239
Total Loans / Total Assets	82.91%	82.12%	81.46%	82.20%	75.14%
Nonperforming Assets / Total Assets	0.26%	0.41%	0.64%	0.69%	1.04%
Nonperforming Assets / Tangible Equity + Reserves	2.72%	4.19%	6.49%	6.88%	10.42%
Reserves / Total Assets	0.85%	0.87%	0.87%	0.90%	0.90%
Reserves / Nonperforming Assets	329.93%	211.40%	136.84%	131.01%	86.20%
Net Charge-Offs / Average Assets	0.10%	0.13%	0.25%	0.17%	0.21%
Net Charge-Offs / Provisions	39.36%	51.59%	66.14%	53.54%	55.94%
Loan Loss Provisions / Average Total Assets	0.25%	0.25%	0.38%	0.32%	0.38%
Total Deposits / Total Assets	83.85%	84.41%	85.87%	86.53%	87.26%
Total Loans / Total Deposits	98.89%	97.29%	94.86%	95.00%	86.11%
Total Equity (000s)	\$456,407	\$366,609	\$314,484	\$265,179	\$223,237
Net Revenue (000s)	\$164,751	\$131,866	\$109,949	\$94,652	\$74,922
Tier 1 / RWA	9.90%	10.58%	10.59%	10.58%	11.23%
Total Equity - Intangible Assets / Total Assets	8.66%	8.94%	8.94%	9.12%	9.07%
Net Interest Margin	3.75%	3.67%	3.79%	3.82%	3.84%
Net Interest Income / Total Revenue	92.46%	92.69%	92.54%	92.82%	92.66%
Noninterest Income / Total Revenue	7.54%	7.31%	7.46%	7.18%	7.34%
Return on Average Assets	1.42%	1.43%	1.36%	1.37%	1.20%
Return on Total Equity	14.27%	14.61%	13.60%	13.57%	11.22%
Efficiency Ratio	41.22%	39.40%	37.62%	39.12%	44.30%

Data Source: ServisFirst Bank's Forms FFIEC 041

Recent results

In the first quarter of fiscal year 2016, ServisFirst Bancshares, Inc. reported solid and largely consistent operating performance on a quarter-over-quarter basis. The first quarter results are reflective of SFBS' expansion initiatives, encompassing more bankers and business offices. SFBS reported net income of \$17.65 million during the first quarter, resulting in a solid return-on-average assets (ROAA) of 1.35% and return-on-average equity (ROAE) of 15.38%, up 35% year-over-year and down 11% quarter-over-quarter. The net interest margin (NIM) amounted to 3.57%, compared to 3.80% a year earlier and 3.56% in the prior quarter. Total noninterest expense increased to \$19.58 million, or by 18% on a year-over-year basis, primarily due to higher salaries and benefits expense. Still, the efficiency ratio remained controlled at 41%. Nonperforming assets as a percentage of total assets decreased by six basis points to 0.20% compared to year-end 2015. In the first quarter of 2016, total loans grew by \$124.53 million to total \$4.34 billion, while total deposits grew by \$115.86 million to \$4.27 billion, compared with the fourth quarter of 2015. Moreover, excess liquidity increased by \$22 million in the first quarter of 2016. Capital ratios were stronger as compared to prior quarter and stood comfortably above "well-capitalized" regulatory standards as the Tier 1 risk-based capital and total risk-based capital ratios amounted to 9.91% and 12.12%, respectively.

