

ServisFirst Bancshares, Inc.
Form 10-K
February 28, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934**

For the transition period from _____ to _____

Commission file number 001-36452

SERVISFIRST BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware **26-0734029**
*(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)*

2500 Woodcrest Place, Birmingham, Alabama 35209
(Address of Principal Executive Offices) (Zip Code)

(205) 949-0302

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of exchange on which registered</u>
Common stock, par value \$.001 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or Section 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “small reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of June 30, 2018, the aggregate market value of the voting common stock held by non-affiliates of the registrant, based on a stock price of \$41.73 per share of Common Stock, was \$1,882,356,000.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding as of February 25, 2019</u>
Common stock, \$.001 par value	53,475,208

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with its 2019 Annual Meeting of Stockholders are incorporated by reference into Part III of this annual report on Form 10-K.

SERVISFIRST BANCSHARES, INC.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K and other publicly available documents, including the documents incorporated by reference herein, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These “forward-looking statements” reflect our current views with respect to, among other things, future events and our financial performance. The words “may,” “plan,” “contemplate,” “anticipate,” “believe,” “intend,” “continue,” “expect,” “project,” “predict,” “estimate,” “could,” “should,” “would,” “will,” and similar expressions are intended to identify such forward-looking statements, but other statements not based on historical information may also be considered forward-looking. All forward-looking statements are subject to risks, uncertainties and other factors that may cause our actual results, performance or achievements to differ materially from any results expressed or implied by such forward-looking statements. These statements should be considered subject to various risks and uncertainties, and are made based upon management’s belief as well as assumptions made by, and information currently available to, management pursuant to “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. Such risks include, without limitation:

- the effects of adverse changes in the economy or business conditions, either nationally or in our market areas;
- credit risks, including the deterioration of the credit quality of our loan portfolio, increased default rates and loan losses or adverse changes in our portfolio or in specific industry concentrations of our loan portfolio;
- the effects of governmental monetary and fiscal policies and legislative, regulatory and accounting changes applicable to banks and other financial service providers, including the impact on us and our customers of the Tax Cuts and Jobs Act;
- the effects of hazardous weather in our markets;
- the effects of competition from other financial institutions and financial service providers;
- our ability to keep pace with technology changes, including with respect to cyber-security and preventing breaches of our and third-party security systems involving our customers and other sensitive and confidential data;
- our ability to attract new or retain existing deposits, or to initiate new or retain current loans;
- the effect of any merger, acquisition or other transaction to which we or any of our subsidiaries may from time to time be a party, including our ability to successfully integrate any business that we acquire;
- the effect of changes in interest rates on the level and composition of deposits, loan demand and the values of loan collateral, securities and interest sensitive assets and liabilities;
- the effects of terrorism and efforts to combat it;
- an increase in the incidence or severity of fraud, illegal payments, security breaches or other illegal acts impacting our customers;
- the results of regulatory examinations;
- the effect of inaccuracies in our assumptions underlying the establishment of our loan loss reserves; and
 - other factors that are discussed in the section titled “Risk Factors” in Item 1A.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this annual report on Form 10-K. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation

to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

PART I

Unless this Form 10-K indicates otherwise, the terms “we,” “our,” “us,” “the Company,” “ServisFirst Bancshares” and “ServisFirst” as used herein refer to ServisFirst Bancshares, Inc., and its subsidiaries, including ServisFirst Bank, which sometimes is referred to as “our bank subsidiary,” “our bank” or “the Bank,” and its other subsidiaries. References herein to the fiscal years 2014, 2015, 2016, 2017 and 2018 mean our fiscal years ended December 31, 2014, 2015, 2016, 2017 and 2018, respectively.

ITEM 1. BUSINESS

Overview

We are a bank holding company within the meaning of the Bank Holding Company Act of 1956 and are headquartered in Birmingham, Alabama. Through our wholly-owned subsidiary bank, we operate 20 full-service banking offices located in Jefferson, Shelby, Madison, Montgomery, Houston, Mobile and Baldwin Counties of Alabama, Escambia and Hillsborough Counties of Florida, Cobb and Douglas Counties of Georgia, Charleston County, South Carolina and Davidson County, Tennessee, which are located in the metropolitan statistical areas (“MSAs”) 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. We also operate a loan production office in Fort Walton, Florida. Through our bank, we originate commercial, consumer and other loans and accept deposits, provide electronic banking services, such as online and mobile banking, including remote deposit capture, deliver treasury and cash management services and provide correspondent banking services to other financial institutions. As of December 31, 2018, we had total assets of approximately \$8.0 billion, total loans of approximately \$6.5 billion, total deposits of approximately \$6.9 billion and total stockholders’ equity of approximately \$715.2 million.

We operate our bank using a simple business model based on organic loan and deposit growth, generated through high quality customer service, delivered by a team of experienced bankers focused on developing and maintaining long-term banking relationships with our target customers. We utilize a uniform, centralized back office risk and credit platform to support a decentralized decision-making process executed locally by our regional chief executive officers. This decentralized decision-making process allows individual lending officers varying levels of lending authority, based on the experience of the individual officer. When the total amount of loans to a borrower exceeds an officer’s lending authority, further approval must be obtained by the applicable regional chief executive officer (G. Carlton Barker – Montgomery, Andrew N. Kattos – Huntsville, B. Harrison Morris, III – Dothan, Rex D. McKinney – Pensacola, W. Bibb Lamar, Jr. – Mobile, Thomas G. Trouche – Charleston, J. Harold Clemmer – Atlanta, Bradford A. Vieira – Nashville or Gregory W. Bryant – Tampa Bay) and/or our senior management team. Rather than relying on a

more traditional retail bank strategy of operating a broad base of multiple brick and mortar branch locations in each market, our strategy focuses on operating a limited and efficient branch network with sizable aggregate balances of total loans and deposits housed in each branch office. We believe that this approach more appropriately addresses our customers' banking needs and reflects a best-of-class delivery strategy for commercial banking services.

Our principal business is to accept deposits from the public and to make loans and other investments. Our principal sources of funds for loans and investments are demand, time, savings and other deposits and the amortization and prepayment of loans and borrowings. Our principal sources of income are interest and fees collected on loans, interest and dividends collected on other investments, and service charges. Our principal expenses are interest paid on savings and other deposits, interest paid on our other borrowings, employee compensation, office expenses and other overhead expenses.

Certain of our subsidiaries hold and manage participations in residential mortgages and commercial real estate loans originated by our bank in Alabama, Florida, Georgia and Tennessee, respectively, and have elected to be treated as real estate investment trusts, or REITs, for U.S. income tax purposes. Each of these entities is consolidated into the Company.

As a bank holding company, we are subject to regulation by the Federal Reserve. We are required to file reports with the Federal Reserve and are subject to regular examinations by that agency.

History

Our bank was founded by our President and Chief Executive Officer, Thomas A. Broughton, III, and commenced banking operations in May 2005 following an initial capital raise of \$35 million, the largest capital raise by a *de novo* bank in the history of Alabama. We were incorporated as a Delaware corporation in August 2007 for the purpose of acquiring all of the common stock of our bank and, in November 2007, our holding company became the sole shareholder of the bank by virtue of a plan of reorganization and agreement of merger. In May 2008, following our filing of a registration statement on Form 10 with the SEC, we became a reporting company within the meaning of the Exchange Act. On May 19, 2014, we completed our initial public offering of our common stock.

Business Strategy

We are a full service commercial bank focused on providing competitive products, state of the art technology and quality service. Our business philosophy is to operate as a metropolitan community bank emphasizing prompt, personalized customer service to the individuals and businesses located in our primary markets. We aggressively market to our target customers, which include privately held businesses generally with \$2 million to \$250 million in annual sales, professionals and affluent consumers whom we believe are underserved by the larger regional banks operating in our markets. We also seek to capitalize on the extensive relationships that our management, directors, advisory directors and stockholders have with the businesses and professionals in our markets.

Focus on Core Banking Business. We deliver a broad array of core banking products to our customers. While many large regional competitors and national banks have chosen to develop non-traditional business lines to supplement their net interest income, we believe our focus on traditional commercial banking products driven by a high margin delivery system is a superior method to deliver returns to our stockholders. We emphasize an internal culture of keeping our operating costs as low as practical, which we believe leads to greater operational efficiency. Additionally, our centralized technology and process infrastructure contribute to our low operating costs. We believe this combination of products, operating efficiency and technology make us attractive to customers in our markets. In addition, we provide correspondent banking services to more than 350 community banks located in 16 states throughout the southern United States. We provide a source of clearing and liquidity to our correspondent bank customers, as well as a wide array of account, credit, settlement and international services.

Commercial Bank Emphasis. We have historically focused on people as opposed to places. This strategy translates into a smaller number of brick and mortar branch locations relative to our size, but larger overall branch sizes in terms of total deposits. As a result, as of December 31, 2018, our branches averaged approximately \$345.8 million in total deposits. In the more typical retail banking model, branch banks continue to lose traffic to other banking channels which may prove to be an impediment to earnings growth for those banks that have invested in large branch networks. In addition, unlike many traditional community banks, we place a strong emphasis on originating commercial and industrial loans, which comprised approximately 38% of our total loan portfolio as of December 31, 2018.

Scalable, Decentralized Business Model. We emphasize local decision-making by experienced bankers supported by centralized risk and credit oversight. We believe that the delivery by our bankers of in-market customer decisions, coupled with risk and credit support from our corporate headquarters, allows us to serve our borrowers and depositors directly and in person, while managing risk centrally and on a uniform basis. We intend to continue our growth by repeating this scalable model in each market in which we are able to identify a strong banking team. Our goal in each market is to employ the highest quality bankers in that market. We then empower those bankers to implement our operating strategy, grow our customer base and provide the highest level of customer service possible. We focus on a geographic model of organizational structure as opposed to a line of business model employed by most regional banks. This structure assigns significant responsibility and accountability to our regional chief executive officers, who we believe will drive our growth and success. We have developed a business culture whereby our management team,

from the top down, is actively involved in sales, which we believe is a key differentiator from our competition.

Identify Opportunities in Vibrant Markets. Since opening our original banking facility in Birmingham in 2005, as of December 31, 2018, we had expanded into nine additional markets. Our focus has been to expand opportunistically when we identify a strong banking team in a market with attractive economic characteristics and market demographics where we believe we can achieve a minimum of \$300 million in deposits within five years of market entry. There are two primary factors we consider when determining whether to enter a new market:

- the availability of successful, experienced bankers with strong reputations in the market; and
- the economic attributes of the market necessary to drive quality lending opportunities coupled with deposit-related characteristics of the potential market.

Prior to entering a new market, historically we have identified and built a team of experienced, successful bankers with market-specific knowledge to lead the bank's operations in that market, including a regional chief executive officer. Generally, we or members of our senior management team are familiar with these individuals based on prior work experience and reputation, and strongly believe in the ability of such individuals to successfully execute our business model. We also often assemble a non-voting advisory board of directors in our markets, comprised of members representing a broad spectrum of business experience and community involvement in the market. We currently have advisory boards in each of the Huntsville, Montgomery, Dothan, Mobile, Pensacola, Atlanta and Charleston markets.

In addition to organic expansion, we may seek to expand through targeted acquisitions.

Markets and Competition

Our primary markets are broadly defined as the MSAs 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. We draw most of our deposits from, and conduct most of our lending transactions in, these markets.

According to Federal Deposit Insurance Corporation (“FDIC”) reports, total deposits in each of our primary market areas have expanded from 2008 to 2018 (deposit data reflects totals as reported by financial institutions as of June 30th of each year) as follows:

	2018	2008	Compound Annual Growth Rate	
	(Dollars in Billions)			
Jefferson/Shelby County, Alabama	\$31.6	\$19.3	5.05	%
Madison County, Alabama	7.2	5.2	3.31	%
Montgomery County, Alabama	6.4	5.6	1.34	%
Houston County, Alabama	2.6	1.8	3.75	%
Mobile County, Alabama	7.1	5.4	2.77	%
Escambia County, Florida	5.7	3.8	4.17	%
Hillsborough County, Florida	31.7	20.2	4.61	%
Cobb County, Georgia	15.2	10.7	3.57	%
Douglas County, Georgia	1.6	1.4	1.34	%
Charleston County, South Carolina	11.1	7.3	4.23	%
Davidson County, Tennessee	35.6	16.8	7.80	%

Our bank is subject to intense competition from various financial institutions and other financial service providers. Our bank competes for deposits with other commercial banks, savings and loan associations, credit unions and issuers of commercial paper and other securities, such as money-market and mutual funds. In making loans, our bank competes with other commercial banks, savings and loan associations, consumer finance companies, credit unions, leasing companies, interest-based lenders and other lenders.

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The following table illustrates our market share, by insured deposits, in our primary service areas at June 30, 2018 (the most recent date such numbers were reported by the FDIC), as reported by the FDIC:

Market	Number of Market Branches	Our Deposits (Dollars in Millions)	Total Market Deposits	Ranking	Market Share Percentage
Alabama:					
Birmingham-Hoover MSA	3	\$2,674.3	\$37,728.1	4	7.09 %
Huntsville MSA	2	762.8	7,961.1	3	9.58 %
Montgomery MSA	2	563.1	7,938.6	6	7.09 %
Dothan MSA	2	511.1	3,280.6	1	15.58 %
Mobile MSA	2	272.6	7,112.7	8	3.83 %
Florida:					
Pensacola-Ferry Pass-Brent MSA	2	366.4	7,191.2	7	5.10 %
Tampa-St. Petersburg-Clearwater MSA	1	128.9	85,159.1	38	0.15 %
Georgia:					
Atlanta-Sandy Springs-Roswell MSA	3	345.1	173,054.6	31	0.20 %
South Carolina:					
Charleston-North Charleston MSA	1	141.2	13,918.5	16	1.01 %
Tennessee:					
Nashville-Davidson-Murfreesboro MSA	1	318.0	61,450.6	25	0.52 %

The following table illustrates the combined total deposits for all financial institutions in the counties in which we operate as a percent of the total of all deposits in each state at June 30, 2018, as reported by the FDIC:

Alabama	54.4%
Florida	6.4 %
Georgia	6.7 %
South Carolina	12.9%
Tennessee	23.0%

Our retail and commercial divisions operate in highly competitive markets. We compete directly in retail and commercial banking markets with other commercial banks, savings and loan associations, credit unions, mortgage brokers and mortgage companies, mutual funds, securities brokers, consumer finance companies, other lenders and insurance companies, locally, regionally and nationally. Many of our competitors compete by using offerings by mail, telephone, computer and/or the Internet. Interest rates, both on loans and deposits, and prices of services are significant competitive factors among financial institutions generally. Providing convenient locations, desired financial products and services, convenient office hours, quality customer service, quick local decision making, a strong community reputation and long-term personal relationships are all important competitive factors that we emphasize.

In our markets, our five largest competitors are Regions Bank, Wells Fargo Bank, BBVA Compass, BB&T and Synovus Bank. These institutions, as well as other competitors of ours, have greater resources, serve broader geographic markets, have higher lending limits, offer various services that we do not offer and can better afford, and make broader use of, media advertising, support services, and electronic technology than we can. To offset these competitive disadvantages, we depend on our reputation for greater personal service, consistency, flexibility and the ability to make credit and other business decisions quickly.

Lending Services

Lending Policy

Our lending policies are established to support the credit needs of our primary market areas. Consequently, we aggressively seek high-quality borrowers within a limited geographic area and in competition with other well-established financial institutions in our primary service areas that have greater resources and lending limits than we have.

Loan Approval and Review

Our loan approval policies set various levels of officer lending authority. When the total amount of loans to a single borrower exceeds an individual officer's lending authority, further approval, up to \$5.0 million secured, must be obtained from the Regional CEO and/or our senior management team, based on our loan policies.

Commercial Loans

Our commercial lending activity is directed principally toward businesses and professional service firms whose demand for funds falls within our legal lending limits. We make loans to small- and medium-sized businesses in our markets for the purpose of upgrading plant and equipment, buying inventory and for general working capital. Typically, targeted business borrowers have annual sales generally between \$2 million and \$250 million. This category of loans includes loans made to individual, partnership and corporate borrowers, and such loans are obtained for a variety of business purposes. We offer a variety of commercial lending products to meet the needs of business and professional service firms in our service areas. These commercial lending products include seasonal loans, bridge loans and term loans for working capital, expansion of the business, or acquisition of property, plant and equipment. We also offer commercial lines of credit. The repayment terms of our commercial loans will vary according to the needs of each customer.

Our commercial loans usually are collateralized. Generally, collateral consists of business assets, including accounts receivable, inventory, equipment, or real estate. Collateral is subject to the risk that we may have difficulty converting it to a liquid asset if necessary, as well as risks associated with degree of specialization, mobility and general collectability in a default situation. To mitigate this risk, we underwrite collateral to strict standards, including valuations and general acceptability based on our ability to monitor its ongoing condition and value.

We underwrite our commercial loans primarily on the basis of the borrower's cash flow, ability to service debt, and degree of management expertise. As a general practice, we take as collateral a security interest in any available real estate, equipment or personal property. Under limited circumstances, we may make commercial loans on an unsecured basis. Commercial loans may be subject to many different types of risks, including fraud, bankruptcy, economic downturn, deteriorated or non-existent collateral, and changes in interest rates. Perceived and actual risks may differ depending on the particular industry in which a borrower operates. General risks to an industry, such as an economic downturn or instability in the capital markets, or to a particular segment of an industry are monitored by senior management on an ongoing basis. When warranted, loans to individual borrowers who may be at risk due to an industry condition may be more closely analyzed and reviewed by the credit review committee or board of directors. Commercial and industrial borrowers are required to submit financial statements to us on a regular basis. We analyze these statements, looking for weaknesses and trends, and will assign the loan a risk grade accordingly. Based on this risk grade, the loan may receive an increased degree of scrutiny by management, up to and including additional loss reserves being required.

Real Estate Loans

We make commercial real estate loans, construction and development loans and residential real estate loans.

Commercial Real Estate. Commercial real estate loans are generally limited to terms of five years or less, although payments are usually structured on the basis of a longer amortization. Interest rates may be fixed or adjustable, although rates generally will not be fixed for a period exceeding five years. In addition, we generally will require personal guarantees from the principal owners of the property supported by a review by our management of the principal owners' personal financial statements.

