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, 2020

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 Incorporation or Organization)	*(I.R.S. Employer 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:

Title of each class	Trading symbol(s)	Name of exchange on which registered
Common stock, par value $.001 per share	SFBS	NASDAQ Global Select Market

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 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act by the registered public accounting firm that prepared or issued its audit report. Yes ☒ No ☐

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, 2020, the aggregate market value of the voting common stock held by non-affiliates of the registrant, based on a stock price of $35.76 per share of Common Stock, was $1,690,486,000.

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

Class	Outstanding as of February 19, 2021
Common stock, $.001 par value	54,085,465

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 2021 Annual Meeting of Stockholders are incorporated by reference into Part III of this annual report on Form 10-K.

SERVISFIRST BANCSHARES, INC.

TABLE OF CONTENTS

FORM 10-K

DECEMBER 31, 2020

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 global health and economic crisis precipitated by the COVID-19 outbreak;
- the effects of the COVID-19 pandemic on business practices including, without limitation, work from home and similar initiatives that may result in changes in the usage of commercial real estate;
- 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 economic crisis and associated credit issues in industries most impacted by the COVID-19 outbreak, including but not limited to the restaurant, hospitality, travel and retail sectors;
- 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;
- the effects of force majeure events, including war, natural disasters, pandemics or other widespread disease outbreaks and other national or international crises;
- an increase in the incidence or severity of fraud, illegal payments, security breaches or other illegal acts impacting our customers;
- the increased regulatory and compliance burdens associated with our bank exceeding $10 billion in assets;
- 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 2016, 2017, 2018, 2019 and 2020 mean our fiscal years ended December 31, 2016, 2017, 2018, 2019 and 2020, 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 21 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, Daphne-Fairhope-Foley 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 loan production offices in Columbus, Georgia, Sarasota, Florida, and Summerville, South Carolina. 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, 2020, we had total assets of approximately $11.9 billion, total loans of approximately $8.5 billion, total deposits of approximately $10.0 billion and total stockholders' equity of approximately $992.9 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 a real estate investment trust, or REIT, 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.

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 20 states throughout the 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, 2020, our branches averaged approximately $475.0 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 38.9% of our total loan portfolio as of December 31, 2020.

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.

Local decision making has impacted how we have managed our business during the COVID-19 pandemic. Our ability to use technology-based delivery channels to service our customers in a low-contact environment played an integral part in maintaining social distancing to help prevent the spread of COVID-19. Our regional executives were able to manage their banking operations in compliance with local shut-down orders. Our employees were able to work remotely as needed.

Additionally, our decentralized, local credit decision making coupled with our advanced technology-based delivery channels enabled us to offer our customers efficient and timely access to the Small Business Administration's Paycheck Protection Program ("PPP") loans. We made over 4,900 PPP loans with an aggregate balance of approximately $1.05 billion during the year ended December 31, 2020.

Identify Opportunities in Vibrant Markets. Since opening our original banking facility in Birmingham in 2005, as of December 31, 2020, 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, Nashville, 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, Daphne-Fairhope-Foley and Mobile, Alabama, Pensacola-Ferry Pass-Brent, Tampa-St. Petersburg-Clearwater and North Port-Sarasota-Bradenton, 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 2010 to 2020 (deposit data reflects totals as reported by financial institutions as of June 30th of each year) as follows:

	2020	2010	Compound Annual Growth Rate
		(Dollars in Billions)	
Jefferson/Shelby County, Alabama	$ 45.6	$ 22.6	7.27%
Madison County, Alabama	9.5	6.5	3.87%
Montgomery County, Alabama	7.6	4.6	5.15%
Houston County, Alabama	3.3	2.1	4.62%
Mobile County, Alabama	8.6	6.0	3.67%
Baldwin County, Alabama	5.4	3.2	5.37%
Escambia County, Florida	5.9	4.2	3.46%
Hillsborough County, Florida	38.0	21.4	5.91%
Sarasota County, Florida	16.8	11.8	3.60%
Cobb County, Georgia	18.2	9.5	6.72%
Douglas County, Georgia	2.1	1.4	4.14%
Charleston County, South Carolina	14.1	7.9	5.96%
Davidson County, Tennessee	50.2	20.8	9.21%

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.

The following table illustrates our market share, by insured deposits, in our primary service areas at June 30, 2020 (the most recent date such numbers were reported by the FDIC), as reported by the FDIC:

Market	Number of Branches	Our Market Deposits	Total Market Deposits	Ranking	Market Share Percentage
		(Dollars in Millions)			
Alabama:					
Birmingham-Hoover MSA	3	$ 3,932.1	$ 52,063.5	4	7.55%
Huntsville MSA	2	1,065.2	10,457.9	3	10.19%
Montgomery MSA	2	906.1	9,400.9	4	9.64%
Dothan MSA	2	713.0	3,989.4	1	17.87%
Mobile MSA	1	403.8	8,758.2	8	4.61%
Daphne-Fairhope-Foley MSA	1	46.4	5,414.8	20	0.86%
Florida:					
Pensacola-Ferry Pass-Brent MSA	2	545.6	7,629.0	6	7.15%
Tampa-St. Petersburg-Clearwater MSA	1	325.4	101,248.1	30	0.32%
Georgia:					
Atlanta-Sandy Springs-Roswell MSA	3	610.8	193,980.5	25	0.31%
South Carolina:					
Charleston-North Charleston MSA	1	252.6	17,469.4	12	1.45%
Tennessee:					
Nashville-Davidson-Murfreesboro MSA	1	552.2	80,992.8	19	0.68%

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, 2020, as reported by the FDIC:

Alabama	61.8%
Florida	8.6%
Georgia	7.1%
South Carolina	13.4%
Tennessee	26.0%

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, Truist 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

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.

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 36 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 increased $72.2 million to $593.6 million at December 31, 2020. There were $1.0 million in charge-offs on construction loans during 2020 and no charge-offs during 2019. The amount of construction loans rated as substandard decreased from $4.3 million at December 31, 2019 to $235,000 at December 31, 2020.

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, 2020, we had commitments to extend credit beyond current amounts funded of $2.6 billion, had issued standby letters of credit in the amount of $66.2 million, and had commitments for credit card arrangements of $286.1 million.

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, 2020.

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.

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 are 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 the Federal Reserve, the FDIC and the Alabama State Banking Department (the "Alabama Banking Department"), among other regulatory bodies. 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. We also will be subject to comprehensive supervision and periodic examination by the Consumer Financial Protection Bureau (the "CFPB") with respect to most federal consumer protection laws if our total assets are greater than $10 billion for four consecutive quarters. Our total assets were greater than $10 billion at the end of the second, third, and fourth quarters of 2020, and we expect our total assets to be greater than $10 billion at the end of the first quarter of 2021. For that reason, we expect to be subject to comprehensive supervision and periodic examination by the CFPB after that date.

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. Further, the following discussion addresses the select material elements of the regulatory framework as in effect as of the date of this annual report on Form 10-K. Legislation and regulatory action to revise federal and state banking laws and regulations, sometimes in a substantial manner, are continually under consideration by the U.S. Congress, state legislatures and federal and state regulatory agencies. Accordingly, the following discussion must be read in light of the enactment of any new federal or state banking laws or regulations or any amendment or repeal of existing laws or regulations, or any change in the policies of the regulatory agencies with jurisdiction over our operations, after the date of this annual report on Form 10-K.

Bank Holding Company Supervision and Regulation

Because 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 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.

Temporary Relief from Certain Asset-Based Regulatory Thresholds

On November 20, 2020, federal banking regulators jointly issued an interim final rule effective December 2, 2020 to provide temporary relief for community banking organizations with less than $10 billion in total assets as of December 31, 2019. The relief came in the form of an exemption from certain regulations and reporting requirements that those institutions would otherwise become subject to as a result of a growth in asset size caused by their participation in PPP and similar federal coronavirus response programs. The interim final rule permits qualifying banks and bank holding companies to use asset data as of December 31, 2019, in order to determine whether various regulatory asset thresholds apply during the calendar years of 2020 and 2021. It also temporarily revises the instructions to various Federal Reserve regulatory reports so that qualifying entities may use their December 31, 2019, asset data to determine reporting requirements for those reports in 2020 and 2021. This means that we and the bank may, through December 31, 2021, determine the applicability of certain asset-based regulatory thresholds using our asset data as of December 31, 2019, since our total assets as of that date were less than $10 billion. In order to address certain limited instances in which regulatory burden relief would be inappropriate, federal banking regulators have reserved authority in their respective regulations to require a community banking organization to comply with a given regulatory requirement that would otherwise not be applicable to the organization pursuant to the relief provided by the interim final rule.

Two prominent regulatory requirements not included in the interim final rule are the Volcker Rule and the supervisory authority of the CFPB that is triggered once an organization attains $10 billion in assets. We discuss the applicability to us of the Volcker Rule and CFPB examination below.

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 and assessment rate are determined each quarter.

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. The method for determining an institution's risked-based assessment rate differs for small banks and large banks. Small banks (generally, those with less than $10 billion in assets over four consecutive quarters) are assigned an individual rate based on a formula using financial data and CAMELS ratings. Large banks (generally, those with $10 billion or more in assets over four consecutive quarters) are assigned an individual rate based on a scorecard. The scorecard combines the following measures to produce a score that is converted to an assessment rate: CAMELS component ratings, financial measures used to measure a bank's ability to withstand asset-related and funding-related stress, and a measure of loss severity that estimates the relative magnitude of potential losses to the FDIC in the event of the bank's failure. Assessment rates for both large and small banks are subject to adjustment. Assessment rates: (1) decrease for issuance of long-term unsecured debt, including senior unsecured debt and subordinated debt; (2) increase for holdings of long-term unsecured or subordinated debt issued by other insured banks (the Depository Institution Debt Adjustment or DIDA); and (3) for large banks that are not well-rated or not well-capitalized, increase for significant holdings of brokered deposits. The bank expects to become subject to the large bank scorecard methodology in the second quarter of 2021, and if that occurs, its assessment rate is likely to increase as a result.

In addition to its risk-based insurance assessments, the FDIC also imposed Financing Corporation ("FICO") assessments to help pay the $780 million in annual interest payments on the $8 billion of bonds issued in the late 1980's as part of the government rescue of the savings and loan industry. The last remaining FICO bonds matured in September 2019. The final FICO assessment was collected on the March 31, 2019 FDIC invoice and we do not expect any further FICO assessments to be made.

The amount the bank pays to the FDIC in assessments 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. The FDIC also has established a higher long-term target Deposit Insurance Fund ratio of 2%. 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 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 received assessment credits for the portion of their assessments that grew the reserve ratio from 1.15% to 1.35 percent. The credit began to be applied when the reserve ratio exceeded a target 1.38 percent ratio. As the bank did not yet have $10 billion in total assets at the time of the assessment credits, we recognized a credit of $1.7 million during 2019 as a result of this credit.

The FDIC may terminate its insurance of an institution's deposits if it finds that the institution has engaged in unsafe and 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.

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, 2020, 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 $382.5 million in dividends as of December 31, 2020, 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. The Bank exceeded $10 billion in assets for the first time as of June 30, 2020. The Durbin Amendment becomes effective for us on July 1, 2022. We do not anticipate that it will have a material impact on our revenue. Furthermore, 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.

Compensation Practices

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.

Since the adoption of the final rule in 2013, U.S. financial regulators and other federal agencies have further adopted several changes to the final rule. On January 14, 2014, the agencies adopted an interim final rule permitting banking entities to retain interests in certain collateralized debt obligations backed primarily by trust preferred securities if certain qualifications are met. On July 9, 2019, the agencies adopted a final rule excluding community banks (i.e., those banks having $10 billion or less in total consolidated assets and trading assets and liabilities of 5% or less of total consolidated assets) from the Volcker Rule. On October 8, 2019, the agencies finalized revisions to the Volcker rule that simplified and streamlined compliance requirements for banking entities that do not have significant trading activities, while banking entities with significant trading activity would become subject to more stringent compliance requirements. The revisions continue to prohibit proprietary trading, while providing greater clarity and certainty for activities allowed under the law. With the changes, the agencies expect that the universe of trades that are considered prohibited proprietary trading will remain generally the same as under the agencies' 2013 final rule. These revisions became effective on January 1, 2020, with a required compliance date of January 1, 2021.

To date, the prohibitions under the Volcker Rule and the final rule adopted thereunder have not had, and we do not currently expect them to have in the future, a material effect on our businesses or revenue, but they do limit the scope of permissible activities in which we might engage.

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.

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 for four consecutive quarters. Institutions with less than $10 billion in assets for four consecutive quarters will continue to be examined for compliance with consumer laws by their primary bank regulator. We had more than $10 billion in total assets for the last three consecutive quarters of 2020 and expect to have more than $10 billion in total assets at the end of the first quarter of 2021. If that occurs, we will be subject to CFPB supervisory and enforcement authority after that date. Expenses related to regulatory compliance are likely to increase as a result.
- 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. In addition, we will be subject to heightened regulatory scrutiny and requirements as a result of our total assets exceeding $10 billion as of December 31, 2020 and if our total assets exceed $10 billion for four consecutive quarters ending with the first quarter in 2021. 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.

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.

Human Capital Resources

At ServisFirst Bancshares, we believe that our Employees are truly our most valuable asset and that each of us directly contributes to our continued mutual success. As of December 31, 2020, we had 493 full-time equivalent employees. We have 187 employees located in our corporate office, including sales and operations, and 312 in our regional offices and branches. Our management believes that we have good relations with our employees.

Hiring, Promotion & Talent Development

We are always looking to build our workforce from within and promote from our current talent pool whenever possible. When this is not the case, we look to career fairs and local colleges to network on an ongoing basis, as well as utilizing professional networking platforms, such as LinkedIn. We also have a referral bonus program for current employees, which we believe helps us to diversify our workforce at the same time. We are also committed to the continued development of our employees. Compliance, IT and other banking industry-related trainings are completed by employees throughout the year. We also aim to assist our employees with position-related training and development when available.

Health and Safety

The success of our business is fundamentally connected to the well-being of our people. Accordingly, we are committed to the health, safety and wellness of our employees. In response to local government and health guidelines around the COVID-19 pandemic, glass barriers have been installed where necessary, and we regularly encourage our employees to utilize video conferencing platforms when possible. All branches and internal corporate offices have been provided with cleaning supplies and are encouraged to disinfect surface areas consistently. We maintain a social distancing policy and update our procedures as federal and state agencies make new recommendations.

Compensation and Benefits

We provide robust compensation and benefits programs to help meet the needs of our employees. In addition to competitive salaries, these programs include annual bonuses, a 401(k) Retirement Plan, full medical, dental and vision insurance, life insurance and paid time off. As part of our compensation philosophy, we believe that we must offer and maintain market competitive total rewards programs for our employees in order to attract and retain superior talent.

Diversity and Inclusion

We are committed to our continued efforts to increase diversity and foster an inclusive work environment that supports our employees and the communities we serve. We recruit the best people for the job regardless of gender, race, ethnicity, age, disability, sexual orientation, gender identity, cultural background or religious belief. It is our policy to fully comply with all state and federal laws applicable to discrimination in the workplace.

A brief description of the background of each of our named executive officers as of December 31, 2020 is set forth below.

Thomas A. Broughton, III (65) – 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 (64) – Mr. Pouncey 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. Mr. Pouncey retired from the Company and Bank effective December 31, 2020.

William M. Foshee (66) – 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 (63) – Mr. Rushing has served as the Executive Vice President and Executive for Correspondent Banking for us and the bank since 2011. Effective January 25, 2021, Mr. Rushing was appointed to serve as our Executive Vice President and Chief Operating Officer. 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 (40) – 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 (now Truist) 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 (52) – 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 (72) – 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 (57) – 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 (51) – 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 currently serves as a HudsonAlpha Institute for Biotechnology Ambassador, an external advisory board member for the University of Alabama at Huntsville College of Business, and a board member for the National Children's Advocacy Center.

William Bibb Lamar, Jr. (76) – 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 (58) – 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 (44) – 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 (56) – 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 (45) – 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 Best Place to work by the Nashville Business Journal for 2016 through 2018. Mr. Vieira was personally named a Nashville Business Journal "Power Leader" in conjunction with the Bank award during the same three years.

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, accessible 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.

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

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. Mr. Pouncey retired as Chief Operating Officer at the end of fiscal 2020, and our board appointed Mr. Rushing as our Chief Operating Officer based on his long history with the bank and the continuity afforded by his appointment. With the exception of the key officers in charge of our Huntsville and Montgomery banking offices, and our Chief Financial Officer, 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 changes 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 six 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.

Because our total assets exceed $10 billion, we are subject to heightened regulatory requirements, which could have an adverse effect on our financial condition or results of operations.

Various federal banking laws and regulations, including rules adopted by the Federal Reserve pursuant to the requirements of the Dodd-Frank Act, impose additional requirements on bank holding companies with total assets of at least $10 billion. In addition, bank with total assets of at least $10 billion are primarily examined by the CFPB with respect to federal consumer protection laws and regulations. While we have not yet reached $10 billion in assets for four consecutive quarters, we and the bank expect to do so during fiscal 2021. Once we and the bank have exceeded $10 billion in total assets for four consecutive fiscal quarters, we will be subject to additional requirements including, but not limited to, establishing a dedicated risk committee of our Board, calculating our FDIC deposit insurance assessment using the large bank pricing rule and more frequent regulatory examinations. Regulatory relief passed by federal banking regulators in late 2020 will allow us to use our December 31, 2019 total assets to delay compliance with some, but not all, of these regulatory requirements until January 1, 2022. In preparation for these additional compliance obligations, we have incurred significant expenses and expect to continue to incur expenses to address heightened regulatory requirements. These additional regulatory requirements and increased compliance expenses could have a material adverse effect on our business, financial condition and results of operations.

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, 2020, 53.3% of our loan portfolio was composed of commercial and consumer real estate loans, of which 53.3% 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 credit 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 credit 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, 2020, our 10 largest borrowing relationships totaled $483.0 million in commitments (including unfunded commitments), or approximately 5.7% 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 credit 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 credit 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 the creditworthiness of our borrowers resulting in loans to borrowers who fail to repay their loans in accordance with the loan terms, 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 credit 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 credit losses, we rely on an analysis of our loan portfolio based on historical loss experience, current conditions, reasonable and supportable forecasts, 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. We believe our allowance for credit losses is adequate. Our allowance for credit losses as of December 31, 2020 was $87.9 million, or 1.04% of total gross loans. If our assumptions are inaccurate, we may incur loan losses in excess of our current allowance for credit losses and be required to make material additions to our allowance for credit 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 credit losses and could require us to materially increase our allowance for credit losses or recognize further loan charge-offs based on judgments different than those of our management. Any material increase in our allowance for credit 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 Accounting Standards Update ("ASU") 2016-13, as amended, effective as of January 1, 2020 impacted our methodology for estimating the allowance for credit losses. The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") gave financial institutions the option to delay adoption of ASU2016-13 and we delayed our adoption of the update until December 31, 2020, with an effective retrospective adoption date of January 1, 2020 Based on prevailing economic conditions and forecasts as of the January 1, 2020 adoption date, we recorded a net $2.0 million decrease in our allowance for credit losses in connection with our adoption of ASU 2016-13. 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 identify, measure, monitor, report and analyze the types of risk to which we are subject, including liquidity risk, credit risk, market risk, legal risk, compliance risk, strategic risk, reputational risk and operational risk related to our employees, systems and vendors, among others. Any system of control and any system to reduce risk exposure, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. A failure in our internal controls could have a significant negative impact not only on our earnings, but also on our reputation with our customers, regulators and investors. In addition, a failure of our internal controls, or a circumvention of such controls, could have 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 loan relationships in excess of $5.0 million and every loan internally risk-grade 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 six years, including:

- the sale of $34,750,000 in 5% subordinated notes due July 15, 2025 to accredited investor purchasers in July 2015;
- 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; and.
- the sale of $34,750,000 in 4% subordinated notes due October 21, 2030 to accredited investor purchasers in October 2020 and concurrent redemption of $34,750,000 in 5% subordinated notes due July 15, 2025.

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.

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 is 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, have been and will continue to be 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 continue 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 would 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. Additionally, our insurance may be inadequate to compensate us for losses due to a cyber-attack, hacking, or similar technology security breach. 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.

A security breach related to use of third-party software or systems, or the loss or corruption of confidential customer information could adversely affect our ability to provide timely and accurate financial information in compliance with legal and regulatory requirements. Any such failures could result in sanctions from regulatory authorities, significant reputational harm and a decrease in our customers confidence in us. Additionally, security breaches or the loss, theft or corruption of customer information such as social security numbers, credit card numbers, or other information could result in customer losses, litigation, regulatory sanctions, losses in revenue, increased costs and reputational harm. Our agreements with outside third parties include indemnification obligations in the event of any such security breaches; however, there is no assurance that such third-parties will have sufficient resources to provide full indemnification of all of their customers in the event such a security breach occurs.

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 to primarily small to medium-sized businesses, which may expose us to greater lending risks than those faced by other banks that lend 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 may have more credit risk and higher credit losses to the extent loans are concentrated by location or industry of the borrowers or collateral.

Our credit risk and credit losses could increase if our loans are concentrated to borrowers engaged in the same or similar activities or to borrowers who as a group may be uniquely or disproportionately affected by economic or market conditions. Deterioration in economic conditions, housing conditions and commodity and real estate values in certain states or locations could result in materially higher credit losses if loans are concentrated in those locations. The COVID-19 pandemic has had a disproportionate impact on the travel, lodging, entertainment and retail industries which, as of December 31, 2020, comprised 5% of our outstanding loans. Additionally, we have significant exposures to businesses in certain economic sectors such as manufacturing, real estate, insurance and healthcare, and weaknesses in those businesses may adversely impact our business, results of operations or financial condition.

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, 2020, we held $6.5 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, 2020, 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 credit 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 83% of the bank's liabilities as of December 31, 2020 were checking accounts and other liquid deposits, which are payable on demand or upon several days' notice, while by comparison, 71% of the assets of the bank were loans, which cannot be called or sold in the same time frame. Our deposit accounts have seen tremendous growth during the COVID-19 pandemic and associated economic downturn, with many of our customers choosing to increase their cash reserves, even though interest rates have stayed relatively low. 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, 2020, the fair value of our investment securities portfolio was approximately $886.7 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. Certain credit rating agencies have highlighted that the U.S. federal government had the highest debt of any AAA-rated sovereign nation, and there was no credible fiscal consolidation plan in light of the economic shock caused by the COVID-19 pandemic. 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. Our transactions with other financial institutions expose us to credit risk in the event of a default of a counterparty. The soundness of many financial services companies may be closely interrelated as a result of credit, trading, clearing and other relationships between such financial services companies. 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 resulting from our recent growth in total assets to over $10.0 billion. This allocation of resources, as well as any failure to comply with applicable requirements, may negatively impact our financial condition and results of operations.

As a bank holding company, we are subject to certain capital requirements that may limit our operations.

As a bank holding company, we are subject to supervision and regulation by the Federal Reserve Bank (FRB), including risk-based and leverage capital requirements. We must maintain certain risk-based and leverage capital ratios as required by the FRB, which can change depending on certain economic conditions and our risk profile and growth plans. Compliance with the capital requirements, including leverage ratios, may limit operations that require the intensive use of capital and could adversely affect our ability to expand or maintain present business levels. Additionally, failure by our bank to meet applicable capital requirements could subject us to a variety of regulatory sanctions, up to and including termination of deposit insurance by the FDIC.

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.

The replacement of LIBOR as an interest rate index could adversely affect our business and results of operations.

As of December 31, 2020, approximately 8% of our loan portfolio is indexed to the London Interbank Offered Rate (LIBOR) to calculate interest on the loans. On July 27, 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, publicly announced that it intends to cease persuading or compelling banks to submit LIBOR rates by the end of 2021. In November of 2020, the Financial Conduct Authority announced that it will consult on its intention to extend the retirement date of certain offered rates whereby the publication of the one-week and two-month LIBOR offered rates will cease after December 31, 2021; but, the publication of the remaining LIBOR offered rates will continue until June 30, 2023. Given consumer protection, litigation, and reputation risks, banking regulators have indicated that entering into new contracts that use LIBOR as a reference rate after December 31, 2021, would create safety and soundness risks and that they will examine bank practices accordingly. Regulators are therefore discouraging banks from entering into new contracts that use LIBOR as a reference rate as soon as practicable and in any event by December 31, 2021.

These announcements and regulatory guidance indicate that the continuation of LIBOR on the current basis cannot be guaranteed after 2021 and may cause the LIBOR benchmark to perform differently than it has in the past. Financial institutions, including our bank, have begun to transition credit and other arrangements which currently utilize LIBOR as a reference rate to new indices for interest rates. Regulators, industry groups and certain committees have, among other things, published recommended fall-back language for LIBOR-referenced financial instruments, identified recommended alternatives for certain LIBOR rates (for example, Ameribor® or the Secured Overnight Financing Rate), and proposed implementations of the recommended alternatives in floating rate instruments. It is not yet possible to predict whether these specific recommendations and proposals will be broadly accepted, whether they will continue to evolve, and what the effect of their implementation may be on the markets for floating-rate financial instruments.

The implementation of a substitute index or indices for the calculation of interest rates under our loan agreements with our customers may result in the incurrence of additional expense as part of the transition and may result in disputes with customers over the appropriate substitute index or indices, which could adversely affect our reputation. Although we are currently unable to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material adverse effect on our business and results of operations.

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, 2020, our bank could pay approximately $382.5 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. Limitations on our ability to receive dividends from our bank subsidiary could have a material adverse effect on our liquidity and ability to pay dividends on our common stock or interest and principal on our debt.

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 their 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.

General Risk Factors

The ongoing COVID-19 pandemic and measures intended to prevent its spread may adversely affect our business, financial condition and operations, and such effects will depend on future developments, which are highly uncertain and are difficult to predict.

Global health and economic concerns relating to the COVID-19 outbreak and government actions taken to reduce the spread of the virus have had a material adverse impact on the macroeconomic environment, and the outbreak has significantly increased economic uncertainty. The pandemic has resulted in federal, state and local authorities, including those who govern the markets in which we operate, implementing numerous measures to try to contain the virus. Such measures have included travel bans and restrictions, curfews, quarantines, shelter in place or total lock-down orders and business limitations and shutdowns. Such measures have significantly contributed to rising unemployment and negatively impacted consumer and business spending. While several vaccines have been approved by the U.S. Food and Drug Administration, vaccine distribution has been slow and there are concerns that more aggressive variants of the COVID-19 virus may increase and spread due to the pace of vaccinations in the United States. The United States government has taken steps to attempt to mitigate some of the more severe anticipated economic effects of the virus, including the passage of the CARES Act in March of 2020 and, more recently, an Omnibus COVID Relief Deal in December 2020. There can be no assurance that such steps taken by the United States government will be effective or achieve their desired results in the near future.

The outbreak has adversely impacted and is likely to continue to adversely impact our workforce and operations and the operations of our customers and business partners. In particular, we may experience financial losses due to a number of operational factors impacting us or our customers or business partners, including but not limited to:

- Credit losses resulting from financial stress experienced by our borrowers, especially those operating in industries most hard hit by government measures to contain the spread of the virus;
- Possible business disruptions experienced by our vendors and business partners in carrying out work that supports our operations;
- Heightened levels of cyber and payment fraud, as cyber criminals try to take advantage of the disruption and increased online activity brought about by the pandemic; and,
- Operational failures due to changes in our normal business practices necessitated by our internal measures to protect our employees and government-mandated measures intended to slow the spread of the virus.

These factors may exist for an extended period of time and may continue to adversely affect our business, financial condition and operations even after the COVID-19 outbreak has subsided.