Comparative Statistics

Rated Peer Comparison as of December 31, 2015						
Key Statistics	ServisFirst Bancshares, Inc.	Pinnacle Financial Partners, Inc.	LegacyTexas Financial Group, Inc.	Capital Bank Financial Corp.	Seacoast Banking Corp. of Florida	Pacific Premier Bancorp Inc.
Total Assets (000s)	\$5,095,509	\$8,715,414	\$7,693,255	\$7,454,167	\$3,534,780	\$2,790,646
Total Loans / Total Assets	82.91%	75.63%	79.69%	75.56%	61.68%	81.09%
Nonperforming Assets / Total Assets	0.26%	0.42%	0.54%	0.99%	0.69%	0.18%
Nonperforming Assets / Tangible Capital Equity + Reserves	2.76%	4.70%	6.18%	8.39%	7.21%	2.01%
Reserves / Total Assets	0.85%	0.75%	0.61%	0.60%	0.54%	0.62%
Reserves / Nonperforming Assets	329.93%	180.70%	113.80%	60.88%	78.32%	337.56%
Net Charge-Offs / Average Total Assets	0.10%	0.13%	0.06%	0.10%	0.02%	0.05%
Net Charge-Offs / Provisions	39.36%	120.97%	15.40%	320.67%	22.20%	20.35%
Loan Loss Provisions / Average Total Assets	0.25%	0.11%	0.37%	0.03%	0.08%	0.24%
Total Deposits / Total Assets	82.89%	79.99%	67.96%	78.65%	80.47%	78.84%
Total Loans/ Total Deposits	100.02%	94.55%	117.27%	96.07%	76.65%	102.86%
Total Equity Capital (000s)	\$448,770	\$1,155,611	\$804,091	\$986,265	\$353,453	\$298,981
Net Revenue (000s)	\$162,811	\$313,315	\$260,828	\$280,315	\$139,432	\$113,797
Tier 1 / RWA	9.73%	9.72%	9.73%	14.73%	15.21%	10.28%
Total Equity - Intangible Assets / Total Assets	8.51%	8.09%	8.09%	11.22%	9.04%	8.54%
Net Interest Margin	3.70%	3.70%	4.18%	3.82%	3.67%	4.33%
Net Interest Income / Total Revenue	92.38%	73.76%	86.60%	86.33%	77.06%	88.42%
Noninterest Income / Total Revenue	7.62%	26.24%	13.40%	13.67%	22.94%	11.58%
Return on Average Assets	1.39%	1.34%	1.10%	0.78%	0.67%	0.97%
Return on Equity	14.16%	8.26%	8.82%	5.55%	6.26%	8.53%
Efficiency Ratio	42.03%	52.95%	53.14%	68.82%	73.15%	61.02%
Double Leverage	101.70%	104.07%	102.65%	98.57%	108.51%	120.23%

Rating Rationale

KBRA's deposit ratings of A-/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+/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.

Key Quantitative Rating Determinants

The quantitative financial fundamentals of ServisFirst Bank are reflected in the Primary Credit Rating ("PCR") of A-. This is derived from the analysis of the Bank's intrinsic financial strength and potential adjustments resulting from KBRA's stress testing as well as an analysis of current and historical financial metrics.

Liquidity

ServisFirst has an ample liquidity position. Core deposits represent the primary source of funding for the Bank, supplemented by the repayment of principal and interest on loans and the sale of loans. Deposit levels reflect consistent growth and have increased 23% annually to \$4.2 billion, as of December 31, 2015. The deposit base is well diversified by customer. Large deposits consist of operating accounts of long term C&I

relationships. At the same time, SFBS reported liquid assets of \$506.9 million, consisting of cash and due from banks, federal funds sold and unpledged available-for-sale (AFS) securities. At year-end 2015, SFBS had access to approximately \$180.0 million unused federal funds lines of credit with regional banks, under certain restrictions and collateral requirements. If necessary, the Bank has borrowing capacity with the Federal Reserve and Federal Home Loan Bank (FHLB) as well as with existing correspondent banks. Moreover, the holding company reported cash on hand of \$46.61 million as of December 31, 2015. Management intends to keep at least \$25 million of cash at the holding company which well covers debt service expense.

SFBS' liquid assets ratio, which stood at 10.91%, according to the latest Federal Deposit Insurance Corporation (FDIC) Bank Holding Company Performance Report, was somewhat below the peer group¹ average of 18.02%. The Bank's securities portfolio represented approximately 7.28% of total assets and consisted of \$27.42 million in held-to-maturity (HTM) securities and \$343.44 million in available-for-sale (AFS) securities, as of December 31, 2015. The approximate duration of the securities portfolio was 3 years, and has been gradually reduced in recent years.