Commercial real estate lending presents risks not found in traditional residential real estate lending. Repayment is dependent upon successful management and marketing of properties and on the level of expense necessary to maintain the property. Repayment of these loans may be adversely affected by conditions in the real estate market or the general economy. Also, commercial real estate loans typically involve relatively large loan balances to a single borrower. To mitigate these risks, we closely monitor our borrower concentration. These loans generally have shorter maturities than other loans, giving us an opportunity to reprice, restructure or decline renewal. As with other loans, all commercial real estate loans are graded depending upon strength of credit and performance. A higher risk grade will bring increased scrutiny by our management, the credit review committee and the board of directors.

Construction and Development Loans. We make construction and development loans both on a pre-sold and speculative basis. If the borrower has entered into an agreement to sell the property prior to beginning construction, then the loan is considered to be on a pre-sold basis. If the borrower has not entered into an agreement to sell the property prior to beginning construction, then the loan is considered to be on a speculative basis. Construction and development loans are generally made with a term of 12 to 24 months, with interest payable monthly. The ratio of the loan principal to the value of the collateral as established by independent appraisal typically will not exceed 80% of residential construction loans. Speculative construction loans will be based on the borrower's financial strength and cash flow position. Development loans are generally limited to 75% of appraised value. Loan proceeds will be disbursed based on the percentage of completion and only after the project has been inspected by an experienced construction lender or third-party inspector. During times of economic stress, construction and development loans typically have a greater degree of risk than other loan types.

To mitigate the risk of construction loan defaults in our portfolio, the board of directors and management tracks and monitors these loans closely. Total construction loans decreased \$47.7 million to \$533.2 million at December 31, 2018. Our allocation of loan loss reserve for these loans decreased \$1.5 million to \$3.5 million at December 31, 2018 compared to \$5.0 million at the end 2017. There were no charge-offs on construction loans during 2018 compared to \$0.1 million for 2017, and the overall quality of the construction loan portfolio has improved with \$1.4 million rated as substandard at December 31, 2018 compared to \$1.5 million at December 31, 2017.

Residential Real Estate Loans. Our residential real estate loans consist primarily of residential second mortgage loans, residential construction loans and traditional mortgage lending for one-to-four family residences. We will originate fixed-rate mortgages with long-term maturities. The majority of our fixed-rate loans are sold in the secondary mortgage market. All loans are made in accordance with our appraisal policy, with the ratio of the loan principal to the value of collateral as established by independent appraisal generally not exceeding 85%. Risks associated with these loans are generally less significant than those of other loans and involve bankruptcies, economic downturn, customer financial problems and fluctuations in the value of real estate, and homes in our primary service areas may experience significant price declines in the future. We have not made and do not expect to make any “Alt-A” or subprime loans.

Consumer Loans

We offer a variety of loans to retail customers in the communities we serve. Consumer loans in general carry a moderate degree of risk compared to other loans. They are generally more risky than traditional residential real estate loans but less risky than commercial loans. Risk of default is usually determined by the well-being of the local economies. During times of economic stress, there is usually some level of job loss both nationally and locally, which directly affects the ability of the consumer to repay debt. Risk on consumer-type loans is generally managed through policy limitations on debt levels consumer borrowers may carry and limitations on loan terms and amounts depending upon collateral type.

Our consumer loans include home equity loans (open- and closed-end), vehicle financing, loans secured by deposits, and secured and unsecured personal loans. These various types of consumer loans all carry varying degrees of risk.

Commitments and Contingencies

As of December 31, 2018, we had commitments to extend credit beyond current fundings of approximately \$2.0 billion, had issued standby letters of credit in the amount of approximately \$40.6 million, and had commitments for credit card arrangements of approximately \$173.6 million.

Policy for Determining the Loan Loss Allowance

The allowance for loan losses represents our management's assessment of the risk associated with extending credit and its evaluation of the quality of the loan portfolio. In calculating the adequacy of the loan loss allowance, our management evaluates the following factors:

- the asset quality of individual loans;
- changes in the national and local economy and business conditions/development, including underwriting standards, collections, and charge-off and recovery practices;
- changes in the nature and volume of the loan portfolio;
- changes in the experience, ability and depth of our lending staff and management;
- changes in the trend of the volume and severity of past-due loans and classified loans, and trends in the volume of non-accrual loans, troubled debt restructurings and other modifications, as has occurred in the residential mortgage markets and particularly for residential construction and development loans;
- possible deterioration in collateral segments or other portfolio concentrations;
- historical loss experience (when available) used for pools of loans (i.e., collateral types, borrowers, purposes, etc.);
- changes in the quality of our loan review system and the degree of oversight by our board of directors; and
- the effect of external factors such as competition and the legal and regulatory requirement on the level of estimated credit losses in our current loan portfolio.

These factors are evaluated quarterly, and changes in the asset quality of individual loans are evaluated as needed.

We assign all of our loans individual risk grades when they are underwritten. We have established minimum general reserves based on the risk grade of the loan. We also apply general reserve factors based on historical losses, management's experience and common industry and regulatory guidelines.

After a loan is underwritten and booked, it is monitored by the account officer, management, internal loan review, and representatives of our independent external loan review firm over the life of the loan. Payment performance is monitored monthly for the entire loan portfolio; account officers contact customers during the regular course of business and may be able to ascertain whether weaknesses are developing with the borrower; independent loan consultants perform a review annually; and federal and state banking regulators perform annual reviews of the loan portfolio. If we detect weaknesses that have developed in an individual loan relationship, we downgrade the loan and assign higher reserves based upon management's assessment of the weaknesses in the loan that may affect full collection of the debt. We have established a policy to discontinue accrual of interest (non-accrual status) after any loan has become 90 days delinquent as to payment of principal or interest unless the loan is considered to be well collateralized and is actively in process of collection. In addition, a loan will be placed on non-accrual status before it becomes 90 days delinquent if management believes that the borrower's financial condition is such that the collection of interest or principal is doubtful. Interest previously accrued but uncollected on such loans is reversed and charged against current income when the receivable is determined to be uncollectible. Interest income on non-accrual loans is recognized only as received. If a loan will not be collected in full, we increase the allowance for loan losses to reflect our management's estimate of any potential exposure or loss.

Our net loan losses to average total loans decreased to 0.20% for the year ended December 31, 2018 from 0.29% for the year ended December 31, 2017, which was up from 0.11% for the year ended December 31, 2016. Historical performance, however, is not an indicator of future performance, and our future results could differ materially. As of December 31, 2018, we had \$21.9 million of non-accrual loans. We have allocated approximately \$3.5 million of our allowance for loan losses to real estate construction, acquisition and development, and lot loans, \$39.0 million to commercial and industrial loans, \$25.5 million to real estate mortgage loans and \$0.6 million to consumer loans and have a total loan loss reserve as of December 31, 2018 of \$68.6 million. The loan loss reserve methodology incorporates qualitative factors which are based on management's judgment regarding various external and internal factors including macroeconomic trends, management's assessment of the Company's loan growth prospects and evaluations of internal risk controls. Our management believes, based upon historical performance, known factors, overall judgment, and regulatory methodologies, that the current methodology used to determine the adequacy of the allowance for loan losses is reasonable.

Our allowance for loan losses is also subject to regulatory examinations and determinations as to adequacy, which may take into account such factors as the methodology used to calculate the allowance for loan losses and the size of the allowance for loan losses in comparison to a group of peer banks identified by the regulators. During their routine examinations of banks, regulatory agencies may require a bank to make additional provisions to its allowance for loan losses when, in the opinion of the regulators, credit evaluations and allowance for loan loss methodology differ materially from those of management.

While it is our policy to charge off in the current period loans for which a loss is considered probable, there are additional risks of future losses that cannot be quantified precisely or attributed to particular loans or classes of loans. Because these risks include the state of the economy, our management's judgment as to the adequacy of the allowance is necessarily approximate and imprecise.

Investments

In addition to loans, we purchase investments in securities, primarily in mortgage-backed securities and state and municipal securities. No investment in any of those instruments will exceed any applicable limitation imposed by law or regulation. Our board of directors reviews the investment portfolio on an ongoing basis in order to ensure that the investments conform to the policy as set by the board of directors. Our investment policy provides that no more than 60% of our total investment portfolio may be composed of municipal securities. All securities held are traded in liquid markets, and we have no auction-rate securities. We had no investments in any one security, restricted or liquid, in excess of 10% of our stockholders' equity at December 31, 2018.

Deposit Services

We seek to establish solid core deposits, including checking accounts, money market accounts, savings accounts and a variety of certificates of deposit and IRA accounts. To attract deposits, we employ an aggressive marketing plan throughout our service areas that features a broad product line and competitive services. The primary sources of core deposits are residents of, and businesses and their employees located in, our market areas. We have obtained deposits primarily through personal solicitation by our officers and directors, through reinvestment in the community, and through our stockholders, who have been a substantial source of deposits and referrals. We make deposit services accessible to customers by offering direct deposit, wire transfer, night depository, banking-by-mail and remote capture for non-cash items. Our bank is a member of the FDIC, and thus our deposits (subject to applicable FDIC limits) are FDIC-insured.

Other Banking Services

Given client demand for increased convenience and account access, we offer a range of products and services, including 24-hour telephone banking, direct deposit, Internet banking, mobile banking, traveler's checks, safe deposit boxes, attorney trust accounts and automatic account transfers. We also participate in a shared network of automated teller machines and a debit card system that our customers are able to use, and, in certain accounts subject to certain conditions, we rebate to the customer the ATM fees automatically after each business day. Additionally, we offer Visa® credit cards.

Asset, Liability and Risk Management

We manage our assets and liabilities with the aim of providing an optimum and stable net interest margin, a profitable after-tax return on assets and return on equity, and adequate liquidity. These management functions are conducted within the framework of written loan and investment policies. To monitor and manage the interest rate margin and related interest rate risk, we have established policies and procedures to monitor and report on interest rate risk, devise strategies to manage interest rate risk, monitor loan originations and deposit activity and approve all pricing strategies. We attempt to maintain a balanced position between rate-sensitive assets and rate-sensitive liabilities. Specifically, we chart assets and liabilities on a matrix by maturity, effective duration, and interest adjustment period, and endeavor to manage any gaps in maturity ranges.

Seasonality and Cycles

We do not consider our commercial banking business to be seasonal.

Employees

We had 473 employees as of December 31, 2018. We consider our employee relations to be good, and we have no collective bargaining agreements with any employees.

Supervision and Regulation

Both we and our bank are subject to extensive state and federal banking laws and regulations that impose restrictions on, and provide for general regulatory oversight of, our operations. These laws and regulations restrict our permissible activities and investments, impose conditions and requirements on the products and services we offer and the manner in which they are offered and sold, and require compliance with protections for loan, deposit, brokerage, fiduciary, and other customers, among other things. They also restrict our ability to repurchase stock or pay dividends, or to receive dividends from our bank subsidiary, and impose capital adequacy and liquidity requirements. These laws and regulations generally are intended to protect customers (including depositors), the FDIC's Deposit Insurance Fund and the banking system as a whole, and generally is not intended for the protection of stockholders or other investors. The consequences of noncompliance with these, or other applicable laws or regulations, can include substantial monetary and nonmonetary sanctions.

In addition, we are subject to comprehensive supervision and periodic examination by, amount other regulatory bodies, the Federal Reserve, the FDIC and the Alabama State Banking Department (the "Alabama Banking Department"). These examinations consider not only compliance with applicable laws, regulations and supervisory policies of the agency, but also capital levels, asset quality, risk management effectiveness, the ability and performance of management and the board of directors, the effectiveness of internal controls, earnings, liquidity and various other factors.

The results of examination activity by any of our federal bank regulators potentially can result in the imposition of significant limitations on our activities and growth. These regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity and take enforcement action, including the imposition of substantial monetary penalties and nonmonetary requirements, against a regulated entity where the relevant agency determines, amount other things, that such operations fail to comply with applicable law or regulations or are conducted in an unsafe or unsound manner. This supervisory framework, including the examination reports and supervisory ratings (which are not publicly available) of the agencies, could materially impact the conduct, growth and profitability of our operations.

The following discussion describes select material elements of the regulatory framework that applies to us. The description is not intended to summarize all laws, regulations and supervisory policies applicable to us and is qualified in its entirety by reference to the full text of the statutes, regulations and supervisory policies described.

Bank Holding Company Supervision and Regulation

Since we own all of the capital stock of the bank, we are a bank holding company under the federal Bank Holding Company Act of 1956, as amended (the “BHC Act”). As a result, we are primarily subject to the supervision, examination and reporting requirements of the BHC Act and the regulations of the Board of Governors of the Federal Reserve System (the “Federal Reserve”).

Acquisition of Banks

The BHC Act requires every bank holding company to obtain the Federal Reserve’s prior approval before:

- acquiring direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will, directly or indirectly, own or control more than 5% of the bank’s voting shares;
- acquiring all or substantially all of the assets of any bank; or
- merging or consolidating with any other bank holding company.

Additionally, the BHC Act provides that the Federal Reserve may not approve any of these transactions if such transaction would result in or tend to create a monopoly or substantially lessen competition or otherwise function as a restraint of trade, unless the anti-competitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve also is required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. The Federal Reserve’s consideration of financial resources generally focuses on capital adequacy, which is discussed in the section below titled “*Supervision and Regulation—Bank Supervision and Regulation – Capital Adequacy*” and the consideration of convenience and needs of the community to be served includes the institution’s performance under the Community Reinvestment Act.

Under the interstate banking and branching sections of the BHC Act, if adequately capitalized and adequately managed, we or any other bank holding company located in Alabama may purchase a bank located outside of Alabama. Conversely, an adequately capitalized and adequately managed bank holding company located outside of Alabama may purchase a bank located inside Alabama. In each case, however, restrictions may be placed on the acquisition of a bank that has only been in existence for a limited amount of time or will result in specified concentrations of deposits.

Change in Bank Control

Subject to various exceptions, the BHC Act and the Change in Bank Control Act, together with related regulations, require Federal Reserve approval prior to any person's or company's acquiring "control" of a bank holding company. Under a rebuttable presumption established by the Federal Reserve, the acquisition of 10% or more of a class of voting stock of a bank holding company would, under the circumstances set forth in the presumption, constitute acquisition of control of the bank holding company. In addition, any person or group of persons must obtain the approval of the Federal Reserve before acquiring 25% (5% in the case of an acquirer that is already a bank holding company) or more of the outstanding common stock of a bank holding company, or otherwise obtaining control or a "controlling influence" over the bank holding company.

Permissible Activities Under the BHC Act

Under the BHC Act, a bank holding company is generally permitted to engage in or acquire direct or indirect control of more than 5% of the voting shares of any company engaged in the following activities:

- banking or managing or controlling banks; and
- any activity that the Federal Reserve determines to be so closely related to banking as to be a proper incident to the business of banking.

Activities that the Federal Reserve has found to be so closely related to banking as to be a proper incident to the business of banking include: factoring accounts receivable; making, acquiring, brokering or servicing loans and usual related activities; leasing personal property; operating a non-bank depository institution, such as a savings association; trust company functions; financial and investment advisory activities; certain agency securities brokerage activities; underwriting and dealing in government obligations and money market instruments; providing specified management consulting and counseling activities; performing selected data processing services and support services; acting as an agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions; and performing selected insurance underwriting activities. Despite prior approval, the Federal Reserve may order a bank holding company or its subsidiaries to terminate any of these activities or to terminate its ownership or control of any

subsidiary when it has reasonable cause to believe that the bank holding company's continued ownership, activity or control constitutes a serious risk to the financial safety, soundness, or stability of it or any of its bank subsidiaries.

In addition to the permissible bank holding company activities listed above, a bank holding company may qualify and elect to become a financial holding company, permitting the bank holding company to engage in activities that are financial in nature or incidental or complementary to financial activity without posing a substantial risk to the safety and soundness of a depository institution or to the financial system generally. The BHC Act expressly lists the following activities as financial in nature: lending, trust and other banking activities; insuring, guaranteeing, or indemnifying against loss or harm, or providing and issuing annuities, and acting as principal, agent, or broker for these purposes, in any state; providing financial, investment, or advisory services; issuing or selling instruments representing interests in pools of assets permissible for a bank to hold directly; underwriting, dealing in or making a market in securities; other activities that the Federal Reserve may determine to be so closely related to banking or managing or controlling banks as to be a proper incident to managing or controlling banks; activities permitted outside of the United States if the Federal Reserve has determined them to be usual in connection with banking operations abroad; merchant banking through securities or insurance affiliates; and insurance company portfolio investments. For us to qualify to become a financial holding company, the bank and any other depository institution subsidiary of ours must be well-capitalized and well-managed and must have a Community Reinvestment Act ("CRA") rating of at least "satisfactory". Additionally, we must file an election with the Federal Reserve to become a financial holding company and must provide the Federal Reserve with 30 days written notice prior to engaging in a permitted financial activity. We have not elected to become a financial holding company at this time.

Support of Subsidiary Institutions

The Federal Deposit Insurance Act and Federal Reserve policy require a bank holding company to act as a source of financial strength to its bank subsidiaries and to take measures to preserve and protect its bank subsidiaries in situations where additional investments in a troubled bank may not otherwise be warranted. In addition, where a bank holding company has more than one bank or thrift subsidiary, each of the bank holding company's subsidiary depository institutions is responsible for any losses to the FDIC as a result of an affiliated depository institution's failure. As a result, a bank holding company may be required to loan money to a bank subsidiary in the form of subordinate capital notes or other instruments which qualify as capital under bank regulatory rules. However, any loans from the holding company to such subsidiary banks likely will be unsecured and subordinated to such bank's depositors and perhaps to other creditors of the bank.

Repurchase or Redemption of Securities

A bank holding company is generally required to give the Federal Reserve prior written notice of any purchase or redemption of its own then-outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Federal Reserve order or directive, or any condition imposed by, or written agreement with, the Federal Reserve. The Federal Reserve has adopted an exception to this approval requirement for well-capitalized bank holding companies that meet certain conditions.