The extent to which the pandemic impacts our business, financial condition and operations will depend on future developments, which are highly uncertain and are difficult to predict, including, but not limited to, its duration and severity, the actions to contain it or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. Even after the pandemic has subsided, we may continue to experience materially adverse impacts to our business as a result of its economic impact, including the availability of credit, adverse impacts on our liquidity and any recession that has occurred or may occur in the future. Additionally, future outbreaks of COVID-19, or other viruses, may occur.

Among other relief programs, we participated in the PPP and originated almost 4,900 loans in the amount of $1.05 billion under the program during the year ended December 31, 2020. PPP loans are fixed, low interest rate loans that are guaranteed by the SBA and subject to numerous other regulatory requirements, and a borrower may apply to have all or a portion of the loan forgiven. If PPP borrowers fail to qualify for loan forgiveness, we face a heightened risk of holding these loans at unfavorable interest rates for an extended time period. While PPP loans are guaranteed by the SBA, various regulatory requirements will apply to our ability to seek recourse under the guarantees, and related procedures are currently subject to uncertainty. If a borrower defaults on a PPP loan, these requirements and uncertainties may limit our ability to fully recover against the loan guarantee or to seek full recourse against the borrower.

There are no comparable recent events that provide guidance as to the effect the spread of COVID-19 as a global pandemic may have, and, as a result, the ultimate impact of the pandemic is highly uncertain and subject to change. We do not yet know the full extent of the impacts on our business, our operations or the global economy as a whole. Therefore, the risk factors discussed in our Annual Report on Form 10-K could be heightened, changed or be added to in the future. For other factors that may cause actual results to differ materially from those indicated in any forward-looking statement or projection contained in this report, see “Forward-Looking Statements” under Part 1, Item 2 above.

Financial disruption or a prolonged economic downturn could materially and adversely affect our business.

Worldwide financial markets have recently experienced periods of extraordinary disruption and volatility, which has been exacerbated by the COVID-19 pandemic, resulting in heightened credit risk, reduced valuation of investments and decreased economic activity. Moreover, many companies have experienced reduced liquidity and uncertainty as to their ability to raise capital during such periods of market disruption and volatility. In the event that these conditions recur or result in a prolonged economic downturn, our results of operations, financial position and/or liquidity could be materially and adversely affected. Many of the other risk factors discussed herein identify risks that result from, or are exacerbated by, financial economic downturn. These include risks related to our investments portfolio, the competitive environment and regulatory developments.

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, although rates currently remain at near historic lows, which may impact our ability to generate attractive earnings through our investment portfolio. Although interest rates are low, deposit levels are high as our customers increase their cash balances in light of current economic uncertainties. 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

As of December 31, 2020, we operated through 21 banking offices and 3 loan production offices. 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.

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
Total		2 Offices			
Daphne-Fairhope-Foley:					
561 Fairhope Ave. Suite 101 (1)	Fairhope		36532	Leased	9/29/2017
Total		1 Office			
Total Offices in Alabama		12 Offices			
Florida:					
Pensacola-Ferry Pass-Brent:					
219 East Garden Street Suite 100 (1)	Pensacola		32502	Leased	4/1/2011
4980 North 12th Avenue	Pensacola		32504	Owned	8/27/2012
1500 Freedom Self Storage Road, Suite 12	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			
North Port-Sarasota-Bradenton:					
240 South Pineapple Ave. (2)	Sarasota		34236	Leased	8/1/2019
Total		1 Office			
Total Offices in Florida		5 Offices			
Georgia:					
Atlanta-Sandy Springs-Roswell:					
300 Galleria Parkway SE, Suite 100	Atlanta		30339	Leased	7/1/2015
2801 Chapel Hill Road	Douglasville		30135	Owned	1/28/2008
2454 Kennesaw Due West Road (3)	Kennesaw		30152	Owned	12/12/2011
Columbus:					
6400 Bradley Park Drive, Suite A (2)	Columbus		31904	Leased	8/12/2020
Total Offices in Georgia		4 Offices			
South Carolina:					
Charleston-North Charleston:					
701 East Bay Street Suite 503 (1)	Charleston		29403	Leased	4/20/2015
100 S Main Street Suite I (2)	Summerville		29483	Leased	7/1/2016
Total Offices in South Carolina		2 Offices			
Tennessee:					
Nashville:					
1801 West End Avenue, Suite 850 (1)	Nashville		37203	Leased	6/4/2013
Total Offices in Tennessee		1 Office			
Total Offices		24 Offices			

(1) Offices relocated to this address. Original offices opened on date indicated.
(2) Property serves as a loan production office.
(3) Planned closure date of March 11, 2021

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 19, 2021, there were 512 holders of record of our common stock. As of the close of business on February 19, 2021, the price of our common stock was $46.99 per share.

Dividends

On December 21, 2020, our board of directors increased our quarterly cash dividend from $0.175 per share to $0.20 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 2020 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, 2020.

Equity Compensation Plan Information

The following table sets forth certain information as of December 31, 2020 relating to stock options granted under our 2009 Amended and Restated Stock Incentive Plan and other options or warrants issued outside of such plans, if any. All awards under our 2005 Amended and Restated Stock Incentive Plan have vested, have been exercised or have been forfeited as of December 31, 2020, and no further awards shall be made under the 2005 Plan.

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	640,950	$ 18.14	3,186,865
Equity Compensation Plans Not Approved by Security Holders	-	-	-
Total	640,950	$ 18.14	3,186,865

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,” “Adjusted Performance Data,” “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, 2020, 2019, 2018, 2017 and 2016 are derived from our audited consolidated financial statements and related notes.

	As of and for the years ended December 31,				
	2020	2019	2018	2017	2016
	(Dollars in thousands except for share and per share data)				
Selected Balance Sheet Data:					
Total Assets	$ 11,932,654	$ 8,947,653	$ 8,007,382	$ 7,082,384	$ 6,370,448
Total Loans	8,465,688	7,261,451	6,533,499	5,851,261	4,911,770
Loans, net	8,377,746	7,184,867	6,464,899	5,791,855	4,859,877
Securities available for sale	886,688	759,399	590,184	538,080	422,375
Securities held to maturity	250	250	-	250	62,564
Cash and due from banks	93,655	78,618	97,516	86,213	56,855
Interest-bearing balances with banks	2,115,985	451,509	360,534	151,849	566,707
Federal funds sold	1,771	100,473	223,845	239,524	160,435
Mortgage loans held for sale	14,425	6,312	120	4,459	4,675
Premises and equipment, net	54,969	56,496	57,822	58,900	40,314
Deposits	9,975,724	7,530,433	6,915,708	6,091,674	5,420,311
Federal funds purchased	851,545	470,749	288,725	301,797	355,944
Other borrowings	64,748	64,703	64,666	64,832	55,262
Other liabilities	47,785	39,086	23,080	16,477	16,042
Stockholders' Equity	992,852	842,682	715,203	607,604	522,889
Selected Income Statement Data:					
Interest income	$ 389,022	$ 390,803	$ 326,627	$ 262,756	$ 212,902
Interest expense	50,985	103,158	63,948	35,333	25,805
Net interest income	338,037	287,645	262,679	227,423	187,097
Provision for credit losses	42,434	22,638	21,402	23,225	13,398
Net interest income after provision for credit losses	295,603	265,007	241,277	204,198	173,699
Noninterest income	30,116	23,982	19,440	17,361	17,007
Noninterest expense	111,511	102,128	91,875	84,209	79,888
Income before income taxes	214,208	186,861	168,842	137,350	110,818
Income tax expense	44,639	37,618	31,902	44,258	29,339
Net income	169,569	149,243	136,940	93,092	81,479
Net income available to common stockholders	169,506	149,180	136,877	93,030	81,432
Per Common Share Data:					
Net income, basic	$ 3.15	$ 2.79	$ 2.57	$ 1.76	$ 1.55
Net income, diluted	3.13	2.76	2.53	1.72	1.52
Book value	18.41	15.71	13.40	11.47	9.93
Weighted average shares outstanding:					

Basic	53,844,482	53,530,766	53,172,695	52,887,359	52,450,896
Diluted	54,219,037	54,103,074	54,169,879	54,123,957	53,608,372
Actual shares outstanding	53,943,751	53,623,740	53,375,195	52,992,586	52,636,896
Selected Performance Ratios:					
Return on average assets	1.59%	1.73%	1.88%	1.43%	1.42%
Return on average stockholders' equity	18.55%	19.16%	20.96%	16.38%	16.64%
Dividend payout ratio	22.39%	21.76%	15.04%	11.64%	10.53%
Net interest margin (1)	3.31%	3.46%	3.75%	3.68%	3.42%
Efficiency ratio (2)	30.29%	32.77%	32.57%	34.40%	39.14%
Asset Quality Ratios:					
Net charge-offs to average loans outstanding	0.36%	0.32%	0.20%	0.29%	0.11%
Non-performing loans to total loans	0.22%	0.50%	0.43%	0.19%	0.34%
Non-performing assets to total assets	0.21%	0.50%	0.41%	0.26%	0.34%
Allowance for credit losses to total gross loans	1.04%	1.05%	1.05%	1.02%	1.06%
Allowance for credit losses to total non-performing loans	463.98%	212.07%	247.03%	548.79%	307.30%
Liquidity Ratios:					
Net loans to total deposits	83.98%	95.41%	93.48%	95.08%	89.66%
Net average loans to average earning assets	78.80%	81.48%	86.55%	84.93%	80.44%
Noninterest-bearing deposits to total deposits	27.96%	23.24%	22.52%	23.64%	23.64%
Capital Adequacy Ratios:					
Stockholders' Equity to total assets	8.32%	9.42%	8.93%	8.58%	8.21%
CET1 capital (3)	10.50%	10.50%	10.12%	9.51%	9.78%
Tier 1 capital (4)	10.50%	10.50%	10.13%	9.52%	9.78%
Total capital (5)	12.12%	12.31%	12.05%	11.52%	11.84%
Leverage ratio (6)	8.23%	9.13%	9.07%	8.51%	8.22%
Growth Ratios:					
Percentage change in net income	13.62%	8.98%	47.10%	14.25%	28.23%
Percentage change in diluted net income per share	13.38%	9.12%	46.91%	13.16%	26.67%
Percentage change in assets	33.36%	11.74%	13.06%	11.18%	25.02%
Percentage change in net loans	16.60%	11.14%	11.62%	19.18%	16.46%
Percentage change in deposits	32.47%	8.89%	13.53%	12.39%	28.32%
Percentage change in stockholders' equity	17.82%	17.82%	17.71%	16.20%	16.41%

(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) 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.
(4) Tier 1 capital ratio includes CET1 and qualifying minority interest divided by total risk-weighted assets.
(5) Total capital ratio includes Tier 1 capital plus qualifying portions of subordinated debt and allowance for credit losses (limited to 1.25% of risk-weighted assets) divided by total risk-weighted assets.
(6) Tier 1 leverage ratio includes Tier 1 capital divided by average assets less intangible assets.

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 21 full service banking offices located in Jefferson, Shelby, Madison, Montgomery, Mobile, Baldwin 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, Dothan, Daphne-Fairhope-Foley and Mobile, 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 loan production offices in Columbus, Georgia, Sarasota, Florida, and Summerville, South Carolina. 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 Credit Losses

The Company assesses the adequacy of its allowance for credit losses at the end of each calendar quarter. The level of allowance is based on the Company’s evaluation of historical default and loss experience, current and projected economic conditions, asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect the borrowers' ability to repay a loan, the estimated value of any underlying collateral, composition of the loan portfolio and other relevant factors. The allowance is increased by a provision for credit losses, which is charged to expense, and reduced by charge-offs, net of recoveries. The allowance for credit losses is believed adequate to absorb all expected future losses to be recognized over the contractual life of the loans in the portfolio.

Loans with similar risk characteristics are evaluated in pools and, depending on the nature of each identified pool, the Company utilizes a discounted cash flow ("DCF"), probability of default / loss given default ("PD/LGD") or remaining life method. The historical loss experience estimate by pool is then adjusted by forecast factors that are quantitatively related to the Company's historical credit loss experience, such as national unemployment rates and gross domestic product. Losses are predicted over a period of time determined to be reasonable and supportable, and at the end of the reasonable and supportable period losses are reverted to long term historical averages. The reasonable and supportable period and reversion period are re-evaluated each quarter by the Company and are dependent on the current economic environment among other factors. 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 expected credit losses for each loan pool are then adjusted for changes in qualitative factors not inherently considered in the quantitative analyses. The qualitative adjustments either increase or decrease the quantitative model estimation. The Company considers factors that are relevant within the qualitative framework which include the following: lending policy, changes in nature and volume of loans, staff experience, changes in volume and trends of problem loans, concentration risk, trends in underlying collateral values, external factors, quality of loan review system and other economic conditions.

Expected credit losses for loans that no longer share similar risk characteristics with the collectively evaluated pools are excluded from the collective evaluation and estimated on an individual basis. Individual evaluations are performed for nonaccrual loans, loans rated substandard, and modified loans classified as troubled debt restructurings. Specific allocations of the allowance for credit losses are estimated on one of several methods, including the estimated fair value of the underlying collateral, observable market value of similar debt or the present value of expected cash flows.

Prior to the adoption of ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* the allowance for credit losses represented management's best estimate of inherent losses that had been incurred within the existing portfolio of loans. The allowance for credit losses on loans included allowance allocations calculated in accordance with FASB Accounting Standards Codification ("ASC") Topic 310, "Receivables" and allowance allocations calculated in accordance with ASC Topic 450, "Contingencies."

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

The following discussion and analysis presents the more significant factors that affected our financial condition as of December 31, 2020 and 2019 and results of operations for each of the years then ended. Refer to Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K file with the SEC on February 25, 2020 (2019 FORM 10-K) for a discussion and analysis of the more significant factors that affected periods prior to 2019.

Net Income Available to Common Stockholders

Net income available to common stockholders was $169.5 million for the year ended December 31, 2020, compared to $149.2 million for the year ended December 31, 2019. This increase in net income is primarily attributable to an increase in net interest income, which increased $50.4 million, or 17.5%, to $338.0 million in 2020 from $287.6 million in 2019. Noninterest income increased $6.1 million, or 25.6%, to $30.1 million in 2020 from $24.0 million in 2019. Noninterest expense increased by $9.4 million, or 9.2%, to $111.5 million in 2020 from $102.1 million in 2019. Basic and diluted net income per common share were $3.15 and $3.13, respectively, for the year ended December 31, 2020, compared to $2.79 and $2.76, respectively, for the year ended December 31, 2019. Return on average assets was 1.59% in 2020, compared to 1.73% in 2019, and return on average stockholders' equity was 18.55% in 2020, compared to 19.16% in 2019.

The following table presents some ratios of our results of operations for the years ended December 31, 2020, 2019 and 2018.

	For the Years Ended December 31,		
	2020	2019	2018
Return on average assets	1.59%	1.73%	1.88%
Return on average stockholders' equity	18.55%	19.16%	20.96%
Dividend payout ratio	22.39%	21.76%	15.04%
Average stockholders' equity to average total assets	8.59%	9.02%	8.98%

The following tables present a summary of our statements of income, including the percent change in each category, for the years ended December 31, 2020 compared to 2019, and for the years ended December 31, 2019 compared to 2018, respectively.

	Year Ended December 31,		Change from the Prior Year
	2020	2019	
	(Dollars in Thousands)		
Interest income	$ 389,022	$ 390,803	(0.46%)
Interest expense	50,985	103,158	(50.58%)
Net interest income	338,037	287,645	17.52%
Provision for credit losses	42,434	22,638	87.45%
Net interest income after provision for credit losses	295,603	265,007	11.55%

Noninterest income	30,116	23,982	25.58%
Noninterest expense	111,511	102,128	9.19%
Income before income taxes	214,208	186,861	14.63%
Income taxes	44,639	37,618	18.66%
Net income	169,569	149,243	13.62%
Dividends on preferred stock	63	63	-%
Net income available to common stockholders	$ 169,506	$ 149,180	13.63%

	Year Ended December 31,		
	2019	2018	Change from the Prior Year
	(Dollars in Thousands)		
Interest income	$ 390,803	$ 326,627	19.65%
Interest expense	103,158	63,948	61.32%
Net interest income	287,645	262,679	9.50%
Provision for credit losses	22,638	21,402	5.78%
Net interest income after provision for credit losses	265,007	241,277	9.84%
Noninterest income	23,982	19,440	23.36%
Noninterest expense	102,128	91,875	11.16%
Income before income taxes	186,861	168,842	10.67%
Income taxes	37,618	31,902	17.92%
Net income	149,243	136,940	8.98%
Dividends on preferred stock	63	63	-%
Net income available to common stockholders	$ 149,180	$ 136,877	8.99%

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 $50.4 million, or 17.5%, to $338.0 million for the year ended December 31, 2020 from $287.6 million for the year ended December 31, 2019. Total interest income decreased $1.8 million, or 0.5%, to $389.0 million from $390.8 million year-over-year, while total interest expense decreased $52.2 million, or 50.6%, to $51.0 million from $103.2 million year-over-year. Average earning assets increased $1.91 billion, or 22.9%, to $10.24 billion in 2020 from $8.33 billion in 2019. All of our regional markets grew loans during 2020 when including Paycheck Protection Program ("PPP") loans. Excluding PPP loans, all but three of our regional markets grew loans during 2020. All of our regional markets grew deposits during 2020. PPP loan origination fees recorded as an adjustment to loan yield for the year ended December 31, 2020 were $14.1 million.

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, 2020, 2019 and 2018, 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)

	2020			2019			2018		
	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	$ 8,123,927	$ 361,370	4.45%	$ 6,831,998	$ 352,996	5.17%	$ 6,104,879	$ 304,156	4.98%
Tax-exempt (3)	31,064	1,274	4.10	33,131	1,338	4.04	31,544	1,207	3.83
Total loans, net of unearned income (1)(2)	8,154,991	362,644	4.45	6,865,129	354,334	5.16	6,136,423	305,363	4.98
Mortgage loans held for sale	14,337	231	1.61	4,970	156	3.14	3,591	146	4.07
Debt securities:									
Taxable	801,134	22,122	2.76	588,082	17,008	2.89	473,259	12,654	2.67
Tax-exempt (3)	34,975	870	2.49	68,805	1,563	2.27	108,938	2,723	2.50
Total debt securities (4)	836,109	22,992	2.75	656,887	18,571	2.83	582,197	15,377	2.64
Federal funds sold	61,712	332	0.54	267,327	6,038	2.26	141,518	3,103	2.19
Interest-bearing balances with banks	1,170,095	3,165	0.27	536,765	12,020	2.24	148,907	3,094	2.08
Total interest-earning assets	$ 10,237,244	$ 389,364	3.80%	$ 8,331,078	$ 391,119	4.69%	$ 7,012,636	$ 327,083	4.66%
Non-interest-earning assets:									
Cash and due from banks	77,413			73,226			72,875		
Net premises and equipment	57,310			58,419			59,087		

Allowance for loan losses, accrued interest and other assets	272,900			175,881			131,486		
Total assets	$ 10,644,867			$ 8,638,604			$ 7,276,084		
Interest-bearing liabilities:									
Interest-bearing deposits:									
Interest-bearing demand deposits	$ 1,059,629	$ 3,752	0.35%	$ 928,611	$ 7,585	0.82%	$ 863,673	$ 5,365	0.62%
Savings	77,364	274	0.35	57,078	320	0.56	53,596	229	0.43
Money market	4,519,170	25,758	0.57	4,038,143	67,998	1.68	3,241,474	40,162	1.24
Time deposits (5)	836,098	15,446	1.85	702,245	15,055	2.14	626,332	9,746	1.56
Total interest-bearing deposits	6,492,261	45,230	0.70	5,726,077	90,958	1.59	4,785,075	55,502	1.16
Federal funds purchased	627,561	2,700	0.43	398,679	9,076	2.28	270,917	5,322	1.96
Other borrowings	64,709	3,055	4.72	64,684	3,124	4.83	64,705	3,124	4.83
Total interest-bearing liabilities	$ 7,184,531	$ 50,985	0.71%	$ 6,189,440	$ 103,158	1.67%	$ 5,120,697	$ 63,948	1.25%
Non-interest-bearing liabilities:									
Non-interest-bearing checking	2,492,500			1,632,385			1,480,827		
Other liabilities	53,874			37,708			21,170		
Stockholders' equity	898,023			777,757			660,304		
Unrealized gains on securities	15,939			1,314			(6,914)		
Total liabilities and stockholders' equity	$ 10,644,867			$ 8,638,604			$ 7,276,084		
Net interest income		$ 338,379			$ 287,961			$ 263,135	
Net interest spread			3.09%			3.02%			3.41%
Net interest margin			3.31%			3.46%			3.75%

(1) Non-accrual loans are included in average loan balances in all periods. Loan fees of $19,409, $4,744 and $3,733 are included in interest income in 2020, 2019 and 2018, respectively.
(2) Accretion on acquired loan discounts of $100, $90 and $163 are included in interest income in 2020, 2019 and 2018, respectively.
(3) Interest income and yields are presented on a fully taxable equivalent basis using a tax rate of 21%.
(4) Unrealized gains (losses) of $20,117, $1,607 and $(8,808) are excluded from the yield calculation in 2020, 2019 and 2018, respectively.

The following table reflects changes in our net interest margin as a result of changes in the volume and rate of our interest-bearing assets and liabilities.

	For the Year Ended December 31,					
	2020 Compared to 2019 Increase (Decrease) in Interest Income and Expense Due to Changes in:			2019 Compared to 2018 Increase (Decrease) in Interest Income and Expense Due to Changes in:		
	Volume	Rate	Total	Volume	Rate	Total
Interest-earning assets:						
Loans, net of unearned income:						
Taxable	$ 61,402	$ (53,028)	$ 8,374	$ 37,250	$ 11,590	$ 48,840
Tax-exempt	(85)	21	(64)	62	69	131
Total loans, net of unearned income	61,317	(53,007)	8,310	37,312	11,659	48,971
Mortgage loans held for sale	180	(105)	75	48	(38)	10
Debt securities:						
Taxable	5,914	(800)	5,114	3,258	1,096	4,354
Tax-exempt	(830)	137	(693)	(930)	(230)	(1,160)
Total debt securities	5,084	(663)	4,421	2,328	866	3,194
Federal funds sold	(2,867)	(2,839)	(5,706)	2,839	96	2,935
Interest-bearing balances with banks	7,037	(15,892)	(8,855)	8,667	259	8,926
Total interest-earning assets	70,751	(72,506)	(1,755)	51,194	12,842	64,036
Interest-bearing liabilities:						
Interest-bearing demand deposits	949	(4,782)	(3,833)	427	1,793	2,220
Savings	93	(139)	(46)	16	75	91
Money market	7,282	(49,522)	(42,240)	11,311	16,525	27,836
Time deposits	2,640	(2,249)	391	1,289	4,020	5,309
Total interest-bearing deposits	10,964	(56,692)	(45,728)	13,043	22,413	35,456
Federal funds purchased	3,459	(9,835)	(6,376)	2,809	945	3,754
Other borrowed funds	1	(70)	(69)	(1)	1	-
Total interest-bearing liabilities	14,424	(66,597)	(52,173)	15,851	23,359	39,210
Increase (decrease) in net interest income	$ 56,327	$ (5,909)	$ 50,418	$ 35,343	$ (10,517)	$ 24,826

In the table above, changes in net interest income are attributable to (a) changes in average balances (volume variance), (b) changes in rates (rate variance), or (c) changes in rate and average balances (rate/volume variance). The volume variance is calculated as the change in average balances times the old rate. The rate variance is calculated as the change in rates times the old average balance. The rate/volume variance is calculated as the change in rates times the change in average balances. The rate/volume variance is allocated on a pro rata basis between the volume variance and the rate variance in the table above.

From 2019 to 2020, growth in loans was the primary driver of our volume component change. Growth in average balances of interest-bearing balances with banks was a significant contributor to our overall unfavorable volume change. The rate component was favorable as average rates paid on interest-bearing liabilities decreased 96 basis points while yields on average earning assets decreased 89 basis points. Our average rates paid on interest-bearing deposits have come back down since the Federal Reserve started lowering rates during the second half of 2019.

The two primary factors that make up the spread are the interest rates received on loans and the interest rates paid on deposits. We have been responsive to market declines in deposit rates as federal aid money has been inserted into the banking system in response to the COVID-19 outbreak. We dropped our deposit rates five times during 2020. Also, we have not competed for new loans on interest rate alone, but rather we have relied significantly on effective marketing to business customers.

Our net interest spread and net interest margin were 3.09% and 3.31%, respectively, for the year ended December 31, 2020, compared to 3.02% and 3.46%, respectively, for the year ended December 31, 2019. The increase in net interest spread was due to rates paid on interest-bearing liabilities decreasing by 96 basis points while average yields on interest-earning assets decreased 89 basis points. The decrease in net interest margin in 2020 was due to increases in average interest-bearing balances with banks driven higher by increasing average deposits due to the influx of federal COVID-19 relief money. Our average interest-earning assets for the year ended December 31, 2020 increased $1.91 billion, or 22.9%, to $10.24 billion from $8.33 billion for the year ended December 31, 2019. This increase in our average interest-earning assets was due to PPP loan originations and higher interest-bearing balances with banks. Our average interest-bearing liabilities increased $995.1 million, or 16.1%, to $7.18 billion for the year ended December 31, 2020 from $6.19 billion for the year ended December 31, 2019. All but one of our markets had an increase in total deposits during 2020. The ratio of our average interest-earning assets to average interest-bearing liabilities increased from 134.6% for the year ended December 31, 2019 to 142.5% for the year ended December 31, 2020, as average noninterest-bearing deposits and stockholders' equity grew by a combined $995.0 million, or 41.3%, from 2019 to 2020.

Our average interest-earning assets produced a taxable equivalent yield of 3.80% for the year ended December 31, 2020, compared to 4.69% for the year ended December 31, 2019. The average rate paid on interest-bearing liabilities was 0.71% for the year ended December 31, 2020, compared to 1.67% for the year ended December 31, 2019.

Provision for Credit Losses

The provision for credit losses represents the amount determined by management to be necessary to maintain the allowance for credit losses ("ACL") at a level capable of absorbing expected credit losses over the contractual life of loans in the loan portfolio. See the section captioned "Allowance for Credit Losses" located elsewhere in this item for additional discussion related to provision for credit losses.

The provision expense for credit losses was $42.4 million for the year ended December 31, 2020, an increase of $19.8 million from $22.6 million in 2019. The increase in provision expense is primarily the result of COVID-19 and its effect on overall macroeconomic conditions during 2020 as well as the implementation of ASC 326 and its current expected loss methodology. The ACL for December 31, 2020 was calculated under the current expected credit losses ("CECL") methodology and totaled $87.9 million, or 1.04% of loans, net of unearned income. The allowance totaled $76.6 million, or 1.05% of loans, net of unearned income, at December 31, 2019 and was calculated under the incurred loss methodology. Nonperforming loans decreased to $19.0 million, or 0.22% of total loans, at December 31, 2020 from $36.1 million, or 0.50% of total loans, at December 31, 2019. During 2020, we had net charged-off loans totaling $29.6 million, compared to net charged-off loans of $22.1 million for 2019. The ratio of net charged-off loans to average loans was 0.36% for 2020 compared to 0.32% for 2019.