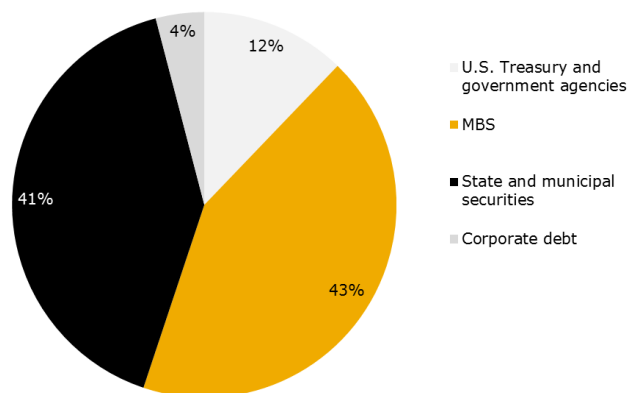
At December 31, 2015, mortgage-backed securities represented 43% of the investment portfolio, followed by state and municipal securities (41%), U.S. Treasury and government agencies (12%), and corporate debt (4%). All MBS are pass-through and SFBS does not have any structured investment vehicles or private-label MBS. Moreover, SFBS' investment policy restricts the concentration of municipal securities to 60% of the total investment portfolio.

SFBS' net noncore funding dependence remained low at 9.74%, which ranked in the 28th percentile among peers, and was 54% comprised of time deposits of \$100,000 or more while the remainder largely consisted of federal funds purchased and repos.

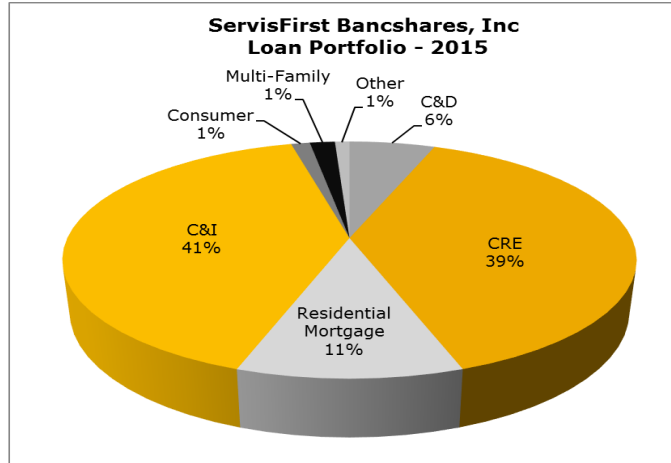
Asset Quality

Over the course of 2015, SFBS' loan portfolio grew by 23.5% to reach \$4.2 billion reflecting both organic and acquisitive growth. As of year-end 2015, 51.2% of the loan portfolio consisted of commercial and consumer real estate loans, with approximately 67.6% owner-occupied commercial or 1-4 family mortgage loans. By category, commercial and industrial (C&I) and commercial real estate (CRE) loans represent the largest components at 41% and 39%, respectively, followed by the residential mortgage at 11%.

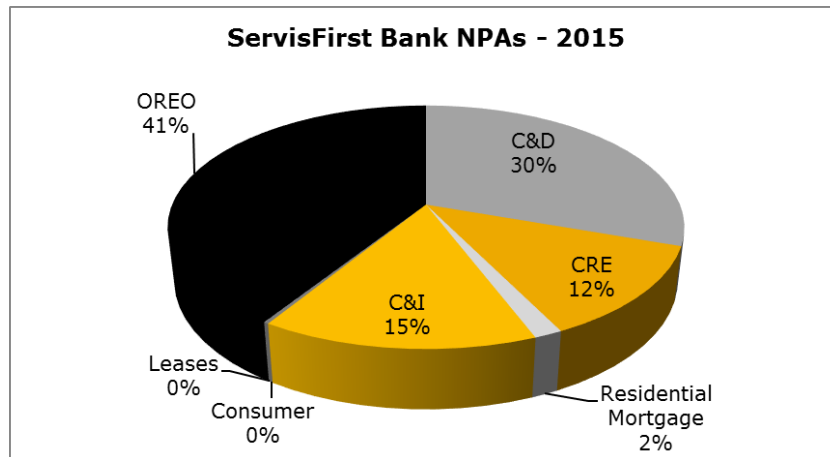
**SFBS' Securities Portfolio
December 31, 2015**



¹ According to the Bank Holding Company Performance Report December 31, 2015, Peers defined as banks with consolidated assets between \$3 billion and \$10 billion.



SFBS recorded a spike in delinquencies during the crisis years, but the level of nonperforming assets improved thereafter. NPAs amounting to 21.96% of tangible capital plus reserves and 1.57% of total assets in 2009 primarily comprised of construction real estate loans. Despite the increase, ServisFirst’s NPA ratios compared favorably to those of many banks in the region during the crisis years. As of December 31, 2015, the aforementioned ratios reflect continued improvement, with NPAs representing 2.76% of tangible equity plus reserves and 0.26% of total assets. SFBS inherited a small quantity of delinquencies in the Metro Bank acquisition, which closed in January of 2015. Additionally, the level of reserve coverage for NPAs has been rising and is ample at approximately 329% as of December 31, 2015.