Bank Supervision and Regulation

Generally

The bank is an Alabama state-chartered bank and, as such, is subject to examination and regulation by the Alabama Banking Department. The bank is not a member of the Federal Reserve System but is subject to various regulations and requirements promulgated by the Federal Reserve, the Consumer Financial Protection Bureau (the "CFPB"), the Federal Trade Commission, the Financial Crimes Enforcement Network, the Office of Foreign Assets Control ("OFAC"), and other federal regulatory agencies. State non-member banks are, in addition to regulation by the applicable state regulatory authority, subject to supervision and regular examination by the FDIC. The FDIC and the Alabama Banking Department regularly examine the bank's operations and have the authority to approve or disapprove mergers, the establishment of branches and similar corporate actions. Both regulatory agencies have the

power to prevent the development or continuance of unsafe or unsound banking practices or other violations of law. Additionally, the bank's deposits are insured by the FDIC to the maximum extent provided by law. The extensive state and federal banking laws and regulations to which the bank is subject are generally intended to protect the bank's customers (including depositors), the FDIC's Deposit Insurance Fund and the banking system as a whole, and generally is not intended for the protection of stockholders or other investors. The following discussion describes the material elements of the regulatory framework that applies to the bank.

Branching

Under current Alabama law, and subject to applicable FDIC rules and regulations, the bank may open branch offices throughout Alabama with the prior approval of the Alabama Banking Department. In addition, with prior regulatory approval, the bank may acquire branches of existing banks located in Alabama. While prior law imposed various limits on the ability of banks to establish new branches in states other than their home state, the Dodd-Frank Act allows a bank to branch into a new state by acquiring a branch of an existing institution or by setting up a new branch, without merging with an existing institution in the target state, if, under the laws of the state in which the branch is to be located, a bank chartered by that state would be permitted to establish the branch. This makes it much simpler for banks to open *de novo* branches in other states. We opened our initial offices in Pensacola, Florida, Nashville, Tennessee, Charleston, South Carolina, and Tampa Bay, Florida, using this mechanism.

FDIC Insurance Assessments

The bank's deposits are insured by the FDIC to the full extent provided in the Federal Deposit Insurance Act, and the bank pays assessments to the FDIC for that coverage. Under the FDIC's risk-based deposit insurance assessment system, an insured institution's deposit insurance premium is computed by multiplying the institution's assessment base by the institution's assessment rate. An institution's assessment base equals the institution's average consolidated total assets during a particular assessment period, minus the institution's average tangible equity capital (that is, Tier 1 capital) during such period. An institution's assessment rate is assigned by the FDIC on a quarterly basis and is based on a number of factors related to the risk the institution poses to the Deposit Insurance Fund. Those factors include, among other things, the institution's capital adequacy, liquidity, loan and deposit portfolio characteristics, asset quality, earnings, and rate of growth. For the fourth quarter of 2018, the bank's assessment rate was set at \$0.0117, or \$0.0468 annually, per \$100 of assessment base.

In addition to its risk-based insurance assessments, the FDIC also imposes Financing Corporation (“FICO”) assessments to help pay the \$780 million in annual interest payments on the \$8 billion of bonds issued in the late 1980s as part of the government rescue of the savings and loan industry. For the fourth quarter of 2018, the bank’s FICO assessment was equal to \$0.0004, or \$0.0016 annually, per \$100 of assessment base. The last of the remaining FICO bonds are set to mature in September 2019. Current projections indicate that the last FICO assessment will be collected on the March 29, 2019 FDIC invoice. However, it is possible, although unlikely, that FICO may need to conduct another assessment in June 2019, which would only occur if the March collection does not yield sufficient monies to make the remaining interest payment on the FICO bonds.

The FDIC is responsible for maintaining the adequacy of the Deposit Insurance Fund, and the amount the bank pays for deposit insurance is affected not only by the risk the bank poses to the Deposit Insurance Fund, but also by the adequacy of the fund to cover the risk posed by all insured institutions. From 2008 to 2013, the United States experienced an unusually high number of bank failures, resulting in significant losses to the Deposit Insurance Fund. Moreover, the Dodd-Frank Act permanently increased the standard maximum deposit insurance amount from \$100,000 to \$250,000, and raised the minimum required Deposit Insurance Fund reserve ratio (i.e., the ratio of the amount on reserve in the Deposit Insurance Fund to the total estimated insured deposits) from 1.15% to 1.35%. To support the Deposit Insurance Fund in response to those circumstances, the FDIC took several extraordinary actions, including imposing a one-time special assessment on insured institutions and requiring institutions to prepay quarterly assessments attributable to a three-year period. We cannot predict whether, as a result of an adverse change in economic conditions or other reasons, the FDIC will take similar extraordinary actions or otherwise increase deposit insurance assessment levels in the future. Any such future increases could have a negative impact on our bank’s earnings.

On September 30, 2018, the Deposit Insurance Fund reserve ratio reached 1.36 percent. Banks with less than \$10 billion in total assets, such as ServisFirst Bank, will receive assessment credits for the portion of their assessments that grew the reserve ratio from 1.15 percent to 1.35 percent. The credit will be applied when the reserve ratio is at least 1.38 percent.

Termination of Deposit Insurance

The FDIC may terminate its insurance of deposits of a bank if it finds that the bank has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Liability of Commonly Controlled Depository Institutions

Under the Federal Deposit Insurance Act, an FDIC-insured depository institution can be held liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with (i) the default of a commonly controlled FDIC-insured depository institution or (ii) any assistance provided by the FDIC to any commonly controlled FDIC-insured depository institution in danger of default. “Default” is defined generally as the appointment of a conservator or receiver, and “in danger of default” is defined generally as the existence of certain conditions indicating that a default is likely to occur in the absence of regulatory assistance. The FDIC’s claim for damage is superior to claims of stockholders of the insured depository institution but is subordinate to claims of depositors, secured creditors, other general and senior creditors, and holders of subordinated debt (other than affiliates) of the institution.

Community Reinvestment Act

The CRA requires that, in connection with examinations of financial institutions within their respective jurisdictions, the Federal Reserve or the FDIC will evaluate the record of each financial institution in meeting the needs of its local community, including low and moderate-income neighborhoods. These factors are also considered in evaluating mergers, acquisitions, and applications to open an office or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on the bank. Additionally, we must publicly disclose the terms of various CRA-related agreements.

Interest Rate Limitations

Interest and other charges collected or contracted for by the bank are subject to state usury laws and federal laws concerning interest rates.

Federal Laws Applicable to Consumer Credit and Deposit Transactions

The bank’s loan and deposit operations are subject to a number of federal consumer protection laws and regulations, including, among others:

• the Truth-In-Lending Act, as implemented by Regulation Z issued by the CFPB, governing, among other things, the disclosure of credit terms to consumers;

- the Real Estate Settlement Procedures Act, as implemented by Regulation X issued by the CFPB, prescribing, among other things, requirements in connection with residential mortgage loan applications, settlements, and servicing;

- the Home Mortgage Disclosure Act, as implemented by Regulation C issued by the CFPB, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;

- the Equal Credit Opportunity Act, as implemented by Regulation B issued by the CFPB, prohibiting discrimination on the basis of race, color, religion, national origin, sex, marital status, age, or certain other prohibited factors in all aspects of credit transactions, imposing certain requirements regarding credit applications, and prescribing certain disclosure obligations;

- the Fair Credit Reporting Act, as implemented in part by Regulation V issued by the CFPB, governing the use and provision of information to credit reporting agencies by imposing, among other things, requirements for financial institutions to develop policies and procedures to identify potential identity theft, requirements for entities that furnish information to consumer reporting agencies (which would include the bank) to implement procedures and policies regarding the accuracy and integrity of the furnished information and respond to disputes from consumers regarding credit reporting issues, requirements for mortgage lenders to disclose credit scores to consumers, and limitations on the ability of a business that receives consumer information from an affiliate to use that information for marketing purposes;

- the Fair Debt Collection Practices Act, as implemented in part by Regulation F issued by the CFPB, governing the manner in which consumer debts may be collected by debt collectors;

- the Servicemembers' Civil Relief Act, governing the repayment terms of, and property rights underlying, secured obligations of persons in military service;

- the Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;

- the Electronic Funds Transfer Act, as implemented by Regulation E issued by the CFPB, governing automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services; and

- the Truth in Savings Act, as implemented by Regulation DD issued by the CFPB, governing, among other things, the disclosure of deposit terms to consumers.

Additionally, the Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

Capital Adequacy

General Information. The federal banking regulators view capital levels as important indicators of an institution's financial soundness. In this regard, we and the bank are required to comply with the capital adequacy standards established by the Federal Reserve (in our case) and the FDIC and the Alabama Banking Department (in the case of the bank). Such standards are based on the December 2010 final capital framework for strengthening international capital standards, known as Basel III, of the Basel Committee on Banking Supervision (the "Basel Committee"). The implementation of Basel III for United States institutions began on January 1, 2015. Prior to that date, the risk-based capital rules applicable to us and the bank were based on the 1988 Capital Accord, known as Basel I, of the Basel Committee

Current capital standards are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance-sheet exposure, and to minimize disincentives for holding liquid assets. Assets and off-balance-sheet items, such as letters of credit and unfunded loan commitments, are assigned to broad risk categories, each with appropriate risk weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance-sheet items.

Failure to meet capital guidelines could subject a bank or bank holding company to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting brokered deposits, and certain other restrictions on its business. Significant additional restrictions can be imposed on FDIC-insured depository institutions that fail to meet applicable capital requirements.

United States Implementation of Basel III. In July 2013, the federal banking agencies published final rules (the “Basel III Capital Rules”) to implement, in part, the Basel III framework issued by the Basel Committee and certain provisions of the Dodd-Frank Act. The Basel III Capital Rules apply to banking organizations, including us and the bank.

Among other things, the Basel III Capital Rules: (i) emphasize common equity tier 1 capital, or “CET1,” which is predominately made up of retained earnings and common stock instruments; (ii) specify that an institution’s tier 1 capital consists of CET1 and additional financial instruments satisfying specified requirements that permit inclusion in tier 1 capital; (iii) define CET1 narrowly by requiring that most deductions or adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions or adjustments from capital as compared to the previous regulations. The Basel III Capital Rules also provide a permanent exemption from a proposed phase out of existing trust preferred securities and cumulative perpetual preferred stock from regulatory capital for banking organizations with less than \$15 billion in total consolidated assets as of December 31, 2009.

The Basel III Capital Rules provide for the following minimum capital to risk-weighted assets ratios:

- 4.5% based upon CET1;
- 6.0% based upon tier 1 capital; and
- 8.0% based upon total regulatory capital.

A minimum leverage ratio (tier 1 capital as a percentage of total assets) of 4.0% is also required under the Basel III Capital Rules. The Basel III Capital Rules additionally require institutions to retain a capital conservation buffer of 2.5% above these required minimum capital ratio levels. The capital conservation buffer, which must consist of CET1, is designed to absorb losses during periods of economic stress. Banking organizations that fail to maintain the minimum 2.5% capital conservation buffer could face restrictions on capital distributions or discretionary bonus payments to executive officers.

The Basel III Capital Rules became effective as applied to us and the bank on January 1, 2015, with a phase in period that generally extended from January 1, 2015 through January 1, 2019. We and the bank are currently in compliance with Basel III Capital Rules.

The Basel Committee, the U.S. federal banking regulators, and other interested parties may propose changes to the Basel III Capital Rules from time to time based on a number of factors, including prevailing economic conditions and policy initiatives. For example, in September 2017 the U.S. federal banking regulators proposed revisions to the Basel

III Capital Rules to simplify the capital treatment of certain types of assets, including certain types of mortgage servicing rights, tax deferred assets, and commercial real estate loans. If adopted, those revisions could provide regulatory relief to all but the largest and most internationally active U.S. banks and bank holding companies. Similarly, in December 2017, the Basel Committee published revisions to its regulatory framework in an effort to strengthen credibility in the calculation of risk-weighted assets and otherwise improve existing capital rules in certain respects. At this time, it is unknown whether proposals and revisions such as these will become final rules binding upon U.S. bank holding companies and banks, and it is unclear how they may affect us and the bank. We will continue to monitor these and similar proposals and revisions for adoption and implementation.

In December 2017, the Basel Committee published revisions to its regulatory framework that it described as the finalization of the Basel III post-crisis regulatory reforms. Among other things, these revisions are meant to strengthen credibility in the calculation of risk-weighted assets by enhancing the robustness and risk sensitivity of the standardized approaches for credit risk and operational risk and to add new capital requirements for certain “unconditional cancellable commitments,” such as credit card lines. These revisions will be generally effective on January 1, 2022, with an aggregate output floor phasing in through January 1, 2027. Operational risk capital requirements and a capital floor only apply to advanced approaches institutions under current U.S. capital rules.

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act of 1991 established a system of “prompt corrective action” to resolve the problems of undercapitalized financial institutions. Under this system, which was modified by the Basel III Capital Rules, the federal banking regulators have established five capital categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) into which all institutions are placed. The federal banking agencies have also specified by regulation the relevant capital thresholds for each of those categories. At December 31, 2018, the bank was well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the bank had to maintain minimum total risk-based, tier 1 risk-based, CET1 risk-based, and tier 1 leverage ratios of 10%, 8%, 6.5% and 5%, respectively.

Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized.

An institution that is categorized as undercapitalized, significantly undercapitalized, or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. A bank holding company must guarantee that a subsidiary depository institution meets its capital restoration plan, subject to various limitations. The controlling holding company's obligation to fund a capital restoration plan is limited to the lesser of (i) 5% of an undercapitalized subsidiary's assets at the time it became undercapitalized and (ii) the amount required to meet regulatory capital requirements. An undercapitalized institution also is generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except under an accepted capital restoration plan or with FDIC approval. The regulations also establish procedures for downgrading an institution to a lower capital category based on supervisory factors other than capital.

Liquidity

Financial institutions are subject to significant regulatory scrutiny regarding their liquidity positions. This scrutiny has increased during recent years, as the economic downturn that began in the late 2000's negatively affected the liquidity of many financial institutions. Various bank regulatory publications, including FDIC Financial Institution Letter FIL-13-2010 (Funding and Liquidity Risk Management) and FDIC Financial Institution Letter FIL-84-2008 (Liquidity Risk Management), address the identification, measurement, monitoring and control of funding and liquidity risk by financial institutions.

Basel III also addresses liquidity management by proposing two new liquidity metrics for financial institutions. The first metric is the "Liquidity Coverage Ratio", and it aims to require a financial institution to maintain sufficient high quality liquid resources to survive an acute stress scenario that lasts for one month. The second metric is the "Net Stable Funding Ratio," and its objective is to require a financial institution to maintain a minimum amount of stable sources relative to the liquidity profiles of the institution's assets, as well as the potential for contingent liquidity needs arising from off-balance sheet commitments, over a one-year horizon.

In the Basel III Capital Rules, the federal banking regulators did not address either the Liquidity Coverage Ratio or the Net Stable Funding Ratio. However, in September 2014, the federal banking agencies adopted final rules implementing a Liquidity Coverage Ratio requirement in the United States for larger banking organizations. In May 2016, the federal banking agencies issued proposed rules implementing a Net Stable Funding Ratio requirement, also for larger U.S. banking organizations, which proposed rule was still pending final approval as of fall 2018. Neither we nor the bank is subject to either set of rules.

The Liquidity Coverage Ratio and the Net Stable Funding Ratio continue to be monitored for implementation, and we cannot yet provide concrete estimates as to how those requirements, or any other regulatory positions regarding liquidity and funding, might affect us or our bank. However, increased liquidity requirements generally would be expected to cause the bank to invest its assets more conservatively—and therefore at lower yields—than it otherwise might invest. Such lower-yield investments likely would reduce the bank’s revenue stream, and in turn its earnings potential.

Payment of Dividends

We are a legal entity separate and distinct from the bank. Our principal source of cash flow, including cash flow to pay dividends to our stockholders, is dividends the bank pays to us as the bank’s sole shareholder. Statutory and regulatory limitations apply to the bank’s payment of dividends to us as well as to our payment of dividends to our stockholders. The requirement that a bank holding company must serve as a source of strength to its subsidiary banks also results in the position of the Federal Reserve that a bank holding company should not maintain a level of cash dividends to its stockholders that places undue pressure on the capital of its bank subsidiaries or that can be funded only through additional borrowings or other arrangements that may undermine the bank holding company’s ability to serve as such a source of strength. Our ability to pay dividends is also subject to the provisions of Delaware corporate law.

The Alabama Banking Department also regulates the bank’s dividend payments. Under Alabama law, a state-chartered bank may not pay a dividend in excess of 90% of its net earnings until the bank’s surplus is equal to at least 20% of its capital (our bank’s surplus currently exceeds 20% of its capital). Moreover, our bank is also required by Alabama law to obtain the prior approval of the Superintendent of Banks (“Superintendent”) for its payment of dividends if the total of all dividends declared by the bank in any calendar year will exceed the total of (i) the bank’s net earnings (as defined by statute) for that year, plus (ii) its retained net earnings for the preceding two years, less any required transfers to surplus. Based on this, our bank would be limited to paying \$311.9 million in dividends as of December 31, 2018, subject to maintaining certain required capital levels. In addition, no dividends, withdrawals or transfers may be made from the bank’s surplus without the prior written approval of the Superintendent.

The bank's payment of dividends may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act of 1991, a depository institution may not pay any dividends if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings. If, in the opinion of the federal banking regulators, the bank were engaged in or about to engage in an unsafe or unsound practice, the federal banking regulators could require, after notice and a hearing, that the bank stop or refrain from engaging in the questioned practice.

Restrictions on Transactions with Affiliates and Insiders

We are subject to Section 23A of the Federal Reserve Act, which places limits on the amount of: a bank's loans or extensions of credit to affiliates; a bank's investment in affiliates; assets a bank may purchase from affiliates, except for real and personal property exempted by the Federal Reserve; loans or extensions of credit made by a bank to third parties collateralized by the securities or obligations of affiliates; a bank's guarantee, acceptance or letter of credit issued on behalf of an affiliate; a bank's transactions with an affiliate involving the borrowing or lending of securities to the extent they create credit exposure to the affiliate; and a bank's derivative transactions with an affiliate to the extent they create credit exposure to the affiliate. The total amount of the above transactions is limited in amount, as to any one affiliate, to 10% of a bank's capital and surplus and, as to all affiliates combined, to 20% of a bank's capital and surplus. In addition to the limitation on the amount of these transactions, certain of these transactions must also meet specified collateral requirements. The bank must also comply with other provisions designed to avoid the taking of low-quality assets.