Noninterest Income

Noninterest income increased $6.1 million, or 25.4%, to $30.1 million in 2020 from $24.0 million in 2019. Service charges on deposit accounts increased $0.5 million, or 7.1%, to $7.5 million in 2020 compared to 2019 due to increases in the number of accounts. Mortgage banking income increased $4.4 million, or 100.6%, to $8.7 million in 2020 compared to 2019, as decreases in interest rates drove higher loan volumes. Credit card income decreased $1.2 million, or 16.4%, to $5.9 million in 2020 compared to 2019. Spending on business credit cards decreased 6.3% from 2019 to 2020 while spending on purchase cards increased 44.3%. Purchase cards yield a lower profit margin due to their higher awards payouts. The cash surrender value of bank-owned life insurance contracts increased $2.6 million, or 68.4%, to $6.3 million in 2020 compared to 2019. We purchased multiple life insurance contracts totaling $60.7 million in 2020. Other operating income decreased $0.1 million, or 7.3%, to $1.6 million in 2020 compared to 2019.

Noninterest Expense

Noninterest expenses increased $9.4 million, or 9.2%, to $111.5 million for the year ended December 31, 2020 from $102.1 million for the year ended December 31, 2019. Salary and employee benefits expenses increased $3.6 million, or 6.3%, to $61.4 million in 2020 compared to 2019. We had 493 full-time equivalent employees as of December 31, 2020 compared to 500 as of December 31, 2019, a 1.5% decrease. Equipment and occupancy expense increased $798,000 or 8.6%, to $10.1 million in 2020 compared to 2019. Depreciation expense increased $460,000 year-over-year while building rental expense increased $163,000 year-over-year. Third party processing and other services increased $2.5 million or 22.6%, to $13.8 million in 2020 compared to 2019. Increased data processing expenses continue to be driven by growth in deposit accounts. Increased service charges from the Federal Reserve Bank of Atlanta are the result of increased processing of transactions by us for our correspondent banking clients. Professional services expense increased $7,000 in 2020 compared to 2019. FDIC assessments increased $1.4 million, or 46.4% to $4.4 million from 2019 to 2020. This increase was largely the result of deposit growth due to PPP in 2020 and the Small Bank Assessment Credit in 2019. Expenses on other real estate owned increased $1.7 million to $2.2 million in 2020 compared to $415,000 in 2019, primarily the result of increased write-downs upon updated appraisals received during 2020. Other operating expenses decreased $724,000, or 4.5%, to $15.5 million in 2020 compared to 2019. Changes in other operating expenses from 2019 to 2020 are detailed in Note 15, "*Other Operating Income and Expenses*," to the Consolidated Financial Statements.

Income Tax Expense

Income tax expense was $44.6 million for the year ended December 31, 2020 compared to $37.6 million in 2019. Our effective tax rates for 2020 and 2019 were 20.84% and 20.13%, respectively. Maturities of some of our state tax credit investments at the end of 2019 contributed to the increase in our effective tax rates. Our primary permanent differences are related to tax exempt income on debt securities, state income tax benefit on real estate investment trust dividends, various qualifying tax credits and change in cash surrender value of bank-owned life insurance.

We have invested $248.2 million in bank-owned life insurance for certain officers of the Bank. The periodic increases in cash surrender value of those policies are tax exempt and therefore contribute to a larger permanent difference between book income and taxable income.

We own real estate investment trusts for the purpose of holding and managing participations in residential mortgages and commercial real estate loans originated by the bank. The trusts are majority-owned subsidiaries of a trust holding company, which in turn is an indirect, wholly-owned subsidiary of the bank. The trusts earn interest income on the loans they hold and incur operating expenses related to their activities. They pay their net earnings, in the form of dividends, to the bank, which receives a deduction for state income taxes.

Financial Condition

Assets

Total assets as of December 31, 2020, were $11.93 billion, an increase of $2.99 billion, or 33.4%, over total assets of $8.95 billion as of December 31, 2019. Average assets for the year ended December 31, 2020 were $10.64 billion, an increase of $2.01 billion, or 23.2%, over average assets of $8.64 billion for the year ended December 31, 2019. Loan growth was the primary reason for the increase in ending and average total assets. Year-end 2020 loans were $8.47 billion, up $1.20 billion, or 16.6%, over year-end 2019 total loans of $7.26 billion. Total Paycheck Protection Program ("PPP") loans at year-end 2020 were $900.5 million. During 2020, we originated over 4,900 PPP loans for our customers.

Earning assets include loans, securities, short-term investments and bank-owned life insurance contracts. We maintain a higher level of earning assets in our business model than do our peers because we allocate fewer of our resources to facilities, ATMs, and cash and due-from-bank accounts used for transaction processing. Earning assets as of December 31, 2020 were $11.76 billion, or 98.6% of total assets of $11.93 billion. Earning assets as of December 31, 2019 were $8.79 billion, or 98.2% of total assets of $8.95 billion. We believe this ratio is expected to generally continue at these levels, although it may be affected by economic factors beyond our control.

Investment Portfolio

We view the investment portfolio as a source of income and liquidity. Our investment strategy is to accept a lower immediate yield in the investment portfolio by targeting shorter term investments. Our investment policy provides that no more than 60% of our total investment portfolio should be composed of municipal securities. At December 31, 2020, mortgage-backed securities represented 55.9% of the investment portfolio, corporate debt represented 36.5% of the investment portfolio, state and municipal securities represented 4.3% of the investment portfolio, government agency securities represented 1.7%, and U.S. Treasury securities represented 1.6% of the investment portfolio.

All of our investments in mortgage-backed securities are pass-through mortgage-backed securities. We do not have currently, and did not have at December 31, 2020, any structured investment vehicles or any private-label mortgage-backed securities. The amortized cost of securities in our portfolio totaled $861.2 million at December 31, 2020, compared to $752.2 million at December 31, 2019.

The following table presents the amortized cost of securities available for sale and held to maturity by type at December 31, 2020, 2019 and 2018.

	December 31,		
	2020	2019	2018
		(In Thousands)	
Debt Securities Available for Sale			
U.S. Treasury Securities	$ 13,993	$ 48,923	$ 58,750
Government Agency Securities	15,228	18,245	18,784
Mortgage-backed securities	477,407	470,513	309,244
State and municipal securities	37,671	56,951	106,465
Corporate debt	316,857	157,549	102,982
Total	$ 861,156	$ 752,181	$ 596,225
Debt Securities Held to Maturity			
State and municipal securities	$ 250	$ 250	$ -
Total	$ 250	$ 250	$ -

The following table presents the amortized cost of our securities as of December 31, 2020 by their stated maturities (this maturity schedule excludes security prepayment and call features), as well as the taxable equivalent yields for each maturity range.

	Maturity of Debt Securities - Amortized Cost				
	Less Than One Year	One Year through Five Years	Six Years through Ten Years	More Than Ten Years	Total
At December 31, 2020:			(In Thousands)		
Securities Available for Sale:					
U.S. Treasury Securities	$ 4,996	$ 8,997	$ -	$ -	$ 13,993
Government Agency Securities	9,188	6,040	-	-	15,228
Mortgage-backed securities	53	6,310	88,229	382,815	477,407
State and municipal securities	16,613	13,082	5,854	2,122	37,671
Corporate debt	-	31,711	282,146	3,000	316,857
Total	$ 30,850	$ 66,140	$ 376,229	$ 387,937	$ 861,156
Tax-equivalent Yield (1)					
U.S. Treasury Securities	1.83%	1.91%	-%	-%	1.89%
Government Agency Securities	2.04	2.11	-	-	2.07
Mortgage-backed securities	3.21	2.47	2.31	2.20	2.22
State and municipal securities	2.59	2.37	1.92	3.13	2.44
Corporate debt	-	3.70	4.88	4.50	4.76
Weighted average yield	2.31%	2.93%	4.23%	2.22%	3.16%
Securities Held to Maturity:					
State and municipal securities	$ -	$ 250	$ -	$ -	$ 250
Total	$ -	$ 250	$ -	$ -	$ 250
Tax-equivalent Yield (1)					
State and municipal securities	-%	3.21%	-%	-%	3.21%
Total	-%	3.21%	-%	-%	3.21%

(1) Yields are presented on a fully-taxable equivalent basis using a tax rate of 21%.

As of December 31, 2020, we had $1.8 million in federal funds sold, compared with $100.5 million at December 31, 2019. At year-end 2020, there were no holdings of securities of any issuer, other than the U.S. government and its agencies, in an amount greater than 10% of stockholders' equity.

The objective of our investment policy is to invest funds not otherwise needed to meet our loan demand to earn the maximum return, yet still maintain sufficient liquidity to meet fluctuations in our loan demand and deposit structure. In doing so, we balance the market and credit risks against the potential investment return, make investments compatible with the pledge requirements of any deposits of public funds, maintain compliance with regulatory investment requirements, and assist certain public entities with their financial needs. The investment committee has full authority over the investment portfolio and makes decisions on purchases and sales of securities. The entire portfolio, along with all investment transactions occurring since the previous board of directors meeting, is reviewed by the board at each monthly meeting. The investment policy allows portfolio holdings to include short-term securities purchased to provide us with needed liquidity and longer-term securities purchased to generate level income for us over periods of interest rate fluctuations.

Loan Portfolio

Section 1102 of the CARES Act created the Paycheck Protection Program ("PPP"), a program administered by the SBA to provide loans to small businesses for payroll and other basic expenses during the COVID-19 pandemic. The Company has participated in the PPP as a lender. These loans are eligible to be forgiven if certain conditions are satisfied and are fully guaranteed by the SBA. Additionally, loan payments will also be deferred for the first six months of the loan term. The PPP commenced on April 3, 2020 and was available to qualified borrowers through August 8, 2020. No collateral or personal guarantees are required. Neither the government nor lenders are permitted to charge the recipients any fees.

On December 27, 2020, President Trump signed into law the Consolidated Appropriations Act ("CAA"). The CAA, among other things, extends the life of the PPP, effectively creating a second round of PPP loans for eligible businesses. The Company is participating in the CAA's second round of PPP lending. In mid-January we opened our lending portal and have begun processing PPP loan applications. Additionally, section 541 of the CAA extends the relief provided by the CARES Act for financial institutions to suspend the GAAP accounting treatment for troubled debt restructuring to January 1, 2022. As of January 31, 2021, we have funded 593 loans under the CAA round of PPP lending, representing $123.7 million in funding.

As of December 31, 2020, the Company had originated over 4,900 loans with balances in excess of $1.05 billion to new and existing customers through the PPP. To the extent the PPP loans are forgiven, this represents outside funds to our borrowers; and, especially with respect to vulnerable industries, we believe these capital injections are going to be instrumental in assisting our borrowers in navigating through the pandemic. This capital injection, along with the level of capital each borrower had just prior to COVID-19 impacting them, are critical factors in determining the staying power of our borrowers. Upon receipt of interim financial results from our borrowers, we will use that information to update our understanding of the underlying strengths or weaknesses in each individual relationship and take actions, as appropriate. As of January 31, 2021, we have received payment from the SBA on just over 1,000 of our loans totaling $220.0 million.

We had total loans of approximately $8.5 billion at December 31, 2020. The following table shows the percentage of our total loan portfolio assigned to each of our markets. A large majority of our loan customers are located within our market MSAs, as is the collateral for their loans. With our loan portfolio concentrated in a limited number of markets, there is a risk that our borrowers' ability to repay their loans from us could be affected by changes in local and regional economic conditions.

	Percentage of Total Loans Assigned to Market
Birmingham, AL	39%
Huntsville, AL	8%
Dothan, AL	9%
Montgomery, AL	6%
Mobile, AL	6%
Total Alabama Markets	68%
Pensacola, FL	6%
West Florida (1)	6%
Total Florida Markets	12%
Nashville, TN	9%
Atlanta, GA	7%
Charleston, SC	4%

(1) West Florida represents the Tampa-St. Petersburg-Clearwater and North Port-Sarasota-Bradenton Metropolitan Areas.

The following table details our loans at December 31, 2020, 2019, 2018, 2017 and 2016:

	2020	2019	2018	2017	2016
			(Dollars in Thousands)		
Commercial, financial and agricultural	$ 3,295,900	$ 2,696,210	$ 2,513,225	$ 2,279,366	$ 1,982,267
Real estate - construction	593,614	521,392	533,192	580,874	335,085
Real estate - mortgage:					
Owner-occupied commercial	1,693,428	1,587,478	1,463,887	1,328,666	1,171,719
1-4 family mortgage	711,692	644,188	621,634	603,063	536,805
Other mortgage	2,106,184	1,747,394	1,337,068	997,079	830,683
Total real estate - mortgage	4,511,304	3,979,060	3,422,589	2,928,808	2,539,207
Consumer	64,870	64,789	64,493	62,213	55,211
Total Loans	8,465,688	7,261,451	6,533,499	5,851,261	4,911,770
Less: Allowance for credit losses	(87,942)	(76,584)	(68,600)	(59,406)	(51,893)
Net Loans	$ 8,377,746	$ 7,184,867	$ 6,464,899	$ 5,791,855	$ 4,859,877

The following table details the percentage composition of our loan portfolio by type at December 31, 2020, 2019, 2018, 2017 and 2016:

	2020	2019	2018	2017	2016
Commercial, financial and agricultural	38.93%	37.13%	38.47%	38.96%	40.36%
Real estate - construction	7.01	7.18	8.16	9.93	6.82
Real estate - mortgage:					
Owner-occupied commercial	20.00	21.86	22.41	22.71	23.86
1-4 family mortgage	8.41	8.87	9.51	10.30	10.93
Other mortgage	24.88	24.07	20.46	17.04	16.91
Total real estate - mortgage	53.29	54.80	52.38	50.05	51.70
Consumer	0.77	0.89	0.99	1.06	1.12
Total Loans	100.00%	100.00%	100.00%	100.00%	100.00%

The following table details maturities and sensitivity to interest rate changes for our loan portfolio at December 31, 2020:

	Due in 1 year or less	Due in 1 to 5 years	Due after 5 years	Total
		(in Thousands)		
Commercial, financial and agricultural	$ 1,076,058	$ 2,020,059	$ 199,783	$ 3,295,900
Real estate - construction	192,854	336,302	64,458	593,614
Real estate - mortgage:				
Owner-occupied commercial	223,785	956,742	512,901	1,693,428
1-4 family mortgage	91,122	233,173	387,397	711,692
Other mortgage	290,005	1,477,860	338,319	2,106,184
Total real estate - mortgage	604,912	2,667,775	1,238,617	4,511,304
Consumer	32,787	29,754	2,329	64,870
Total Loans	$ 1,906,611	$ 5,053,890	$ 1,505,187	$ 8,465,688
Less: Allowance for loan losses				(87,942)
Net Loans				$ 8,377,746
Interest rate sensitivity:				
Fixed interest rates	$ 620,744	$ 3,926,548	$ 892,667	$ 5,439,959
Floating or adjustable rates	1,285,867	1,127,342	612,520	3,025,729
Total	$ 1,906,611	$ 5,053,890	$ 1,505,187	$ 8,465,688

Asset Quality

The following table presents a summary of changes in the allowance for credit losses over the past five fiscal years.

Analysis of the Allowance for Credit Losses

	2020	2019	2018	2017	2016
			(Dollars in Thousands)		
Allowance for credit losses:					
Beginning of year	$ 76,584	$ 68,600	$ 59,406	$ 51,893	$ 43,419
Impact of Adoption of ASC 326 (1)	(2,000)				
Charge-offs:					
Commercial, financial and agricultural	(23,936)	(15,015)	(11,428)	(13,910)	(3,791)
Real estate - construction	(1,032)	-	-	(56)	(815)
Real estate - mortgage:					
Owner occupied commercial	(3,896)	(3,882)	(309)	(522)	(2)
1-4 family mortgage	(501)	(276)	(307)	(878)	(269)
Other mortgage	-	(2,724)	(426)	(656)	(109)
Total real estate mortgage	(4,397)	(6,882)	(1,042)	(2,056)	(380)
Consumer	(203)	(592)	(283)	(310)	(212)
Total charge-offs	(29,568)	(22,489)	(12,753)	(16,332)	(5,198)
Recoveries:					
Commercial, financial and agricultural	252	306	349	337	49
Real estate - construction	32	3	112	168	76
Real estate - mortgage:					
Owner occupied commercial	12	-	-	-	-
1-4 family mortgage	128	13	46	64	114
Other mortgage	-	-	-	25	32
Total real estate mortgage	140	13	46	89	146
Consumer	68	107	38	26	3
Total recoveries	492	429	545	620	274
Net charge-offs	(29,076)	(22,060)	(12,208)	(15,712)	(4,924)
Allocation from LGP	-	7,406	-	-	-
Provision for credit losses charged to expense	42,434	22,638	21,402	23,225	13,398
Allowance for credit losses at end of period	$ 87,942	$ 76,584	$ 68,600	$ 59,406	$ 51,893
As a percent of year to date average loans:					
Net charge-offs	0.36%	0.32%	0.20%	0.29%	0.11%
Provision for credit losses	0.52%	0.33%	0.35%	0.43%	0.30%
Allowance for credit losses as a percentage of:					
Year-end loans	1.04%	1.05%	1.05%	1.02%	1.06%
Nonperforming assets	345.53%	172.91%	208.26%	338.96%	237.23%

(1) Prior periods were accounted for under the incurred loss methodology and were not restated to reflect the adoption of ASC 326.

Effective January 1, 2020, we adopted the provisions of ASC 326, which replaced the incurred loss methodology for determining our provision for credit losses and allowance for credit losses with the CECL model. Upon the adoption of ASC 326 the total amount of the allowance for credit losses on loans estimated using the CECL methodology decreased $2.0 million compared to the total amount of the allowance recorded as of December 31, 2019 using the prior incurred loss model. This decrease is the result of implementing a more quantitative methodology. The commercial, financial, and agricultural loan category decreased $8.2 million due to the portfolio primarily consisting of loans with generally short contractual maturities. This was partially offset by an increase of $6.2 million in the real estate – construction loan category due to the application of peer loss rates within the discounted cash flow pool reserve methodology. Peer historical loss rates were utilized to better align with loss expectations given the Company's low historical loss experience in this category. The allowance for credit losses is established and maintained at levels needed to absorb anticipated credit losses to be recognized over the contractual life of the loans in the portfolio as of the balance sheet date. In assessing the adequacy of the allowance for credit losses, management considers its evaluation of the loan portfolio, past due loan experience, collateral values, current economic conditions and other factors considered necessary to maintain the allowance at an adequate level. Our management feels that the allowance was adequate at December 31, 2020.

We maintain an allowance for credit losses on unfunded commercial lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for credit losses for loans, modified to take into account the probability of a drawdown on the commitment. The allowance for credit losses on unfunded loan commitments is classified as a liability account on the balance sheet within other liabilities, while the corresponding provision for these credit losses is recorded as a component of other expense. The allowance for credit losses on unfunded commitments was $2.2 million at December 31, 2020. Prior to January 1, 2020, we calculated allowance for losses on unfunded loan commitments using an incurred losses methodology. At December 31, 2019, the allowance for unfunded commitments was $500,000.

The following table presents the allocation of the allowance for loan losses for each respective loan category with the corresponding percent of loans in each category to total loans.

	For the Years Ended December 31,									
	2020		2019		2018		2017		2016	
	Amount	Percentage of loans in each category to total loans	Amount	Percentage of loans in each category to total loans	Amount	Percentage of loans in each category to total loans	Amount	Percentage of loans in each category to total loans	Amount	Percentage of loans in each category to total loans
	(Dollars in Thousands)									
Commercial, financial and agricultural	$ 36,370	38.93%	$ 43,666	37.13%	$ 39,016	38.47%	$ 32,880	38.96%	$ 28,872	40.36%
Real estate - construction	16,057	7.01	2,768	7.18	3,522	8.16	4,989	9.93	5,125	6.82
Real estate - mortgage	33,722	53.29	29,653	54.80	25,508	52.38	21,022	50.05	17,504	51.70
Consumer	1,793	0.77	497	0.89	554	0.99	515	1.06	392	1.12
Total	$ 87,942	100.00%	$ 87,942	100.00%	$ 68,600	100.00%	$ 59,406	100.00%	$ 51,893	100.00%

The Company uses the discounted cash flow ("DCF") method to estimate ACL for all loan pools except for commercial revolving lines of credit and credit cards. For all loan pools utilizing the DCF method, the Company utilizes and forecasts national unemployment rate as a loss driver. The Company also utilizes and forecasts GDP growth as a second loss driver for its agricultural and consumer loan pools. Consistent forecasts of the loss drivers are used across the loan segments. Upon implementation of CECL on January 1, 2020 and at December 31, 2020, a reasonable and supportable period of twelve months was utilized followed by a six-month straight-line reversion to long term averages. The Company leveraged economic projections from reputable and independent sources to inform its loss driver forecasts. At December 31, 2020 as compared to January 1, 2020, the Company forecasted a significantly higher national unemployment rate as well as a slightly higher national GDP growth rate. The Company expects national unemployment to remain above pre-pandemic levels over the forecast period with an improved national GDP growth rate as the economy comes back on line over the next year.

The Company uses loss rate methods to estimate expected credit losses for its commercial revolving lines of credit and credit card pools. The commercial revolving lines of credit pool incorporates a probability of default ("PD") and loss given default ("LGD") modeling approach. This approach involves estimating the pool average life and then using historical correlations of default and loss experience over time to calculate the lifetime PD and LGD. These two inputs are then applied to the outstanding pool balance as of December 31, 2020. The credit card pool incorporates a remaining life modeling approach, which utilizes an attrition-based method to estimate the remaining life of the pool. A quarterly average loss rate is then calculated using the Company's historical loss data. The model reduces the pool balance quarterly on a straight-line basis over the estimated life of the pool. The quarterly loss rate is multiplied by the outstanding balance at each period-end resulting in an estimated loss for each quarter. The sum of estimated loss for all quarters is the total calculated reserve for the pool at December 31, 2020.

Each loan pool is adjusted for qualitative factors not inherently considered in the quantitative analyses. The qualitative adjustments either increase or decrease the quantitative model estimation. The Company considers factors that are relevant within the qualitative framework which include the following: lending policy, changes in nature and volume of loans, staff experience, changes in volume and trends of problem loans, concentration risk, trends in underlying collateral values, external factors, quality of loan review system and other economic conditions.

PPP loans outstanding totaled $900.5 million at December 31, 2020 and are included within the Commercial, financial and agricultural loan category. No allowance for credit losses has been recorded for PPP loans as they are fully guaranteed by the SBA.

The bank has procedures and processes in place intended to ensure that losses do not exceed the potential amounts documented in the bank's analysis of loans individually evaluated and reduce potential losses in the remaining performing loans within our real estate construction portfolio. These include the following:

- We closely monitor the past due and overdraft reports on a weekly basis to identify deterioration as early as possible and the placement of identified loans on the watch list.
- We perform extensive quarterly credit reviews for all watch list/classified loans, including formulation of aggressive workout or action plans. When a workout is not achievable, we move to collection/foreclosure proceedings to obtain control of the underlying collateral as rapidly as possible to minimize the deterioration of collateral and/or the loss of its value.
- We require updated financial information, global inventory aging and interest carry analysis for existing customers to help identify potential future loan payment problems.
- We generally limit loans for new construction to established builders and developers that have an established record of turning their inventories, and we restrict our funding of undeveloped lots and land.

Nonperforming Assets

The table below summarizes our nonperforming assets at December 31, 2020, 2019, 2018, 2017 and 2016:

	2020		2019		2018		2017		2016	
	Balance	Number of Loans	Balance	Number of Loans	Balance	Number of Loans	Balance	Number of Loans	Balance	Number of Loans
					(Dollars in Thousands)					
Nonaccrual loans:										
Commercial, financial and agricultural	$ 11,709	22	$ 14,729	29	$ 10,503	16	$ 9,712	18	$ 7,282	13
Real estate - construction	234	1	1,588	2	997	1	-	-	3,268	5
Real estate - mortgage:										
Owner-occupied commercial	1,259	4	10,826	3	3,358	2	556	2	-	-
1-4 family mortgage	771	7	1,440	5	2,046	9	459	2	74	1
Other mortgage	-	-	1,507	1	5,022	1	-	-	-	-
Total real estate - mortgage	2,030	11	13,773	9	10,426	12	1,015	4	74	1
Consumer	-	-	-	-	-	-	38	1	-	-
Total nonaccrual loans	$ 13,973	34	$ 30,091	40	$ 21,926	29	$ 10,765	23	$ 10,624	19
90+ days past due and accruing:										
Commercial, financial and agricultural	$ 11	2	$ 201	3	$ 605	10	$ 12	3	$ 10	1
Real estate - construction	-	-	-	-	-	-	-	-	-	-
Real estate - mortgage:										
Owner-occupied commercial	-	-	-	-	-	-	-	-	6,208	1
1-4 family mortgage	104	1	873	5	123	1	-	-	-	-
Other mortgage	4,805	1	4,924	1	5,008	1	-	-	-	-
Total real estate - mortgage	4,909	2	5,797	6	5,131	2	-	-	6,208	1
Consumer	61	25	23	8	108	28	48	24	45	10
Total 90+ days past due and accruing	$ 4,981	29	$ 6,021	17	$ 5,844	40	$ 60	27	$ 6,263	12
Total nonperforming loans	$ 18,954	63	$ 36,112	57	$ 27,770	69	$ 10,825	50	$ 16,887	31
Plus: Other real estate owned and repossessions	6,497	11	8,178	12	5,169	12	6,701	12	4,988	12
Total nonperforming assets	$ 25,451	74	$ 44,290	69	$ 32,939	81	$ 17,526	62	$ 21,875	43
Restructured accruing loans:										
Commercial, financial and agricultural	$ 818	3	$ 625	2	$ 3,073	3	$ 11,438	6	$ 354	1
Real estate - construction	-	-	-	-	-	-	997	1	-	-
Real estate - mortgage:										
Owner-occupied commercial	-	-	-	-	-	-	3,664	2	-	-
1-4 family mortgage	-	-	-	-	-	-	850	1	-	-
Other mortgage	-	-	-	-	-	-	-	-	204	1
Total real estate - mortgage	-	-	-	-	-	-	4,514	3	204	1
Consumer	-	-	-	-	-	-	-	-	-	-
Total restructured accruing loans	$ 818	3	$ 625	2	$ 3,073	3	$ 16,949	10	$ 558	2
Total nonperforming assets and restructured accruing loans	$ 26,269	77	$ 44,915	71	$ 36,012	84	$ 34,475	72	$ 22,433	45
Ratios:										
Nonperforming loans to total loans	0.22%		0.50%		0.43%		0.19%		0.34%	
Nonperforming assets to total loans plus other real estate owned and repossessions	0.30%		0.61%		0.50%		0.30%		0.44%	
Nonperforming assets and restructured accruing loans to total loans plus other real estate owned and repossessions	0.31%		0.62%		0.55%		0.59%		0.46%	

The balance of nonperforming assets can fluctuate due to changes in economic conditions. We have established a policy to discontinue accruing interest on a loan (i.e., place the loan on nonaccrual status) after it 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 the process of collection. In addition, a loan will be placed on nonaccrual status before it becomes 90 days delinquent unless management believes that the collection of interest is expected. 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 nonaccrual loans is recognized only as received. If we believe that a loan will not be collected in full, we will increase the allowance for loan losses to reflect management's estimate of any potential exposure or loss. Generally, payments received on nonaccrual loans are applied directly to principal. There are not any loans, outside of those included in the table above, that cause management to have serious doubts as to the ability of borrowers to comply with present repayment terms.

In keeping with guidance from regulators, the Company continues to work with COVID-19 affected borrowers to defer their payments and interest. While interest continues to accrue to income, through normal GAAP accounting, should eventual credit losses on these deferred payments emerge, the related loans would be placed on nonaccrual status and interest income accrued would be reversed. In such a scenario, interest income in future periods could be negatively impacted. As of December 31, 2020, the Company carries $5.8 million of accrued interest income on deferrals made to COVID-19 affected borrowers. At this time, the Company is unable to project the materiality of such an impact on future deferrals to COVID-19 affected borrowers but recognizes the breadth of the economic impact may affect its borrowers' ability to repay in future periods.

