KBRA Affirms Ratings for ServisFirst Bancshares, Inc.

New York (March 31, 2023)

KBRA affirms the senior unsecured debt rating of BBB+, the subordinated debt rating of BBB, and the short-term debt rating of K2 for Birmingham, Alabama based ServisFirst Bancshares, Inc. (NYSE: SFBS) ("ServisFirst" or "the company"). In addition, KBRA affirms the deposit and senior unsecured debt ratings of A-, the subordinated debt rating of BBB+, and the short-term deposit and debt ratings of K2 for its subsidiary, ServisFirst Bank. The Watch Developing status for all ratings has been removed. The Outlook for all long-term ratings is Stable.

Key Credit Considerations

The ratings are supported by ServisFirst's relationship driven deposit base and adequate liquidity position, particularly in view of recent events within the banking industry. While SFBS reported uninsured deposits of 61% at YE22, the level of uninsured deposits is estimated at ~50%, excluding escrow, trust accounts, and other pass though deposits (totaling ~$1.2 billion). In addition, the company has access to secondary liquidity sources, including FHLB borrowing availability, covering ~30% of total assets. Moreover, SFBS' AFS unrealized losses represented less than 5% of CET1 at YE22, which is manageable, in our view. KBRA acknowledges the company's liability sensitive balance sheet and limited balance sheet flexibility with a loan to deposit ratio of 100% at YE22. However, we also recognize that SFBS' deposit base primarily consists of operating accounts comprised of long-standing relationships with local businesses and government agencies, as well as settlement accounts from correspondent banks and trust accounts that are generally more stable. Furthermore, ServisFirst's ratings are supported by an experienced management team that focuses on personalized relationships with local borrowers, while building a nationwide correspondent banking network (>300 banks), which is viewed as a testament to the bank's positive reputation within the industry.

The ratings also reflect SFBS' durable earnings with a multiyear risk adjusted ROA tracking near 2%. The company's strong returns are driven by a low expense base, bolstered by a commercial focused, branch-lite business model and strong back-office operations. In addition, earnings reflect appropriately risk-priced assets, with generally above average loan yields compared to similarly rated peers. The ratings are further underpinned by SFBS' historically strong asset quality performance, including manageable credit losses. KBRA views SFBS' reserve position (1.25% at YE22) as adequate and we consider ServisFirst a disciplined underwriter with comprehensive monitoring procedures in place. Consistent with its operations since inception, SFBS' revenue structure remains spread-reliant as management deliberately focuses on a conventional banking model, which, admittedly, has proven resilient. While ServisFirst's business model facilitates deposit gathering, we acknowledge the company's above peer deposit costs, and the likelihood of significant funding pressure as interest rates remain high, which could pressure the NIM in 2023. Driven by robust loan growth over the past two years, SFBS' capital ratios declined by ~100 bps, including the CET1 ratio (9.5% at YE22), which has tracked well below peer, particularly when considering the company's overall risk profile, including a higher percentage of C&D lending in the loan mix. We expect ServisFirst's strong internal capital generation, in conjunction with moderated loan growth and its reasonable payout ratio, to support the company's ability to rebuild capital going forward.

Rating Sensitivities

Inability to rebuild core capital, specifically the CET1 ratio, to a level more in line with peer averages within the next 1 to 2 years could lead to negative rating action. The Stable Outlook also assumes moderated C&D growth in the intermediate term. An increased risk profile or deterioration in credit quality, leading to a material decline in the company's profitability, could also have negative rating implications.

The ratings are based on KBRA's Bank & Bank Holding Company Global Rating Methodology published on November 8, 2021 and KBRA's ESG Global Rating Methodology published on June 16, 2021.

To access rating and relevant documents, click here.

Analytical Contacts

Amina Pare, Associate Director (Lead Analyst)
+1 301-969-3187
amina.pare@kbra.com

Brian Ropp, Managing Director
+1 301-969-3244
brian.ropp@kbra.com

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

Business Development Contact

Justin Fuller, Senior Director
+1 646-731-1250
justin.fuller@kbra.com

Disclosures

A description of all substantially material sources that were used to prepare the credit rating and information on the methodology(ies) (inclusive of any material models and sensitivity analyses of the relevant key rating assumptions, as applicable) used in determining the credit rating is available in the Information Disclosure Form(s) located here.

Information on the meaning of each rating category can be located here.

Further disclosures relating to this rating action are available in the Information Disclosure Form(s) referenced above. Additional information regarding KBRA policies, methodologies, rating scales and disclosures are available at www.kbra.com.

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