We are also subject to Section 23B of the Federal Reserve Act, which, among other things, prohibits an institution from engaging in these transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

The bank is also subject to restrictions on extensions of credit to its executive officers, directors, principal shareholders and their related interests. These extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and (ii) must not involve more than the normal risk of repayment or present other unfavorable features. There is also an aggregate limitation on all loans to insiders and their related interests. These loans cannot exceed the institution's total unimpaired capital and surplus, and the FDIC may determine that a lesser amount is appropriate. Insiders are subject to enforcement actions for knowingly accepting loans in violation of applicable restrictions. Alabama state banking laws also have similar provisions.

Lending Limits

Under Alabama law, the amount of loans which may be made by a bank in the aggregate to one person is limited. Alabama law provides that unsecured loans by a bank to one person may not exceed an amount equal to 10% of the capital and unimpaired surplus of the bank or 20% in the case of secured loans. For purposes of calculating these limits, loans to various business interests of the borrower, including companies in which a substantial portion of the stock is owned or partnerships in which a person is a partner, must be aggregated with those made to the borrower individually. Loans secured by certain readily marketable collateral are exempt from these limitations, as are loans secured by deposits and certain government securities.

Commercial Real Estate Concentration Limits

In December 2006, the U.S. bank regulatory agencies issued guidance entitled “Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices” to address increased concentrations in commercial real estate (“CRE”) loans. The guidance describes the criteria the agencies will use as indicators to identify institutions potentially exposed to CRE concentration risk. An institution that has (i) experienced rapid growth in CRE lending, (ii) notable exposure to a specific type of CRE, (iii) total reported loans for construction, land development, and other land representing 100% or more of the institution’s capital, or (iv) total CRE loans representing 300% or more of the institution’s capital, and the outstanding balance of the institution’s CRE portfolio has increased by 50% or more in the prior 36 months, may be identified for further supervisory analysis of the level and nature of its CRE concentration risk.

In December 2015, the U.S. bank regulatory agencies issued guidance titled “Statement on Prudent Risk Management for Commercial Real Estate Lending” to remind financial institutions of existing guidance on prudent risk management practices for CRE lending activity, including the 2006 guidance described above. In the 2015 guidance, the agencies noted their belief that financial institutions had eased CRE underwriting standards in recent years. The 2015 guidance went on to identify actions that financial institutions should take to protect themselves from CRE-related credit losses during difficult economic cycles. The 2015 guidance also indicated that the agencies would pay special attention in the future to potential risks associated with CRE lending.

Privacy and Data Security

Under federal law as implemented by Regulation P, financial institutions are required to disclose their policies for collecting and protecting the non-public personal information of their consumer customers. Consumer customers generally may prevent financial institutions from sharing non-public personal information with nonaffiliated third parties except under certain circumstances, such as the processing of transactions requested by the consumer or when the financial institution is jointly offering a product or service with a nonaffiliated financial institution. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers.

The federal banking regulators regularly issue guidance regarding cybersecurity intended to enhance cyber risk management standards among financial institutions. In addition, financial institutions are subject to various state privacy laws that may, among other things, impose data security requirements on all customer information, whether consumer or commercial customer information, and impose data breach notification obligations. The state data breach notification requirements generally apply based on the residence of the consumer and not on the bank’s presence in the state, location of the collateral property, or other variables.

Anti-Terrorism and Money Laundering Legislation

Our bank is subject to federal laws that are designed to counter money laundering and terrorist financing, and transactions with persons, companies, or foreign governments sanctioned by the United States. These include the USA Patriot Act, the Bank Secrecy Act, the Money Laundering Control Act, and the requirements of the United States Treasury Department’s Office of Foreign Assets Control (OFAC). These statutes and related rules and regulations impose requirements and limitations on specified financial transactions and account or other relationships, including obligations of a depository institution to verify customer identity, conduct customer due diligence, report on suspicious activity, file reports of transactions in currency, and conduct enhanced due diligence on certain accounts. They also prohibit us from engaging in transactions with certain designated restricted countries and persons. We are required by our regulators to maintain policies and procedures to comply with the foregoing restrictions.

Failure to comply with these statutes, rules and regulations, or failure to maintain an adequate compliance program, could lead to monetary penalties and reputational damage to our bank. Our banking regulators evaluate the effectiveness of our policies and procedures when determining whether to approve certain proposed banking activities. We believe the policies and procedures implemented by our Board are sufficient to be compliant with these laws.

Effect of Governmental Monetary Policies

Our bank's earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve affect the levels of bank loans, investments and deposits through its control over the issuance of United States government securities, its regulation of the discount rate applicable to member banks and its influence over reserve requirements to which member banks are subject. We cannot predict, and have no control over, the nature or impact of future changes in monetary and fiscal policies.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act represents a comprehensive revision of laws affecting corporate governance, accounting obligations and corporate reporting. The Sarbanes-Oxley Act is applicable to all companies with equity securities registered, or that file reports, under the Exchange Act. In particular, the act established (i) requirements for audit committees, including independence, expertise and responsibilities; (ii) responsibilities regarding financial statements for the chief executive officer and chief financial officer of the reporting company and new requirements for them to certify the accuracy of periodic reports; (iii) standards for auditors and regulation of audits; (iv) disclosure and reporting obligations for the reporting company and its directors and executive officers; and (v) civil and criminal penalties for violations of the federal securities laws. The legislation also established a new accounting oversight board to enforce auditing standards and restrict the scope of services that accounting firms may provide to their public company audit clients.

Overdraft Fees

Regulation E imposes restrictions on banks' abilities to charge overdraft fees. The rule prohibits financial institutions from charging fees for paying overdrafts on ATM and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those types of transactions.

Interchange Fees

The Dodd-Frank Act, through a provision known as the Durbin Amendment, required the Federal Reserve to establish standards for interchange fees that are "reasonable and proportional" to the cost of processing a debit card transaction and imposes other requirements on card networks. In June 2011, the Federal Reserve implemented a rule, which includes a cap of 21 cents plus .05% of the transaction on the interchange fee for debit card issuers with \$10 billion or more in assets. Institutions like the bank with less than \$10 billion in assets are exempt. However, while the bank is under the \$10 billion level that caps income per transaction, the bank has been affected by federal regulations that prohibit network exclusivity arrangements and routing restrictions. Essentially, issuers and networks must allow transaction processing through a minimum of two unaffiliated networks.

Incentive-Based Compensation Arrangements

Our compensation practices are subject to guidance provided by federal banking regulators designed to ensure that incentive compensation arrangements at banking organizations take into account risk and are consistent with safe and sound practices. During May 2016, several financial regulators jointly issued a proposed rule designed to prohibit incentive-based compensation arrangements that could encourage inappropriate risks by providing excessive compensation or that could lead to a material financial loss. The proposed rule would require incentive-based compensation arrangements to adhere to three basic principles; (1) a balance between risk and reward, (2) effective risk management and controls, and (3) effective governance. It also would require appropriate board of directors (or committee) oversight and recordkeeping and disclosures to the appropriate agency. The proposed rule uses a tiered approach that applies its provisions to covered financial institutions according to the size of the institution.

The Volcker Rule

In December 2013, five U.S. financial regulators, including the Federal Reserve and the FDIC, adopted a final rule implementing the so-called "Volcker Rule." The Volcker Rule was created by Section 619 of the Dodd-Frank Act and

prohibits “banking entities” from engaging in “proprietary trading” and making investments and conducting certain other activities with “private equity funds and hedge funds.” Although the final rule provides some tiering of compliance and reporting obligations based on size, the fundamental prohibitions of the Volcker Rule apply to banking entities of any size, including us and the bank.

Banking entities that do not engage in any of the activities covered by the Volcker Rule (other than with respect to certain U.S. government, agency, and/or municipal obligations) are not required to adopt any formal compliance program specific to the Volcker Rule. We have concluded that we do not engage in the activities covered by the Volcker Rule and that the Volcker Rule does not impact our operations.

The Dodd-Frank Act

The Dodd-Frank Act was signed into law in July 2010 and has significantly changed the bank regulatory environment and the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act required various federal agencies to adopt a broad range of new implementing rules and regulations and to prepare numerous studies and reports for Congress. The federal agencies were given significant discretion in drafting the implementing rules and regulations. Although many of the final rules and regulations called for by the Dodd-Frank Act have been adopted, the implementation of some of those rules and regulations is in its early stages, and rulemaking has not yet become final for certain Dodd-Frank Act provisions. As a result, the full impact of the Dodd-Frank Act may not be known for many years.

In May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (“EGRRCPA”) was signed into law. In many instances the EGRRCPA increased the Dodd-Frank mandated asset thresholds, to which enhanced supervision and prudential standards are applied. Previously, bank holding companies with assets of \$10 billion or more were subject to stress testing. The asset threshold has been increased to \$250 billion.

A number of the effects of the Dodd-Frank Act are described or otherwise accounted for in various parts of this *Supervision and Regulation* section. The following items provide a brief description of certain other provisions of the Dodd-Frank Act that may be relevant to us and the bank.

The Dodd-Frank Act created the CFPB and gave it broad powers to supervise and enforce consumer protection laws. The CFPB now has broad rule-making authority for a wide range of consumer protection laws that apply to all banks, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The CFPB has examination and enforcement authority over all banks with more than \$10 billion in assets. Institutions with less than \$10 billion in assets will continue to be examined for compliance with consumer laws by their primary bank regulator.

The Dodd-Frank Act imposed new requirements regarding the origination and servicing of residential mortgage loans. The law created a variety of new consumer protections, including limitations on the manner by which loan originators may be compensated and an obligation on the part of lenders to verify a borrower’s “ability to repay” a residential mortgage loan.

The Dodd-Frank Act imposes many investor protection, corporate governance and executive compensation rules that have affected most U.S. publicly traded companies. The Dodd-Frank Act (i) requires publicly traded companies to give stockholders a non-binding vote on executive compensation and golden parachute payments; (ii) enhances independence requirements for compensation committee members; (iii) requires companies listed on national securities exchanges to adopt incentive-based compensation clawback policies for executive officers; (iv) authorizes the SEC to promulgate rules that would allow stockholders to nominate their own candidates using a company’s proxy materials; and (v) directs the federal banking regulators to issue rules prohibiting incentive compensation that encourages inappropriate risks.

Although insured depository institutions have long been subject to the FDIC’s resolution process, the Dodd-Frank Act creates a new mechanism for the FDIC to conduct the orderly liquidation of certain “covered financial companies,” including bank holding companies and systemically significant non-bank financial companies. Upon certain findings being made, the FDIC may be appointed receiver for a covered financial company, and would conduct an orderly liquidation of the entity. The FDIC liquidation process is modeled on the existing Federal Deposit Insurance Act bank resolution process, and generally gives the FDIC more discretion than in the traditional bankruptcy context.

As noted above, the implementation of the Dodd-Frank Act is ongoing, and certain provisions of the Dodd-Frank Act are still subject to rulemaking. As a result, it is difficult to anticipate the overall financial impact of the Dodd-Frank Act on the bank and us. However, compliance with the Dodd-Frank Act and its implementing regulations has resulted in, and is expected to continue to result in, additional operating and compliance costs that could have a material adverse effect on our business, financial condition and results of operations.

Regulation of Other Agencies

In addition to regulations issued by the Alabama Banking Department and federal banking regulators, we are subject to regulations issued by other state and federal agencies with respect to certain financial products and services we offer and our operations generally. These include, for example, the SEC, various taxing authorities, and various state insurance regulators.

Other Legislation and Regulatory Action relating to Financial Institutions

Government efforts made over the last decade to strengthen the United States financial system, including the Dodd-Frank Act and its related rules and regulations, subject us and the bank to a number of new regulatory compliance obligations, many of which may impose additional fees, costs, requirements, and restrictions. These fees, costs, requirements, and restrictions, as well as any others that may be imposed in the future, may have a material adverse effect on our business, financial condition, and results of operations.

New proposals to change the laws and regulations governing the banking industry are frequently introduced in the United States Congress, in the state legislatures and before the various bank regulatory agencies. The likelihood and timing of any such changes and the impact such changes might have on us and the bank, however, cannot be determined at this time. In this regard, bills are presently pending before Congress and certain state legislatures, and additional bills may be introduced in the future in Congress and state legislatures, to alter the structure, regulation and competitive relationships of financial institutions. We cannot predict whether or in what form any of these proposals will be adopted or the extent to which our business may be affected by any new regulation or statute.

Available Information

Our corporate website is www.servisfirstbank.com. We have direct links on this website to our Code of Ethics and the charters for our Audit, Compensation and Corporate Governance and Nominations Committees by clicking on the “Investor Relations” tab. We also have direct links to our filings with the Securities and Exchange Commission (SEC), including, but not limited to, our annual reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and any amendments to these filings, which are available free of charge through our corporate website as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC.

Executive Officers of the Registrant

A brief description of the background of each of our named executive officers is set forth below.

Thomas A. Broughton, III (63) – Mr. Broughton has served as our President and Chief Executive Officer and a director since 2007 and as President, Chief Executive Officer and a director of the Bank since its inception in May 2005. Mr. Broughton was appointed Chairman of the Board effective January 1, 2019, following the retirement of our former Chairman. Mr. Broughton has spent the entirety of his banking career in the Birmingham area. In 1985, Mr. Broughton was named President of the de novo First Commercial Bank. When First Commercial Bank was acquired by Synovus Financial Corp. in 1992, Mr. Broughton continued as President and was named Chief Executive Officer of First Commercial Bank. In 1998, he became Regional Chief Executive Officer of Synovus Financial Corp., responsible for the Alabama and Florida markets. In 2001, Mr. Broughton’s Synovus region shifted, and he became Regional Chief Executive Officer for the markets of Alabama, Tennessee and parts of Georgia. He continued his work in this position until his retirement from Synovus in August 2004. Mr. Broughton’s experience in banking has afforded him opportunities to work in many areas of banking and has given him exposure to all bank functions. Mr. Broughton served on the Board of Directors of Cavalier Homes, Inc. from 1986 until 2009, when the company was sold to a subsidiary of Berkshire Hathaway.

Clarence C. Pouncey, III (62) – Mr. Pouncey has served as our Executive Vice President and Chief Operating Officer since 2007 and Executive Vice President and Chief Operating Officer of the Bank since November 2006. Prior to joining the Company, Mr. Pouncey was employed by SouthTrust Bank (subsequently, Wachovia Bank and now Wells Fargo Bank) at its corporate headquarters in Birmingham, in various capacities from 1978 to 2006, most recently as the Senior Vice President and Regional Manager of Real Estate Financial Services. During his employment with SouthTrust, Mr. Pouncey oversaw various operational and production functions in its nine-state footprint of Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee, Texas and Virginia, and while employed by Wachovia, Mr. Pouncey oversaw various operational and production functions in Alabama, Arizona, Tennessee and Texas.

William M. Foshee (64) – Mr. Foshee has served as our Executive Vice President, Chief Financial Officer, Treasurer and Secretary since 2007 and as Executive Vice President, Chief Financial Officer, Treasurer and Secretary of the Bank since 2005. Mr. Foshee served as the Chief Financial Officer of Heritage Financial Holding Corporation, a publicly traded bank holding company headquartered in Decatur, Alabama, from 2002 until it was acquired in 2005. Mr. Foshee is a Certified Public Accountant.

Rodney E. Rushing (61) – Mr. Rushing has served as the Executive Vice President and Executive for Correspondent Banking for us and the bank since 2011. Prior to joining us, Mr. Rushing was employed at BBVA Compass from 1982 to 2011, most recently serving as Executive Vice President of Correspondent Banking. At the time of his departure in March 2011, the correspondent banking division of BBVA Compass provided correspondent banking services to over 600 financial institutions.

Henry Abbott (38) – Mr. Abbott has served as Senior Vice President and Chief Credit Officer for us and the bank since April 2018. From 2013 to 2018, he served as Senior Vice President and Chief Credit Officer for our Correspondent Banking Division. Prior to joining us, Mr. Abbott was employed at BB&T from 2004 to 2013 in various senior lending and credit administration roles.

A brief description of the background of each of our regional chief executive officers is set forth below.

J. Harold Clemmer (50) – Mr. Clemmer has served as Executive Vice President and Atlanta President and Chief Executive Officer of the Bank since March, 2018. Prior to joining the Company, Mr. Clemmer held several leadership positions with Fifth Third Bank including Regional President of Tennessee and Regional President of Georgia. Mr. Clemmer has over 25 years of commercial banking experience.

G. Carlton Barker (70) – Mr. Barker has served as Executive Vice President and Montgomery President and Chief Executive Officer of the Bank since February 1, 2007. Prior to joining the Company, Mr. Barker was employed by Regions Bank for 19 years in various capacities, most recently as the Regional President for the Southeast Alabama Region. Mr. Barker serves on the Huntingdon College Board of Trustees.

Gregory W. Bryant (55) – Mr. Bryant has served as Executive Vice President and Tampa Bay Area President and Chief Executive Officer of the Bank since January 2016. Previously, Mr. Bryant was the President and CEO of Bay Cities Bank in Tampa, Florida from 2000 until its sale to Centennial Bank in October 2015. While at Bay Cities, Mr. Bryant was a member of the bank's loan committee, compensation committee, audit committee, and ALCO committee. Mr. Bryant also served as the President of Florida Business BancGroup, the parent company of Bay Cities Bank. From 2005 to 2015, Mr. Bryant served as a Director of the Independent Banker's Bank (Lake Mary, FL), a correspondent bank serving over 100 banks in Florida and South Georgia. While at IBB, Mr. Bryant served on the loan and executive committees. Prior to Bay Cities Bank, Mr. Bryant worked in various management capacities with GE Capital and SouthTrust Bank. Mr. Bryant served as Chair of the Florida Banker's Association in 2012, and is active in the CEO Council of Tampa Bay and the Greater Tampa Chamber of Commerce.

Andrew N. Kattos (49) – Mr. Kattos has served as Executive Vice President and Huntsville President and Chief Executive Officer of the Bank since April 2006. Prior to joining the Company, Mr. Kattos was employed by First Commercial Bank for 14 years, most recently as an Executive Vice President and Senior Lender in the Commercial Lending Department. Mr. Kattos also serves on the Advisory Board for the Junior League as a Board Member and Finance Committee Member for the Huntsville Hospital Foundation, a member of the University of Alabama in Huntsville College of Business Executive Advisory Board, and a board member for the National Children's Advocacy Center.