Deposits

We rely on increasing our deposit base to fund loan and other asset growth. Each of our markets is highly competitive. We compete for local deposits by offering attractive products with competitive rates. We expect to have a higher average cost of funds for local deposits than competitor banks due to our lack of an extensive branch network. Our management's strategy is to offset the higher cost of funding with a lower level of operating expense and firm pricing discipline for loan products. We have promoted electronic banking services by providing them without charge and by offering in-bank customer training. The following table presents the average balance and average rate paid on each of the following deposit categories at the bank level for years ended December 31, 2020, 2019 and 2018:

	Average Deposits Average for Years Ended December 31,					
	2020		2019		2018	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
Types of Deposits:			(Dollars in Thousands)			
Non-interest-bearing demand deposits	$ 2,492,500	-%	$ 1,632,385	-%	$ 1,480,827	-%
Interest-bearing demand deposits	1,059,629	0.35%	928,611	0.82%	863,673	0.62%
Money market accounts	4,519,170	0.57%	4,038,143	1.68%	3,241,474	1.24%
Savings accounts	77,364	0.35%	57,078	0.56%	53,596	0.43%
Time deposits under $100,000	85,882	1.57%	91,122	1.74%	91,653	1.23%
Time deposits, $100,000 and over	682,134	1.90%	611,123	2.20%	534,679	1.61%
Brokered time deposits	68,082	1.68%	-	-%	-	-%
Total deposits	$ 8,984,761		$ 7,358,462		$ 6,265,902	

The following table presents the maturities of our certificates of deposit as of December 31, 2020 and 2019.

At December 31, 2020	$100,000 and greater	Less than $100,000	Total
Maturity	(In Thousands)		
Three months or less	$ 117,505	$ 18,996	$ 136,501
Over three through six months	132,828	18,866	151,694
Over six months through one year	215,578	23,116	238,694
Over one year	216,617	74,119	290,736
Total	$ 682,528	$ 135,097	$ 817,625

At December 31, 2019	$100,000 and greater	Less than $100,000	Total
Maturity	(In Thousands)		
Three months or less	$ 95,522	$ 19,192	$ 114,714
Over three through six months	90,825	16,988	107,813
Over six months through one year	172,964	19,957	192,921
Over one year	286,488	26,617	313,105
Total	$ 645,799	$ 82,754	$ 728,553

Total average deposits for the year ended December 31, 2020 were $8.9 billion, an increase of $1.6 billion, or 22.1%, over total average deposits of $7.4 billion for the year ended December 31, 2019. Average noninterest-bearing deposits increased by $860,000, or 52.7%, from $1.63 billion for the year ended December 31, 2019 to $2.49 billion for the year ended December 31, 2020.

Borrowed Funds

We had available $923.0 million in unused federal funds lines of credit with regional banks as of December 31, 2020, compared to $767.0 million as of December 31, 2019. The increase was attributable to additional lines of credit initiated with new banks during 2020. These lines are subject to certain restrictions.

Federal funds purchased from correspondent banks averaged $627.2 million, $398.2 million and $270.9 million for 2020, 2019 and 2018, respectively. We paid average interest rates on these funds of 0.43%, 2.28% and 1.96% for the same three years, respectively. The maximum amount outstanding at month-end during 2020 and 2019 was $851.5 million and $472.0 million, respectively.

Stockholders' Equity

Stockholders' equity increased $150.2 million during 2020, to $992.8 million at December 31, 2020 from $842.7 million at December 31, 2019. The increase in stockholders' equity resulted primarily from net income of $169.5 million during the year ended December 31, 2020, less dividends paid or declared on our common stock of $39.0 million during the year ended December 31, 2020.

Off-Balance Sheet Arrangements

In the normal course of business, we are a party to financial credit arrangements with off-balance sheet risk to meet the financing needs of our customers. These financial credit arrangements include commitments to extend credit beyond current fundings, credit card arrangements, standby letters of credit and financial guarantees. Those credit arrangements involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement we have in those particular financial credit arrangements. All such credit arrangements bear interest at variable rates and we have no such credit arrangements which bear interest at fixed rates.

Our exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit, credit card arrangements and standby letters of credit is represented by the contractual or notional amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments.
The following table sets forth our credit arrangements and financial instruments whose contract amounts represent credit risk as of December 31, 2020, 2019 and 2018:

	2020	2019	2018
		(In Thousands)	
Commitments to extend credit	$ 2,606,258	$ 2,303,788	$ 1,985,801
Credit card arrangements	286,128	248,617	173,613
Standby letters of credit and financial guarantees	66,208	48,394	40,590
Total	$ 2,958,594	$ 2,600,799	$ 2,200,004

Commitments to extend credit beyond current fundings are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Such commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by us upon extension of credit is based on our management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. All letters of credit are due within one year or less of the original commitment date. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Derivatives

The Company periodically enters into derivative contracts to manage exposures to movements in interest rates. The Company purchased an interest rate cap in May of 2020 to limit exposures to increases in interest rates. The interest rate cap is not designated as a hedging instrument but rather as a stand-alone derivative. The interest rate cap has an original term of 3 years, a notional amount of $300 million and is tied to the one-month LIBOR rate with a strike rate of 0.50%. The fair value of the interest rate cap is carried on the balance sheet in other assets and the change in fair value is recognized in noninterest income each quarter. At December 31, 2020 the interest rate cap had a fair value of $139,000 and remaining term of 2.3 years.

The bank has entered into agreements with secondary market investors to deliver loans on a "best efforts delivery" basis. When a rate is committed to a borrower, it is based on the best price that day and locked with our investor for our customer for a 30-day period. In the event the loan is not delivered to the investor, the bank has no risk or exposure with the investor. The interest rate lock commitments related to loans that are originated for later sale are classified as derivatives. The fair values of our agreements with investors and rate lock commitments to customers as of December 31, 2020 and 2019 were not material.

Asset and Liability Management

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest rate sensitive" and by monitoring an institution's interest rate sensitivity "gap." An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the dollar amount of rate-sensitive assets repricing during a period and the volume of rate-sensitive liabilities repricing during the same period. A gap is considered positive when the amount of interest rate-sensitive assets exceeds the amount of interest rate-sensitive liabilities. A gap is considered negative when the amount of interest rate-sensitive liabilities exceeds the amount of interest rate-sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income while a positive gap would tend to result in an increase in net interest income. During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income while a positive gap would tend to adversely affect net interest income.

Our asset liability and investment committee is charged with monitoring our liquidity and funds position. The committee regularly reviews the rate sensitivity position on a three-month, six-month and one-year time horizon; loans-to-deposits ratios; and average maturities for certain categories of liabilities. The asset liability committee uses a model to analyze the maturities of rate-sensitive assets and liabilities. The model measures the "gap" which is defined as the difference between the dollar amount of rate-sensitive assets repricing during a period and the volume of rate-sensitive liabilities repricing during the same period. Gap is also expressed as the ratio of rate-sensitive assets divided by rate-sensitive liabilities. If the ratio is greater than "one," then the dollar value of assets exceeds the dollar value of liabilities and the balance sheet is "asset sensitive." Conversely, if the value of liabilities exceeds the dollar value of assets, then the ratio is less than one and the balance sheet is "liability sensitive." Our internal policy requires our management to maintain the gap such that net interest margins will not change more than 10% if interest rates change by 100 basis points or more than 15% if interest rates change by 200 basis points. As of December 31, 2020, our gap was within such ranges. See "—Quantitative and Qualitative Analysis of Market Risk" below in Item 7A for additional information.

Liquidity and Capital Adequacy

Liquidity

Liquidity is defined as our ability to generate sufficient cash to fund current loan demand, deposit withdrawals, or other cash demands and disbursement needs, and otherwise to operate on an ongoing basis.

Liquidity is managed at two levels. The first is the liquidity of the Company. The second is the liquidity of the bank. The management of liquidity at both levels is critical, because the Company and the bank have different funding needs and sources, and each are subject to regulatory guidelines and requirements. We are subject to general FDIC guidelines which require a minimum level of liquidity. Management believes our liquidity ratios meet or exceed these guidelines. Our management is not currently aware of any trends or demands that are reasonably likely to result in liquidity increasing or decreasing in any material manner.

The retention of existing deposits and attraction of new deposit sources through new and existing customers is critical to our liquidity position. In the event of compression in liquidity due to a run-off in deposits, we have a liquidity policy and procedure that provides for certain actions under varying liquidity conditions. These actions include borrowing from existing correspondent banks, selling or participating loans and the curtailment of loan commitments and funding. At December 31, 2020, our liquid assets, represented by cash and due from banks, federal funds sold and unpledged available-for-sale securities, totaled $2.63 billion. Additionally, at such date we had available to us approximately $923.0 million in unused federal funds lines of credit with regional banks, subject to certain restrictions and collateral requirements, to meet short term funding needs. We believe these sources of funding are adequate to meet immediate anticipated funding needs. Our management meets on a weekly basis to review sources and uses of funding to determine the appropriate strategy to ensure an appropriate level of liquidity, and we have increased our focus on the generation of core deposit funding to supplement our liquidity position. At the current time, our long-term liquidity needs primarily relate to funds required to support loan originations and commitments and deposit withdrawals.

Our regular sources of funding are from the growth of our deposit base, repayment of principal and interest on loans, the sale of loans and the renewal of time deposits. We also may continue periodic offerings of debt and equity securities.

The following table reflects the contractual maturities of our term liabilities as of December 31, 2020. The amounts shown do not reflect any early withdrawal or prepayment assumptions.

		Payments due by Period			
	Total	less than 1 year	1 - 3 years	3 - 5 years	Over 5 years
			(In Thousands)		
Contractual Obligations (1)					

Deposits without a stated maturity	$ 9,158,099	$ 9,158,099	$ -	$ -	$ -
Certificates of deposit (2)	817,625	526,890	261,235	29,425	75
Federal funds purchased	851,545	851,545	-	-	-
Other borrowings	65,000	-	-	-	65,000
Operating lease commitments	13,670	3,024	4,961	3,181	2,504
Total	$ 10,905,939	$ 10,539,558	$ 266,196	$ 32,606	$ 67,579

(1) Excludes interest.
(2) Certificates of deposit give customers the right to early withdrawal. Early withdrawals may be subject to penalties. The penalty amount depends on the remaining time to maturity at the time of early withdrawal.

Capital Adequacy

As of December 31, 2020, our most recent notification from the FDIC categorized us as well-capitalized under the regulatory framework for prompt corrective action. To remain categorized as well-capitalized, we must maintain minimum common equity tier 1 risk-based, Tier 1 risk-based, total risk-based, and Tier 1 leverage ratios as disclosed in the table below. Our management believes that we are well-capitalized under the prompt corrective action provisions as of December 31, 2020. In addition, the Alabama Banking Department has required that the bank maintain a leverage ratio of 8.00%.

The following table sets forth (i) the capital ratios of the bank required by the FDIC to maintain "well-capitalized" status and (ii) our actual ratios of capital to total regulatory or risk-weighted assets, as of December 31, 2020.

	Well-Capitalized	Actual at December 31, 2020
CET 1 Capital Ratio	6.50%	11.15%
Tier 1 Capital Ratio	8.00%	11.16%
Total Capital Ratio	10.00%	12.15%
Leverage ratio	5.00%	8.75%

For a description of capital ratios see Note 14, "*Regulatory Matters"* to the Consolidated Financial Statements.

Impact of Inflation

Our consolidated financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles which require the measure of financial position and operating results in terms of historic dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Inflation generally increases the costs of funds and operating overhead, and to the extent loans and other assets bear variable rates, the yields on such assets. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant effect on the performance of a financial institution than the effects of general levels of inflation. In addition, inflation affects financial institutions' cost of goods and services purchased, the cost of salaries and benefits, occupancy expense, and similar items. Inflation and related increases in interest rates generally decrease the market value of investments and loans held and may adversely affect liquidity, earnings and stockholders' equity. Mortgage originations and refinancing tend to slow as interest rates increase, and likely will reduce our volume of such activities and the income from the sale of residential mortgage loans in the secondary market.

Adoption of Recent Accounting Pronouncements

New accounting standards are discussed in Note 1, *"Summary of Significant Accounting Policies"* to the Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Like all financial institutions, we are subject to market risk from changes in interest rates. Interest rate risk is inherent in the balance sheet due to the mismatch between the maturities of rate-sensitive assets and rate-sensitive liabilities. If rates are rising, and the level of rate-sensitive liabilities exceeds the level of rate-sensitive assets, the net interest margin will be negatively impacted. Conversely, if rates are falling, and the level of rate-sensitive liabilities is greater than the level of rate-sensitive assets, the impact on the net interest margin will be favorable. Managing interest rate risk is further complicated by the fact that all rates do not change at the same pace; in other words, short term rates may be rising while longer term rates remain stable. In addition, different types of rate-sensitive assets and rate-sensitive liabilities react differently to changes in rates.

To manage interest rate risk, we must take a position on the expected future trend of interest rates. Rates may rise, fall, or remain the same. Our asset liability committee develops its view of future rate trends and strives to manage rate risk within a targeted range by monitoring economic indicators, examining the views of economists and other experts, and understanding the current status of our balance sheet. Our annual budget reflects the anticipated rate environment for the next twelve months. The asset liability committee conducts a quarterly analysis of the rate sensitivity position and reports its results to our board of directors.

The asset liability committee employs multiple modeling scenarios to analyze the maturities of rate-sensitive assets and liabilities. The model measures the "gap" which is defined as the difference between the dollar amount of rate-sensitive assets repricing during a period and the volume of rate-sensitive liabilities repricing during the same period. The gap is also expressed as the ratio of rate-sensitive assets divided by rate-sensitive liabilities. If the ratio is greater than "one," the dollar value of assets exceeds the dollar value of liabilities; the balance sheet is "asset sensitive." Conversely, if the value of liabilities exceeds the value of assets, the ratio is less than one and the balance sheet is "liability sensitive." Our internal policy requires management to maintain the gap such that net interest margins will not change more than 10% if interest rates change 100 basis points or more than 15% if interest rates change 200 basis points. As of December 31, 2020, our gap was within such ranges.

The model measures scheduled maturities in periods of three months, four to twelve months, one to five years and over five years. The chart below illustrates our rate-sensitive position at December 31, 2020. Management uses the one-year gap as the appropriate time period for setting strategy.

Rate Sensitive Gap Analysis

	1-3 Months	4-12 Months	1-5 Years	Over 5 Years	Total
			(Dollars in Thousands)		
Interest-earning assets:					
Loans, including mortgages held for sale	$ 3,608,055	$ 1,605,932	$ 3,018,287	$ 247,839	$ 8,480,113
Securities	66,780	196,700	494,412	129,046	886,938

Federal funds sold	100,473	-	-	-	100,473
Interest bearing balances with banks	2,110,506	4,229	1,250	-	2,115,985
Total interest-earning assets	$ 5,885,814	$ 1,806,861	$ 3,513,949	$ 376,885	$ 11,583,509
Interest-bearing liabilities:					
Deposits:					
Interest-bearing checking	$ 1,307,440	$ -	$ -	$ -	$ 1,307,440
Money market and savings	5,061,050	-	-	-	5,061,050
Time deposits	134,481	392,408	290,661	75	817,625
Federal funds purchased	-	-	-	64,748	64,748
Other borrowings	851,545	-	-	-	851,545
Total interest-bearing liabilities	7,354,516	392,408	290,661	64,823	8,102,408
Interest sensitivity gap	$ (1,468,702)	$ 1,414,453	$ 3,223,288	$ 312,062	$ 3,481,101
Cumulative sensitivity gap	$ (1,468,702)	$ (54,249)	$ 3,169,039	$ 3,481,101	$ -
Percent of cumulative sensitivity Gap to total interest-earning assets	(12.68%)	(0.47%)	27.36%	30.05%	

The interest rate risk model that defines the gap position also performs a "rate shock" test of the balance sheet. The rate shock procedure measures the impact on the economic value of equity (EVE) which is a measure of long term interest rate risk. EVE is the difference between the market value of our assets and the liabilities and is our liquidation value. In this analysis, the model calculates the discounted cash flow or market value of each category on the balance sheet. The percentage change in EVE is a measure of the volatility of risk. Regulatory guidelines specify a maximum change of 30% for a 200 basis points rate change. After starting the year at a rate of 1.55%, the Federal Reserve has cut its targeted federal funds rate by 145 basis points to its current rate of 0.10%. At December 31, 2020, the model shows an increase in our EVE for all upward shifts in rates.

The chart below identifies the EVE impact of a downward shift in rates of 100 basis points and an upward shift in rates of 100, 200, 300 and 400 basis points.

Economic Value of Equity Under Rate Shock
At December 31, 2020

	0 bps	-100 bps	+100 bps	+200 bps	+300 bps	+400 bps
			(Dollars in Thousands)			
Economic value of equity	$ 992,852	$ 763,503	$ 1,086,180	$ 1,163,623	$ 1,229,151	$ 1,283,758
Actual dollar change		$ (229,349)	$ 93,328	$ 170,771	$ 236,299	$ 290,906
Percent change		(23.1)%	9.4%	17.2%	23.8%	29.3%

The one-year gap ratio of negative 0.5% indicates that we would show a decrease in net interest income in a rising rate environment, and the EVE rate shock shows that the EVE would increase in a rising rate environment. The EVE simulation model is a static model which provides information only at a certain point in time. For example, in a rising rate environment, the model does not take into account actions which management might take to change the impact of rising rates on us. Given that limitation, it is still useful in assessing the long-range impact of unanticipated movements in interest rates.

The above analysis may not on its own be an entirely accurate indicator of how net interest income or EVE will be affected by changes in interest rates. Income associated with interest earning assets and costs associated with interest bearing liabilities may not be affected uniformly by changes in interest rates. In addition, the magnitude and duration of changes in interest rates may have a significant impact on net interest income. Interest rates on certain types of assets and liabilities fluctuate in advance of changes in general market rates, while interest rates on other types may lag behind changes in general market rates. Our asset liability committee develops its view of future rate trends by monitoring economic indicators, examining the views of economists and other experts, and understanding the current status of our balance sheet and conducts a quarterly analysis of the rate sensitivity position. The results of the analysis are reported to our board of directors on a quarterly basis.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data required by Regulations S-X and by Item 302 of Regulation S-K are set forth in the pages listed below.

Report of Independent Registered Public Accounting Firm

To the stockholders and the board of directors of ServisFirst Bancshares, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of ServisFirst Bancshares, Inc. and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows, for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2021 expressed an unqualified opinion thereon.

Adoption of New Accounting Standard

As discussed in Notes 1 and 3 to the financial statements, the Company changed its method of accounting for credit losses effective January 1, 2020 due to the adoption of Accounting Standards Codification (ASC) Topic 326 *Financial Instruments – Credit Losses*.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses on Loans

As described in Notes 1 and 3 to the financial statements, the Company's loan portfolio and the associated allowance for credit losses ("allowance") were $8.5 billion and $87.9 million as of December 31, 2020, respectively. As described in Note 1, the Company adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326*) effective January 1, 2020. The amount of the allowance represents management's best estimate of current expected credit losses on loans considering the loan portfolios, past loan loss experience, current asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay (including the timing of future payment), the estimated value of any underlying collateral, composition of the loan portfolio, current and projected economic conditions, industry and peer bank loan quality indications and other pertinent factors, including regulatory recommendations.

As further described in Notes 1 and 3 to the financial statements, to calculate the allowance for credit losses, loans with similar risk characteristics are collectively evaluated in pools and loans that do not share similar risk characteristics are excluded from the collective pools and evaluated on an individual basis. Management evaluates each loan pool utilizing a discounted cash flow (DCF), probability of default / loss given default ("PD/LGD") or remaining life method, depending on the nature of the loan pool. Losses are predicted over a period of time determined to be reasonable and supportable, and after such period, losses are reverted to long term historical averages. The estimated credit losses for each loan pool are then adjusted for qualitative factors not inherently considered in the quantitative analyses. Consideration is given to the following factors: lending policy, changes in nature and volume of loans, staff experience, changes in volume and trends of problem loans, concentration risk, trends in underlying collateral values, external factors, quality of loan review system and other economic conditions. Estimating qualitative factor adjustments requires significant judgment and can either increase or decrease the quantitative model estimation.

We identified the allowance for credit losses on loans as a critical audit matter. The principal considerations for our determination of the allowance as a critical audit matter is the subjectivity of the assumptions that management utilized in determining and applying qualitative factors in the allowance model. Furthermore, certain inputs and assumptions lack observable data and therefore, applying audit procedures required a higher degree of auditor judgment and subjectivity due to the nature and extent of audit evidence and effort required to address this matter.

The primary audit procedures we performed to address this critical audit matter included:

- We obtained an understanding of the Company's process for establishing the allowance, including the implementation of the expected credit losses model and the qualitative factor adjustments.
- We utilized the assistance of internal specialists to test the appropriateness of the design and operation of the model, including evaluating the reasonableness of assumptions and judgments used in regression components and recalculating cash flows on a sample basis.
- We evaluated the design and tested the operating effectiveness of key controls relating to the Company's allowance, including controls over the credit monitoring function related to loan performance, the determination of qualitative factors, and the precision of management's review and approval of the allowance model and resulting estimate.

- We evaluated the reasonableness of management’s assumptions and judgments related to estimating the qualitative factors applied to each loan pool. Our evaluation included the appropriateness of the methodologies used by management to establish and estimate the qualitative factor components of the allowance and the appropriateness and completeness of risk factors used in determining the qualitative factors.

- We evaluated the appropriateness of assumptions used in estimating the qualitative factors, including assessing the completeness and accuracy of the data utilized, comparing the data and information utilized by management to internal and external evidence, and evaluating whether potentially new or contradictory information existed.

- We analyzed the total qualitative adjustment factor applied to the loan pools over the period since implementation, including changes or modifications to individual factors, in comparison to changes in the Company’s quantitatively driven expected credit losses, loan portfolios and the economy, and evaluated the appropriateness and level of the qualitative adjustment factors.

- We tested the completeness and accuracy of inputs as well as verified the mathematical accuracy of the allowance model, including the qualitative factor adjustments.

/s/ Dixon Hughes Goodman LLP
We have served as the Company's auditor since 2014.
Atlanta, Georgia
February 25, 2021

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of ServisFirst Bancshares, Inc.

Opinion on Internal Control Over Financial Reporting

We have audited ServisFirst Bancshares, Inc. and subsidiaries’ (the “Company”) internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, ServisFirst Bancshares, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements of ServisFirst Bancshares, Inc. as of December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020, and our report dated February 25, 2021, expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Dixon Hughes Goodman LLP

Atlanta, Georgia
February 25, 2021

SERVISFIRST BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	December 31, 2020	December 31, 2019
ASSETS		
Cash and due from banks	$ 93,655	$ 78,618
Interest-bearing balances due from depository institutions	2,115,985	451,509
Federal funds sold	1,771	100,473
Cash and cash equivalents	2,211,411	630,600
Available for sale debt securities, at fair value	886,688	759,399
Held to maturity debt securities (fair value of $250 at December 31, 2020 and December 31, 2019)	250	250
Mortgage loans held for sale	14,425	6,312
Loans	8,465,688	7,261,451
Less allowance for credit losses	(87,942)	(76,584)
Loans, net	8,377,746	7,184,867
Premises and equipment, net	54,969	56,496
Accrued interest and dividends receivable	36,841	26,262
Deferred tax asset, net	31,072	25,566
Other real estate owned and repossessed assets	6,497	8,178
Bank owned life insurance contracts	276,387	209,395
Goodwill and other identifiable intangible assets	13,908	14,179
Other assets	22,460	26,149
Total assets	$ 11,932,654	$ 8,947,653
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest-bearing demand	$ 2,788,772	$ 1,749,879
Interest-bearing	7,186,952	5,780,554
Total deposits	9,975,724	7,530,433
Federal funds purchased	851,545	470,749
Other borrowings	64,748	64,703
Accrued interest and dividends payable	12,321	11,934
Other liabilities	35,464	27,152
Total liabilities	10,939,802	8,104,971
Stockholders' equity:		
Preferred stock, par value $0.001 per share; 1,000,000 authorized and undesignated at December 31, 2020 and December 31, 2019	-	-
Common stock, par value $0.001 per share; 100,000,000 shares authorized; 53,943,751 shares issued and outstanding at December 31, 2020, and 53,623,740 shares issued and outstanding at December 31, 2019	54	54
Additional paid-in capital	223,856	219,766
Retained earnings	748,224	616,611
Accumulated other comprehensive income	20,218	5,749
Total stockholders' equity attributable to ServisFirst Bancshares, Inc.	992,352	842,180
Noncontrolling interest	500	502
Total stockholders' equity	992,852	842,682
Total liabilities and stockholders' equity	$ 11,932,654	$ 8,947,653

See Notes to Consolidated Financial Statements.

SERVISFIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)

	Year Ended December 31, 2020	2019	2018
Interest income:			
Interest and fees on loans	$ 362,664	$ 354,308	$ 305,370
Taxable securities	22,122	17,008	12,654
Nontaxable securities	739	1,429	2,406
Federal funds sold	332	6,038	3,103
Other interest and dividends	3,165	12,020	3,094
Total interest income	389,022	390,803	326,627
Interest expense:			
Deposits	45,230	90,958	55,502
Borrowed funds	5,755	12,200	8,446
Total interest expense	50,985	103,158	63,948
Net interest income	338,037	287,645	262,679
Provision for credit losses	42,434	22,638	21,402
Net interest income after provision for credit losses	295,603	265,007	241,277
Noninterest income:			
Service charges on deposit accounts	7,528	7,029	6,547
Mortgage banking	8,747	4,361	2,784
Credit card income	5,916	7,076	5,550
Securities gains	-	27	190
Increase in cash surrender value life insurance	6,310	3,746	3,130
Other operating income	1,615	1,743	1,239
Total noninterest income	30,116	23,982	19,440

	2020	2019	2018
Noninterest expenses:			
Salaries and employee benefits	61,414	57,783	51,849
Equipment and occupancy expense	10,070	9,272	8,423
Third party processing and other services	13,778	11,234	8,671
Professional services	4,242	4,235	3,646
FDIC and other regulatory assessments	4,354	2,975	3,869
Other real estate owned expense	2,163	415	790
Other operating expenses	15,490	16,214	14,627
Total noninterest expenses	111,511	102,128	91,875
Income before income taxes	214,208	186,861	168,842
Provision for income taxes	44,639	37,618	31,902
Net income	169,569	149,243	136,940
Dividends on preferred stock	63	63	63
Net income available to common stockholders	$ 169,506	$ 149,180	$ 136,877
Basic earnings per common share	$ 3.15	$ 2.79	$ 2.57
Diluted earnings per common share	$ 3.13	$ 2.76	$ 2.53

See Notes to Consolidated Financial Statements.

SERVISFIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Year Ended December 31, 2020	2019	2018
Net income	$ 169,569	$ 149,243	$ 136,940
Other comprehensive income (loss), net of tax:			
Unrealized net holding gains (losses) arising during period from securities available for sale, net of tax of $3,845, $2,788 and $(1,205) for 2020, 2019 and 2018, respectively	14,469	10,511	(4,531)
Reclassification adjustment for net gains on sale of securities, net of tax of $6 and $3 for 2019 and 2018, respectively	-	(21)	(12)
Other comprehensive income (loss), net of tax	14,469	10,490	(4,543)
Comprehensive income	$ 184,038	$ 159,733	$ 132,397

See Notes to Consolidated Financial Statements.

SERVISFIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share amounts)
Year Ended December 31,

	Common Shares	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Non-controlling Interest	Total Stockholders' Equity
Balance, January 1, 2018	52,992,586	$ -	$ 53	$ 217,693	$ 389,554	$ (198)	$ 502	$ 607,604
Common dividends paid, $0.33 per share	-	-	-	-	(17,545)	-	-	(17,545)
Common dividends declared, $0.15 per share	-	-	-	-	(8,018)	-	-	(8,018)
Preferred dividends paid	-	-	-	-	(63)	-	-	(63)
Issue restricted shares pursuant to stock incentives, net of forfeitures	29,350	-	-	-	-	-	-	-
Issue shares of common stock upon exercise of stock options	353,259	-	-	2,337	-	-	-	2,337
61,077 shares of common stock withheld in net settlement upon exercise of stock options	-	-	-	(2,360)	-	-	-	(2,360)
Stock-based compensation expense	-	-	-	851	-	-	-	851
Other comprehensive loss, net of tax	-	-	-	-	-	(4,543)	-	(4,543)
Net income	-	-	-	-	136,940	-	-	136,940
Balance, December 31, 2018	53,375,195	$ -	$ 53	$ 218,521	$ 500,868	$ (4,741)	$ 502	$ 715,203
Common dividends paid, $0.45 per share	-	-	-	-	(24,053)	-	-	(24,053)
Common dividends declared, $0.175 per share	-	-	-	-	(9,384)	-	-	(9,384)
Preferred dividends paid	-	-	-	-	(63)	-	-	(63)
Issue restricted shares pursuant to stock incentives, net of forfeitures	20,164	-	-	-	-	-	-	-
Issue shares of common stock upon exercise of stock options	228,381	-	1	2,122	-	-	-	2,123
60,419 shares of common stock withheld in net settlement upon exercise of stock options	-	-	-	(1,977)	-	-	-	(1,977)
Stock-based compensation expense	-	-	-	1,100	-	-	-	1,100
Other comprehensive income, net of tax	-	-	-	-	-	10,490	-	10,490
Net income	-	-	-	-	149,243	-	-	149,243

Balance, December 31, 2019	53,623,740	$ -	$ 54	$ 219,766	$ 616,611	$ 5,749	$ 502	$ 842,682
Common dividends paid, $0.525 per share	-	-	-	-	(28,230)	-	-	(28,230)
Common dividends declared, $0.20 per share	-	-	-	-	(10,787)	-	-	(10,787)
Preferred dividends paid	-	-	-	-	(63)	-	-	(63)
Exit tax credit partnership	-	-	-	-	-	-	(2)	(2)
Impact of adopting ASC 326	-	-	-	-	1,124	-	-	1,124
Issue restricted shares pursuant to stock incentives, net of forfeitures	33,195	-	-	-	-	-	-	-
Issue shares of common stock upon exercise of stock options	286,816	-	-	3,487	-	-	-	3,487
19,484 shares of common stock withheld in net settlement upon exercise of stock options	-	-	-	(729)	-	-	-	(729)
Stock-based compensation expense	-	-	-	1,332	-	-	-	1,332
Other comprehensive income, net of tax	-	-	-	-	-	14,469	-	14,469
Net income	-	-	-	-	169,569	-	(2)	169,569
Balance, December 31, 2020	53,943,751	$ -	$ 54	$ 223,856	$ 748,224	$ 20,218	$ 500	$ 992,852

SERVISFIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31, 2020	2019	2018
OPERATING ACTIVITIES			
Net income	$ 169,569	$ 149,243	$ 136,940
Adjustments to reconcile net income to net cash provided by			
Deferred tax benefit	(9,727)	(1,077)	(14,255)
Provision for credit losses	42,434	22,638	21,402
Depreciation	3,832	3,682	3,378
Accretion on acquired loans	(100)	(90)	(163)
Amortization of core deposit intangible	271	270	270
Net amortization of debt securities available for sale	5,605	3,095	2,843
Increase in accrued interest and dividends receivable	(10,579)	(2,192)	(3,409)
Stock-based compensation expense	1,332	1,100	851
Increase in accrued interest payable	387	1,553	5,410
Proceeds from sale of mortgage loans held for sale	284,881	135,359	106,806
Originations of mortgage loans held for sale	(284,247)	(137,190)	(99,683)
Gain on sale of mortgage loans held for sale	(8,747)	(4,361)	(2,784)
Gain on sale of equity securities	-	-	(175)
Net gain on sale of debt securities available for sale	-	(27)	(15)
Net gain on sale of other real estate owned and repossessed assets	(8)	(122)	21
Write down of other real estate owned and repossessed assets	1,861	287	664
Operating losses of tax credit partnerships	4	8	163
Increase in cash surrender value of life insurance contracts	(6,310)	(3,746)	(3,130)
Net change in other assets, liabilities, and other operating activities	832	(4,155)	13,167
Net cash provided by operating activities	191,290	164,275	168,301
INVESTMENT ACTIVITIES			
Purchase of debt securities available for sale	(334,596)	(293,832)	(156,815)
Proceeds from maturities, calls and paydowns of debt securities available for sale	220,993	117,265	91,787
Proceeds from sale of debt securities available for sale	-	18,920	5,736
Purchase of debt securities held to maturity	-	(250)	-
Investment in tax credit partnership and SBIC	(636)	-	-
Increase in loans	(1,236,698)	(754,533)	(696,701)
Purchase of premises and equipment	(2,305)	(2,356)	(2,300)
Purchase of bank owned life insurance contracts	(60,682)	(75,000)	-
Proceeds from sale of other real estate owned and repossessed assets	2,853	1,437	3,819
Net cash used in investing activities	(1,411,071)	(988,349)	(754,474)
FINANCING ACTIVITIES			
Net increase in non-interest-bearing deposits	1,038,893	192,538	117,015
Net increase in interest-bearing deposits	1,406,398	422,187	707,019
Net increase in federal funds purchased	380,796	182,024	(13,072)
Repayment of Federal Home Loan Bank advances	-	-	(200)
Proceeds from issuance of 4% Subordinated Notes due October 21, 2030, net of issuance cost	34,750	-	-
Redemption of 5% Subordinated Notes due July 15, 2025	(34,710)	-	-
Proceeds from exercise of stock options	3,487	2,123	2,337
Taxes paid in net settlement of tax obligation upon exercise of stock options	(729)	(1,977)	(2,360)
Dividends paid on common stock	(28,230)	(24,053)	(20,194)
Dividends paid on preferred stock	(63)	(63)	(63)
Net cash provided by financing activities	2,800,592	772,779	790,482
Net increase (decrease) in cash and cash equivalents	1,580,811	(51,295)	204,309
Cash and cash equivalents at beginning of period	630,600	681,895	477,586
Cash and cash equivalents at end of period	$ 2,211,411	$ 630,600	$ 681,895
SUPPLEMENTAL DISCLOSURE			
Cash paid for:			
Interest	$ 50,598	$ 101,605	$ 58,538
Income taxes	50,867	42,232	30,547

Income tax refund	(47)	(86)	(2)
NONCASH TRANSACTIONS			
Other real estate acquired in settlement of loans	$ 2,945	$ 4,611	$ 3,080
Internally financed sale of other real estate owned	40	-	662
Dividends declared	10,787	9,384	8,018

See Notes to Consolidated Financial Statements.

SERVISFIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

ServisFirst Bancshares, Inc. (the "Company") was formed on August 16, 2007 and is a bank holding company whose business is conducted by its wholly owned subsidiary ServisFirst Bank (the "Bank"). The Bank is headquartered in Birmingham, Alabama, and has provided a full range of banking services to individual and corporate customers throughout the Birmingham market since opening for business in May 2005. The Bank has since expanded into the Huntsville, Montgomery, Dothan and Mobile, Alabama, Pensacola, Sarasota and Tampa Bay, Florida, Atlanta, Georgia, Charleston, South Carolina and Nashville, Tennessee markets. The Bank owns all of the stock of SF Intermediate Holding Company, Inc., which, in turn, owns all of the stock of SF Holding 1, Inc., which, in turn, owns all of the common stock of the Company's real estate investment trusts, SF Realty 1, Inc., SF FLA Realty, Inc., SF GA Realty, Inc. and SF TN Realty, Inc. More details about SF Intermediate Holding Company, Inc. and its subsidiaries are included in Note 11.

Reclassification

Certain amounts reported in prior years have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the Company's results of operations, financial position, or net cash flow.

Basis of Presentation and Accounting Estimates

To prepare consolidated financial statements in conformity with U.S. generally accepted accounting principles, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ. The allowance for credit losses, valuation of deferred tax assets and the fair value of financial instruments are particularly subject to change. All numbers are in thousands except share and per share data.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and other entities in which it has a controlling financial interest. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash, Due from Banks, Interest-Bearing Balances due from Financial Institutions

Cash and due from banks include cash on hand, cash items in process of collection, amounts due from banks and interest bearing balances due from financial institutions. For purposes of cash flows, cash and cash equivalents include cash and due from banks and federal funds sold. Generally, federal funds are purchased and sold for one-day periods. Cash flows from loans, mortgage loans held for sale, federal funds sold, and deposits are reported net.

The Bank is generally required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank based on a percentage of deposits. However, in March 2020 the Federal Reserve Bank announced that it had reduced the required reserve ratio to zero percent effective March 26, 2020. The total of the Bank's required reserve balances was $0 at December 31, 2020 and $33.9 million at December 31, 2019.

Debt Securities

Securities are classified as available-for-sale when they might be sold before maturity. Unrealized holding gains and losses (for which no allowance for credit losses are recorded), net of tax, on securities available for sale are reported as a net amount in a separate component of stockholders' equity until realized. Gains and losses on the sale of securities available for sale are determined using the specific-identification method. The amortization of premiums and the accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Mortgage Loans Held for Sale

The Company classifies certain residential mortgage loans as held for sale. Typically, mortgage loans held for sale are sold to a third-party investor within a very short time period. The loans are sold without recourse and servicing is not retained. Net fees earned from this banking service are recorded in noninterest income.

In the course of originating mortgage loans and selling those loans in the secondary market, the Company makes various representations and warranties to the purchaser of the mortgage loans. Each loan is underwritten using government agency guidelines. Any exceptions noted during this process are remedied prior to sale. These representations and warranties also apply to underwriting the real estate appraisal opinion of value for the collateral securing these loans. Under the representations and warranties, failure by the Company to comply with the underwriting and/or appraisal standards could result in the Company being required to repurchase the mortgage loan or to reimburse the investor for losses incurred (make whole requests) if such failure cannot be cured by the Company within the specified period following discovery. The Company continues to experience an insignificant level of investor repurchase demands. There were no expenses incurred as part of these buyback obligations for the years ended December 31, 2020 and 2019.

Loans

Loans are reported at unpaid principal balances, less unearned fees and the allowance for credit losses. Interest on all loans is recognized as income based upon the applicable rate applied to the daily outstanding principal balance of the loans. Interest income on nonaccrual loans is recognized on a cash basis or cost recovery basis until the loan is returned to accrual status. A loan may be returned to accrual status if the Company is reasonably assured of repayment of principal and interest and the borrower has demonstrated sustained performance for a period of at least six months. Loan fees, net of direct costs, are reflected as an adjustment to the yield of the related loan over the term of the loan. The Company does not have a concentration of loans to any one industry.

The accrual of interest on loans is discontinued when there is a significant deterioration in the financial condition of the borrower and full repayment of principal and interest is not expected or the principal or interest is more than 90 days past due, unless the loan is both well-collateralized and in the process of collection. Generally, all interest accrued but not collected for loans that are placed on nonaccrual status are reversed against current interest income. Interest collections on nonaccrual loans are generally applied as principal reductions. The Company determines past due or delinquency status of a loan based on contractual payment terms.

Troubled debt restructurings (“TDRs”) are concessions granted to borrowers in the normal course of business, which would not otherwise be considered, where the borrowers are experiencing financial difficulty. The concessions granted most frequently for TDRs involve reductions or delays in required payments of principal and interest for a specified time, the rescheduling of payments in accordance with a bankruptcy plan or the charge-off of a portion of the loan. In some cases, the conditions of the credit also warrant nonaccrual status, even after the restructure occurs. As part of the credit approval process, the restructured loans are evaluated for adequate collateral protection in determining the appropriate accrual status at the time of restructure. TDR loans may be returned to accrual status if there has been at least a six-month sustained period of repayment performance by the borrower.

Allowance for Credit Losses

As described below under *Recently Adopted Accounting Pronouncements,* the Company adopted ASU 2016-13*, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“CECL”) effective January 1, 2020.

Allowance for Credit Losses – Available-for-Sale Debt Securities: For available-for-sale debt securities in an unrealized loss position, the Company will first assess whether i) it intends to sell or ii) it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis. If either case is applicable, any previously recognized allowances are charged off and the debt security’s amortized cost is written down to fair value through income. If neither case is applicable, the debt security is evaluated to determine whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, any changes to the rating of the debt security by a rating agency and any adverse conditions specifically related to the debt security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the debt security are compared to the amortized cost basis of the debt security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount by which the fair value is less than the amortized cost basis. Any impairment that has not been recorded through allowance for credit losses is recognized in other comprehensive income, net of tax. Adjustments to the allowance are reported in the income statement as a component of credit loss expense. Available-for-sale debt securities are charged off against the allowance or, in the absence of any allowance, written down through income when deemed uncollectible by the Company or when either of the aforementioned criteria regarding intent or requirement to sell is met. Accrued interest receivable on available-for-sale debt securities is excluded from the estimate of credit losses.

Allowance for Credit Losses – Loans: For loans the allowance for credit losses is based on the Company's evaluation of the loan portfolios, past loan loss experience, current asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay (including the timing of future payment), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, industry and peer bank loan quality indications and other pertinent factors, including regulatory recommendations. The process is inherently subjective and subject to significant change as it requires material estimates. The allowance is increased by a provision for credit losses, which is charged to expense, and reduced by charge-offs, net of recoveries. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for credit losses. Such agencies may require the Company to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination.

Loans with similar risk characteristics are evaluated in pools and, depending on the nature of each identified pool, the Company utilizes a discounted cash flow ("DCF"), probability of default / loss given default ("PD/LGD") or remaining life method. The historical loss experience estimate by pool is then adjusted by forecast factors that are quantitatively related to the Company's historical credit loss experience, such as national unemployment rates and gross domestic product. Losses are predicted over a period of time determined to be reasonable and supportable, and at the end of the reasonable and supportable period losses are reverted to long term historical averages. The reasonable and supportable period and reversion period are re-evaluated each quarter by the Company and are dependent on the current economic environment among other factors.

The estimated credit losses for each loan pool are then adjusted for changes in qualitative factors not inherently considered in the quantitative analyses. The qualitative adjustments either increase or decrease the quantitative model estimation. The Company considers factors that are relevant within the qualitative framework which include the following: lending policy, changes in nature and volume of loans, staff experience, changes in volume and trends of problem loans, concentration risk, trends in underlying collateral values, external factors, quality of loan review system and other economic conditions.

Credit losses for loans that no longer share similar risk characteristics with the collectively evaluated pools are excluded from the collective evaluation and estimated on an individual basis. Individual evaluations are performed for nonaccrual loans, loans rated substandard, and modified loans classified as troubled debt restructurings. Specific allowances were estimated based on one of several methods, including the estimated fair value of the underlying collateral, observable market value of similar debt or the present value of expected cash flows.

The Company measures expected credit losses over the contractual term of a loan, adjusted for estimated prepayments. The contractual term excludes expected extensions, renewals and modifications unless there is a reasonable expectation that a troubled debt restructuring will be executed. Credit losses are estimated on the amortized cost basis of loans, which includes the principal balance outstanding, purchase discounts and premiums and deferred loan fees and costs. Accrued interest receivable on loans is excluded from the estimate of credit losses.

Allowance for Credit Losses – Unfunded Loan Commitments: For unfunded loan commitments the allowance for credit losses is a liability account, calculated in accordance with ASC 326, representing expected credit losses over the contractual period for which the Company is exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if the Company has the unconditional right to cancel the obligation. The allowance is reported as a component of other liabilities within the consolidated balance sheets. Adjustments to the allowance for credit losses – unfunded commitments are reported in the income statement as a component of other operating expense.

Foreclosed Real Estate

Foreclosed real estate includes both formally foreclosed property and in-substance foreclosed property. At the time of foreclosure, foreclosed real estate is recorded at fair value less cost to sell, which becomes the property's new basis. Any write downs based on the asset's fair value at date of acquisition are charged to the allowance for credit losses. After foreclosure, these assets are carried at the lower of their new cost basis or fair value less cost to sell. Costs incurred in maintaining foreclosed real estate and subsequent adjustments to the carrying amount of the property are included in other operating expenses.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Expenditures for additions and major improvements that significantly extend the useful lives of the assets are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred. Assets which are disposed of are removed from the accounts and the resulting gains or losses are recorded in operations. Depreciation is calculated on a straight-line basis over the estimated useful lives of the related assets (3 to 39.5 years).

Leasehold improvements are amortized on a straight-line basis over the lesser of the lease terms or the estimated useful lives of the improvements.

Leases

The Company leases certain office space and equipment under operating leases. In2019, the Company adopted certain accounting standard updates related to accounting for leases which requires operating leases be recognized as a liability to make lease payments and as an asset representing the right to use the asset during the lease term, or "lease liability" and "right-of-use asset", respectively. The lease liability is measured by the present value of remaining lease payments, discounted at the Company's incremental borrowing rate. The Company reports its right-of-use assets in other assets and its lease liabilities in other liabilities.

Certain of the leases include one or more renewal options that extend the initial lease term1 to 5 years. The exercise of lease renewal options is typically at the Company's sole discretion; therefore, a majority of renewals to extend lease terms are not included in the right-of-use assets and lease liabilities as they arenot reasonably certain to be exercised. Renewal options are regularly evaluated and when they are reasonably certain to be exercised, are included in lease terms.

None of the Company's leases provide an implicit rate. The Company uses its incremental collateralized borrowing rate based on the information available at the lease commencement date in determining the present value of the lease payments.

The Company does not recognize short-term leases on its balance sheet. A short-term operating lease has an original term of12 months or less and does not have a purchase option that is likely to be exercised.

Bank Owned Life Insurance (BOLI)

BOLI is comprised of long-term life insurance contracts on the lives of certain current and past employees where the insurance policy benefit and ownership are retained by the employer. Its cash surrender value is an asset that the Company uses to partially offset the future cost of employee benefits. The cash surrender value accumulation on BOLI is permanently tax deferred if the policy is held to the insured person's death and certain other conditions are met.

Goodwill and Other Identifiable Intangible Assets

Other identifiable intangible assets include a core deposit intangible recorded in connection with the acquisition of Metro Bancshares, Inc. The core deposit intangible is being amortized over 7 years and the estimated useful life is periodically reviewed for reasonableness.

The Company has recorded $13.6 million of goodwill at December 31, 2020 in connection with the acquisition of Metro Bancshares, Inc. in2015. The Company tests its goodwill for impairment annually unless interim events or circumstances make it more likely than not that an impairment loss has occurred. Impairment is defined as the amount by which the implied fair value of the goodwill is less than the goodwill's carrying value. Impairment losses, if incurred, would be charged to operating expense. For the purposes of evaluating goodwill, the Company has determined that it operates only one reporting unit.

Derivatives and Hedging Activities

As part of its overall interest rate risk management, the Company uses derivative instruments, which can include interest rate swaps, caps, and floors. Financial Accounting Standards Board ("FASB") ASC 815-10, *Derivatives and Hedging*, requires all derivative instruments to be carried at fair value on the balance sheet. This accounting standard provides special accounting provisions for derivative instruments that qualify for hedge accounting. To be eligible, the Company must specifically identify a derivative as a hedging instrument and identify the risk being hedged. The derivative instrument must be shown to meet specific requirements under this accounting standard.

The Company purchased an interest rate cap in May of 2020 to limit exposures to increases in interest rates. The interest rate cap is not designated as a hedging instrument but rather as a stand-alone derivative. The interest rate cap has an original term of three years, a notional amount of $300 million and is tied to the one-month LIBOR rate with a strike rate of 0.50%. See Note 12 Derivatives for more discussion of this interest rate cap.

The Company uses derivatives to hedge interest rate exposures associated with mortgage loans held for sale and mortgage loans in process. The Company regularly enters into derivative financial instruments in the form of forward contracts, as part of its normal asset/liability management strategies. The Company's obligations under forward contracts consist of "best effort" commitments to deliver mortgage loans originated in the secondary market at a future date. Interest rate lock commitments related to loans that are originated for later sale are classified as derivatives. In the normal course of business, the Company regularly extends these rate lock commitments to customers during the loan origination process. The fair values of the Company's forward contract and rate lock commitments to customers as of December 31, 2020 and 2019 were not material and have not been recorded.

Revenue Recognition

Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers ("ASC 606")*, provides guidance for reporting revenue from the entity's contracts to provide goods or services to customers. The guidance requires recognition of revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of revenue-generating transactions are excluded from the scope of ASC 606, including revenue generated from financial instruments, such as securities and loans. Revenue-generating transactions that are within the scope of ASC 606, classified within non-interest income, are described as follows:

- Deposit account service charges – represent service fees for monthly activity and maintenance on customer accounts. Attributes can be transaction-based, item-based or time-based. Revenue is recognized when our performance obligation is completed which is generally monthly for maintenance services or when a transaction is processed. Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

- Credit card rewards program membership fees – represent memberships in our credit card rewards program and are paid annually by our cardholders at the time they open an account and on each anniversary. Revenue is recognized ratably over the membership period.

Other non-interest income primarily includes income on bank owned life insurance contracts, letter of credit fees and gains on sale of loans held for sale, none of which are within the scope of ASC 606.

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. ASC740-10 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.

Stock-Based Compensation

At December 31, 2020, the Company had a stock-based compensation plan for grants of equity compensation to key employees and directors. The plan has been accounted for under the provisions of FASB ASC 718-10, *Compensation – Stock Compensation*, with respect to employee stock options and under the provisions of FASB ASC 505-50, *Equity-Based Payments to Non-Employees*, with respect to non-employee stock options. Specifically, awards to employees are accounted for using the fair value-based method of accounting. Stock compensation costs are recognized prospectively for all new awards granted under the stock-based compensation plans. Compensation expense related to share options is calculated using a method that is based on the underlying assumptions of the Black-Scholes-Merton option pricing model and is charged to expense over the requisite service period (e.g. vesting period). Compensation expense related to restricted stock awards is based upon the fair value of the awards on the date of grant and is charged to earnings over the requisite service period of the award.

Earnings per Common Share

Basic earnings per common share are computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock options and warrants.

Loan Commitments and Related Financial Instruments

Financial instruments, which include credit card arrangements, commitments to make loans and standby letters of credit, are issued to meet customer financing needs. The face amount for these items represents the exposure to loss before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded. Instruments such as stand-by letters of credit are considered financial guarantees in accordance with FASB ASC 460-10. The fair value of these financial guarantees is not material.

The allowance for credit losses on loan commitments is a liability account, calculated in accordance with ASC326, representing expected credit losses over the contractual period for which the Company is exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if the Company has the unconditional right to cancel the obligation. Adjustments to the allowance are reported in our income statement as a component of credit loss expenses.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 21. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Accumulated comprehensive income, which is recognized as a separate component of equity, includes unrealized gains and losses on securities available for sale.

Advertising

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2020, 2019 and 2018 was $338,000, $581,000 and $557,000, respectively. Advertising typically consists of local print media aimed at businesses that the Company targets as well as sponsorships of local events in which the Company's clients and prospects are involved.

Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which is essentially the final rule on use of the so-called CECL model, or current expected credit losses. Among other things, ASC 326 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), enacted on March 27, 2020, gave financial institutions the option to delay adoption of CECL. The Company elected to delay its adoption of the update until the earlier of the date the national emergency concerning COVID-19 terminates or December 31, 2020, with an effective retrospective adoption date of January 1, 2020. Amounts reported for periods beginning on or after January 1, 2020 are presented under ASC 326, except quarterly periods in 2020, as shown in Note 23, which were not restated under CECL and all prior period information is presented in accordance with previously applicable GAAP. Based on prevailing economic conditions and forecasts as of January 1, 2020, the Company recognized a cumulative net increase to retained earnings of $1.1 million, net of tax, attributable to a decrease in the allowance for credit losses of $2.0 million, an increase in the allowance for off balance sheet credit exposures of $0.5 million, and a decrease in deferred tax assets of $0.4 million. This was the result of implementing a more quantitative methodology. The commercial, financial, and agricultural loan category decreased $8.2 million due to the portfolio primarily consisting of loans with generally short contractual maturities. This was partially offset by an increase of $6.2 million in the real estate – construction loan category due to the application of peer loss rates within the discounted cash flow pool reserve methodology. Peer historical loss rates were utilized to better align with loss expectations given the Company's low historical loss experience in this category. See Note 3 – Loans, which shows the impact of adopting ASC 326 by loan segment.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The FASB issued this ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current U.S. GAAP and disclosing key information about leasing arrangements. The amendments in this ASU are effective for public business entities for annual periods and interim periods within those annual periods beginning after December 15, 2018. Early application of this ASU is permitted for all entities. The Company adopted the amendments in this ASU by applying the alternative transition method allowing comparative periods to not be restated and any cumulative effect adjustment to the opening balance of retained earnings to be recognized as of January 1, 2019. The Company elected the three practical expedients allowed by the amendments as follows: 1) forego an assessment of whether any existing contracts are or contain leases, 2) forego an assessment of the classification of existing leases as to whether they are operating leases or capital leases, and 3) forego an assessment of direct costs for any existing leases. Upon adoption on January 1, 2019 the Company recorded a right-of-use asset of approximately $15.3 million and lease liability of approximately $15.3 million. See Note 6 – Leases.

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities.* The amendments shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this ASU were effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption was permitted. The amendments were to be applied on a modified retrospective basis, with a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The amendments in this ASU did not impact the Company's Consolidated Financial Statements, as it has always amortized premiums to the first call date.

In June 2018, the FASB issued ASU 2018-07, *Compensation – Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting.* These amendments expand the scope of Topic 718, Compensation - Stock Compensation, which previously only included share-based payments to employees, to include share-based payments issued to nonemployees for goods or services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. The ASU supersedes Subtopic 505-50, Equity – Equity-Based Payments to Non-Employees. The amendments in this ASU were effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption was permitted, but no earlier than a company's adoption date of Topic 606, Revenue from Contracts with Customers. The Company adopted this ASU effective January 1, 2019; however, the amendments did not have an impact on the Company's Consolidated Financial Statements because it does not have any unvested stock-based payment awards currently outstanding to nonemployees.

In July 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.* This ASU eliminated, added-to or modified certain disclosure requirements for fair value measurements. Among the changes, entities no longer are required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, however, entities are required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU No. 2018-13 was effective for interim and annual reporting periods beginning after December 15, 2019. As ASU No. 2018-13 only revised disclosure requirements, it did not have a material impact on the Company's Consolidated Financial Statements.

Recent Accounting Pronouncements

In March 2020, the FASB issued ASU *2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The update provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The guidance provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The guidance is intended to help stakeholders during the global market-wide reference rate transition period. Therefore, it will be effective for a limited time, starting *March 12, 2020* through *December 31, 2022*. The Company has identified a replacement reference rate established by the American Financial Exchange. This rate is based on an active market of daily fund trading among participant banks. The Company will apply the guidance provided by this ASU in transitioning to the new reference rate.

