

KBRA Affirms Ratings for ServisFirst Bancshares, Inc.

New York (December 15, 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 Outlook for all long-term ratings is Stable.

SFBS’ ratings are supported by a durable earnings profile that we consider stronger than peers’. In this regard, the company’s ROA and RORWA has averaged 1.7% and 2.1% since 2018, buoyed by a low cost expense base that is bolstered by a branch-lite business model. As a result, SFBS’ efficiency ratio, which generally tracks in the low-30% range, is consistently one of the strongest in KBRA’s rated universe. Though we recognize that the company’s commercially focused business model is a narrow one, leading to a revenue profile that is heavily spread reliant, we also acknowledge that that fee income business lines at banks, while providing earnings diversity, can at times be less profitable from a margin perspective, and we appreciate that the lack of meaningful fee income lines of business at SFBS partly explain the company’s strong efficiency ratio. The company’s earnings in recent quarters have been pressured by interest rate headwinds facing the industry more broadly, but we consider 9M23 ROA of 1.49% to be solid considering the more challenging operating environment. The behavior of SFBS’ deposit base during the banking industry volatility of March 2023 is also supportive of the company’s ratings. Given a deposit base that contains 1) a greater amount of uninsured and uncollateralized deposits than most (49% of total at 3Q23) and 2) a not insignificant number of deposits from correspondent banking clients, which historically range anywhere from 15% - 30% of total, KBRA believed that SFBS was somewhat more vulnerable to funding stresses following the failures of select regional banks in March. However, the company’s deposit base performed about as well as could be expected in the days immediately following the failures of SVB and SBNY, in our opinion, with manageable deposit outflows mainly related to correspondent banking clients proactively increasing their own balance sheet liquidity. More specifically, in the six business days following March 10, 2023 (the date of SVB’s failure), total deposits at SFBS declined by a cumulative \$245 million, representing a modest 2% decline from YE22 levels. By the end of March, deposit levels had stabilized and even grown, and the company ended 1Q23 with a higher level of deposits than both the beginning of March and YE22.

Partially constraining SFBS’ ratings are NPA and NCO ratios that, while low on an absolute basis, have occasionally exceeded that of similarly rated institutions. That said, we attribute this, at least in part, to the company’s commercially focused business model that naturally leads to a degree of “chunkiness” in its loan portfolio, meaning that an isolated large dollar loan relationship can contribute to noise in reported metrics. KBRA’s assessment of SFBS’ capital profile balances the company’s lower than peer capital ratios (10.7% CET1 ratio as of 3Q23) with its ability to accrete core capital rapidly and organically through strong core earnings and a conservative approach to shareholder payouts.

To access rating and relevant documents, click [here](#).

Click [here](#) to view the report.



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Disclosures

Further information on key credit considerations, sensitivity analyses that consider what factors can affect these credit ratings and how they could lead to an upgrade or a downgrade, and [ESG factors](#) (where they are a key driver behind the change to the credit rating or rating outlook) can be found in the full rating report referenced above.

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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