The level of net charge-offs has remained relatively low over recent years, although net charge-offs increased to \$8.60 million in 2013, from \$4.87 million in 2012, primarily attributable to a \$5.5 million charge-off consisting of one construction real estate relationship. However, the level of substandard construction real estate loans improved from \$14.4 million to \$9.2 million over the same horizon. Credit quality has continued to improve over the course of 2015 as construction real estate charge-offs decreased from \$1.3 million recorded at year-end 2014 to \$0.7 million as of year-end 2015, while the amount of substandard construction real estate loans has further improved to \$4.0 million compared to \$5.7 million in 2014. Consequently, the level of net charge-offs improved to \$5.05 million, as of December 31, 2015. SFBS continues to monitor these loans diligently.

ServisFirst Bancshares, Inc. Portfolio Asset Quality - 2015				
Loan Type	Portfolio Value (\$000s)	Gross NPLs (\$000s)	Percentage Nonperforming	
Construction & Development	\$243,268	\$3,999	1.64%	
Commercial Real Estate	\$1,642,231	\$1,620	0.10%	
Residential Mortgage	\$452,384	\$198	0.04%	
Commercial & Industrial	\$1,720,643	\$1,918	0.11%	
Consumer	\$53,452	\$33	0.06%	
Multi-Family Loans	\$71,217	\$0	0.00%	
Other	\$41,429	\$0	0.00%	
Leases	\$0	\$0	0.00%	
Total Loans	\$4,224,624	\$7,768	0.18%	

Source: FR Y-9C

Capital Adequacy

ServisFirst was founded in May 2005 after an initial capital raise of \$35 million, which represented the largest capital raise by a "de novo" bank in Alabama's history. On May 19, 2014, SFBS completed its initial public offering. The Company has reported rising capital levels, in hand with its growth in scale. Capital ratios, at both bank and bank holding company levels, continue to stand well above regulatory requirements for well-capitalized status. As of December 31, 2015, the holding company reported Tier 1 risk-based, total risk-based, and leverage ratios of 9.73%, 11.95%, and 8.55%, respectively. Also of note, ServisFirst is governed by Alabama State law that requires a minimal Tier 1 leverage ratio of 8%, which the Company met and held since 2011. On July 15, 2015, SFBS closed a \$34.75 million private placement of 5%-subordinated notes with a 10-year maturity. Moreover, the double leverage ratio of 101.7% remains in line with KBRA BBB+ rated peer average.

Regulatory Capital Ratios- ServisFirst Bancshares, Inc.					
	2015	2014	2013	2012	2011
Tier 1 leverage ratio	8.55%	9.91%	8.48%	8.43%	9.17%
Tier 1 risk-based capital ratio	9.73%	11.75%	10.00%	9.89%	11.39%
Total risk-based capital ratio	11.95%	13.38%	11.73%	11.78%	12.79%

Regulatory Capital Ratios- ServisFirst Bank					
	2015	2014	2013	2012	2011
Tier 1 leverage ratio	8.71%	8.92%	8.98%	9.03%	9.06%
Tier 1 risk-based capital ratio	9.90%	10.58%	10.59%	10.58%	11.23%
Total risk-based capital ratio	10.89%	11.62%	11.64%	11.66%	12.63%