In August 2020, FASB issued ASU *2020-06, Debt-Debt with Conversion and Other Options (Topic 470) and Derivatives and Hedging – Contracts in Entity's Own Equity (Topic 815): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*. The update is intended to simplify accounting for convertible instruments by removing major separation models required under current U.S. GAAP. Consequently, more convertible debt instruments will be reported as a single liability instrument and more convertible preferred stock as a single equity instrument with *no* separate accounting for embedded conversion features. The update removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, which will permit more equity contracts to qualify for it. The update also simplifies the diluted earnings per share calculation in certain areas. The update is effective for the Company for its fiscal year beginning after *December 15, 2021*, including interim periods within those years. Early adoption will be permitted. The Company does *not* currently have any convertible debt instruments outstanding so does *not* believe that the update will have an impact on its financial statements.

NOTE 2. DEBT SECURITIES

The amortized cost and fair values of available-for-sale and held-to-maturity debt securities at December 31, 2020 and 2019 are summarized as follows:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Allowance For Credit Losses	Market Value
December 31, 2020			(In Thousands)		
Securities Available for Sale					
U.S. Treasury Securities	$ 13,993	$ 364	$ -	$ -	$ 14,357
Government Agency Securities	15,228	230	-	-	15,458
Mortgage-backed securities	477,407	17,720	(18)	-	495,109
State and municipal securities	37,671	444	-	-	38,115
Corporate debt	316,857	7,296	(504)	-	323,649
Total	$ 861,156	$ 26,054	$ (522)	$ -	$ 886,688
Debt Securities Held to Maturity					
State and municipal securities	250	-	-	-	250
Total	$ 250	$ -	$ -	$ -	$ 250
December 31, 2019					
Securities Available for Sale					
U.S Treasury Securities	$ 48,923	$ 291	$ (4)	$ -	$ 49,210
Government Agency Securities	18,245	143	(2)	-	18,386
Mortgage-backed securities	470,513	4,859	(1,318)	-	474,054
State and municipal securities	56,951	335	(14)	-	57,272
Corporate debt	157,549	3,098	(170)	-	160,477
Total	$ 752,181	$ 8,726	$ (1,508)	$ -	$ 759,399
Debt Securities Held to Maturity					
State and municipal securities	250	-	-	-	250
Total	$ 250	$ -	$ -	$ -	$ 250

All mortgage-backed debt securities are issued by government sponsored enterprises (GSEs) such as Federal National Mortgage Association, Government National Mortgage Association, Federal Home Loan Bank, and Federal Home Loan Mortgage Corporation.

At year-end 2020 and 2019, there were no holdings of debt securities of any issuer, other than the U.S. government and its agencies, in an amount greater than10% of stockholders' equity.

The amortized cost and fair value of debt securities as ofDecember 31, 2020 and 2019 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because the issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2020		December 31, 2019	
	Amortized Cost	Market Value	Amortized Cost	Market Value
	(In Thousands)			
Debt securities available for sale				
Due within one year	$ 30,797	$ 31,060	$ 58,722	$ 58,975
Due from one to five years	59,828	61,481	90,034	91,005
Due from five to ten years	288,002	293,886	129,501	131,914
Due after ten years	5,122	5,152	3,411	3,451
Mortgage-backed securities	477,407	495,109	470,513	474,054
	$ 861,156	$ 886,688	$ 752,181	$ 759,399
Debt securities held to maturity				
Due from one to five years	$ 250	$ 250	$ 250	$ 250
	$ 250	$ 250	$ 250	$ 250

The following table shows the gross unrealized losses and fair value of debt securities, aggregated by category and length of time that securities have been in a continuous unrealized loss position at December 31, 2020 and 2019.

	Less Than Twelve Months		Twelve Months or More		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In Thousands)					
December 31, 2020						
U.S. Treasury Securities	$ -	$ -	$ -	$ -	$ -	$ -
Government Agency Securities	-	-	-	-	-	-
Mortgage-backed securities	(18)	3,667	-	-	(18)	3,667
State and municipal securities	-	-	-	-	-	-
Corporate debt	(504)	59,576	-	-	(504)	59,576
Total	$ (522)	$ 63,243	$ -	$ -	$ (522)	$ 63,243
December 31, 2019						
U.S. Treasury Securities	$ (4)	$ 3,012	$ -	$ -	$ (4)	$ 3,012
Government Agency Securities	(2)	266	-	-	(2)	266
Mortgage-backed securities	(1,206)	153,330	(112)	24,911	(1,318)	178,241
State and municipal securities	(4)	1,900	(10)	2,647	(14)	4,547
Corporate debt	(170)	19,981	-	-	(170)	19,981
Total	$ (1,386)	$ 178,489	$ (122)	$ 27,558	$ (1,508)	$ 206,047

At December 31, 2020, no allowance for credit losses has been recognized on available for sale debt securities in an unrealized loss position as the Company doesnot believe any of the debt securities are credit impaired. This is based on the Company's analysis of the risk characteristics, including credit ratings, and other qualitative factors related to available for sale debt securities. The issuers of these debt securities continue to make timely principal and interest payments under the contractual terms of the securities. Furthermore, the Company does not intend to sell these debt securities and it is more likely thannot that the Company will not be required to sell the debt securities before recovery of their amortized cost, which may be at maturity. The unrealized losses are due to increases in market interest rates over the yields available at the time the debt securities were purchased.

The following table summarizes information about sales of debt securities available for sale.

	Years Ended December 31,		
	2020	2019	2018
	(In Thousands)		
Sale proceeds	$ -	$ 18,920	$ 5,736
Gross realized gains	$ -	$ 27	$ 15
Gross realized losses	-	-	-
Net realized gain (loss)	$ -	$ 27	$ 15

The carrying value of debt securities pledged to secure public funds on deposits and for other purposes as required by law as of December 31, 2020 and 2019 was $477.6 million and $389.9 million, respectively.

NOTE 3. LOANS

The loan portfolio is classified based on the underlying collateral utilized to secure each loan for financial reporting purposes. This classification is consistent with the Quarterly Report of Condition and Income filed by ServisFirst Bank with the Federal Deposit Insurance Corporation (FDIC).

Commercial, financial and agricultural - Includes loans to business enterprises issued for commercial, industrial, agricultural production and/or other professional purposes. These loans are generally secured by equipment, inventory, and accounts receivable of the borrower and repayment is primarily dependent on business cash flows.

Real estate – construction – Includes loans secured by real estate to finance land development or the construction of industrial, commercial or residential buildings. Repayment is dependent upon the completion and eventual sale, refinance or operation of the related real estate project.

Owner-occupied commercial real estate mortgage – Includes loans secured by nonfarm nonresidential properties for which the primary source of repayment is the cash flow from the ongoing operations conducted by the party that owns the property.

1-4 family real estate mortgage – Includes loans secured by residential properties, including home equity lines of credit. Repayment is primarily dependent on the personal cash flow of the borrower.

Other real estate mortgage – Includes loans secured by nonowner-occupied properties, including office buildings, industrial buildings, warehouses, retail buildings, multifamily residential properties and farmland. Repayment is primarily dependent on income generated from the underlying collateral.

Consumer – Includes loans to individuals not secured by real estate. Repayment is dependent upon the personal cash flow of the borrower.

In light of the U.S. and global economic crisis brought about by the COVID-19 pandemic, the Company prioritized assisting its clients through this troubled time. The CARES Act provides for Paycheck Protection Plan ("PPP") loans to be made by banks to employers with less than 500 employees if they continue to employ their existing workers. As of December 31, 2020, the Company has funded approximately 4,900 loans for a total amount of $1.05 billion for clients under the PPP, and management expects to continue to participate in any extensions of the PPP by the Treasury Department. At December 31, 2020, unaccreted deferred loan origination fees, net of costs, related to PPP loans totaled $17.8 million. PPP loan origination fees recorded as an adjustment to loan yield for the year ended December 31, 2020 were $14.1 million. PPP loans outstanding totaled $900.5 million at December 31, 2020 and are included within the Commercial, financial and agricultural loan category in the table below. No allowance for credit losses has been recorded for PPP loans as they are fully guaranteed by the SBA.

The composition of loans at December 31, 2020 and 2019 is summarized as follows:

	December 31, 2020	December 31, 2019
	(In Thousands)	
Commercial, financial and agricultural	$ 3,295,900	$ 2,696,210
Real estate - construction	593,614	521,392
Real estate - mortgage:		
Owner-occupied commercial	1,693,428	1,587,478
1-4 family mortgage	711,692	644,188
Other mortgage	2,106,184	1,747,394
Total real estate - mortgage	4,511,304	3,979,060
Consumer	64,870	64,789
Total Loans	8,465,688	7,261,451
Less: Allowance for credit losses	(87,942)	(76,584)
Net Loans	$ 8,377,746	$ 7,184,867

Changes in the allowance for credit losses during the years ended December 31, 2020, 2019 and 2018, respectively are as follows:

	Years Ended December 31,		
	2020	2019	2018
	(In Thousands)		
Balance, beginning of year	$ 76,584	$ 68,600	$ 59,406
Impact of adopting ASC 326	(2,000)	-	
Loans charged off	(29,568)	(22,489)	(12,753)
Recoveries	492	429	545
Allocation from LGP	-	7,406	-
Provision for credit losses	42,434	22,638	21,402
Balance, end of year	$ 87,942	$ 76,584	$ 68,600

As described in *Note 1. Summary of Significant Accounting Policies*, the Company adopted ASU 2016-13 on January 1, 2020, which introduced the CECL methodology for estimating all expected losses over the life of a financial asset. Under the CECL methodology, the allowance for credit losses is measured on a collective basis for pools of loans with similar risk characteristics. For loans that do not share similar risk characteristics with the collectively evaluated pools, evaluations are performed on an individual basis. For all loan segments collectively evaluated, losses are predicted over a period of time determined to be reasonable and supportable, and at the end of the reasonable and supportable forecast period losses are reverted to long term historical averages. The estimated loan losses for all loan segments are adjusted for changes in qualitative factors not inherently considered in the quantitative analyses. At December 31, 2020, the Company utilized a reasonable and supportable forecast period of twelve months followed by a six-month straight-line reversion to long term averages.

The Company uses the discounted cash flow ("DCF") method to estimate ACL for all loan pools except for commercial revolving lines of credit and credit cards. For all loan pools utilizing the DCF method, the Company utilizes and forecasts national unemployment rate as a loss driver. The Company also utilizes and forecasts GDP growth as a second loss driver for its agricultural and consumer loan pools. Consistent forecasts of the loss drivers are used across the loan segments. Upon implementation of CECL on January 1, 2020 and at December 31, 2020, a reasonable and supportable period of twelve months was utilized followed by a six-month straight-line reversion to long term averages. The Company leveraged economic projections from reputable and independent sources to inform its loss driver forecasts. At December 31, 2020 as compared to January 1, 2020, the Company forecasted a significantly higher national unemployment rate as well as a slightly higher national GDP growth rate. The Company expects national unemployment to remain above pre-pandemic levels over the forecast period with an improved national GDP growth rate as the economy comes back on line over the next year.

The Company uses loss rate methods to estimate expected credit losses for its commercial revolving lines of credit and credit card pools. The commercial revolving lines of credit pool incorporates a probability of default ("PD") and loss given default ("LGD") modeling approach. This approach involves estimating the pool average life and then using historical correlations of default and loss experience over time to calculate the lifetime PD and LGD. These two inputs are then applied to the outstanding pool balance as of December 31, 2020. The credit card pool incorporates a remaining life modeling approach, which utilizes an attrition-based method to estimate the remaining life of the pool. A quarterly average loss rate is then calculated using the Company's historical loss data. The model reduces the pool balance quarterly on a straight-line basis over the estimated life of the pool. The quarterly loss rate is multiplied by the outstanding balance at each period-end resulting in an estimated loss for each quarter. The sum of estimated loss for all quarters is the total calculated reserve for the pool at December 31, 2020.

Each loan pool is adjusted for qualitative factorsnot inherently considered in the quantitative analyses. The qualitative adjustments either increase or decrease the quantitative model estimation. The Company considers factors that are relevant within the qualitative framework which include the following: lending policy, changes in nature and volume of loans, staff experience, changes in volume and trends of problem loans, concentration risk, trends in underlying collateral values, external factors, quality of loan review system and other economic conditions.

Inherent risks in the loan portfolio will differ based on type of loan. Specific risk characteristics by loan portfolio segment are listed below:

Commercial and industrial loans include risks associated with borrower's cash flow, debt service coverage and management's expertise. These loans are subject to the risk that the Company may have difficulty converting collateral to a liquid asset if necessary, as well as risks associated with degree of specialization, mobility and general collectability in a default situation. These 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.

Real estate construction loans include risks associated with the borrower's credit-worthiness, contractor's qualifications, borrower and contractor performance, and the overall risk and complexity of the proposed project. Construction lending is also subject to risks associated with sub-market dynamics, including population, employment trends and household income. During times of economic stress, this type of loan has typically had a greater degree of risk than other loan types.

Real estate mortgage loans consist of loans secured by commercial and residential real estate. Commercial real estate lending is dependent upon successful management, marketing and expense supervision 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. Residential real estate lending risks are generally less significant than those of other loans. Real estate lending risks include fluctuations in the value of real estate, bankruptcies, economic downturn and customer financial problems.

Consumer loans 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.

During the third quarter of 2019, the Company recorded a $7.4 million payment resulting from the termination of a Loan Guarantee Program ("LGP") operated by the State of Alabama. The payment was recorded as an increase to the allowance specifically related to loans formerly enrolled in this program, in accordance with the Company's established allowance review and evaluation criteria. In general, loans enrolled in the program had a collateral shortfall or other enhanced credit risk. In return for the Company's acceptance of these higher risk loans, the Company received a guarantee of up to 50% of losses in the event of a borrower's default. These were loans that would have otherwise not met the Company's loan underwriting criteria. The program required a 1% fee on the commitment balance at origination. As of December 31, 2020, the Company had 55 loans outstanding totaling $37.2 million that were formerly enrolled in the loan guarantee program. Of this total, $29.7 million were categorized as Pass within the Company's credit quality asset classification, $6.5 million were categorized as Special Mention and $1.0 million were categorized as Substandard. As of December 31, 2019, the Company had 71 loans outstanding totaling $42.2 million that were formerly enrolled in the loan guarantee program. Of this total, $37.0 million were categorized as Pass within the Company's credit quality asset classification, $5.2 million were categorized as Special Mention.

Changes in the allowance for credit losses, and allowance for loan losses, segregated by loan type, during the years ended December 31, 2020 and 2019, respectively, are as follows:

	Commercial, financial and agricultural	Real estate - construction	Real estate - mortgage	Consumer	Total
			(In Thousands)		
			Year Ended December 31, 2020		
Allowance for credit losses:					
Balance at December 31, 2019	$ 43,666	$ 2,768	$ 29,653	$ 497	$ 76,584
Impact of adopting ASC 326	(8,211)	6,212	(966)	965	(2,000)
Charge-offs	(23,936)	(1,032)	(4,397)	(203)	(29,568)
Recoveries	252	32	140	68	492
Provision	24,599	8,077	9,292	466	42,434
Balance at December 31, 2020	$ 36,370	$ 16,057	$ 33,722	$ 1,793	$ 87,942
			Year Ended December 31, 2019		
Allowance for loan losses:					
Balance at December 31, 2018	$ 39,016	$ 3,522	$ 25,508	$ 554	$ 68,600
Charge-offs	(15,015)	-	(6,882)	(592)	(22,489)
Recoveries	306	3	13	107	429
Allocation from LGP	4,905	115	2,386	-	7,406
Provision	14,454	(872)	8,628	428	22,638
Balance at December 31, 2019	$ 43,666	$ 2,768	$ 29,653	$ 497	$ 76,584

The following table details the allowance for loan losses and recorded investment in loans by impairment evaluation method as of December 31, 2019, as determined in accordance with ASC 310 prior to the adoption of ASU 2016-13:

	Commercial, financial and agricultural	Real estate - construction	Real estate - mortgage	Consumer	Total
	(In Thousands)				
	December 31, 2019				
Individually Evaluated for Impairment	$ 6,085	$ 86	$ 3,633	$ -	$ 9,804
Collectively Evaluated for Impairment	37,581	2,682	26,020	497	66,780
Loans:					
Ending Balance	$ 2,696,210	$ 521,392	$ 3,979,060	$ 64,789	$ 7,261,451
Individually Evaluated for Impairment	20,843	4,320	17,985	-	43,148
Collectively Evaluated for Impairment	2,675,367	517,072	3,961,075	64,789	7,218,303

We maintain an allowance for credit losses on unfunded commercial lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for credit losses for loans, modified to take into account the probability of a drawdown on the commitment. The allowance for credit losses on unfunded loan commitments is classified as a liability account on the balance sheet within other liabilities, while the corresponding provision for these credit losses is recorded as a component of other expense. The allowance for credit losses on unfunded commitments was $2.2 million at December 31, 2020. Prior to January 1, 2020, we calculated allowance for losses on unfunded loan commitments using an incurred losses methodology. At December 31, 2019, the allowance for unfunded commitments was $500,000.

The credit quality of the loan portfolio is summarized no less frequently than quarterly using categories similar to the standard asset classification system used by the federal banking agencies. The following table presents credit quality indicators for the loan loss portfolio segments and classes. These categories are utilized to develop the associated allowance for credit losses using historical losses adjusted for current economic conditions defined as follows:

- Pass – loans which are well protected by the current net worth and paying capacity of the obligor (or obligors, if any) or by the fair value, less cost to acquire and sell, of any underlying collateral.
- Special Mention – loans with potential weakness that may, if not reversed or corrected, weaken the credit or inadequately protect the Company's position at some future date. These loans are not adversely classified and do not expose an institution to sufficient risk to warrant an adverse classification.
- Substandard – loans that exhibit well-defined weakness or weaknesses that presently jeopardize debt repayment. These loans are characterized by the distinct possibility that the institution will sustain some loss if the weaknesses are not corrected.
- Doubtful – loans that have all the weaknesses inherent in loans classified substandard, plus the added characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions, and values highly questionable and improbable.

The table below presents loan balances classified by credit quality indicator, loan type and based on year of origination as of December 31, 2020:

December 31, 2020	**2020**	**2019**	**2018**	**2017**	**2016**	**Prior**	**Revolving Loans**	**Total**
				(In Thousands)				
Commercial, financial and agricultural								
Pass	$ 1,260,341	$ 332,690	$ 229,838	$ 169,616	$ 89,893	$ 137,021	$ 988,093	$ 3,207,492
Special Mention	2,551	1,404	10	253	163	281	14,948	19,610
Substandard	569	10,639	617	5,447	963	2,038	48,525	68,798
Doubtful	-	-	-	-	-	-	-	-
Total Commercial, financial and agricultural	$ 1,263,461	$ 344,733	$ 230,465	$ 175,316	$ 91,019	$ 139,340	$ 1,051,566	$ 3,295,900
Real estate - construction								
Pass	$ 230,931	$ 222,357	$ 53,981	$ 16,361	$ 7,677	$ 13,816	$ 48,256	$ 593,379
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	235	-	235
Doubtful	-	-	-	-	-	-	-	-
Total Real estate - construction	$ 230,931	$ 222,357	$ 53,981	$ 16,361	$ 7,677	$ 14,051	$ 48,256	$ 593,614
Owner-occupied commercial								
Pass	$ 351,808	$ 271,645	$ 221,513	$ 198,935	$ 158,531	$ 417,743	$ 61,119	$ 1,681,294
Special Mention	-	-	-	6,524	543	1,873	200	9,140
Substandard	-	-	12	780	-	1,962	240	2,994
Doubtful	-	-	-	-	-	-	-	-
Total Owner-occupied commercial	$ 351,808	$ 271,645	$ 221,525	$ 206,239	$ 159,074	$ 421,578	$ 61,559	$ 1,693,428
1-4 family mortgage								
Pass	$ 179,314	$ 111,016	$ 70,381	$ 60,774	$ 27,985	$ 44,111	$ 212,616	$ 706,197
Special Mention	508	-	-	105	481	-	1,112	2,206
Substandard	350	126	-	235	218	-	2,360	3,289
Doubtful	-	-	-	-	-	-	-	-
Total 1-4 family mortgage	$ 180,172	$ 111,142	$ 70,381	$ 61,114	$ 28,684	$ 44,111	$ 216,088	$ 711,692
Other mortgage								
Pass	$ 470,086	$ 470,092	$ 250,945	$ 368,283	$ 180,244	$ 272,722	$ 68,721	$ 2,081,093
Special Mention	-	-	-	2,793	541	8,566	-	11,900
Substandard	-	50	4,589	8,552	-	-	-	13,191
Doubtful	-	-	-	-	-	-	-	-
Total Other mortgage	$ 470,086	$ 470,142	$ 255,534	$ 379,628	$ 180,785	$ 281,288	$ 68,721	$ 2,106,184
Consumer								
Pass	$ 20,410	$ 4,421	$ 1,551	$ 1,671	$ 1,031	$ 3,615	$ 32,125	$ 64,824

Special Mention	-	-	15	-	31	-	-	46
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Consumer	$ 20,410	$ 4,421	$ 1,566	$ 1,671	$ 1,062	$ 3,615	$ 32,125	$ 64,870
Total Loans								
Pass	$ 2,512,890	$ 1,412,221	$ 828,209	$ 815,640	$ 465,361	$ 889,028	$ 1,410,930	$ 8,334,279
Special Mention	3,059	1,404	25	9,675	1,759	10,720	16,260	42,902
Substandard	919	10,815	5,218	15,014	1,181	4,235	51,125	88,507
Doubtful	-	-	-	-	-	-	-	-
Total Loans	$ 2,516,868	$ 1,424,440	$ 833,452	$ 840,329	$ 468,301	$ 903,983	$ 1,478,315	$ 8,465,688

Loans by credit quality indicator as of December 31, 2019 were as follows:

December 31, 2019	Pass	Special Mention	Substandard	Doubtful	Total
			(In Thousands)		
Commercial, financial and agricultural	$ 2,629,487	$ 46,176	$ 20,547	$ -	$ 2,696,210
Real estate - construction	512,373	4,731	4,288	-	521,392
Real estate - mortgage:					
Owner-occupied commercial	1,555,283	18,240	13,955	-	1,587,478
1-4 family mortgage	639,959	2,787	1,442	-	644,188
Other mortgage	1,735,869	10,018	1,507	-	1,747,394
Total real estate - mortgage	3,931,111	31,045	16,904	-	3,979,060
Consumer	64,789	-	-	-	64,789
Total	$ 7,137,760	$ 81,952	$ 41,739	$ -	$ 7,261,451

Nonperforming loans include nonaccrual loans and loans90 or more days past due and still accruing. Loans by performance status as of December 31, 2020 and 2019 are as follows:

December 31, 2020	Performing	Nonperforming	Total
		(In Thousands)	
Commercial, financial and agricultural	$ 3,284,180	$ 11,720	$ 3,295,900
Real estate - construction	593,380	234	593,614
Real estate - mortgage:			
Owner-occupied commercial	1,692,169	1,259	1,693,428
1-4 family mortgage	710,817	875	711,692
Other mortgage	2,101,379	4,805	2,106,184
Total real estate - mortgage	4,504,365	6,939	4,511,304
Consumer	64,809	61	64,870
Total	$ 8,446,734	$ 18,954	$ 8,465,688

December 31, 2019	Performing	Nonperforming	Total
		(In Thousands)	
Commercial, financial and agricultural	$ 2,681,280	$ 14,930	$ 2,696,210
Real estate - construction	519,803	1,589	521,392
Real estate - mortgage:			
Owner-occupied commercial	1,576,652	10,826	1,587,478
1-4 family mortgage	641,875	2,313	644,188
Other mortgage	1,740,963	6,431	1,747,394
Total real estate - mortgage	3,959,490	19,570	3,979,060
Consumer	64,766	23	64,789
Total	$ 7,225,339	$ 36,112	$ 7,261,451

Loans by past due status as of December 31, 2020 and 2019 are as follows:

December 31, 2020	Past Due Status (Accruing Loans)							
	30-59 Days	60-89 Days	90+ Days	Total Past Due	Total Nonaccrual	Current	Total Loans	Nonaccrual With No ACL
				(In Thousands)				
Commercial, financial and agricultural	$ 92	$ 1,738	$ 11	$ 1,841	$ 11,709	$ 3,282,350	$ 3,295,900	$ 5,101
Real estate - construction	-	-	-	-	234	593,380	593,614	-
Real estate - mortgage:								
Owner-occupied commercial	-	995	-	995	1,259	1,691,174	1,693,428	467
1-4 family mortgage	61	1,073	104	1,238	771	709,683	711,692	512
Other mortgage	18	-	4,805	4,823	-	2,101,361	2,106,184	-
Total real estate - mortgage	79	2,068	4,909	7,056	2,030	4,502,218	4,511,304	979
Consumer	64	13	61	138	-	64,732	64,870	-
Total	$ 235	$ 3,819	$ 4,981	$ 9,035	$ 13,973	$ 8,442,680	$ 8,465,688	$ 6,080

December 31, 2019	Past Due Status (Accruing Loans)							
	30-59 Days	60-89 Days	90+ Days	Total Past Due	Total Nonaccrual	Current	Total Loans	Nonaccrual With No ACL
				(In Thousands)				
Commercial, financial and agricultural	$ 3,135	$ 344	$ 201	$ 3,680	$ 14,729	$ 2,677,801	$ 2,696,210	$ 1,572
Real estate - construction	830	-	-	830	1,589	518,973	521,392	1,350
Real estate - mortgage:								
Owner-occupied commercial	917	7,242	-	8,159	10,826	1,568,493	1,587,478	245
1-4 family mortgage	1,638	567	873	3,078	1,440	639,670	644,188	287
Other mortgage	-	-	4,924	4,924	1,507	1,740,963	1,747,394	-
Total real estate - mortgage	2,555	7,809	5,797	16,161	13,773	3,949,126	3,979,060	532
Consumer	35	25	23	83	-	64,706	64,789	-
Total	$ 6,555	$ 8,178	$ 6,021	$ 20,754	$ 30,091	$ 7,210,606	$ 7,261,451	$ 3,454

There was no interest earned on nonaccrual loans for the years endedDecember 31, 2020 and 2019.

Loans that no longer share similar risk characteristics with the collectively evaluated pools are estimated on an individual basis. A loan is considered collateral-dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The following table summarizes collateral-dependent gross loans held for investment by collateral type as follows:

	Real Estate	Accounts Receivable	Equipment	Other	Total	ACL Allocation
			(In Thousands)			
Commercial, financial and agricultural	$ 19,373	$ 27,952	$ 16,877	$ 4,594	$ 68,796	$ 7,142
Real estate - construction	235	-	-	-	235	1
Real estate - mortgage:						
Owner-occupied commercial	2,012	971	-	12	2,995	499
1-4 family mortgage	3,264	-	-	24	3,288	48
Other mortgage	13,191	-	-	-	13,191	-
Total	$ 38,075	$ 28,923	$ 16,877	$ 4,630	$ 88,505	$ 7,690

Prior to the adoption of ASU 2016-13, a loan was considered impaired when it was probable that the Company would be unable to collect all principal and interest payments due according to the contractual terms of the loan agreement. Individually identified impaired loans were measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral if the loan was collateral dependent. If the recorded investment in the impaired loan exceeded the measure of fair value, a valuation allowance was established as part of the allowance for loan losses. Changes to the valuation allowance were recorded as a component of the provision for loan losses.

The following table presents details of the Company's impaired loans as ofDecember 31, 2019. Loans which have been fully charged off do not appear in the tables.