William Bibb Lamar, Jr. (74) – Mr. Lamar has served as the Mobile Regional Chief Executive Officer of the bank since March 2013. Mr. Lamar is a seasoned Mobile banker with over 40 years of leadership responsibilities. Mr. Lamar graduated from the University of Mobile. Mr. Lamar began his banking career with Merchants National, now Regions Bank where he spent more than 20 years in various leadership roles. Most recently, Mr. Lamar was the CEO of BankTrust for over 20 years. Mr. Lamar has served on the State Banking Board for 16 years and was formerly President of the Alabama Bankers Association.

Rex D. McKinney (56) – Mr. McKinney has served as Executive Vice President and Pensacola President and Chief Executive Officer of the Bank since January 2011. Prior to joining the Company, Mr. McKinney held several leadership positions, including the senior lender position, at First American Bank/Coastal Bank and Trust (owned by Synovus Financial Corporation) starting in 1997. Mr. McKinney is a Past Board Member of the Rotary Club of Pensacola. He is Past President of the Pensacola Sports Association, a Past President of the Irish Politicians Club, a Member of the Pensacola Sports Association Foundation, Vice President of the Pensacola Country Club Board of Directors and also a Board Member of the Florida Bankers Association.

B. Harrison Morris, III (42) – Mr. Morris has served as Dothan Regional Chief Executive Officer since February 2015 when the outgoing CEO, Ronald DeVane, retired from the Company. Prior to his promotion, Mr. Morris served as Executive Vice President and Dothan President since June 2010, following his promotion from Senior Lending Officer of the Dothan Region. Mr. Morris joined the Company in September 2008. Prior to joining the Company, Mr. Morris held various positions with Wachovia Bank and SouthTrust Bank since 1998. Mr. Morris is a trustee of the Wallace Community College Foundation Board, a member of the Dothan Area Chamber of Commerce Board, a member of the Wiregrass United Way Board and a member of the Wiregrass Chapter of the American Red Cross.

Thomas G. Trouche (54) – Mr. Trouche has served as Executive Vice President and Charleston President and Chief Executive Officer of the Bank since December 2014. Prior to joining the Company, Mr. Trouche served in various roles with First Citizens Bank for over 13 years, most recently as their Coastal Division Executive. Mr. Trouche currently serves on the Board of Directors for the American Red Cross, and previously served as Chairman of the Board for Mason Preparatory School in Charleston.

Bradford A. Vieira (43) – Mr. Vieira has served as Executive Vice President and Nashville President and Chief Executive Officer of the Bank since June 2017 and as Senior Vice President and Nashville President since 2013 until his promotion to Nashville CEO. Mr. Vieira began his career in banking with SouthTrust Bank and held several positions in lending and credit. He also was with Fifth Third Bank as a commercial middle market sales manager. Mr. Vieira has been named Power Leader in Finance by the Nashville Business Journal. Under his leadership, ServisFirst Bank was also named a 2017 Best Place to work by the Nashville Business Journal.

ITEM 1A. RISK FACTORS.

Our business, financial condition and results of operations could be harmed by any of the following risks or by other risks identified in this annual report, as well as by other risks we may not have anticipated or viewed as material. Such risks and uncertainties could cause actual results to differ materially from those contained in forward-looking statements presented elsewhere by management. The following list identifies and briefly summarizes certain risk factors. This list should not be viewed as complete or comprehensive, and the risks identified below are not the only risks facing our company. See also “Cautionary Note Regarding Forward-Looking Statements.”

Risks Related To Our Business

As a business operating in the financial services industry, our business and operations may be adversely affected in numerous and complex ways by weak economic conditions.

Our businesses and operations are sensitive to general business and economic conditions in the United States. If the U.S. economy weakens, our growth and profitability could be constrained. Uncertainty about the federal fiscal policymaking process and the medium and long-term fiscal outlook of the federal government is a concern for businesses, consumers and investors in the United States. In addition, economic conditions in foreign countries could affect the stability of global financial markets, which could hinder U.S. economic growth. Weak economic conditions are characterized by deflation, fluctuations in debt and equity capital markets, a lack of liquidity and/or depressed prices in the secondary market for mortgage loans, increased delinquencies on mortgage, consumer and commercial loans, residential and commercial real estate price declines and lower home sales and commercial activity. The current economic environment is characterized by rising interest rates, though rates currently remain relatively low, which may impact our ability to attract deposits and to generate attractive earnings through our investment portfolio. An increase in interest rates could increase competition for deposits, decrease customer demand for loans due to the higher cost of obtaining credit, result in an increased number of delinquent loans and defaults or reduce the value of securities held for investment. All of these factors can individually or in the aggregate be detrimental to our business, and the interplay between these factors can be complex and unpredictable. Our business also is significantly affected by monetary and related policies of the U.S. federal government and its agencies. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control. Adverse economic conditions and government policy responses to such conditions could have a material adverse effect on our business, financial condition, results of operations and prospects.

We are dependent on the services of our management team and board of directors, and the unexpected loss of key officers or directors may adversely affect our business and operations.

We are led by an experienced core management team with substantial experience in the markets that we serve, and our operating strategy focuses on providing products and services through long-term relationship managers. Accordingly, our success depends in large part on the performance of our key personnel, as well as on our ability to attract, motivate and retain highly qualified senior and middle management. Competition for employees is intense, and the process of locating key personnel with the combination of skills and attributes required to execute our business plan may be lengthy. If any of our or the bank's executive officers, other key personnel, or directors leaves us or the bank, our operations may be adversely affected. In particular, we believe that our named executive officers and our regional chief executive officers are extremely important to our success and the success of our bank. If any of them leaves for any reason, our results of operations could suffer in such markets. With the exception of the key officers in charge of our Atlanta, Huntsville and Montgomery banking offices, we do not have employment agreements or non-competition agreements with any of our executive officers, including our named executive officers. In the absence of these types of agreements, our executive officers are free to resign their employment at any time and accept an offer of employment from another company, including a competitor. Additionally, our directors' and advisory board members' community involvement and diverse and extensive local business relationships are important to our success. Any material change in the composition of our board of directors or the respective advisory boards of the bank could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may not be able to expand successfully into new markets.

We have opened new offices and operations in five primary markets (Mobile, Alabama, Atlanta, Georgia, Nashville, Tennessee, Charleston, South Carolina and Tampa Bay, Florida) in the past four years. We may not be able to successfully manage this growth with sufficient human resources, training and operational, financial and technological resources. Any such failure could limit our ability to be successful in these new markets and may have a material adverse effect on our business, financial condition, results of operations and prospects.

A prolonged downturn in the real estate market, especially in our primary markets, could result in losses and adversely affect our profitability.

As of December 31, 2018, 52.4% of our loan portfolio was composed of commercial and consumer real estate loans, of which 60.9% was owner-occupied commercial or 1-4 family mortgage loans. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value after the time the credit is initially extended. A decline in real estate values, either in the regions we serve or across the country as occurred in the U.S. recession from 2007 to 2009, could impair the value of our collateral and our ability to sell the collateral upon foreclosure, which would likely require us to increase our provision for loan losses. In the event of a default with respect to any of these loans, the amounts we receive upon sale of the collateral may be insufficient to recover the outstanding principal and interest on the loan. If we are required to re-value the collateral securing a loan to satisfy the debt during a period of reduced real estate values or to increase our allowance for loan losses, our profitability could be adversely affected, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our largest loan relationships currently make up a significant percentage of our total loan portfolio.

As of December 31, 2018, our 10 largest borrowing relationships totaled \$308.5 million in commitments (including unfunded commitments), or approximately 5% of our total loan portfolio. The concentration risk associated with having a small number of relatively large loan relationships is that, if one or more of these relationships were to become delinquent or suffer default, we could be at risk of material losses. The allowance for loan losses may not be adequate to cover losses associated with any of these relationships, and any loss or increase in the allowance could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our decisions regarding credit risk could be inaccurate and our allowance for loan losses may be inadequate, which could have a material adverse effect on our business, financial condition, results of operations and future prospects.

Our earnings are affected by our ability to make loans, and thus we could sustain significant loan losses and consequently significant net losses if we incorrectly assess either the creditworthiness of our borrowers resulting in loans to borrowers who fail to repay their loans in accordance with the loan terms or the value of the collateral securing the repayment of their loans, or we fail to detect or respond to a deterioration in our loan quality in a timely manner. Management makes various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. We maintain an allowance for loan losses that we consider adequate to absorb losses inherent in the loan portfolio based on our assessment of the information available. In determining the size of our allowance for loan losses, we rely on an analysis of our loan portfolio based on historical loss experience, volume

and types of loans, trends in classification, volume and trends in delinquencies and non-accruals, national and local economic conditions and other pertinent information. We target small and medium-sized businesses as loan customers. Because of their size, these borrowers may be less able to withstand competitive or economic pressures than larger borrowers in periods of economic weakness. Also, as we expand into new markets, our determination of the size of the allowance could be understated due to our lack of familiarity with market-specific factors. Despite the effects of sustained economic weakness, we believe our allowance for loan losses is adequate. Our allowance for loan losses as of December 31, 2018 was \$68.6 million, or 1.05% of total gross loans. If our assumptions are inaccurate, we may incur loan losses in excess of our current allowance for loan losses and be required to make material additions to our allowance for loan losses, which could have a material adverse effect on our business, financial condition, results of operations and prospects. However, even if our assumptions are accurate, federal and state regulators periodically review our allowance for loan losses and could require us to materially increase our allowance for loan losses or recognize further loan charge-offs based on judgments different than those of our management. Any material increase in our allowance for loan losses or loan charge-offs as required by these regulatory agencies could have a material adverse effect on our business, financial condition, results of operations and prospects. In addition, the adoption of ASU 2016-13, as amended, on January 1, 2020 could result in an increase in the allowance for loan losses as a result of changing from an “incurred loss” model, which encompasses allowances for current known and inherent losses within the portfolio, to an “expected loss” model, which encompasses allowances for losses expected to be incurred over the life of the portfolio. Furthermore, ASU 2016-13 will necessitate that we establish an allowance for expected credit losses for certain debt securities and other financial assets. Although we are currently unable to reasonably estimate the impact of adopting ASU 2016-13, we expect that the impact of adoption will be significantly influenced by the composition, characteristics and quality of our loan and securities portfolios as well as the prevailing economic conditions and forecasts as of the adoption date. In December 2018, the federal banking regulators issued a final rule that would provide an optional three-year phase-in period for the day-one regulatory capital effects of the adoption of ASU 2016-13. The impact of this rule on the Company will depend on whether we elect to phase in the impact of the standard. See Note 1 – Summary of Significant Accounting Policies in the notes to consolidated financial statements included in Item 8. Financial Statements and Supplementary Data elsewhere in this report.

The internal controls that we have implemented in order to mitigate risks inherent to the business of banking might fail or be circumvented, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Management regularly reviews and updates our internal controls and procedures that are designed to manage the various risks in our business, including credit risk, operational risk, and interest rate risk. No system of controls, however well-designed and operated, can provide absolute assurance that the objectives of the system will be met. If there were a failure of such a system, or if a system were circumvented, there could be a material adverse effect on our business, financial condition, results of operations and prospects.

Our corporate structure provides for decision-making authority by our regional chief executive officers and banking teams. Our business, financial condition, results of operations and prospects could be negatively affected if our employees do not follow our internal policies or are negligent in their decision-making.

We attract and retain our management talent by empowering them to make certain business decisions on a local level. Lending authorities are assigned to regional chief executive officers and their banking teams based on their experience. Additionally, all loans in excess of \$5.0 million and every loan internally risk-graded as special mention or below are reviewed by our centralized credit administration department in Birmingham, Alabama. Moreover, for decisions that fall outside of the assigned authorities, our regional chief executive officers are required to obtain approval from our senior management team. Our local bankers may not follow our internal procedures or otherwise act in our best interests with respect to their decision-making. A failure of our employees to follow our internal policies, or actions taken by our employees that are negligent could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our business strategy includes the continuation of our growth plans, and our business, financial condition, results of operations and prospects could be negatively affected if we fail to grow or fail to manage our growth effectively.

Our current strategy is to grow organically and, if appropriate, supplement that growth with select acquisitions. Our ability to grow organically depends primarily on generating loans and deposits of acceptable risk and expense, and we may not be successful in continuing this organic growth. Our ability to identify appropriate markets for expansion, recruit and retain qualified personnel, and fund growth at a reasonable cost depends upon prevailing economic conditions, maintenance of sufficient capital, competitive factors, and changes in banking laws, among other factors. Failure to manage our growth effectively could adversely affect our ability to successfully implement our business strategy, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our continued pace of growth may require us to raise additional capital in the future to fund such growth, and the unavailability of additional capital on terms acceptable to us could adversely affect our growth and/or our financial condition and results of operations.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. To support our recent and ongoing growth, we have completed a series of capital transactions during the past four years, including:

- the sale of \$34,750,000 in 5% subordinated notes due July 15, 2025 to accredited investor purchasers in July 2015;
- and
- the sale of \$30,000,000 in 4.5% subordinated notes due November 8, 2027 to accredited investor purchasers in November 2017 and concurrent redemption of \$20,000,000 in 5.5% subordinated notes due November 9, 2022.

After giving effect to these transactions, we believe that we will have sufficient capital to meet our capital needs for our immediate growth plans. However, we will continue to need capital to support our longer-term growth plans. Our ability to access the capital markets, if needed, on a timely basis or at all will depend on a number of factors, such as the state of the financial markets, including prevailing interest rates, a loss of confidence in financial institutions generally, negative perceptions of our business or our financial strength, or other factors that would increase our cost of borrowing. If capital is not available on favorable terms when we need it, we will either have to issue common stock or other securities on less than desirable terms or reduce our rate of growth until market conditions become more favorable. Either of such events could have a material adverse effect on our business, financial condition, results of operations and prospects.

Impacts of the Tax Cuts and Jobs Act (the “Tax Act”) may create uncertainty related to our customers’ future demand for credit and our future results.

The passage of the Tax Act in December 2017 has decreased tax rates on businesses and generally spurred economic growth in our markets. However, some of our customers may decide to use their increased cash flow from lower income taxes to pay off debt or to fund their existing business activity internally, negating the need for additional debt. Further, the elimination of federal income tax deductibility of business interest expense could effectively increase the cost of borrowing and make equity or other types of funding more attractive for our customers. These effects could have a negative impact on our ability to make loans to our customers. A significant increase in our after-tax net income in 2018 was the result of lower corporate income tax rates resulting from the Tax Act but there is no guarantee that such lower rates will benefit us in future periods or that the lower enacted rates will not be repealed as a result of future tax legislation.

Competition from financial institutions and other financial service providers may adversely affect our profitability.

The banking business is highly competitive, and we experience competition in our markets from many other financial institutions. We compete with these other financial institutions both in attracting deposits and in making loans. In addition, we must attract our customer base from other existing financial institutions and from new residents. Many of these competitors have substantially greater financial resources, larger lending limits, larger branch networks and less regulatory oversight than we do, and are able to offer a broader range of products and services than we can. Our profitability depends upon our continued ability to successfully compete with an array of financial institutions in our service areas.

Our ability to compete successfully will depend on a number of factors, including, among other things:

- our ability to build and maintain long-term customer relationships while ensuring high ethical standards and safe and sound banking practices;
- the scope, relevance and pricing of products and services that we offer;
- customer satisfaction with our products and services;
- industry and general economic trends; and
- our ability to keep pace with technological advances and to invest in new technology.

Increased competition could require us to increase the rates that we pay on deposits or lower the rates that we offer on loans, which could reduce our profitability. Our failure to compete effectively in our markets could restrain our growth or cause us to lose market share, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Unpredictable economic conditions or a natural disaster in any of our market areas may have a material adverse effect on our financial performance.

Substantially all of our borrowers and depositors are individuals and businesses located and doing business in our markets. Therefore, our success will depend on the general economic conditions in these areas, which we cannot predict with certainty. Unlike with many of our larger competitors, the majority of our borrowers are commercial firms, professionals and affluent consumers located and doing business in such local markets. As a result, our operations and profitability may be more adversely affected by a local economic downturn or natural disaster in such markets than those of larger, more geographically diverse competitors. Our entry into Pensacola and Tampa Bay, Florida, Mobile, Alabama and Charleston, South Carolina increased our exposure to potential losses associated with hurricanes and similar natural disasters that are more common in coastal areas than in our other markets. Accordingly, any regional or local economic downturn, or natural or man-made disaster, that affects any of the markets in which we

operate, including existing or prospective property or borrowers in such markets may affect us and our profitability more significantly and more adversely than our more geographically diversified competitors, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We encounter technological change continually and have fewer resources than many of our competitors to invest in technological improvements.

The banking and financial services industries are undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. In addition to serving customers better, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our success will depend in part on our ability to address our customers' needs by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have greater resources to invest in technological improvements, and we may not be able to implement new technology-driven products and services, which could reduce our ability to effectively compete or increase our overall expenses and have a material adverse effect on our net income.

Our information systems may experience a failure or interruption.

We rely heavily on communications and information systems to conduct our business. Any failure or interruption in the operation of these systems could impair or prevent the effective operation of our customer relationship management, general ledger, deposit, lending, or other functions. While we have policies and procedures designed to prevent or limit the effect of a failure or interruption in the operation of our information systems, there can be no assurance that any such failures or interruptions will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures or interruptions impacting our information systems could damage our reputation, result in a loss of customer business, and expose us to additional regulatory scrutiny, civil litigation, and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

We use information technology in our operations and offer online banking services to our customers. Unauthorized access to our or our customers' confidential or proprietary information could expose us to reputational harm and litigation and adversely affect our ability to attract and retain customers.