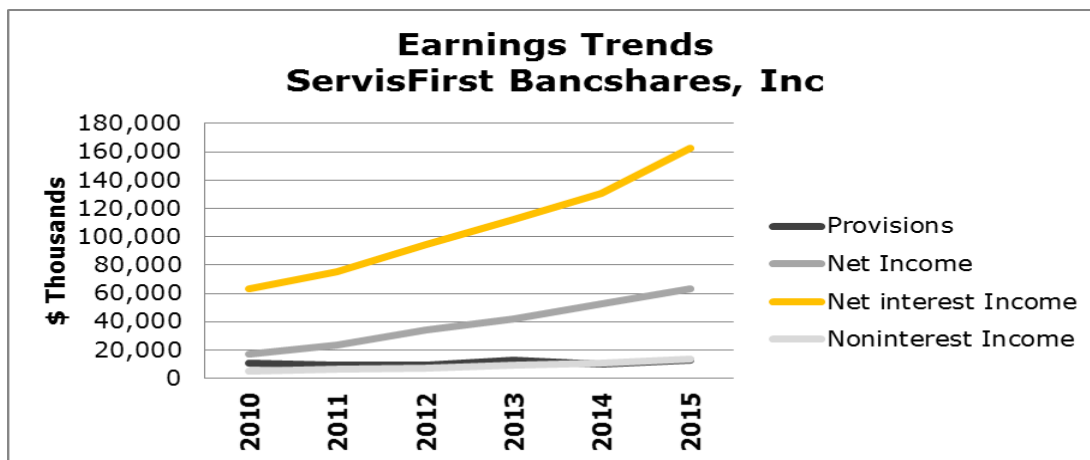
Data Source: ServisFirst Bank's Forms FFIEC 041

Earnings

SFBS navigated the financial crisis while remaining profitable and overall earnings metrics reflect consistent growth. Income is largely driven by interest and fees collected on loans, interest and dividends collected on other investments, and service charges. Principal expenses include interest paid on savings and other deposits, interest paid on borrowings, employee compensation, office and other overhead costs. For full year 2015, SFBS recorded net income of \$63.54 million and a return on average assets (ROAA) of 1.39%, compared to net income of \$52.38 million and an ROAA of 1.40%, reported in 2014. Net interest income

increased by 24.2% to \$162.37 million in 2015 from \$130.61 million in 2014, primarily driven by higher interest and fees earned on loans. Noninterest income increased by 28.8% to \$13.39 million in 2015, but remains low, ranking in the 9th percentile of peers². Additionally, SFBS applied \$20.9 million of the \$52.1 million in net proceeds from its May 2014 IPO towards the Metro Bank acquisition, which closed on January 31, 2015. As with many banks, the net interest margin has been pressured by the low interest rate environment, but remains adequate at 3.75% as of December 31, 2015.

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, with single branches typically holding an average of \$287 million in deposits. SFBS utilizes a leveraged technology 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 2015, noninterest expense increased by 29.2%, to \$73.84 million from \$56.76 million in 2014. However, the rise in noninterest expense is largely attributable to costs related to the acquisition of Metro Bank and the write-down of investments in tax credit partnerships. The Company’s ability to minimize expenses paired with rising net interest income and noninterest income has translated to an exceptional efficiency ratio, which amounted to 41.22% as of year-end 2015.



Key Qualitative Rating Determinants

The qualitative aspects of SFBS 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 “average” to “strong” for qualitative factors using available data obtained from regulatory reports and management presentations. The following describes KBRA’s qualitative assessment for SFBS:

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

² According to the Bank Holding Company Performance Report December 31, 2015, Peers defined as banks with consolidated assets between \$3 billion and \$10 billion.

consumers. In addition, SFBS has a correspondent banking business serving approximately 251 small community banks. On May 19, 2014, SFBS completed its initial public offering.

Largely through organic growth, ServisFirst Bancshares, Inc. has grown to \$5.1 billion in assets as of December 31, 2015, encompassing a branch network of 19 offices that span Alabama, Florida, Tennessee, and recently, Georgia and South Carolina. On January 31, 2015, SFBS acquired Metro Bank, establishing a presence in Atlanta, Georgia and marking the Company's first acquisition. In addition, in 2015, SFBS penetrated the Charleston, South Carolina market where the Company opened a banking center and hired an experienced group of commercial bankers. Moving forward, SFBS intends to return its focus to organic growth.

In terms of its fourth quarter lending portfolio, SFBS carries a high balance of commercial loans with commercial and industrial (C&I) and commercial real estate (CRE) loans representing the largest components at 41% and 39%, respectively. The balance is comprised of residential mortgage (11%), construction and development (C&D) (6%), multi-family (2%), and other (1%).

Presently, the metropolitan statistical areas (MSAs) of Birmingham-Hoover, Huntsville, Montgomery, Dothan and Mobile, Alabama, Pensacola-Ferry Pass-Brent, Florida, Atlanta-Sandy Springs-Roswell, Georgia, Charleston-North Charleston, South Carolina and Nashville-Davidson-Murfreesboro-Franklin, Tennessee represent SFBS' primary markets. Moreover, in January 2016, ServisFirst hired a new regional CEO in Tampa Bay, Florida to materialize the opening of a new office in the region. 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; however, overall the Company lacks a national presence.