December 31, 2019

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized in Period
			(In Thousands)		
With no allowance recorded:					
Commercial, financial and agricultural	$ 9,015	$ 10,563	$ -	$ 11,284	$ 562
Real estate - construction	2,731	2,735	-	2,063	126
Real estate - mortgage:					
Owner-occupied commercial	7,150	7,246	-	7,548	618
1-4 family mortgage	287	287	-	289	2
Other mortgage	-	-	-	-	-
Total real estate - mortgage	7,437	7,533	-	7,837	620
Consumer	-	-	-	-	-
Total with no allowance recorded	19,183	20,831	-	21,184	1,308
With an allowance recorded:					
Commercial, financial and agricultural	11,828	19,307	6,085	19,714	395
Real estate - construction	1,589	1,589	86	1,614	27
Real estate - mortgage:					
Owner-occupied commercial	7,888	11,028	2,456	13,627	301
1-4 family mortgage	1,153	1,153	176	1,157	1
Other mortgage	1,507	1,507	1,001	1,468	21
Total real estate - mortgage	10,548	13,688	3,633	16,252	323
Consumer	-	-	-	-	-
Total with allowance recorded	23,965	34,584	9,804	37,580	745
Total Impaired Loans:					
Commercial, financial and agricultural	20,843	29,870	6,085	30,998	957
Real estate - construction	4,320	4,324	86	3,677	153
Real estate - mortgage:					
Owner-occupied commercial	15,038	18,274	2,456	21,175	919
1-4 family mortgage	1,440	1,440	176	1,446	3
Other mortgage	1,507	1,507	1,001	1,468	21
Total real estate - mortgage	17,985	21,221	3,633	24,089	943
Consumer	-	-	-	-	-
Total impaired loans	$ 43,148	$ 55,415	$ 9,804	$ 58,764	$ 2,053

On March 22, 2020, the Interagency Statement was issued by banking regulators that encourages financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations due to the effects of COVID-19. Additionally, Section 4013 of the CARES Act further provides that a qualified loan modification is exempt by law from classification as a TDR as defined by GAAP, from the period beginning March 1, 2020 until the earlier of December 31, 2020 or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak declared by the President of the United States under the National Emergencies Act terminates. The Interagency Statement was subsequently revised in April 2020 to clarify the interaction of the original guidance with Section 4013 of the CARES Act, as well as setting forth the banking regulators' views on consumer protection considerations. In accordance with such guidance, the Bank is offering short-term modifications made in response to COVID-19 to borrowers who are current and otherwise not past due. These include short-term (180 days or less) modifications in the form of payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. As of December 31, 2020, there were 15 loans outstanding totaling $2.8 million that have payment deferrals in connection with the COVID-19 relief provided by the CARES Act. All of these remaining deferrals were principal and interest deferrals. The CARES Act precluded all of the ServisFirst COVID-19 loan modifications from being classified as a TDR as of December 31, 2020.

Troubled Debt Restructurings ("TDR") at December 31, 2020 and 2019 totaled $1.5 million and $3.4 million, respectively. The following tables present loans modified in a TDR during the periods presented by portfolio segment and the financial impact of those modifications. The tables include modifications made to new TDRs, as well as renewals of existing TDRs.

	Year Ended December 31, 2020		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(In Thousands)	
Troubled Debt Restructurings			
Commercial, financial and agricultural	2	$ 564	$ 564
Real estate - construction	1	357	357
Real estate - mortgage:			
Owner-occupied commercial	1	611	611
1-4 family mortgage	-	-	-
Other mortgage	-	-	-
Total real estate - mortgage	1	611	611
Consumer	-	-	-
	4	$ 1,532	$ 1,532

	Year ended December 31, 2019		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial, financial and agricultural	3	$ 3,415	$ 3,415
Real estate - construction	-	-	-
Real estate - mortgage:			
Owner-occupied commercial	-	-	-
1-4 family mortgage	-	-	-
Other mortgage	-	-	-
Total real estate - mortgage	-	-	-
Consumer	-	-	-
	3	$ 3,415	$ 3,415

The following table presents TDRs by portfolio segment which defaulted during the years ended December 31, 2020 and 2019, and which were modified in the previous twelve months (i.e., the twelve months prior to default). For purposes of this disclosure, default is defined as 90 days past due and still accruing or placement on nonaccrual status.

	Year Ended December 31, 2020	2019
Defaulted during the period, where modified in a TDR twelve months prior to default		
Commercial, financial and agricultural	$ -	$ 491
Real estate - construction	-	-
Real estate - mortgage:		
Owner occupied commercial	-	726
1-4 family mortgage	-	-
Other mortgage	-	-
Total real estate - mortgage	-	726
Consumer	-	-
	$ -	$ 1,217

In the ordinary course of business, the Company has granted loans to certain related parties, including directors, and their affiliates. The interest rates on these loans were substantially the same as rates prevailing at the time of the transaction and repayment terms are customary for the type of loan. Changes in related party loans for the years ended December 31, 2020 and 2019 are as follows:

	Years Ended December 31, 2020	2019
	(In Thousands)	
Balance, beginning of year	$ 24,681	$ 5,428
Additions	-	17,794
Advances	41,183	4,861
Repayments	(28,895)	(3,400)
Removal	-	(2)
Balance, end of year	$ 36,969	$ 24,681

NOTE 4. FORECLOSED PROPERTIES

Other real estate and certain other assets acquired in foreclosure are carried at the lower of the recorded investment in the loan or fair value less estimated costs to sell the property.

An analysis of foreclosed properties for the years ended December 31, 2020, 2019 and 2018 follows:

	2020	2019	2018
		(In Thousands)	
Balance at beginning of year	$ 8,178	$ 5,169	$ 6,701
Transfers from loans and capitalized expenses	2,985	4,611	3,087
Foreclosed properties sold	(2,813)	(1,437)	(3,934)
Write downs and partial liquidations	(1,853)	(165)	(685)
Balance at end of year	$ 6,497	$ 8,178	$ 5,169

NOTE 5. PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	December 31, 2020	December 31, 2019
	(In Thousands)	
Land	$ 5,830	$ 5,830
Building	36,365	36,365
Furniture and equipment	27,466	26,153
Leasehold improvements	10,789	10,681
Construction in progress	867	23
Total premises and equipment, cost	81,317	79,052
Accumulated depreciation	(26,348)	(22,556)
Total premises and equipment, net	$ 54,969	$ 56,496

The provisions for depreciation charged to occupancy and equipment expense for the years ended December 31, 2020, 2019 and 2018 were $3.8 million, $3.7 million, and $3.4 million, respectively.

NOTE 6. LEASES

The Company leases space under non-cancelable operating leases for several of its banking offices and certain office equipment. The Company reports its right-of-use asset in other assets and its lease liabilities in other liabilities in its Consolidated Balance Sheet.

Supplemental balance sheet information related to operating leases is as follows:

	December 31, 2020	December 31, 2019
Right-of-use assets	$ 10,452	$ 13,292
Lease liabilities	$ 10,645	$ 13,350
Weighted average remaining lease term	4.9	5.5
Weighted average discount rate	3.25%	3.18%

Lease costs during the year ended December 31, 2020 were as follows (in thousands):

	2020	2019
Operating lease cost	$ 3,476	$ 3,421
Short-term lease cost	45	65
Variable lease cost	151	154
Sublease income	(93)	(70)
Net lease cost	$ 3,579	$ 3,570

The following table reconciles future undiscounted lease payments due under non-cancelable leases to the aggregate lease liability as of December 31, 2020:

	(In Thousands)
2021	$ 3,024
2022	2,508
2023	2,453
2024	2,052
2025	1,129
Thereafter	2,504
Total lease payments	$ 13,670
Less: imputed interest	$ (3,024)
Present value of operating lease liabilities	$ 10,646

NOTE 7. VARIABLE INTEREST ENTITIES (VIEs)

The Company utilizes special purpose entities (SPEs) that constitute investments in limited partnerships that undertake certain development projects to achieve federal and state tax credits. These SPEs are typically structured as VIEs and are thus subject to consolidation by the reporting enterprise that absorbs the majority of the economic risks and rewards of the VIE. To determine whether it must consolidate a VIE, the Company analyzes the design of the VIE to identify the sources of variability within the VIE, including an assessment of the nature of risks created by the assets and other contractual obligations of the VIE, and determines whether it will absorb a majority of that variability.

The Company has invested in limited partnerships as a funding investor. The partnerships are single purpose entities that lend money to real estate investors for the purpose of acquiring and operating, or rehabbing, commercial property. The investments qualify for New Market Tax Credits under Internal Revenue Code Section 45D, as amended, or Historic Rehabilitation Tax Credits under Code Section 47, as amended, or Low-Income Housing Tax Credits under Code Section 42, as amended. For each of the partnerships, the Company acts strictly in a limited partner capacity. The Company has determined that it is not the primary beneficiary of these partnerships because it does not have the power to direct the activities of the entity that most significantly impact the entities' economic performance and therefore the partnerships are not consolidated in our financial statements. The amount of recorded investment in these partnerships as of December 31, 2020 and 2019 was $4.0 million and $16.6 million, respectively. None of this recorded investment was included in loans at December 31, 2020 and $12.1 million was included in loans at December 31, 2019. The company exited all three of its Alabama New Market Tax Credits investments during 2020 which resulted in the pay-off of the related recorded investment in loans. The remaining amounts are included in other assets.

NOTE 8. DEPOSITS

Deposits at December 31, 2020 and 2019 were as follows:

	December 31, 2020	December 31, 2019
	(In Thousands)	
Noninterest-bearing demand	$ 2,788,772	$ 1,749,879
Interest-bearing checking	6,276,910	4,986,193
Savings	89,418	65,808
Time deposits, $250,000 and under	273,301	267,221
Time deposits, over $250,000	497,323	461,332
Brokered time deposits	50,000	-
	$ 9,975,724	$ 7,530,433

The scheduled maturities of time deposits at December 31, 2020 were as follows:

	(In Thousands)
2021	$ 526,890
2022	146,765
2023	114,470
2024	24,062
2025	5,363
Thereafter	75
Total	$ 817,625

At December 31, 2020 and 2019, overdraft deposits reclassified to loans were $1.4 million and $4.2 million, respectively.

NOTE 9. FEDERAL FUNDS PURCHASED

At December 31, 2020, the Company had $851.5 million in federal funds purchased from its correspondent banks that are clients of its correspondent banking unit, compared to $385.7 million at December 31, 2019. Rates paid on these funds were between 0.15% and 0.25% as of December 31, 2020 and 1.60% and 1.67% as of December 31, 2019.

At December 31, 2020, the Company had available lines of credit totaling approximately $923.0 million with various financial institutions for borrowing on a short-term basis, compared to $767.0 million at December 31, 2019. At December 31, 2020, the Company had no outstanding borrowings from these lines.

NOTE 10. OTHER BORROWINGS

Other borrowings are comprised of:

- $30.0 million on the Company's 4.5% Subordinated Notes due November 8, 2027, which were issued in a private placement in November 2017 and pay interest semi-annually. The Notes may not be prepaid by the Company prior to November 8, 2022.
- $34.75 million of the Company's 4% Subordinated Notes due October 21, 2030, which were issued in a private placement in October 2020 and pay interest semi-annually. The Notes may not be prepaid by the Company prior to October 21, 2025.

Debt is reported net of unamortized issuance costs of $64,000 and $47,000 as of December 31, 2020 and 2019, respectively.

NOTE 11. SF INTERMEDIATE HOLDING COMPANY, INC., SF HOLDING 1, INC., SF REALTY 1, INC., SF FLA REALTY, INC., SF GA REALTY, INC. AND SF TN REALTY, INC.

In January 2012, the Company formed SF Holding 1, Inc., an Alabama corporation, and its subsidiary, SF Realty 1, Inc., an Alabama corporation. In September 2013, the Company formed SF FLA Realty, Inc., an Alabama corporation and a subsidiary of SF Holding 1, Inc. In May 2014, the Company formed SF GA Realty, Inc., an Alabama corporation and a subsidiary of SF Holding 1, Inc. In February 2016, the Company formed SF TN Realty, Inc., an Alabama corporation and a subsidiary of SF Holding 1, Inc. Also in February 2016, the Company formed SF Intermediate Holding Company, Inc., an Alabama corporation. Immediately following the formation of SF Intermediate Holding Company, Inc., ServisFirst Bank assigned all of the outstanding capital stock of SF Holding 1, Inc. to SF Intermediate Holding Company, Inc., such that SF Holding 1, Inc. now is a wholly-owned first tier subsidiary of SF Intermediate Holding Company, Inc. SF Realty 1, SF FLA Realty, SF GA Realty and SF TN

Realty all hold and manage participations in residential mortgages and commercial real estate loans originated by ServisFirst Bank and have elected to be treated as real estate investment trusts ("REIT") for U.S. income tax purposes. SF Intermediate Holding Company, Inc., SF Holding 1, Inc., SF Realty 1, Inc., SF FLA Realty, Inc., SF GA Realty, Inc. and SF TN Realty, Inc. are all consolidated into the Company.

NOTE 12. DERIVATIVES

The Company periodically enters into derivative contracts to manage exposures to movements in interest rates. The Company purchased an interest rate cap in May of 2020 to limit exposures to increases in interest rates. The interest rate cap isnot designated as a hedging instrument but rather as a stand-alone derivative. The interest rate cap has an original term of 3 years, a notional amount of $300 million and is tied to the one-month LIBOR rate with a strike rate of0.50%. The fair value of the interest rate cap is carried on the balance sheet in other assets and the change in fair value is recognized in noninterest income each quarter. At December 31, 2020, the interest rate cap had a fair value of $139,000 and remaining term of 2.4 years.

The Company has entered into agreements with secondary market investors to deliver loans on a "best efforts delivery" basis. When a rate is committed to a borrower, it is based on the best price that day and locked with the investor for the customer for a 30-day period. In the event the loan isnot delivered to the investor, the Company has no risk or exposure with the investor. The interest rate lock commitments related to loans that are originated for later sale are classified as derivatives. The fair values of the Company's agreements with investors and rate lock commitments to customers as of December 31, 2020 and December 31, 2019 were not material.

NOTE 13. EMPLOYEE AND DIRECTOR BENEFITS

The Company has a stock incentive plan, which is described below. The compensation cost that has been charged against income for the plan was approximately $1,332,000, $1,100,000 and $851,000 for the years ended December 31, 2020, 2019 and 2018, respectively.

Stock Incentive Plan

On March 23, 2009, the Company's board of directors adopted the 2009 Stock Incentive Plan (the "Plan"), which was effective upon approval by the stockholders at the 2009 Annual Meeting of Stockholders. The 2009 Plan originally permitted the grant of up to 2,550,000 shares of common stock. However, upon stockholder approval during 2014, the Plan was amended in order to allow the Company to grant stock options for up to5,550,000 shares of common stock. The Plan authorizes the grant of stock appreciation rights, restricted stock, incentive stock options, non-qualified stock options, non-stock share equivalents, performance shares or performance units and other equity-based awards. Option awards are generally granted with an exercise price equal to the estimated fair market value of the Company's stock at the date of grant.

As of December 31, 2020, there are a total of 3,186,865 shares available to be granted under the Plan.

Stock-based compensation expense for stock-based compensation awards granted is based on the grant-date fair value. For stock option awards, the fair value is estimated at the date of grant using the Black-Scholes-Merton valuation model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. The fair value of each option granted is estimated on the date of grant using the Black-Scholes-Merton model based on the weighted-average assumptions for expected dividend yield, expected stock price volatility, risk-free interest rate and expected life of options granted.

There were no grants of stock options during the year ended December 31, 2020. The assumptions used in determining the fair value of 2019 and 2018 stock option grants were as follows:

	2019	2018
Expected price volatility	40.00%	35.39%
Expected dividend yield	1.76%	1.24%
Expected term (in years)	7	6
Risk-free rate	1.96%	2.90%

The weighted average grant-date fair value of options granted during the years ended December 31, 2019 and 2018 was $12.40 and $12.76, respectively.

The following tables summarize stock option activity:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (In Thousands)
Year Ended December 31, 2020:				
Outstanding at beginning of year	965,248	$ 15.19	4.9	$ 21,911
Exercised	(306,300)	11.38	2.9	8,854
Forfeited	(18,000)	30.79	6.1	171
Outstanding at end of year	640,950	$ 18.14	4.6	$ 16,981
Exercisable at December 31, 2020:	182,200	$ 12.86	3.5	$ 4,998
Year Ended December 31, 2019:				
Outstanding at beginning of year	1,238,748	$ 13.02	5.2	$ 23,355
Granted	35,500	34.06	9.6	129
Exercised	(288,800)	7.56	2.5	8,534
Forfeited	(20,200)	24.88	6.2	259
Outstanding at end of year	965,248	$ 15.19	4.9	$ 21,911
Exercisable at December 31, 2019:	278,500	$ 8.28	3.0	$ 8,355
Year Ended December 31, 2018:				
Outstanding at beginning of year	1,666,834	$ 10.68	5.5	$ 51,377
Granted	42,250	37.21	9.6	-
Exercised	(414,336)	5.73	2.8	10,832
Forfeited	(56,000)	15.40	6.2	912
Outstanding at end of year	1,238,748	$ 13.02	5.2	$ 23,355

Exercisable at December 31, 2018:	510,100	$	7.08	3.5	$	12,645

Exercisable options at December 31, 2020 were as follows:

Range of Exercise Price			Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)		Aggregate Intrinsic Value
								(In Thousands)
$ 5.00	-	6.00	56,000	$	5.36	2.0	$	1,956
15.00	-	16.00	89,200		15.39	4.1		2,221
17.00	-	18.00	26,000		17.16	4.3		602
18.00	-	19.00	10,000		18.57	4.5		217
38.00	-	39.00	1,000		38.06	6.1		2
			182,200	$	12.86	3.5	$	4,998

As of December 31, 2020, there was $691,000 of total unrecognized compensation cost related to non-vested stock options. As of December 31, 2020, non-vested stock options had a weighted average remaining time to vest of 0.7 years.

Restricted Stock

The Company periodically grants restricted stock awards that vest upon service conditions. Dividend payments are made during the vesting period.

The following table summarizes restricted stock activity:

	Shares		Weighted Average Grant Date Fair Value
Year Ended December 31, 2020:			
Non-vested at beginning of year	71,290	$	32.24
Granted	33,695		33.91
Vested	(20,178)		23.76
Forfeited	(500)		34.09
Non-vested at end of year	84,307	$	34.92
Year Ended December 31, 2019:			
Non-vested at beginning of year	42,576	$	29.96
Granted	36,664		33.60
Vested	(5,450)		20.92
Forfeited	(2,500)		38.17
Non-vested at end of year	71,290	$	32.24
Year Ended December 31, 2018:			
Non-vested at beginning of year	120,676	$	10.29
Granted	16,350		39.84
Vested	(93,200)		6.07
Forfeited	(1,250)		41.21
Non-vested at end of year	42,576	$	29.96

The value of restricted stock is determined to be the current value of the Company's stock, and this total value will be recognized as compensation expense over the vesting period. As of December 31, 2020, there was $1.7 million of total unrecognized compensation cost related to non-vested restricted stock. As of December 31, 2020, non-vested restricted stock had a weighted average remaining time to vest of 2.6 years.

Retirement Plans

The Company has a retirement savings 401(k) and profit-sharing plan in which all employees age 21 and older may participate after completion of one year of service. For employees in service with the Company at June 15, 2005, the length of service and age requirements were waived. The Company matches employees' contributions based on a percentage of salary contributed by participants and may make additional discretionary profit-sharing contributions. The Company's expense for the plan was $2.0 million, $1.7 million and $1.5 million for 2020, 2019 and 2018, respectively.

NOTE 14. REGULATORY MATTERS

The Bank is subject to dividend restrictions set forth in the Alabama Banking Code and by the Alabama State Banking Department. Under such restrictions, the Bank may not, without the prior approval of the Alabama State Banking Department, declare dividends in excess of the sum of the current year's earnings plus the retained earnings from the prior two years. Based on these restrictions, the Bank would be limited to paying $382.5 million in dividends as of December 31, 2020.

The Bank is subject to various regulatory capital requirements administered by the state and federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank and the financial statements. Under regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification under the prompt corrective guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of common equity Tier 1 capital, total risk-based capital and Tier 1 capital to risk-weighted assets (as defined in the regulations), and Tier 1 capital to adjusted total assets (as defined). Management believes, as of December 31, 2020, that the Bank meets all capital adequacy requirements to which it is subject.

In July 2013, the Federal Reserve announced its approval of a final rule to implement the regulatory capital reforms developed by the Basel Committee on Banking Supervision ("Basel III"), among other changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The new rules became effective January 1, 2015, subject to a phase-in period for certain aspects of the new rules. In order to avoid restrictions on capital distributions and discretionary bonus payments to executives, under the new rules a covered banking organization will also be required to maintain a "capital conservation buffer" in addition to its minimum risk-based capital requirements. This buffer is required to consist solely of common equity Tier 1, and the buffer applies to all three risk-based measurements (CET1, Tier 1 capital and total capital). The capital conservation buffer was phased in incrementally over time, beginning January 1, 2016 and becoming fully effective on January 1, 2019, and ultimately consists of an additional amount of Tier 1 common equity equal to 2.5% of risk-weighted assets. At December 31, 2020 the Company and Bank exceeded such requirement.

As of December 31, 2020, the most recent notification from the Federal Deposit Insurance Corporation categorized ServisFirst Bank as well capitalized under the regulatory framework for prompt corrective action. To remain categorized as well capitalized, the Bank will have to maintain minimum CET1, total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as disclosed in the table below. Management believes that it is well capitalized under the prompt corrective action provisions as of December 31, 2020.

The Company's and Bank's actual capital amounts and ratios are presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2020:						
CET I Capital to Risk Weighted Assets:						
Consolidated	$ 958,300	10.50%	$ 410,816	4.50%	N/A	N/A
ServisFirst Bank	1,018,031	11.15%	410,766	4.50%	$ 593,328	6.50%
Tier I Capital to Risk Weighted Assets:						
Consolidated	958,800	10.50%	547,755	6.00%	N/A	N/A
ServisFirst Bank	1,018,531	11.16%	547,688	6.00%	730,250	8.00%
Total Capital to Risk Weighted Assets:						
Consolidated	1,113,690	12.20%	730,340	8.00%	N/A	N/A
ServisFirst Bank	1,108,673	12.15%	730,250	8.00%	912,813	10.00%
Tier I Capital to Average Assets:						
Consolidated	958,800	8.23%	465,980	4.00%	N/A	N/A
ServisFirst Bank	1,018,531	8.75%	465,448	4.00%	581,810	5.00%
As of December 31, 2019:						
CET I Capital to Risk Weighted Assets:						
Consolidated	$ 822,396	10.50%	$ 342,283	4.50%	N/A	N/A
ServisFirst Bank	885,172	11.30%	342,269	4.50%	$ 494,389	6.50%
Tier I Capital to Risk Weighted Assets:						
Consolidated	822,896	10.50%	456,377	6.00%	N/A	N/A
ServisFirst Bank	885,674	11.31%	456,359	6.00%	608,479	8.00%
Total Capital to Risk Weighted Assets:						
Consolidated	964,683	12.31%	608,502	8.00%	N/A	N/A
ServisFirst Bank	962,758	12.29%	608,479	8.00%	760,598	10.00%
Tier I Capital to Average Assets:						
Consolidated	822,896	9.13%	356,012	4.00%	N/A	N/A
ServisFirst Bank	885,674	9.83%	355,998	4.00%	444,997	5.00%

NOTE 15. OTHER OPERATING INCOME AND EXPENSES

The major components of other operating income and expense included in noninterest income and noninterest expense are as follows:

	Years Ended December 31,		
	2020	2019	2018
		(In Thousands)	
Other Operating Income			
ATM fee income	$ 1,747	$ 1,477	$ 876
Write-down in interest rate cap	(656)	-	-
Gain (loss) on sale of fixed assets	9	5	-
Other	515	261	363
Total other operating income	$ 1,615	$ 1,743	$ 1,239
Other Operating Expenses			
Other loan expenses	4,886	3,476	2,711
Customer and public relations	1,052	2,545	2,182
Sales and use tax	528	640	733
Write-down investment in tax credit partnerships	346	746	750
Telephone	541	1,131	919
Donations and contributions	506	837	859
Marketing	338	581	557
Supplies	495	572	550
Fraud and forgery losses	463	577	464
Directors fees	632	545	467
Postage	278	393	439
Other operational losses	1,662	36	519
Other	3,764	4,136	3,477
Total other operating expenses	$ 15,490	$ 16,214	$ 14,627

NOTE 16. INCOME TAXES

The components of income tax expense are as follows:

	Year Ended December 31,		
	2020	2019	2018
		(In Thousands)	
Current tax expense:			
Federal	$ 50,016	$ 36,683	$ 43,207
State	4,350	2,012	2,950
Total current tax expense	54,366	38,695	46,157
Deferred tax (benefit) expense:			
Federal	(9,342)	(166)	(12,636)
State	(385)	(911)	(1,619)
Total deferred tax (benefit) expense	(9,727)	(1,077)	(14,255)
Total income tax expense	$ 44,639	$ 37,618	$ 31,902

The Company's total income tax expense differs from the amounts computed by applying the Federal income tax statutory rates to income before income taxes. A reconciliation of the differences is as follows:

	Year Ended December 31, 2020	
	Amount	% of Pre-tax Earnings
	(In Thousands)	
Income tax at statutory federal rate	$ 44,984	21.00%
Effect on rate of:		
State income tax, net of federal tax effect	3,230	1.51%
Tax-exempt income, net of expenses	(354)	(0.17%)
Bank owned life insurance contracts	(1,325)	(0.62%)
Excess tax benefit from stock compensation	(1,306)	(0.61%)
Federal tax credits	(563)	(0.26%)
Other	(27)	(0.01%)
Effective income tax and rate	$ 44,639	20.84%

	Year Ended December 31, 2019	
	Amount	% of Pre-tax Earnings
	(In Thousands)	
Income tax at statutory federal rate	$ 39,241	21.00%
Effect on rate of:		
State income tax, net of federal tax effect	822	0.44%
Tax-exempt income, net of expenses	(461)	(0.25%)
Bank owned life insurance contracts	(787)	(0.42%)
Excess tax benefit from stock compensation	(1,405)	(0.75%)
Federal tax credits	(170)	(0.09%)
Other	378	0.20%
Effective income tax and rate	$ 37,618	20.13%

	Year Ended December 31, 2018	
	Amount	% of Pre-tax Earnings
	(In Thousands)	
Income tax at statutory federal rate	$ 35,457	21.00%
Effect on rate of:		
State income tax, net of federal tax effect	808	0.48%
Tax-exempt income, net of expenses	(655)	(0.39%)
Bank owned life insurance contracts	(657)	(0.39%)
Excess tax benefit from stock compensation	(3,118)	(1.84%)
Federal tax credits	(113)	(0.07%)
Other	180	0.10%
Effective income tax and rate	$ 31,902	18.89%

The components of net deferred tax asset are as follows:

	December 31,	
	2020	2019
	(In Thousands)	
Deferred tax assets:		
Allowance for credit losses	$ 21,600	$ 17,733
Other real estate owned	728	225
Nonqualified equity awards	873	953
Nonaccrual interest	322	231
State tax credits	6,091	7,787

Investments	-	1,119
Deferred loan fees	5,875	891
Reserve for unfunded commitments	600	183
Accrued bonus	2,594	2,029
Capital loss carryforward	1,480	-
Lease liability	2,671	-
Deferred revenue	42	-
Differences in amounts reflected in financial statements and income tax basis of assets acquired and liabilities assumed in acquisition	-	121
Other deferred tax assets	885	487
Total deferred tax assets	43,761	31,759
Deferred tax liabilities:		
Net unrealized gain on securities available for sale	5,360	1,515
Depreciation	4,011	4,021
Prepaid expenses	543	516
Investments	79	-
Right-of-use assets and other leasing transactions	2,622	-
Acquired intangible assets	74	141
Total deferred tax liabilities	12,689	6,193
Net deferred tax assets	$ 31,072	$ 25,566

The Company believes its net deferred tax asset is recoverable as of December 31, 2020 based on the expectation of future taxable income and other relevant considerations.