Information security risks for financial institutions have increased in recent years, in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties. We are under continuous threat of loss due to hacking and cyber-attacks. Our risk and exposure to these matters remains heightened because of the evolving nature and complexity, and the increasing frequency, of these threats from cybercriminals and hackers, our plans to continue to provide internet banking and mobile banking channels, and our plans to continue to develop additional remote connectivity solutions to serve our customers. Therefore, the secure processing, transmission, and storage of information in connection with our online banking services are critical elements of our operations. However, our network could be vulnerable to unauthorized access, computer viruses and other malware, phishing schemes, human error or other security failures. In addition, our customers may use personal smartphones, tablet PCs, or other mobile devices that are beyond our control systems in order to access our products and services. Our technologies, systems and networks, and our customers' devices, may become the target of cyber-attacks, electronic fraud, or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss, or destruction of our or our customers' confidential, proprietary, and other information, or otherwise disrupt our or our customers' or other third parties' business operations. As cyber threats continue to evolve, we may be required to spend significant capital and other resources to protect against these threats or to alleviate or investigate problems caused by such threats. To the extent that our activities or the activities of our customers involve the processing, storage, or transmission of confidential customer information, any breaches or unauthorized access to such information could present significant regulatory costs and expose us to litigation and other possible liabilities. Any inability to prevent these types of security threats could also cause existing customers to lose confidence in our systems and could adversely affect our reputation and ability to generate deposits. While we have not experienced any material losses relating to cyber-attacks or other information security breaches to date, we may suffer such losses in the future. The occurrence of any cyber-attack or information security breach could result in potential liability to clients, reputational damage, damage to our competitive position, and the disruption of our operations, all of which could adversely affect our financial condition or results of operations.

We are dependent upon outside third parties for the processing and handling of our records and data.

We rely on software developed by third-party vendors to process various transactions. In some cases, we have contracted with third parties to run their proprietary software on our behalf. These systems include, but are not limited to, general ledger, payroll, employee benefits, loan and deposit processing, and securities portfolio accounting. While we perform a review of controls instituted by the applicable vendors over these programs in accordance with industry standards and perform our own testing of user controls, we must rely on the continued maintenance of controls by these third-party vendors, including safeguards over the security of customer data. In addition, we maintain, or contract with third parties to maintain, daily backups of key processing outputs in the event of a failure on the part of any of these systems. Nonetheless, we may incur a temporary disruption in our ability to conduct business or process transactions, or incur damage to our reputation, if the third-party vendor fails to adequately maintain internal controls or institute necessary changes to systems. Such a disruption or breach of security may have a material adverse effect on our business.

Our recent results may not be indicative of our future results, and may not provide guidance to assess the risk of an investment in our common stock.

We may not be able to sustain our historical rate of growth and may not be able to further expand our business. In addition, our recent growth may distort some of our historical financial ratios and statistics. Various factors, such as economic conditions, regulatory and legislative considerations and competition, may impede or prohibit our ability to expand our market presence. We have different lending risks than larger banks. We provide services to our local communities; thus, our ability to diversify our economic risks is limited by our own local markets and economies. We lend primarily to small to medium-sized businesses, which may expose us to greater lending risks than those faced by banks lending to larger, better-capitalized businesses with longer operating histories. We manage our credit exposure through careful monitoring of loan applicants and loan concentrations in particular industries, and through our loan approval and review procedures. Our use of historical and objective information in determining and managing credit exposure may not be accurate in assessing our risk. Our failure to sustain our historical rate of growth or adequately manage the factors that have contributed to our growth could have a material adverse effect on our business, financial condition, results of operations and prospects.

We engage in lending secured by real estate and may be forced to foreclose on the collateral and own the underlying real estate, subjecting us to the costs associated with the ownership of the real property.

Since we originate loans secured by real estate, we may have to foreclose on the collateral property to protect our investment and may thereafter own and operate such property, in which case we are exposed to the risks inherent in the ownership of real estate. As of December 31, 2018, we held \$5.2 million in other real estate owned. The amount that we, as a mortgagee, may realize after a default is dependent upon factors outside of our control, including, but not limited to: general or local economic conditions; environmental cleanup liability; neighborhood assessments; interest rates; real estate tax rates; operating expenses of the mortgaged properties; supply of, and demand for, rental units or properties; ability to obtain and maintain adequate occupancy of the properties; zoning laws; governmental and regulatory rules; fiscal policies; and natural disasters. Our inability to manage the amount of costs or size of the risks associated with the ownership of real estate could have a material adverse effect on our business, financial condition, results of operations and prospects.

Regulatory requirements affecting our loans secured by commercial real estate could limit our ability to leverage our capital and adversely affect our growth and profitability.

The federal bank regulatory agencies have indicated their view that banks with high concentrations of loans secured by commercial real estate are subject to increased risk and should hold higher capital than regulatory minimums to maintain an appropriate cushion against loss that is commensurate with the perceived risk. Because a significant portion of our loan portfolio is dependent on commercial real estate, a change in the regulatory capital requirements applicable to us as a result of these policies could limit our ability to leverage our capital, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We are subject to interest rate risk, which could adversely affect our profitability.

Our profitability, like that of most financial institutions, depends to a large extent on our net interest income, which is the difference between our interest income on interest-earning assets, such as loans and investment securities, and our interest expense on interest-bearing liabilities, such as deposits and borrowings. We have positioned our asset portfolio to benefit in a higher or lower interest rate environment, but this may not remain true in the future. Our interest sensitivity profile was somewhat liability sensitive as of December 31, 2018, generally meaning that our net interest income would decrease more from rising interest rates than from falling interest rates. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System (or, the “Federal Reserve”). Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and the interest we pay on deposits and borrowings, but such changes could also affect our ability to originate loans and obtain or retain deposits, customer demand for loans, the fair value of our

financial assets and liabilities, and the average duration of our assets. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. Any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, an increase in interest rates could also have a negative impact on our results of operations by reducing the ability of borrowers to repay their current loan obligations. These circumstances could not only result in increased loan defaults, foreclosures and charge-offs, but also necessitate further increases to the allowance for loan losses which could have a material adverse effect on our business, results of operations, financial condition and prospects.

Liquidity risk could impair our ability to fund operations and meet our obligations as they become due.

Liquidity is essential to our business. Liquidity risk is the potential that we will be unable to meet our obligations as they come due because of an inability to liquidate assets or obtain adequate funding. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on our liquidity. In particular, approximately 86% of the bank's liabilities as of December 31, 2018 were checking accounts and other liquid deposits, which are payable on demand or upon several days' notice, while by comparison, 81% of the assets of the bank were loans, which cannot be called or sold in the same time frame. Our access to funding sources in amounts adequate to finance our activities or on terms that are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. Market conditions or other events could also negatively affect the level or cost of funding, affecting our ongoing ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations, satisfy regulatory capital requirements, and fund asset growth and new business transactions at a reasonable cost, in a timely manner and without adverse consequences. Any substantial, unexpected or prolonged change in the level or cost of liquidity could have a material adverse effect on our ability to meet deposit withdrawals and other customer needs, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

The fair value of our investment securities can fluctuate due to factors outside of our control.

As of December 31, 2018, the fair value of our investment securities portfolio was approximately \$596.2 million. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions in respect of the securities, defaults by the issuer or with respect to the underlying securities, and changes in market interest rates or instability in the capital markets. Any of these factors, among others, could cause other-than-temporary impairments and realized and/or unrealized losses in future periods and declines in other comprehensive income, which could materially and adversely affect our business, results of operations, financial condition and prospects. The process for determining whether impairment of a security is other-than-temporary usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Our failure to assess any currency impairments or losses with respect to our securities could have a material adverse effect on our business, financial condition, results of operations and prospects.

Deterioration in the fiscal position of the U.S. federal government and downgrades in Treasury and federal agency securities could adversely affect us and our banking operations.

The long-term outlook for the fiscal position of the U.S. federal government is uncertain, as illustrated by the 2011 downgrade by certain rating agencies of the credit rating of the U.S. government and federal agencies and questions concerning the impact of the Tax Cuts and Jobs Act on the long-term fiscal position of the U.S. federal government. However, in addition to causing economic and financial market disruptions, any future downgrade, failure to continue to raise the U.S. statutory debt limit as needed, or deterioration in the fiscal outlook of the U.S. federal government, could, among other things, materially adversely affect the market value of the U.S. and other government and governmental agency securities that we hold, the availability of those securities as collateral for borrowing, and our ability to access capital markets on favorable terms. In particular, it could increase interest rates and disrupt payment systems, money markets, and long-term or short-term fixed income markets, adversely affecting the cost and availability of funding, which could negatively affect our profitability. Also, the adverse consequences of any downgrade could extend to those to whom we extend credit and could adversely affect their ability to repay their loans. Any of these developments could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may be adversely affected by the soundness of other financial institutions.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty, and other relationships. We have exposure to different industries and counterparties, and through

transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. These losses or defaults could have a material adverse effect on our business, financial condition, results of operations and prospects.

We are subject to environmental liability risk associated with our lending activities.

In the course of our business, we may purchase real estate, or we may foreclose on and take title to real estate. As a result, we could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination or may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. Any significant environmental liabilities could have a material adverse effect on our business, financial condition, results of operations and prospects.

Risks Related to Our Industry

We are subject to extensive regulation in the conduct of our business, which imposes additional costs on us and adversely affects our profitability.

As a bank holding company, we are subject to federal regulation under the BHC Act, as amended, and the examination and reporting requirements of various federal and state agencies, including the FDIC and the Alabama Banking Department. Federal regulation of the banking industry, along with tax and accounting laws, regulations, rules, and standards, may limit our operations significantly and control the methods by which we conduct business, as they limit those of other banking organizations. Banking regulations are primarily intended to protect depositors, deposit insurance funds, and the banking system as a whole, and not stockholders or other creditors. These regulations affect lending practices, capital structure, investment practices, dividend policy, and overall growth, among other things. For example, federal and state consumer protection laws and regulations limit the manner in which we may offer and extend credit. In addition, the laws governing bankruptcy generally favor debtors, making it more expensive and more difficult to collect from customers who become subject to bankruptcy proceedings.

We also may be required to invest significant management attention and resources to evaluate and make any changes necessary to comply with applicable laws and regulations, particularly as a result of regulations adopted under the Dodd-Frank Act. This allocation of resources, as well as any failure to comply with applicable requirements, may negatively impact our financial condition and results of operations.

Changes in laws, government regulation, monetary policy or accounting standards may have a material adverse effect on our results of operations.

Financial institutions have been the subject of significant legislative and regulatory changes and may be the subject of further significant legislation or regulation in the future, none of which is within our control. New proposals for legislation could be introduced in the United States Congress that could substantially increase regulation of the bank and non-bank financial services industries and impose restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied. Changes to statutes, regulations, accounting standards or regulatory policies, including changes in their interpretation or implementation by regulators, could affect us in substantial and unpredictable ways. Such changes could, among other things, subject us to additional costs and lower revenues, limit the types of financial services and products that we may offer, ease restrictions on non-banks and thereby enhance their ability to offer competing financial services and products, increase compliance costs, and require a significant amount of management's time and attention. Changes in accounting standards could materially impact, potentially even retroactively, how we report our financial condition and results of our operations. Failure to comply with statutes, regulations, or policies could result in sanctions by

regulatory agencies, civil monetary penalties, or reputational damage, each of which could have a material adverse effect on our business, financial condition, and results of operations.

Additionally, like all regulated financial institutions, we are affected by monetary policies implemented by the Federal Reserve and other federal instrumentalities. A primary instrument of monetary policy employed by the Federal Reserve is the restriction or expansion of the money supply through open market operations. This instrument of monetary policy frequently causes volatile fluctuations in interest rates, and it can have a direct, material adverse effect on the operating results of financial institutions including our business. Borrowings by the United States government to finance government debt may also cause fluctuations in interest rates and have similar effects on the operating results of such institutions. We do not have any control over monetary policies implemented by the Federal Reserve or otherwise and any changes in these policies could have a material adverse effect on our business, financial condition, results of operations and prospects.

Federal and state regulators periodically examine our business and we may be required to remediate adverse examination findings.

The Federal Reserve, the FDIC and the Alabama Banking Department periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, a federal or state banking agency were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity, compliance with various regulations or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin “unsafe or unsound” practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil monetary penalties against our officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. Any regulatory action against us could have a material adverse effect on our business, results of operations, financial condition and prospects.

FDIC deposit insurance assessments may materially increase in the future, which would have an adverse effect on earnings.

As an FDIC-insured institution, the bank is assessed a quarterly deposit insurance premium. The amount of the premium is affected by a number of factors, including the risk the bank poses to the Deposit Insurance Fund and the adequacy of the fund to cover the risk posed by all insured institutions. If either the bank or insured institutions as a whole present a greater risk to the Deposit Insurance Fund in the future than they do today, if the Deposit Insurance Fund becomes depleted in any material respect, or if other circumstances arise that lead the FDIC to determine that the Deposit Insurance Fund should be strengthened, the bank could be required to pay significantly higher deposit insurance premiums and/or additional special assessments to the FDIC. Those premiums and/or assessments could have a material adverse effect on the bank's earnings, thereby reducing the availability of funds to pay dividends to us.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The CFPB, the U.S. Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution's performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition, results of operations and prospects.

Legal and regulatory proceedings and related matters with respect to the financial services industry, including those directly involving the Company or the Bank, could adversely affect us or the financial services industry in general.

We have been, and may in the future be, subject to various legal and regulatory proceedings. It is inherently difficult to assess the outcome of these matters, and there can be no assurance that we will prevail in any proceeding or litigation. Any such matter could result in substantial cost and diversion of our management's efforts, which could have a material adverse effect on our financial condition and operating results. Further, adverse determinations in such matters could result in actions by our regulators that could materially adversely affect our business, financial condition or results of operations.

We establish reserves for legal claims when payments associated with the claims become probable and the costs can be reasonably estimated. We may still incur legal costs for a matter even if we have not established a reserve. In addition, due to the inherent subjectivity of the assessments and unpredictability of the outcome of legal proceedings, the actual cost of resolving a legal claim may be substantially higher than any amounts reserved for that matter. The ultimate resolution of a pending legal proceeding, depending on the remedy sought and granted, could adversely affect our financial condition and results of operations.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act, the USA Patriot Act, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The Federal Financial Crimes Enforcement Network is authorized to impose significant civil money penalties for violations of those requirements and has engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration, and Internal Revenue Service. We are also subject to increased scrutiny of compliance with the rules enforced by the OFAC. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could have a material adverse effect on our business, financial condition, results of operations and prospects.

Risks Related to Our Common Stock

The market price of our common stock may be subject to substantial fluctuations, which may make it difficult for you to sell your shares at the volume, prices and times desired.

The market price of our common stock may be highly volatile, which may make it difficult for you to resell your shares at the volume, prices and times desired. There are many factors that may impact the market price and trading volume of our common stock, including, without limitation:

- actual or anticipated fluctuations in our operating results, financial condition or asset quality;
- changes in economic or business conditions;
- the effects of, and changes in, trade, monetary and fiscal policies, including the interest rate policies of the Federal Reserve;
- publication of research reports about us, our competitors, or the financial services industry generally, or changes in, or failure to meet, securities analysts' estimates of our financial and operating performance, or lack of research reports by industry analysts or ceasing of coverage;
- operating and stock price performance of companies that investors deemed comparable to us;
- future issuances of our common stock or other securities;
- additions to or departures of key personnel;
- proposed or adopted changes in laws, regulations or policies affecting us;
- perceptions in the marketplace regarding our competitors and/or us;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving our competitors or us;
- other economic, competitive, governmental, regulatory and technological factors affecting our operations, pricing, products and services; and
- other news, announcements or disclosures (whether by us or others) related to us, our competitors, our core market or the financial services industry.

The stock market and, in particular, the market for financial institution stocks, may experience substantial fluctuations, which may be unrelated to the operating performance and prospects of particular companies. In addition, significant fluctuations in the trading volume in our common stock may cause significant price variations to occur. Increased market volatility may materially and adversely affect the market price of our common stock, which could make it difficult to sell your shares at the volume, prices and times desired.

The rights of our common stockholders are subordinate to the rights of the holders of our outstanding debt and will be subordinate to the rights of the holders of any preferred securities or any debt that we may issue in the future.

Our board of directors has the authority to issue in the aggregate up to 1,000,000 shares of preferred stock, and to determine the terms of each issue of preferred stock, without stockholder approval. Accordingly, you should assume that any shares of preferred stock that we may issue in the future will also be senior to our common stock. Because our decision to issue debt or equity securities or incur other borrowings in the future will depend on market conditions and other factors beyond our control, the amount, timing, nature or success of our future capital raising efforts is uncertain. Because our ability to pay dividends on our common stock in the future will depend on our and our bank's financial condition as well as factors outside of our control, our common stockholders bear the risk that no dividends will be paid on our common stock in future periods or that, if paid, such dividends will be reduced or eliminated, which may negatively impact the market price of our common stock.

We and our bank are subject to capital and other requirements which restrict our ability to pay dividends.

In 2014, we began paying quarterly cash dividends. Future declarations of quarterly dividends will be subject to the approval of our board of directors, subject to limits imposed on us by our regulators. In order to pay any dividends, we will need to receive dividends from our bank or have other sources of funds. Under Alabama law, a state-chartered bank may not pay a dividend in excess of 90% of its net earnings until the bank's surplus is equal to at least 20% of its capital (our bank's surplus currently exceeds 20% of its capital). Moreover, our bank is also required by Alabama law to obtain the prior approval of the Superintendent for its payment of dividends if the total of all dividends declared by our bank in any calendar year will exceed the total of (1) our bank's net earnings (as defined by statute) for that year, plus (2) its retained net earnings for the preceding two years, less any required transfers to surplus. In addition, the bank must maintain certain capital levels, which may restrict the ability of the bank to pay dividends to us and our ability to pay dividends to our stockholders. As of December 31, 2018, our bank could pay approximately \$311.9 million of dividends to us without prior approval of the Superintendent. However, the payment of dividends is also subject to declaration by our board of directors, which takes into account our financial condition, earnings, general economic conditions and other factors, including statutory and regulatory restrictions. There can be no assurance that dividends will in fact be paid on our common stock in future periods or that, if paid, such dividends will not be reduced or eliminated.

Alabama and Delaware law limit the ability of others to acquire the bank, which may restrict your ability to fully realize the value of your common stock.

In many cases, stockholders receive a premium for their shares when one company purchases another. Alabama and Delaware law make it difficult for anyone to purchase the bank or us without approval of our board of directors. Thus, your ability to realize the potential benefits of any sale by us may be limited, even if such sale would represent a greater value for stockholders than our continued independent operation.

An investment in our common stock is not an insured deposit and is subject to risk of loss.

Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this “*Risk Factors*” section and is subject to the same market forces that affect the price of common stock in any company. As a result, an investor may lose some or all of such investor’s investment in our common stock.