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' "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' business model is emphasizes organic loan and deposit growth supplemented by opportunistic expansion in its current target markets (as summarized in the chart below). Expansion is geared towards Southern markets, with a metropolitan focus and a broad network of experienced bankers. Acquisition and merger activity pinpoints institutions with market demographics favorable for attaining a minimum of \$300 million in deposits within 5 years of market entry with an abundance of experienced bankers.

Historical Growth of SFBS		
Date	Location/Purpose	Nature
August 2006	Huntsville, AL	Organic
June 2007	Montgomery, AL	Organic
September 2008	Dothan, AL	Organic
March 2011	Established Correspondent Banking Division	Organic
April 2011	Pensacola, FL	Organic
July 2012	Mobile, AL	Organic
April 2013	Nashville, TN	Organic
January 2015	Charleston, SC	Organic
January 2015	Metro Bank; entry to Georgia market	Acquisition

On January 31, 2015, SFBS completed a merger agreement with Metro Bancshares, Inc., the holding company of Metro Bank founded in 2007 and domiciled in Douglasville, Georgia. The transaction represented the Company's first strategic acquisition and provided entry into the Atlanta metropolitan market. At December 31, 2014, Metro Bank reported total assets of \$210.46 million, total equity of \$25.79 million, total loans of \$154.20 million, and total deposits of \$182.37 million. Metro Bank's primary services included traditional banking and commercial lending services throughout the Atlanta metropolitan area—harmonized with SFBS' strategic vision. Additionally, as noted, SFBS opened new branches in Charleston, South Carolina in January 2015 and Tampa Bay, Florida in January 2016. Overall, SFBS appears well positioned given market dynamics and management's risk appetite appears in line with the Company's business model.

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 251 community banks spanning the southeastern states.

Income is principally driven by interest and fees collected on loans, interest and dividends collected on other investments, and service charges. SFBS' historical earnings reflect steady growth and compare favorably among peers. Also noteworthy, despite reporting lower earnings during the crisis years, SFBS remained profitable through the downturn.

In summary, given SFBS' high concentration of commercial lending, while also considering the support of an experienced management team and resilient earnings metrics, KBRA views ServisFirst's market strategy as **average** to **strong**.

Risk Management

SFBS' 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. Individual loan officers are granted lending authority 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. SFBS' in-house limit is conservative at \$20 million versus the legal lending limit of \$75 million.

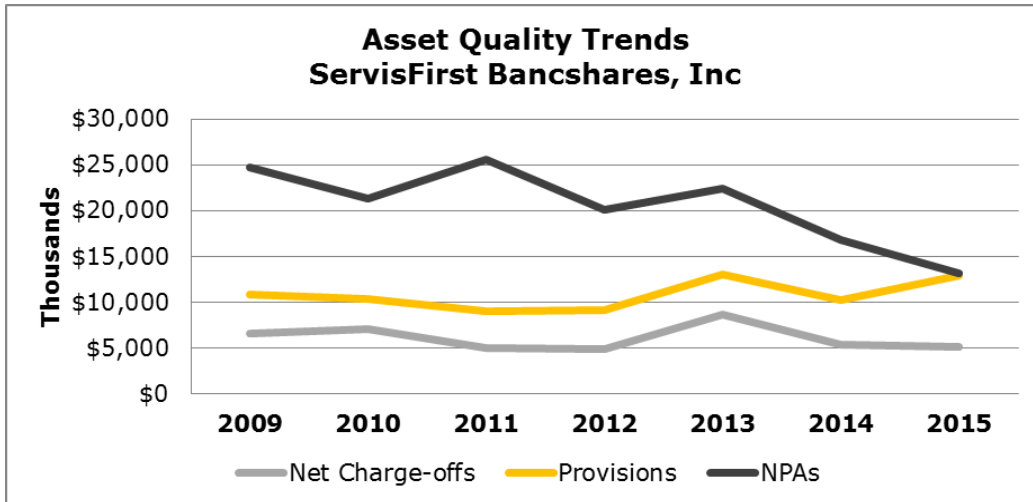
Loan officers utilize a nine-point risk grade scale to assign risk grades to lending relationships and are responsible for reporting any changes in the risk grade of a loan in a timely fashion. The assigned risk grades are used to categorize the criticized and classified loans into the following regulatory classifications: Special Mention, Substandard, Doubtful, or Loss. As of December 31, 2015, Special Mention, Substandard, and Doubtful loans amounted to \$117.0 million, or 2.8% of total loans, against \$77.6 million, or 2.3% of total loans, reported one year prior.