Pursuant to ASC 740-10-30-2 *Income Taxes*, deferred tax assets and liabilities are measured using enacted tax rates applicable to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company and its subsidiaries file a consolidated U.S. Federal income tax return and various consolidated and separate company state income tax returns. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2017 through 2020. The Company is also currently open to audit by several state departments of revenue for the years ended December 31, 2017 through 2020. The audit periods differ depending on the date the Company began business activities in each state. Currently, there are no years for which the Company filed a federal or state income tax return that are under examination by the IRS or any state department of revenue.

Accrued interest and penalties on unrecognized income tax benefits totaled $152,000 and $135,000 as of December 31, 2020 and 2019, respectively. Unrecognized income tax benefits as of December 31, 2020 and December 31, 2019, that, if recognized, would impact the effective income tax rate totaled $3,238,000 and $2,683,000 (net of the federal benefit on state income tax issues), respectively. The Company does not expect any of the uncertain tax positions to be settled or resolved during the next twelve months.

The following table presents a summary of the changes during 2020, 2019 and 2018 in the amount of unrecognized tax benefits that are included in the consolidated balance sheets.

	2020	2019	2018
		(In Thousands)	
Balance, beginning of year	$ 2,683	$ 2,133	$ 1,779
Increases related to prior year tax positions	997	998	799
Decreases related to prior year tax positions	-	-	-
Increases related to current year tax positions	-	-	-
Settlements	-	-	-
Lapse of statute	(442)	(448)	(445)
Balance, end of year	$ 3,238	$ 2,683	$ 2,133

NOTE 17. COMMITMENTS AND CONTINGENCIES

Loan Commitments

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, credit card arrangements, and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. A summary of the Company's approximate commitments and contingent liabilities is as follows:

	2020	2019	2018
		(In Thousands)	
Commitments to extend credit	$ 2,606,258	$ 2,303,788	$ 1,985,801
Credit card arrangements	286,128	248,617	173,613
Standby letters of credit and financial guarantees	66,208	48,394	40,590
Total	$ 2,958,594	$ 2,600,799	$ 2,200,004

Commitments to extend credit, credit card arrangements, commercial letters of credit and standby letters of credit all include exposure to some credit loss in the event of nonperformance of the customer. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet financial instruments. Because these instruments have fixed maturity dates, and because many of them expire without being drawn upon, they do not generally present any significant liquidity risk to the Company.

NOTE 18. CONCENTRATIONS OF CREDIT

The Company originates primarily commercial, residential, and consumer loans to customers in the Company's market area. The ability of the majority of the Company's customers to honor their contractual loan obligations is dependent on the economy in the market area.

The Company's loan portfolio is concentrated primarily in loans secured by real estate, principally secured by real estate in the Company's primary market areas. In addition, a substantial portion of the other real estate owned is located in that same market. Accordingly, the ultimate collectability of the loan portfolio and the recovery of the carrying amount of other real estate owned are susceptible to changes in market conditions in the Company's primary market area.

NOTE 19. EARNINGS PER COMMON SHARE

Basic earnings per common share are computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock options. The difference in earnings per share under the two-class method was not significant at December 31, 2020, 2019 and 2018.

	Year Ended December 31, 2020	2019	2018
	(Dollar Amounts In Thousands Except Per Share Amounts)		
Earnings Per Share			
Weighted average common shares outstanding	53,844,482	53,530,766	53,172,695
Net income available to common stockholders	$ 169,506	$ 149,180	$ 136,877
Basic earnings per common share	$ 3.15	2.79	$ 2.57
Weighted average common shares outstanding	53,844,482	53,530,766	53,172,695
Dilutive effects of assumed conversions and exercise of stock options and warrants	374,555	572,308	997,184
Weighted average common and dilutive potential common shares outstanding	54,219,037	54,103,074	54,169,879
Net income available to common stockholders	$ 169,506	$ 149,180	$ 136,877
Diluted earnings per common share	$ 3.13	$ 2.76	$ 2.53

NOTE 20. RELATED PARTY TRANSACTIONS

As more fully described in Note 3, the Company had outstanding loan balances to related parties as of December 31, 2020 and 2019 in the amount of $37.0 million and $24.7 million, respectively. Related party deposits totaled $12.8 million and $5.9 million at December 31, 2020 and 2019, respectively.

NOTE 21. FAIR VALUE MEASUREMENT

Measurement of fair value under U.S. GAAP establishes a hierarchy that prioritizes observable and unobservable inputs used to measure fair value, as of the measurement date, into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and also considers counterparty credit risk in its assessment of fair value.
Debt Securities. Where quoted prices are available in an active market, securities are classified within Level 1 of the hierarchy. Level 1 securities include highly liquid government securities such as U.S. Treasuries and exchange-traded equity securities. For securities traded in secondary markets for which quoted market prices are not available, the Company generally relies on pricing services provided by independent vendors. Such independent pricing services are to advise the Company on the carrying value of the securities available for sale portfolio. As part of the Company's procedures, the price provided from the service is evaluated for reasonableness given market changes. When a questionable price exists, the Company investigates further to determine if the price is valid. If needed, other market participants may be utilized to determine the correct fair value. The Company has also reviewed and confirmed its determinations in discussions with the pricing service regarding their methods of price discovery. Securities measured with these techniques are classified within Level 2 of the hierarchy and often involve using quoted market prices for similar securities, pricing models or discounted cash flow calculations using inputs observable in the market where available. Examples include U.S. government agency securities, mortgage-backed securities, obligations of states and political subdivisions, and certain corporate, asset-backed and other securities. In cases where Level 1 or Level 2 inputs are not available, as in the case of certain corporate securities, these securities are classified in Level 3 of the hierarchy.

Derivative instruments. The fair values of derivatives are determined based on a valuation pricing model using readily available observable market parameters such as interest rate curves, adjusted for counterparty credit risk. These measurements are classified as level *2* within the valuation hierarchy.

Loans Individually Evaluated. Loans individually evaluated are measured and reported at fair value when full payment under the loan terms is not probable. Loans individually evaluated are carried at the present value of expected future cash flows using the loan's existing rate in a discounted cash flow calculation, or the fair value of the collateral if the loan is collateral-dependent. Expected cash flows are based on internal inputs reflecting expected default rates on contractual cash flows. This method of estimating fair value does not incorporate the exit-price concept of fair value described in ASC 820-10 and would generally result in a higher value than the exit-price approach. For loans measured using the estimated fair value of collateral less costs to sell, fair value is generally determined based on appraisals performed by certified and licensed appraisers using inputs such as absorption rates, capitalization rates and market comparables, adjusted for estimated costs to sell. Management modifies the appraised values, if needed, to take into account recent developments in the market or other factors, such as changes in absorption rates or market conditions from the time of valuation, and anticipated sales values considering management's plans for disposition. Such modifications to the appraised values could result in lower valuations of such collateral. Estimated costs to sell are based on current amounts of disposal costs for similar assets. These measurements are classified as Level 3 within the valuation hierarchy. Loans individually evaluated are subject to nonrecurring fair value adjustment upon initial recognition or subsequent individually evaluation. A portion of the allowance for credit losses is allocated to loans individually evaluated if the value of such loans is deemed to be less than the unpaid balance. The range of fair value adjustments and weighted average adjustments as of December 31, 2020 was 0% to 56% and 22.3%, respectively. The range of fair value adjustments and weighted average adjustment as of December 31, 2019 was 0% to 30% and 5.6%, respectively. Loans individually evaluated are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly based on the same factors identified above. The amount recognized to write-down individually evaluated loans that are measured at fair value on a nonrecurring basis was $26.6 million and $22.9 million during the years ended December 31, 2020 and 2019, respectively.

Other Real Estate Owned and Repossessed Assets. Other real estate assets ("OREO") acquired through, or in lieu of, foreclosure and repossessed assets are held for sale and are initially recorded at the lower of cost or fair value, less selling costs. Any write-downs to fair value at the time of transfer to OREO or repossession are charged to the allowance for credit losses subsequent to foreclosure or repossession. Values are derived from appraisals of underlying collateral and discounted cash flow analysis. Appraisals are performed by certified and licensed appraisers. Subsequent to foreclosure, valuations are updated periodically and assets are marked to current fair value, not to exceed the new cost basis. In the determination of fair value subsequent to foreclosure, management also considers other factors or recent developments, such as changes in absorption rates and market conditions from the time of valuation, and anticipated sales values considering management's plans for disposition, which could result in adjustment to lower the property value estimates indicated in the appraisals. The range of fair value adjustments and weighted average adjustment as of December 31, 2020 was 5% to 27% and 12.5%, respectively. The range of fair value adjustments and weighted average adjustment as of December 31, 2019 was 5% to 10% and 8.0%, respectively. These measurements are classified as Level 3 within the valuation hierarchy. Net losses on the sale and write-downs of OREO of $2.5 million and $432,000 was recognized during the years ended December 31, 2020 and 2019, respectively. These charges were for write-downs in the value of OREO subsequent to foreclosure and losses on the disposal of OREO. OREO is classified within Level 3 of the hierarchy.

There was one residential real estate loan foreclosure for $209,000 classified as OREO as of December 31, 2020, compared to $103,000 as of December 31, 2019.

No residential real estate loan were in the process of being foreclosed as of December 31, 2020.

The following table presents the Company's financial assets and financial liabilities carried at fair value on a recurring basis as of December 31, 2020 and December 31, 2019:

	Fair Value Measurements at December 31, 2020 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets Measured on a Recurring Basis:	(In Thousands)			
Available-for-sale securities:				
U.S. Treasury securities	$ -	$ 14,357	$ -	$ 14,357
Government agency securities	-	15,458	-	15,458
Mortgage-backed securities	-	495,109	-	495,109
State and municipal securities	-	38,115	-	38,115
Corporate debt	-	323,650	-	323,650
Total available-for-sale debt securities	-	886,689	-	886,689
Interest rate cap derivative	-	139	-	139
Total assets at fair value	$ -	$ 886,828	$ -	$ 886,828

	Fair Value Measurements at December 31, 2019 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets Measured on a Recurring Basis:	(In Thousands)			
Available-for-sale securities				
U.S. Treasury securities	$ -	$ 49,210	$ -	$ 49,210
Government agency securities	-	18,386	-	18,386
Mortgage-backed securities	-	474,054	-	474,054
State and municipal securities	-	57,272	-	57,272
Corporate debt	-	160,477	-	160,477
Total assets at fair value	$ -	$ 759,399	$ -	$ 759,399

The carrying amount and estimated fair value of the Company's financial instruments were as follows:

	Fair Value Measurements at December 31, 2020 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets Measured on a Nonrecurring Basis:	(In Thousands)			
Loans individually evaluated	$ -	-	$ 80,817	$ 80,817
Other real estate owned and repossessed assets	-	-	6,497	6,497
Total assets at fair value	-	-	$ 87,314	$ 87,314

	Fair Value Measurements at December 31, 2019 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets Measured on a Nonrecurring Basis:				
	(In Thousands)			
Loans individually evaluated	$ -	$ -	$ 33,344	$ 33,344
Other real estate owned and repossessed assets	-	-	8,178	8,178
Total assets at fair value	$ -	$ -	$ 41,522	$ 41,522

The fair value of a financial instrument is the current amount that would be exchanged in a sale between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Current U.S. GAAP excludes certain financial instruments and all nonfinancial instruments from its fair value disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

	December 31, 2020 Carrying Amount	December 31, 2020 Fair Value	December 31, 2019 Carrying Amount	December 31, 2019 Fair Value
	(In Thousands)			
Financial Assets:				
Level 1 Inputs:				
Cash and cash equivalents	$ 2,209,640	$ 2,209,640	$ 530,127	$ 530,127
Level 2 Inputs:				
Federal funds sold	1,771	1,771	100,473	100,473
Mortgage loans held for sale	14,425	14,497	6,312	6,322
Level 3 Inputs:				
Debt securities held to maturity	250	250	250	250
Loans, net	8,377,746	8,387,718	7,184,867	7,132,542
Financial Liabilities:				
Level 2 Inputs:				
Deposits	$ 9,975,724	$ 9,987,665	$ 7,530,433	$ 7,534,984
Federal funds purchased	851,545	851,545	470,749	470,749
Other borrowings	64,748	65,560	64,703	65,048

NOTE 22. PARENT COMPANY FINANCIAL INFORMATION

The following information presents the condensed balance sheet of the Company as of December 31, 2020 and 2019 and the condensed statements of income and cash flows for the years ended December 31, 2020, 2019 and 2018.

CONDENSED BALANCE SHEETS
(In Thousands)

	December 31, 2020	December 31, 2019
ASSETS		
Cash and due from banks	$ 14,685	$ 10,071
Investment in subsidiary	1,052,083	904,958
Other assets	1,119	1,238
Total assets	$ 1,067,887	$ 916,267
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Other borrowings	$ 64,748	$ 64,703
Other liabilities	10,787	9,384
Total liabilities	75,535	74,087
Stockholders' equity:		
Preferred stock, par value $0.001 per share; 1,000,000 authorized and undesignated at December 31, 2020 and December 31, 2019	-	-
Common stock, par value $0.001 per share; 100,000,000 shares authorized; 53,943,751 shares issued and outstanding at December 31, 2020 and 53,623,740 shares issued and outstanding at December 31, 2019	54	54
Additional paid-in capital	223,856	219,766
Retained earnings	748,224	616,611
Accumulated other comprehensive income	20,218	5,749
Total stockholders' equity	992,352	842,180
Total liabilities and stockholders' equity	$ 1,067,887	$ 916,267

CONDENSED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 and 2018
(In Thousands)

	2020	2019	2018
Income:			
Dividends received from subsidiary	$ 45,000	$ 37,000	$ 23,000
Other income	-	-	176
Total income	45,000	37,000	23,176
Expense:			
Other expenses	2,936	2,930	2,933
Total expenses	2,936	2,930	2,933
Equity in undistributed earnings of subsidiary	127,442	115,110	116,634
Net income	169,506	149,180	136,877
Dividends on preferred stock	-	-	-
Net income available to common stockholders	$ 169,506	$ 149,180	$ 136,877

STATEMENTS OF CASH FLOW

FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018

	(In Thousands) 2020	2019	2018
Operating activities			
Net income	$ 169,506	$ 149,180	$ 136,877
Adjustments to reconcile net income to net cash provided by operating activities:			
Other	204	38	(1,181)
Equity in undistributed earnings of subsidiary	(127,442)	(115,110)	(116,634)
Net cash provided by operating activities	42,268	34,108	19,062
Investing activities			
Other	-	(1,000)	275
Net cash used in investing activities	-	(1,000)	275
Financing activities			
Proceeds from issuance of subordinated notes	34,710	-	-
Redemption of subordinated notes	(34,750)	-	-
Dividends paid on common stock	(37,614)	(32,071)	(20,194)
Net cash used in financing activities	(37,654)	(32,071)	(20,194)
Increase (decrease) in cash and cash equivalents	4,614	1,037	(857)
Cash and cash equivalents at beginning of year	10,071	9,034	9,891
Cash and cash equivalents at end of year	$ 14,685	$ 10,071	$ 9,034

NOTE 23. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table sets forth certain unaudited quarterly financial data derived from our consolidated financial statements. Such data is only a summary and should be read in conjunction with our historical consolidated financial statements and related notes continued in this annual report on Form 10-K.

	2020 Quarter Ended (Dollars in thousands, except per share data)			
	March 31	June 30	September 30	December 31
Interest income	$ 96,767	$ 95,080	$ 96,110	$ 101,065
Interest expense	19,127	11,846	11,028	8,984
Net interest income	77,640	83,234	85,082	92,081
Provision for credit losses (1)	13,584	10,283	12,284	6,283
Net income available to common stockholders	34,778	40,417	43,362	50,949
Net income per common share, basic	$ 0.65	$ 0.75	$ 0.80	$ 0.94
Net income per common share, diluted	$ 0.64	$ 0.75	$ 0.80	$ 0.94

	2019 Quarter Ended (Dollars in thousands, except per share data)			
	March 31	June 30	September 30	December 31
Interest income	$ 93,699	$ 97,787	$ 101,130	$ 98,187
Interest expense	24,921	27,702	28,125	22,410
Net interest income	68,778	70,085	73,005	75,777
Provision for credit losses (1)	4,885	4,884	6,985	5,884
Net income available to common stockholders	35,010	35,602	37,563	41,005
Net income per common share, basic	$ 0.65	$ 0.67	$ 0.70	$ 0.77
Net income per common share, diluted	$ 0.65	$ 0.66	$ 0.69	$ 0.76

(1) The first three quarters of 2020 and all of 2019 were estimated and recorded under the incurred loss methodology andnot restated for the adoption of ASC 326. The Company elected to delay the adoption of CECL as allowed under the CARES Act.

ITEM 9. CHANGESIN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

There were no disagreements with accountants regarding accounting and financial disclosure matters during the year ended December 31, 2020.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, under supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures, as defined under Exchange Act Rule 13a-15(e). Based upon that evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2020.

Changes in Internal Control over Financial Reporting

The Chief Executive Officer and Chief Financial Officer have concluded that there were no changes in our internal control over financial reporting identified in the evaluation of the effectiveness of our disclosure controls and procedures that occurred during the fiscal quarter ended December 31, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined under Exchange Act Rules 13a-15(f) and 14d-14(f). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

All internal controls systems, no matter how well designed, have inherent limitations and may not prevent or detect misstatements in the Company's financial statements, including the possibility of circumvention or overriding of controls. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2020, management assessed the effectiveness of our internal control over financial reporting based on criteria for effective internal control over financial reporting established in "Internal Control – Integrated Framework (2013)," issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2020, based on those criteria.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2020, has been audited by Dixon Hughes Goodman LLP, an independent registered public accounting firm, as stated in their report herein — "Report of Independent Registered Public Accounting Firm."

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

We respond to this Item by incorporating by reference the material responsive to this Item in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2021 Annual Meeting of Stockholders. Information regarding the Company's executive officers is provided in Part I, Item 1 of this Form 10-K.

Code of Ethics
Our Board of Directors has adopted a Code of Ethics that applies to all of our employees, officers and directors. The Code of Ethics covers compliance with law; fair and honest dealings with us, with competitors and with others; fair and honest disclosure to the public; and procedures for compliance with the Code of Ethics. A copy of the Code of Ethics is available on our website at www.servisfirstbank.com. We will disclose any amendments or waivers, including implicit waivers, of the Code of Ethics applicable to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, on our website.

ITEM 11. EXECUTIVE COMPENSATION

We respond to this Item by incorporating by reference the material responsive to this Item in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2021 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

We respond to this Item by incorporating by reference the material responsive to this Item in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2021 Annual Meeting of Stockholders. The information called for by this item relating to "Securities Authorized for Issuance Under Equity Compensation Plans" is provided in Part II, Item 5 of this Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

We respond to this Item by incorporating by reference the material responsive to this Item in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2021 Annual Meeting of Stockholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

We respond to this Item by incorporating by reference the material responsive to this Item in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2021 Annual Meeting of Stockholders.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules

(a) The following statements are filed as a part of this Annual Report on Form 10-K

(b) The following exhibits are furnished with this Annual Report on Form 10-K

EXHIBIT NO.	NAME OF EXHIBIT
2.1	Plan of Reorganization and Agreement of Merger dated August 29, 2007 (incorporated by reference to Exhibit 2.1 to the Company's Registration Statement on Form 10, filed on March 28, 2008).
3.1	Restated Certificate of Incorporation as amended (incorporated by reference to Exhibit 3.3 to the Company's Current Report on Form 8-K, filed June 24, 2016).

3.2	Certificate of Elimination of the Senior-Non Cumulative Perpetual Preferred Stock, Series A (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K/A, filed on June 28, 2016).
3.3	Bylaws (Restated for SEC filing purposes only) (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on April 4, 2014).
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form 10, filed on March 28, 2008).
4.2	Revised Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on September 15, 2008, Commission File No. 0-53149).
4.3	Description of Capital Stock (incorporated by reference to Exhibit 4.3 to the Company's Annual Report on Form 10-K, filed on February 25, 2020).
10.1*	2005 Amended and Restated Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form 10, filed on March 28, 2008).
10.2*	Amended and Restated Change in Control Agreement with William M. Foshee dated March 5, 2014 (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K, filed on March 7, 2014).

10.3*	Amended and Restated Change in Control Agreement with Clarence C. Pouncey III dated March 5, 2014 (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K, filed on March 7, 2014).
10.4*	Employment Agreement of Andrew N. Kattos dated April 27, 2006 (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form 10, filed on March 28, 2008).
10.5*	Employment Agreement of G. Carlton Barker dated February 1, 2007 (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form 10, filed on March 28, 2008).
10.6*	2009 Amended and Restated Stock Incentive Plan (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A, filed on March 18, 2014).
10.7*	Note Purchase Agreement, dated November 8, 2017, between ServisFirst Bancshares, Inc. and certain accredited investors (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on November 9, 2017).
10.8*	Note Purchase Agreement, dated October 21, 2020, between ServisFirst Bancshares, Inc. and certain accredited investors (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on October 22, 2020).
10.9*	First Amendment to the ServisFirst Bancshares, Inc. Amended and Restated 2009 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed November 1, 2016).
10.10*	First Amendment to the ServisFirst Bancshares, Inc. Amended and Restated 2005 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, filed November 1, 2016).
10.11*	Form of Nonqualified Stock Option Award pursuant to the ServisFirst Bancshares, Inc. Amended and Restated 2009 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q, filed November 1, 2016).
10.12*	Form of Restricted Stock Award Agreement pursuant to the ServisFirst Bancshares, Inc. Amended and Restated 2009 Stock Incentive Plan (incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-8, filed June 17, 2014).
10.13	Loan Agreement, dated as of September 1, 2016, by and between ServisFirst Bancshares, Inc. and NexBank SSB (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed September 2, 2016).
10.14	Revolving Promissory Note dated as of September 1, 2016 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed September 2, 2016).
10.15	Pledge and Security Agreement dated as of September 1, 2016 by and between ServisFirst Bancshares, Inc. and NexBank SSB (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed September 2, 2016).

10.16*	Second Amendment to the ServisFirst Bancshares, Inc. Amended and Restated 2009 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed September 17, 2018).
10.17*	Third Amendment to the ServisFirst Bancshares, Inc. Amended and Restated 2009 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed April 30, 2019).
10.18*	Form of Nonqualified Stock Option Award (Revised 2019)(incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, filed April 30, 2019).
10.19*	Form of Restricted Stock Award Agreement (Revised 2019)(incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q, filed April 30, 2019).

10.20*	Endorsement Split-Dollar Agreement with Thomas A. Broughton III dated November 9, 2020 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed November 13, 2020.
10.21*	Endorsement Split-Dollar Agreement with William M. Foshee dated November 9, 2020 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed November 13, 2020.
10.22*	Endorsement Split-Dollar Agreement with Rodney E. Rushing dated November 9, 2020 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed November 13, 2020.
21	List of Subsidiaries
23	Consent of Dixon Hughes Goodman LLP
24	Power of Attorney
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Schema Documents
101.CAL	Inline XBRL Calculation Linkbase Document
101.LAB	Inline XBRL Label Linkbase Document
101.PRE	Inline XBRL Presentation Linkbase Document
101.DEF	Inline XBRL Definition Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

** denotes management contract or compensatory plan or arrangement*

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SERVISFIRST BANCSHARES, INC.

By: /s/Thomas A. Broughton, III
Thomas A. Broughton, III
President and Chief Executive Officer

Dated: February 25, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/Thomas A. Broughton, III Thomas A. Broughton, III	Chairman, President, Chief Executive Officer and Director (Principal Executive Officer)	February 25, 2021
/s/ William M. Foshee William M. Foshee	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 25, 2021
* Irma L. Tuder	Director	February 25, 2021
* Michael D. Fuller	Director	February 25, 2021
* James J. Filler	Director	February 25, 2021

*	Director	February 25, 2021
Joseph R. Cashio		
*	Director	February 25, 2021
Hatton C. V. Smith		
*	Director	February 25, 2021
Christopher J. Mettler		

*The undersigned, acting pursuant to a Power of Attorney, has signed this Annual Report on Form 10-K for and on behalf of the persons indicated above as such persons' true and lawful attorney-in-fact and in their names, places and stated, in the capacities indicated above and on the date indicated below.

/s/ William M. Foshee
William M. Foshee
Attorney-in-Fact
February 25, 2021

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
ServisFirst Bancshares, Inc.
Birmingham, Alabama

We consent to the incorporation by reference in the registration statements (Nos. 333-170507, 333-196825 and 333-213869) on Form S-8 and (No. 333-225302) on Form S-3 of ServisFirst Bancshares, Inc. of our reports dated February 25, 2021, with respect to the consolidated financial statements of ServisFirst Bancshares, Inc. and subsidiaries and the effectiveness of internal control over financial reporting, which reports appear in ServisFirst Bancshares Inc.'s 2020 Annual Report on Form 10-K.

/s/ Dixon Hughes Goodman LLP

Atlanta, Georgia
February 25, 2021

Exhibit 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes Thomas A. Broughton III and William M. Foshee, and each of them, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities to sign on his behalf the ServisFirst Bancshares, Inc. Annual Report on Form 10-K for the year ended December 31, 2020.

Hereby executed by the following persons in the capacities indicated on February 18, 2019, in Birmingham, Alabama.

Name	Title
/s/ Irma L. Tuder	Director
Irma L. Tuder	
/s/ Joseph R. Cashio	Director
Joseph R. Cashio	
/s/ James J. Filler	Director
James J. Filler	
/s/ Michael D. Fuller	Director
Michael D. Fuller	
/s/ Hatton C.V. Smith	Director
Hatton C.V. Smith	
/s/ Christopher J. Mettler	Director
Christopher J. Mettler	

Exhibit 31.1

Section 302 Certification of the CEO

I, Thomas A. Broughton III, certify that:

1. I have reviewed this Annual Report on Form 10-K of ServisFirst Bancshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2021

/s/ Thomas A. Broughton III
Thomas A. Broughton III
President and Chief Executive Officer

A signed original of this written statement has been provided to the registrant and will be retained by the registrant and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 31.2

Section 302 Certification of the CFO

I, William M. Foshee, certify that:

1. I have reviewed this Annual Report on Form 10-K of ServisFirst Bancshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2021

/s/William M. Foshee
William M. Foshee
Chief Financial Officer

A signed original of this written statement has been provided to the registrant and will be retained by the registrant and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.1

Section 906 Certification of the CEO
CERTIFICATION OF PERIODIC FINANCIAL REPORT
PURSUANT TO 18 U.S.C. SECTION 1350

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of ServisFirst Bancshares, Inc. (the "Company") certifies that, to his knowledge, the Annual Report on Form 10-K of the Company for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: February 25, 2021

/s/Thomas A. Broughton III
Thomas A. Broughton III
President and Chief Executive Officer

A signed original of this written statement has been provided to the registrant and will be retained by the registrant and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

Section 906 Certification of the CFO
CERTIFICATION OF PERIODIC FINANCIAL REPORT
PURSUANT TO 18 U.S.C. SECTION 1350

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of ServisFirst Bancshares, Inc. (the "Company") certifies that, to his knowledge, the Annual Report on Form 10-K of the Company for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: February 25, 2021

/s/William M. Foshee______________
William M. Foshee
Chief Financial Officer

A signed original of this written statement has been provided to the registrant and will be retained by the registrant and furnished to the Securities and Exchange Commission or its staff upon request.