Our corporate governance documents, and certain corporate and banking laws applicable to us, could make a takeover more difficult.

Certain provisions of our certificate of incorporation, as amended (or our “charter”), and bylaws, as amended, and corporate and federal banking laws, could make it more difficult for a third party to acquire control of our organization, even if those events were perceived by many of our stockholders as beneficial to their interests. These provisions, and the corporate and banking laws and regulations applicable to us:

- provide that special meetings of stockholders may be called at any time by the Chairman of our board of directors, by the President or by order of the board of directors;
- enable our board of directors to issue preferred stock up to the authorized amount, with such preferences, limitations and relative rights, including voting rights, as may be determined from time to time by the board;
- enable our board of directors to increase the number of persons serving as directors and to fill the vacancies created as a result of the increase by a majority vote of the directors present at the meeting;
- enable our board of directors to amend our bylaws without stockholder approval; and
- do not provide for cumulative voting rights (therefore allowing the holders of a majority of the shares of common stock entitled to vote in any election of directors to elect all of the directors standing for election, if they should so choose).

These provisions may discourage potential acquisition proposals and could delay or prevent a change in control, including under circumstances in which our stockholders might otherwise receive a premium over the market price of our shares.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

As of December 31, 2018, we operated through 20 banking offices and one loan production office. Our Woodcrest Place office also includes our corporate headquarters. We believe that our banking offices are in good condition, are suitable to our needs and, for the most part, are relatively new or refurbished. The following table gives pertinent details about our banking offices.

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State, MSA, Office Address	City	Zip Code	Owned or Leased	Date Opened
Alabama:				
Birmingham-Hoover:				
2500 Woodcrest Place (1)	Birmingham	35209	Owned	3/2/2005
324 Richard Arrington Jr. Boulevard North	Birmingham	35203	Leased	12/19/2005
5403 Highway 280, Suite 401	Birmingham	35242	Leased	8/15/2006
Total		3 Offices		
Huntsville:				
401 Meridian Street, Suite 100	Huntsville	35801	Leased	11/21/2006
1267 Enterprise Way, Suite A (1)	Huntsville	35806	Leased	8/21/2006
Total		2 Offices		
Montgomery:				
1 Commerce Street, Suite 200	Montgomery	36104	Leased	6/4/2007
7256 Halcyon Park Drive (1)	Montgomery	36117	Leased	9/26/2007
Total		2 Offices		
Dothan:				
4801 West Main Street (1)	Dothan	36305	Leased	10/17/2008
1640 Ross Clark Circle, Suite 307	Dothan	36301	Leased	2/1/2011
Total		2 Offices		
Mobile:				
2 North Royal Street (1)	Mobile	36602	Leased	7/9/2012
4400 Old Shell Road	Mobile	36608	Leased	9/3/2014
54 South Greeno Road	Fairhope	36532	Leased	9/29/2017
Total		3 Offices		
Total Offices in Alabama		12 Offices		
Florida:				
Pensacola-Ferry Pass-Brent:				
316 South Baylen Street, Suite 100	Pensacola	32502	Leased	4/1/2011
4980 North 12th Avenue	Pensacola	32504	Owned	8/27/2012
1500 Freedom Self Storage Road, Suite 12 (2)	Ft. Walton Bch.	32547	Leased	8/1/2018
Total		3 Offices		
Tampa-St. Petersburg-Clearwater:				
4221 West Boy Scout Blvd. (1)	Tampa	33607	Leased	1/4/2016
Total		1 Office		
Total Offices in Florida		4 Offices		
Georgia:				
Atlanta-Sandy Springs-Roswell				
300 Galleria Parkway SE, Suite 100	Atlanta	30339	Leased	7/1/2015

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2801 Chapel Hill Road	Douglasville	30135	Owned	1/28/2008
2454 Kennesaw Due West Road	Kennesaw	30152	Owned	12/12/2011
Total Offices in Georgia		3 Offices		
South Carolina:				
Charleston-North Charleston				
701 East Bay Street Suite 503 (1)	Charleston	29403	Leased	4/20/2015
Total Offices in South Carolina		1 Office		
Tennessee:				
Nashville:				
1801 West End Avenue, Suite 850 (1)	Nashville	37203	Leased	6/4/2013
Total Offices in Tennessee		1 Office		
Total Offices		21 Offices		

(1) Offices relocated to this address. Original offices opened on date indicated.

(2) Property serves as a loan production office.

ITEM 3. LEGAL PROCEEDINGS.

Neither we nor the bank is currently subject to any material legal proceedings. In the ordinary course of business, the bank is involved in routine litigation, such as claims to enforce liens, claims involving the making and servicing of real property loans, and other issues incident to the bank's business. Management does not believe that there are any threatened proceedings against us or the bank which will have a material effect on our or the bank's business, financial position or results of operations.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock is listed on the NASDAQ Global Select Market under the symbol "SFBS." As of February 25, 2019, there were 532 holders of record of our common stock. As of the close of business on February 25, 2019, the price of our common stock was \$35.67 per share. All share and per share data in this Annual Report on Form 10-K is adjusted to reflect our two-for-one stock split in the form of a stock dividend effective on December 20, 2016 for stockholders of record on December 5, 2016.

Dividends

On December 17, 2018, our board of directors increased our quarterly cash dividend from \$0.11 per share to \$0.15 per share. Subject to the board of directors' approval and applicable regulatory requirements, we expect to continue paying cash dividends on a quarterly basis.

The principal source of our cash flow, including cash flow to pay dividends, comes from dividends that the bank pays to us as its sole shareholder. Statutory and regulatory limitations apply to the bank's payment of dividends to us, as well as our payment of dividends to our stockholders. For a more complete discussion on the restrictions on dividends, see "Supervision and Regulation - Payment of Dividends" in Item 1.

Recent Sales of Unregistered Securities

We had no sales of unregistered securities in 2018 other than those previously reported in our reports filed with the Securities and Exchange Commission.

Purchases of Equity Securities by the Registrant and Affiliated Purchasers

We made no repurchases of our equity securities, and no “affiliated purchasers” (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) purchased any shares of our equity securities during the fourth quarter of the fiscal year ended December 31, 2018.

Equity Compensation Plan Information

The following table sets forth certain information as of December 31, 2018 relating to stock options granted under our 2005 Amended and Restated Stock Incentive Plan and our 2009 Amended and Restated Stock Incentive Plan and other options or warrants issued outside of such plans, if any.

Plan Category	Number of Securities To Be Issued Upon Exercise of Outstanding Awards	Weighted-average Exercise Price of Outstanding Awards	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity Compensation Plans Approved by Security Holders	1,238,748	\$ 13.02	3,248,774
Equity Compensation Plans Not Approved by Security Holders	-	-	-
Total	1,238,748	\$ 13.02	3,248,774

ITEM 6. SELECTED FINANCIAL DATA.

The following table sets forth selected historical consolidated financial data from our consolidated financial statements and should be read in conjunction with our consolidated financial statements including the related notes and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” which are included below. Except for the data under “Selected Performance Ratios,” “Performance Data-adjusted for non-recurring items,” “Asset Quality Ratios,” “Liquidity Ratios,” “Capital Adequacy Ratios” and “Growth Ratios,” the selected historical consolidated financial data as of and for the years ended December 31, 2018, 2017, 2016, 2015 and 2014 are derived from our audited consolidated financial statements and related notes.

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	As of and for the years ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands except for share and per share data)				
Selected Balance Sheet Data:					
Total Assets	\$8,007,382	\$7,082,384	\$6,370,448	\$5,095,509	\$4,098,679
Total Loans	6,533,499	5,851,261	4,911,770	4,216,375	3,359,858
Loans, net	6,464,899	5,791,855	4,859,877	4,172,956	3,324,229
Securities available for sale	590,184	538,080	422,375	342,938	298,310
Securities held to maturity	-	250	62,564	27,426	29,355
Cash and due from banks	97,516	86,213	56,855	46,614	48,519
Interest-bearing balances with banks	360,534	151,849	566,707	270,836	248,054
Federal funds sold	223,845	239,524	160,435	34,785	891
Mortgage loans held for sale	120	4,459	4,675	8,249	5,984
Equity securities	894	1,034	1,024	4,954	3,921
Premises and equipment, net	57,822	58,900	40,314	19,434	7,815
Deposits	6,915,708	6,091,674	5,420,311	4,223,888	3,398,160
Federal funds purchased	288,725	301,797	355,944	352,360	264,315
Other borrowings	64,666	64,832	55,262	55,637	19,973
Other liabilities	23,080	16,477	16,042	14,477	9,018
Stockholders' Equity	715,203	607,604	522,889	449,147	407,213
Selected income Statement Data:					
Interest income	\$326,627	\$262,756	\$212,902	\$179,975	\$144,725
Interest expense	63,948	35,333	25,805	17,704	14,119
Net interest income	262,679	227,423	187,097	162,271	130,606
Provision for loan losses	21,402	23,225	13,398	12,847	10,259
Net interest income after provision for loan losses	241,277	204,198	173,699	149,424	120,347
Noninterest income	19,440	17,361	17,007	12,732	10,430
Noninterest expense	91,875	84,209	79,888	73,151	56,799
Income before income taxes	168,842	137,350	110,818	89,005	73,978
Income taxes expenses	31,902	44,258	29,339	25,465	21,601
Net income	136,940	93,092	81,479	63,540	52,377
Net income available to common stockholders	136,877	93,030	81,432	63,260	51,946
Per common Share Data:					
Net income, basic	\$2.57	\$1.76	\$1.55	\$1.23	\$1.09
Net income, diluted	2.53	1.72	\$1.52	\$1.20	\$1.05
Book value	13.40	11.47	\$9.93	\$8.65	\$7.40
Weighted average shares outstanding:					
Basic	53,172,695	52,887,359	52,450,896	51,426,466	47,710,002
Diluted	54,169,879	54,123,957	53,608,372	52,885,108	49,636,442
Actual shares outstanding	53,375,195	52,992,586	52,636,896	51,945,396	49,603,036
Selected Performance Ratios:					
Return on average assets	1.88	% 1.43	% 1.42	% 1.38	% 1.39
Return on average stockholders' equity	20.96	% 16.38	% 16.64	% 14.56	% 14.43
Dividend payout ratio	15.04	% 11.64	% 10.53	% 10.04	% 9.57

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Net interest margin (1)	3.75	%	3.68	%	3.42	%	3.75	%	3.68	%
Efficiency ratio (2)	32.57	%	34.40	%	39.14	%	41.80	%	40.27	%
Performance Data- adjusted for non-recurring items (3)										
Net income available to common stockholders- adjusted for non-recurring items	\$136,877		\$96,304		\$81,432		\$65,027		\$53,558	
Earnings per share, basic-adjusted for non-recurring items	2.57		1.82		1.55		1.27		1.12	
Earnings per share, diluted-adjusted for non-recurring items	2.53		1.78		1.52		1.23		1.08	
Return on average assets-adjusted for non-recurring items	1.88	%	1.48	%	1.42	%	1.42	%	1.43	%
Return on average stockholder's equity- adjusted for non-recurring items	20.96	%	16.96	%	16.64	%	14.96	%	14.88	%
Return on average common stockholders' equity- adjusted for non-recurring items	20.95	%	16.95	%	16.63	%	15.73	%	16.74	%
Efficiency ratio-adjusted for non-recurring items	32.57	%	34.26	%	39.14	%	40.32	%	38.52	%

Asset Quality Ratios:

Net charge-offs to average loans outstanding	0.20	%	0.29	%	0.11	%	0.13	%	0.17	%
Non-performing loans to total loans	0.43	%	0.19	%	0.34	%	0.18	%	0.30	%
Non-performing assets to total assets	0.41	%	0.26	%	0.34	%	0.26	%	0.41	%
Allowance for loan losses to total gross loans	1.05	%	1.02	%	1.06	%	1.03	%	1.06	%
Allowance for loan losses to total non-performing loans	247.03	%	548.79	%	307.30	%	559.02	%	354.52	%
Liquidity Ratios:										
Net loans to total deposits	93.48	%	95.08	%	89.66	%	98.79	%	97.82	%
Net average loans to average earning assets	86.55	%	84.93	%	80.44	%	86.24	%	83.94	%
Noninterest-bearing deposits to total deposits	22.52	%	23.64	%	23.64	%	24.94	%	23.85	%
Capital Adequacy Ratios:										
Stockholders' Equity to total assets	8.93	%	8.58	%	8.21	%	8.81	%	9.94	%
CET1 capital (4)	10.12	%	9.51	%	9.78	%	9.72		NA	
Tier 1 capital (5)	10.13	%	9.52	%	9.78	%	9.73	%	11.75	%
Total capital (6)	12.05	%	11.52	%	11.84	%	11.95	%	13.38	%
Leverage ratio (7)	9.07	%	8.51	%	8.22	%	8.55	%	9.91	%
Growth Ratios:										
Percentage change in net income	47.10	%	14.25	%	28.23	%	21.31	%	25.85	%
Percentage change in diluted net income per share	46.91	%	13.16	%	26.67	%	14.35	%	10.00	%
Percentage change in assets	13.06	%	11.18	%	25.02	%	24.32	%	16.42	%
Percentage change in net loans	11.62	%	19.18	%	16.46	%	25.53	%	17.54	%
Percentage change in deposits	13.53	%	12.39	%	28.32	%	24.30	%	12.54	%
Percentage change in stockholders'equity	17.71	%	16.20	%	16.41	%	10.30	%	37.02	%

(1) Net interest margin is the net yield on interest earning assets and is the difference between the interest yield earned on interest-earning assets and interest rate paid on interest-bearing liabilities, divided by average earning assets.

(2) Efficiency ratio is the result of noninterest expense divided by the sum of net interest income and noninterest income.

(3) Financial measures, adjusted for non-recurring items for 2017 exclude the impact of expenses attributable to our net deferred tax asset revaluation due to lower corporate income tax rates provided by the Tax Cuts and Jobs Act passed into law in December 2017, and lease termination and moving expenses associated with our move to our new headquarters building in 2017. Financial measures, adjusted for non-recurring items for 2015 exclude expenses related to our acquisition of Metro Bancshares, Inc. and the merger of Metro Bank with and into the Bank, and a non-recurring expense resulting from the initial funding of reserves for unfunded loan commitments consistent with guidance provided in the Federal Reserve Bank's Interagency Policy Statement SR 06-17. Financial measures, adjusted for non-recurring items for 2014 exclude a non-recurring expense related to the correction of our accounting for vested stock options granted to our advisory board members in our Huntsville, Montgomery and Dothan, Alabama

markets, and a non-recurring expense related to the acceleration of vesting of stock options previously granted to our advisory board members in our Mobile, Alabama and Pensacola, Florida markets. For a reconciliation of these non-GAAP measures to the most comparable GAAP measure, see "GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures." None of the other periods included in our selected consolidated financial information are affected by such non-routine expenses.

(4) CET1 capital ratio includes common stockholders' equity excluding unrealized gains/(losses) on securities available for sale, net of taxes, and intangible assets divided by total risk-weighted assets.

(5) Tier 1 capital ratio includes CET1 and qualifying minority interest divided by total risk-weighted assets.

(6) Total capital ratio includes Tier 1 capital plus qualifying portions of subordinated debt and allowance for loan losses (limited to 1.25% of risk-weighted assets) divided by total risk-weighted assets.

(7) Tier 1 leverage ratio includes Tier 1 capital divided by average assets less intangible assets.

GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures

We recorded \$3.1 million of additional tax expense as a result of revaluing our net deferred tax assets at December 31, 2017 due to lower corporate income tax rates provided by the Tax Cuts and Jobs Act passed into law in December 2017. The revaluation adjustment of our net deferred tax asset position was impacted by a number of factors, including increased loan charge-offs, in the fourth quarter of 2017, increases in deferred tax liabilities relating to depreciation expense on our new headquarters building, and dividends from our captive real estate investment trusts. We also recorded expenses of \$347,000 related to terminating the lease agreement on our previous headquarters building in Birmingham, Alabama and expenses of moving into our new headquarters building. We recorded expenses of \$2.1 million for the first quarter of 2015 related to the acquisition of Metro Bancshares, Inc. and the merger of Metro Bank with and into the bank, and recorded an expense of \$500,000 resulting from the initial funding of reserves for unfunded loan commitments for the first quarter of 2015, consistent with guidance provided in the Federal Reserve Bank's Interagency Policy Statement SR 06-17. We recorded expenses of \$703,000 for the first quarter of 2014 resulting from the correction of our accounting for vested stock options previously granted to members of our advisory boards in our Huntsville, Montgomery and Dothan, Alabama markets, and we recorded expenses of \$1.8 million for the second quarter of 2014 resulting from an acceleration of vesting of stock options previously granted to members of our advisory boards in our Mobile, Alabama and Pensacola, Florida markets. This change in accounting treatment is a non-cash item and does not impact our operating activities or cash from operations. We consider all of the expenses in 2017, 2015 and 2014 discussed above to be non-recurring in nature. The non-GAAP financial measures included in this annual report on Form 10-K for the year ended December 31, 2018 are "net income available to common stockholders, adjusted for non-recurring items," "earnings per share, basic, adjusted for non-recurring items," "earnings per share, diluted, adjusted for non-recurring items" "return on average assets, adjusted for non-recurring items," "return on average stockholders' equity, adjusted for non-recurring items," "return on average common stockholders' equity, adjusted for non-recurring items" and "efficiency ratio, adjusted for non-recurring items." Each of these seven financial measures excludes the impact of the non-recurring expense attributable to the revaluing of our net deferred tax assets, lease termination, moving expenses, expenses related to the acquisition of Metro and the initial funding of reserves for unfunded loan commitments. None of the other periods included in our selected financial data are affected by such non-recurring items.

"Net income available to common stockholders, adjusted for non-recurring items" is defined as net income available to common stockholders, adjusted by the net effect of the non-recurring expenses discussed above.

"Earnings per share, basic, adjusted for non-recurring items" is defined as net income available to common stockholders, adjusted by the net effect of the non-recurring expenses discussed above, divided by weighted average shares outstanding.

"Earnings per share, diluted, adjusted for non-recurring items" is defined as net income available to common stockholders, adjusted by the net effect of the non-recurring expenses discussed above, divided by weighted average diluted shares outstanding.

“Return on average assets, adjusted for non-recurring items” is defined as net income, adjusted by the net effect of the non-recurring expenses discussed above, divided by average total assets.