SFBS maintains a watch list for any significant loan amount in nonaccrual status and had one Special Mention as of December 31, 2015, involving a CRE relationship that the Bank has had since 2006/2007. However, 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' 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 hand with its highly efficient branch network, SFBS has a high caliber technological 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.

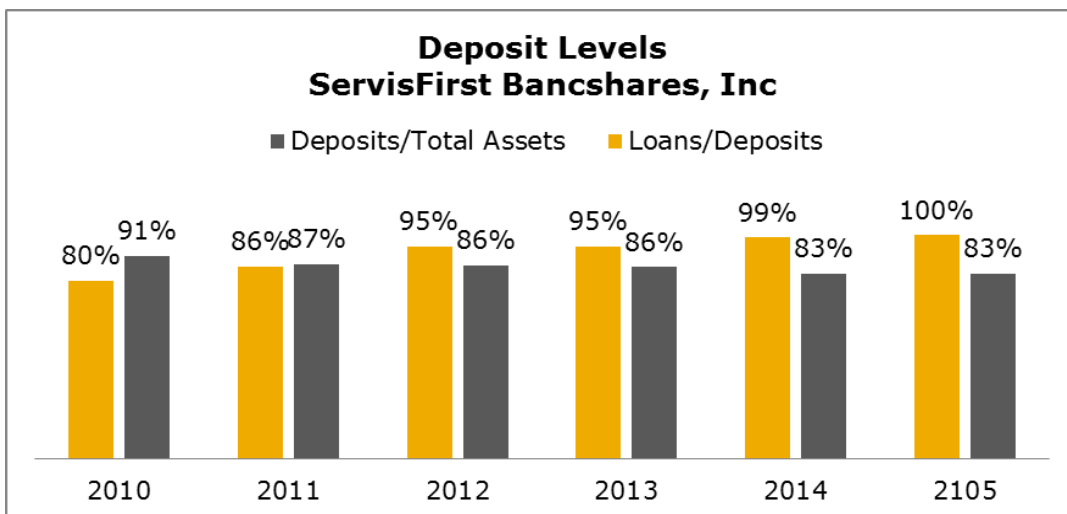
As with many institutions, SFBS experienced a spike in delinquencies as a result of the financial crisis, but the level of nonperformers has steadily improved thereafter. In 2009, NPAs peaked to represent 19.47% of tangible capital plus reserves and 1.57% of total assets at the bank level. As of December 31, 2015, the Company recorded strong asset quality ratios, with NPAs representing 2.76% of tangible equity plus reserves and 0.26% of total assets. Additionally, the level of reserve coverage for NPAs has been rising and is ample at approximately 329% as of December 31, 2015. ServisFirst scores **average** to **strong** for this category.



Liquidity Management

ServisFirst’s liquidity risk oversight and monitoring is adequate and 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 its own liquidity stress testing to ensure the ability to meet obligations in the event of a market disruption.

While primarily deposit funded, the Bank also has access to varied sources of market funds and has borrowing capacity with the Federal Reserve and the FHLB. If necessary, the Bank can post additional collateral to meet liquidity requirements and has access to borrowing lines with correspondent banks. Liquidity at the bank holding company level is satisfactory. Furthermore, SFBS’ 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, although earnings pressure will remain for banks for some time due to the low interest rate environment. 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. 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 support³. However, KBRA does not foresee any regulatory support being extended to SFBS or its investors.

Outlook

The stable outlook for the long-term ratings reflects the resilience of SFBS' capital and earnings to KBRA's forward-looking economic stress scenarios.

Drivers of Rating Change

Rating Upgrade

The long-term ratings of the Bank and its parent share a stable outlook for the mid-term. In KBRA's view, given a macro and interest rate environment faced with enduring difficulties, a rating upgrade in the near future is not expected. Even so, diversification of the lending portfolio or notable earnings growth and diversification 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, efficiency, or asset quality 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.

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