“Return of average stockholders’ equity, adjusted for non-recurring items” is defined as net income, adjusted by the net effect of the non-recurring expenses discussed above, divided by average total stockholders’ equity.

“Return of average common stockholders’ equity, adjusted for non-recurring items” is defined as net income, adjusted by the net effect of the non-recurring expenses discussed above, divided by average common stockholders’ equity.

“Efficiency ratio, adjusted for non-recurring items” is defined as non-interest expense, adjusted by the effect of the non-recurring expenses discussed above, divided by the sum of net interest income and non-interest income.

We believe these non-GAAP financial measures provide useful information to management and investors that is supplementary to our financial condition, results of operations and cash flows computed in accordance with GAAP; however, we acknowledge that these non-GAAP financial measures have a number of limitations. As such, you should not view these disclosures as a substitute for results determined in accordance with GAAP, and they are not necessarily comparable to non-GAAP financial measures that other companies, including those in our industry, use. The following reconciliation table provides a more detailed analysis of the non-GAAP financial measures for the years ended December 31, 2017, 2015 and 2014. All amounts are in thousands, except share and per share data.

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	2017		2015		2014
Provision for income taxes - GAAP	\$44,258		\$25,465		\$21,601
Adjustments:					
Tax (benefit) of adjustments (1)	(132)	829		865
Income tax expense, adjusted for non-recurring items - non-GAAP	\$44,126		\$26,294		\$22,466
Net income available to common stockholders - GAAP	\$93,030		\$63,260		\$51,946
Adjustments:					
Adjustment for nonemployee stock compensation correction					703
Adjustment for nonemployee stock vesting acceleration					1,774
Adjustment for merger expenses			2,096		
Adjustment for reserve for unfunded loan commitments			500		
Adjustment for revaluing net deferred tax assets	3,059				
Adjustment for lease termination and moving expenses	347				
Tax (benefit) of adjustments (1)	(132)	829		865
Net income available to common stockholders, adjusted for non-recurring items - non-GAAP	\$96,304		\$65,027		\$53,558
Earnings per share, basic - GAAP	\$1.76		\$1.23		\$1.09
Weighted average shares outstanding, basic	52,887,359		51,426,466		47,710,002
Earnings per share, basic, adjusted for non-recurring items - non-GAAP	\$1.82		\$1.27		\$1.12
Earnings per share, diluted - GAAP	\$1.72		\$1.20		\$1.05
Weighted average shares outstanding, diluted	54,123,957		52,885,108		49,636,442
Earnings per share, diluted, adjusted for non-recurring items - non-GAAP	\$1.78		\$1.23		\$1.08
Return on average assets - GAAP	1.43	%	1.38	%	1.39
Net income - GAAP	\$93,092		\$63,540		\$52,377
Adjustments:					
Adjustment for nonemployee stock compensation correction					703
Adjustment for nonemployee stock vesting acceleration					1,774
Adjustment for merger expenses			2,096		
Adjustment for reserve for unfunded loan commitments			500		
Adjustment for revaluing net deferred tax assets	3,059				
Adjustment for lease termination and moving expenses	347				
Tax (benefit) of adjustments	(132)	829		865
Net income, adjusted for non-recurring items - non-GAAP	\$96,366		\$65,307		\$53,989
Average assets	\$6,495,067		\$4,591,861		\$3,758,184
Return on average assets, adjusted for non-recurring items - non-GAAP	1.48	%	1.42	%	1.43
Return on average stockholders' equity - GAAP	16.38	%	15.30	%	14.43
Average stockholders' equity	\$568,228		\$436,544		\$359,963
Return on average stockholders' equity, adjusted for non-recurring items - non-GAAP	16.96	%	14.96	%	14.88
Return on average common stockholders' equity	16.37	%	15.30	%	16.23
Average common stockholders' equity	\$568,228		\$413,445		\$320,005
Return on average common stockholders' equity, adjusted for non-recurring items - non-GAAP	16.95	%	15.73	%	16.74
Efficiency ratio - GAAP	34.40	%	41.80	%	40.27

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Non-interest expense - GAAP	\$84,209	\$73,151	\$56,799		
Adjustments:					
Adjustment for nonemployee stock compensation correction			703		
Adjustment for nonemployee stock vesting acceleration			1,774		
Adjustment for merger expenses		2,096			
Adjustment for reserve for unfunded loan commitments		500			
Adjustment for lease termination and moving expenses	347				
Non-interest expense, adjusted for non-recurring items - non-GAAP	\$83,862	\$70,555	\$54,322		
Net interest income	227,423	162,271	130,606		
Non-interest income	17,361	12,732	10,430		
Total net interest income and non-interest income	\$244,784	\$175,003	\$141,036		
Efficiency ratio, adjusted for non-recurring items - non-GAAP	34.26	% 40.32	% 38.52	%	

(1) Corporate tax rates used were 35% for all years presented.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a narrative discussion and analysis of significant changes in our results of operations and financial condition. The purpose of this discussion is to focus on information about our financial condition and results of operations that is not otherwise apparent from the audited financial statements. This discussion should be read in conjunction with the financial statements and selected financial data included elsewhere in this report.

Overview

We are a bank holding company within the meaning of the BHC Act headquartered in Birmingham, Alabama. Through our wholly-owned subsidiary bank, we operate 20 full service banking offices located in Jefferson, Shelby, Madison, Montgomery, Mobile and Houston Counties in Alabama, Escambia and Hillsborough Counties in Florida, Cobb and Douglas Counties in Georgia, Charleston County in South Carolina and Davidson County in Tennessee. These offices operate in the Birmingham-Hoover, Huntsville, Montgomery, Mobile and Dothan, Alabama MSAs, the Pensacola-Ferry Pass-Brent and Tampa-St. Petersburg-Clearwater, Florida MSAs, the Atlanta-Sandy Springs-Roswell, Georgia MSA, the Charleston-North Charleston, South Carolina MSA and the Nashville-Davidson-Murfreesboro-Franklin, Tennessee MSA. We also operate 1 loan production office in Fort Walton, Florida. Our principal business is to accept deposits from the public and to make loans and other investments. Our principal source of funds for loans and investments are demand, time, savings, and other deposits and the amortization and prepayment of loans and borrowings. Our principal sources of income are interest and fees collected on loans, interest and dividends collected on other investments and service charges. Our principal expenses are interest paid on savings and other deposits, interest paid on our other borrowings, employee compensation, office expenses and other overhead expenses.

Critical Accounting Policies

Our consolidated financial statements are prepared based on the application of certain accounting policies, the most significant of which are described in the Notes to the Consolidated Financial Statements. Certain of these policies require numerous estimates and strategic or economic assumptions that may prove inaccurate or subject to variation and may significantly affect our reported results and financial position for the current period or in future periods. The use of estimates, assumptions, and judgments are necessary when financial assets and liabilities are required to be recorded at, or adjusted to reflect, fair value. Assets carried at fair value inherently result in more financial statement volatility. Fair values and information used to record valuation adjustments for certain assets and liabilities are based on either quoted market prices or are provided by other independent third-party sources, when available. When such information is not available, management estimates valuation adjustments. Changes in underlying factors, assumptions or estimates in any of these areas could have a material impact on our future financial condition and results of operations.

Allowance for Loan Losses

The allowance for loan losses, sometimes referred to as the “ALLL,” is established through periodic charges to income. Loan losses are charged against the ALLL when management believes that the future collection of principal is unlikely. Subsequent recoveries, if any, are credited to the ALLL. If the ALLL is considered inadequate to absorb future loan losses on existing loans for any reason, including but not limited to, increases in the size of the loan portfolio, increases in charge-offs or changes in the risk characteristics of the loan portfolio, then the provision for loan losses is increased. Our management reviews the adequacy of the ALLL on a quarterly basis. The ALLL calculation is segregated into various segments that include classified loans, loans with specific allocations and pass rated loans. A pass rated loan is generally characterized by a very low to average risk of default and in which management perceives there is a minimal risk of loss. Loans are rated using a nine-point risk grade scale with loan officers having the primary responsibility for assigning risk grades and for the timely reporting of changes in the risk grades. Based on these processes, and the assigned risk grades, the criticized and classified loans in the portfolio are segregated into the following regulatory classifications: Special Mention, Substandard, Doubtful or Loss, with some general allocation of reserve based on these grades. Reserve percentages assigned to non-impaired loans are based on historical charge-off experience adjusted for other risk factors. To evaluate the overall adequacy of the allowance to absorb losses inherent in our loan portfolio, our management considers historical loss experience based on volume and types of loans, trends in classifications, volume and trends in delinquencies and nonaccruals, economic conditions and other pertinent information. Based on future evaluations, additional provisions for loan losses may be necessary to maintain the allowance for loan losses at an appropriate level.

Loans are considered impaired when, based on current information and events, it is probable that the bank will be unable to collect all amounts due according to the original terms of the loan agreement. The collection of all amounts due according to contractual terms means that both the contractual interest and principal payments of a loan will be collected as scheduled in the loan agreement. Impaired loans are measured based on the present value of expected

future cash flows discounted at the loan's effective interest rate, or, as a practical expedient, at the loan's observable market price, or the fair value of the underlying collateral. The fair value of collateral, reduced by costs to sell on a discounted basis, is used if a loan is collateral-dependent.

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

The Company follows the provisions of ASC 740-10, *Income Taxes*. ASC 740-10 establishes a single model to address accounting for uncertain tax positions. ASC 740-10 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. ASC 740-10 also provides guidance on derecognition measurement classification interest and penalties, accounting in interim periods, disclosure, and transition. ASC 740-10 provides a two-step process in the evaluation of a tax position. The first step is recognition. A Company determines whether it is more likely than not that a tax position will be sustained upon examination, including a resolution of any related appeals or litigation processes, based upon the technical merits of the position. The second step is measurement. A tax position that meets the more likely than not recognition threshold is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

Results of Operations

Net Income Available to Common Stockholders

Net income available to common stockholders was \$136.9 million for the year ended December 31, 2018, compared to \$93.0 million for the year ended December 31, 2017. This increase in net income is primarily attributable to an increase in net interest income, which increased \$35.3 million, or 15.5%, to \$262.7 million in 2018 from \$227.4 million in 2017 and a decrease in income tax expense, which decreased from \$44.3 million in 2017 to \$31.9 million in 2018 resulting from lower corporate income tax rates from the passage of the Tax Cut and Jobs Act in December 2017. Noninterest income increased \$2.0 million, or 12.0%, to \$19.4 million in 2018 from \$17.4 million in 2017. Noninterest expense increased by \$7.7 million, or 9.1%, to \$91.9 million in 2018 from \$84.2 million in 2017. Basic and diluted net income per common share were \$2.57 and \$2.53, respectively, for the year ended December 31, 2018, compared to \$1.76 and \$1.72, respectively, for the year ended December 31, 2017. Return on average assets was 1.88% in 2018, compared to 1.43% in 2017, and return on average stockholders' equity was 20.96% in 2018, compared to 16.38% in 2017.

Net income available to common stockholders was \$93.0 million for the year ended December 31, 2017, compared to \$81.4 million for the year ended December 31, 2016. This increase in net income is primarily attributable to an increase in net interest income, which increased \$40.3 million, or 21.5%, to \$227.4 million in 2017 from \$187.1 million in 2016. Noninterest income increased \$0.4 million, or 2.1%, to \$17.4 million in 2017 from \$17.0 million in 2016. Noninterest expense increased by \$4.3 million, or 5.4%, to \$84.2 million in 2017 from \$79.9 million in 2016. Basic and diluted net income per common share were \$1.76 and \$1.72, respectively, for the year ended December 31, 2017, compared to \$1.55 and \$1.52, respectively, for the year ended December 31, 2016. Return on average assets was 1.43% in 2017, compared to 1.42% in 2016, and return on average stockholders' equity was 16.38% in 2017, compared to 16.64% in 2016.

The following table presents some ratios of our results of operations for the years ended December 31, 2018, 2017 and 2016.

	For the Years Ended December 31,		
	2018	2017	2016
Return on average assets	1.88 %	1.43 %	1.42 %
Return on average stockholders' equity	20.96 %	16.38 %	16.64 %
Dividend payout ratio	15.04 %	11.64 %	10.53 %
Average stockholders' equity to average total assets	8.98 %	8.75 %	8.52 %

The following tables present a summary of our statements of income, including the percent change in each category, for the years ended December 31, 2018 compared to 2017, and for the years ended December 31, 2017 compared to 2016, respectively.

	Year Ended December 31,		Change from the Prior Year
	2018	2017	
	(Dollars in Thousands)		
Interest income	\$326,627	\$262,756	24.31 %
Interest expense	63,948	35,333	80.99 %
Net interest income	262,679	227,423	15.50 %
Provision for loan losses	21,402	23,225	(7.85)%
Net interest income after provision for loan losses	241,277	204,198	18.16 %
Noninterest income	19,440	17,361	11.98 %
Noninterest expense	91,875	84,209	9.10 %
Income before income taxes	168,842	137,350	22.93 %
Income taxes	31,902	44,258	(27.92)%
Net income	136,940	93,092	47.10 %
Dividends on preferred stock	63	62	1.61 %
Net income available to common stockholders	\$136,877	\$93,030	47.13 %

	Year Ended December 31,		Change from the Prior Year
	2017	2016	
	(Dollars in Thousands)		
Interest income	\$262,756	\$212,902	23.42%
Interest expense	35,333	25,805	36.92%
Net interest income	227,423	187,097	21.55%
Provision for loan losses	23,225	13,398	73.35%
Net interest income after provision for loan losses	204,198	173,699	17.56%
Noninterest income	17,361	17,007	2.08%
Noninterest expense	84,209	79,888	5.41%
Income before income taxes	137,350	110,818	23.94%
Income taxes	44,258	29,339	50.85%
Net income	93,092	81,479	14.25%
Dividends on preferred stock	62	47	31.91%
Net income available to common stockholders	\$93,030	\$81,432	14.24%

Net Interest Income

Net interest income is the difference between the income earned on interest-earning assets and interest paid on interest-bearing liabilities used to support such assets. The major factors which affect net interest income are changes in volumes, the yield on interest-earning assets and the cost of interest-bearing liabilities. Our management's ability to respond to changes in interest rates by effective asset-liability management techniques is critical to maintaining the stability of the net interest margin and the momentum of our primary source of earnings.

Net interest income increased \$35.3 million, 15.5%, to \$262.7 million for the year ended December 31, 2018 from \$227.4 million for the year ended December 31, 2017. Total interest income increased \$63.9 million, or 24.3%, to \$326.6 million from \$262.8 million year-over-year, while total interest expense increased \$28.6 million, or 81.0%, to \$63.9 million from \$35.3 million year-over-year. Average earning assets increased \$781.7 million, or 12.5%, to \$7.01 billion in 2018 from \$6.23 billion in 2017. All but one of our regional markets grew loans during 2018.

Net interest income increased \$40.3 million, 21.5%, to \$227.4 million for the year ended December 31, 2017 from \$187.1 million for the year ended December 31, 2016. Total interest income increased \$49.9 million, or 23.4%, to \$262.8 million from \$212.9 million year-over-year, while total interest expense increased \$9.5 million, or 36.9%, to \$35.3 million from \$25.8 million year-over-year. Average earning assets increased \$706.8 million, or 12.8%, to \$6.23 billion in 2017 from \$5.23 billion in 2016. All of our regional markets grew loans during 2017.

Net Interest Margin Analysis

The net interest margin is impacted by the average volumes of interest-sensitive assets and interest-sensitive liabilities and by the difference between the yield on interest-sensitive assets and the cost of interest-sensitive liabilities (spread). Loan fees collected at origination represent an additional adjustment to the yield on loans. Our spread can be affected by economic conditions, the competitive environment, loan demand, and deposit flows. The net yield on earning assets is an indicator of effectiveness of our ability to manage the net interest margin by managing the overall yield on assets and cost of funding those assets.

The following table shows, for the years ended December 31, 2018, 2017 and 2016, the average balances of each principal category of our assets, liabilities and stockholders' equity, and an analysis of net interest revenue, and the change in interest income and interest expense segregated into amounts attributable to changes in volume and changes in rates. This table is presented on a taxable equivalent basis, if applicable.

Average Balance Sheets and Net Interest Analysis

On a Fully Taxable-Equivalent Basis

For the Year Ended December 31,

(In thousands, except Average Yields and Rates)

	2018			2017			2016		
	Average Balance	Interest Earned / Paid	Average Yield / Rate	Average Balance	Interest Earned / Paid	Average Yield / Rate	Average Balance	Interest Earned / Paid	Average Yield / Rate
Assets:									
Interest-earning assets:									
Loans, net of unearned income:									
Taxable	\$6,104,879	\$304,156	4.98	% \$5,316,452	\$245,296	4.61	% \$4,467,729	\$199,599	4.47
Tax-exempt (3)	31,544	1,207	3.83	34,726	1,719	4.95	18,749	911	4.86
Total loans, net of unearned income (1)(2)	6,136,423	305,363	4.98	5,351,178	247,015	4.62	4,486,478	200,510	4.47
Mortgage loans held for sale	3,591	146	4.07	5,663	213	3.76	6,600	253	3.83
Debt securities:									
Taxable	473,259	12,654	2.67	387,542	9,117	2.35	237,683	5,341	2.25
Tax-exempt (3)	108,938	2,723	2.50	131,450	4,420	3.36	135,929	5,035	3.70
Total debt securities (4)	582,197	15,377	2.64	518,992	13,537	2.61	373,612	10,376	2.78
Federal funds sold	141,518	3,103	2.19	146,688	1,693	1.15	163,356	1,007	0.62
Equity securities	986	16	1.62	1,030	43	4.17	4,827	218	4.52
Interest-bearing balances with banks	148,907	3,078	2.07	208,382	2,273	1.09	490,301	2,571	0.52
Total interest-earning assets	\$7,013,622	\$327,083	4.66	% \$6,231,933	\$264,774	4.25	% \$5,525,174	\$214,935	3.89
Non-interest-earning assets:									
Cash and due from banks	71,889			65,647			60,321		
Net premises and equipment	59,087			51,693			24,937		
Allowance for loan losses, accrued interest and other	131,486			145,794			135,251		

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assets

Total assets	\$7,276,084	\$6,495,067	\$5,745,683
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Interest-bearing
liabilities: