

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, 2021

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
(State or Other Jurisdiction of
Incorporation or Organization)

26-0734029
(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
Common stock, par value \$.001 per share

Trading symbol(s)
SFBS

Name of exchange on which registered
New York Stock Exchange

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, 2021, the aggregate market value of the voting common stock held by non-affiliates of the registrant, based on a stock price of \$67.98 per share of Common Stock, was \$3,377,202,000.

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

<u>Class</u>	<u>Outstanding as of February 22, 2022</u>
Common stock, \$.001 par value	54,273,091

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 2022 Annual Meeting of Stockholders are incorporated by reference into Part III of this annual report on Form 10-K.

SERVISFIRST BANCSHARES, INC.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- the 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;
- 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 2019, 2020 and 2021 mean our fiscal years ended December 31, 2019, 2020 and 2021, 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 23 full-service banking offices located in Alabama, Florida, Georgia, South Carolina, and Tennessee. We also operate loan production offices in Florida. Through our bank, we originate commercial, consumer and other loans and accept deposits, provide electronic banking services, such as online and mobile banking, including remote deposit capture, deliver treasury and cash management services and provide correspondent banking services to other financial institutions. As of December 31, 2021, we had total assets of approximately \$15.4 billion, total loans of approximately \$9.5 billion, total deposits of approximately \$12.5 billion and total stockholders' equity of approximately \$1.2 billion.

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 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 Board of Governors of the Federal Reserve System (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 27 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, 2021, our branches averaged approximately \$541.4 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 31.3% of our total loan portfolio as of December 31, 2021.

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 ("SBA") Paycheck Protection Program ("PPP") loans. During 2020 and 2021, we originated over 7,400 PPP loans with an aggregate balance of approximately \$1.5 billion.

Identify Opportunities in Vibrant Markets. Since opening our original banking facility in Birmingham in 2005, we have expanded into nine additional markets as of December 31, 2021. 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, Crestview-Fort Walton Beach-Destin, Pensacola-Ferry Pass-Brent, North Port-Sarasota-Bradenton and Tampa-St. Petersburg-Clearwater, Florida, Atlanta-Sandy Springs-Alpharetta, Georgia, Charleston-North Charleston, South Carolina and Nashville-Davidson-Murfreesboro, 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 2011 to 2021 (deposit data reflects totals as reported by financial institutions as of June 30th of each year) as follows:

	2021	2011	Compound Annual Growth Rate
	(Dollars in Billions)		
Jefferson/Shelby County, Alabama	\$ 51.8	\$ 23.8	8.09%
Madison County, Alabama	10.5	6.1	5.58%
Mobile County, Alabama	10.4	6.0	5.65%
Montgomery County, Alabama	8.3	5.9	3.47%
Baldwin County, Alabama	6.6	3.2	7.51%
Houston County, Alabama	3.6	2.1	5.54%
Orange County, Florida	47.4	21.2	8.38%
Hillsborough County, Florida	43.5	23.1	6.53%
Sarasota County, Florida	18.7	11.4	5.07%
Escambia County, Florida	6.7	3.8	5.83%
Cobb County, Georgia	23.7	9.5	9.57%
Douglas County, Georgia	2.5	1.2	7.62%
Charleston County, South Carolina	16.5	7.6	8.06%
Davidson County, Tennessee	55.0	21.6	9.80%

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

The following table illustrates our market share, by insured deposits, in our primary service areas at June 30, 2021 as most recently 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	\$ 4,833.0	\$ 54,527.3	3	8.86%
Huntsville MSA	2	1,133.1	11,472.5	3	9.88%
Montgomery MSA	2	1,097.2	10,258.0	3	10.70%
Dothan MSA	2	748.0	4,393.5	1	17.03%
Mobile MSA	2	445.2	8,758.2	9	4.18%
Daphne-Fairhope-Foley MSA	1	50.5	6,572.7	20	0.77%
Florida:					
Pensacola-Ferry Pass-Brent MSA	2	555.5	8,692.1	7	6.39%
Tampa-St. Petersburg-Clearwater MSA	1	392.3	116,999.4	28	0.34%
North Port-Sarasota-Bradenton MSA	1	127.6	28,487.4	27	0.45%
Crestview-Fort Walton Beach-Destin MSA	1	57.3	7,826.0	20	0.73%
Georgia:					
Atlanta-Sandy Springs-Alpharetta MSA	2	631.6	236,059.2	25	0.27%
South Carolina:					
Charleston-North Charleston MSA	2	296.9	20,354.7	12	1.46%
Tennessee:					
Nashville-Davidson-Murfreesboro MSA	1	601.6	89,155.1	20	0.67%

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, 2021, as reported by the FDIC:

Alabama	64.5%
Florida	8.5%
Georgia	7.8%
South Carolina	14.0%
Tennessee	25.8%

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, PNC, 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 \$509.5 million to \$1.1 billion at December 31, 2021. There were \$14,000 in charge-offs on construction loans during 2021 and \$1.0 million in charge-offs during 2020. There were no construction loans rated as substandard at December 31, 2021 and \$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, 2021, we had commitments to extend credit beyond current amounts funded of \$3.5 billion, had issued standby letters of credit in the amount of \$61.9 million, and had commitments for credit card arrangements of \$366.5 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 30% 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, 2021.

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 they 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 and the bank are subject to comprehensive supervision and periodic examination by the Federal Reserve, the FDIC, the Alabama State Banking Department (the "Alabama Banking Department"), and the U.S. Consumer Financial Protection Bureau (the "CFPB"), among other regulatory bodies. Those agencies consider not only compliance with applicable laws, regulations and supervisory policies, 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. Regarding the CFPB, we became subject to more comprehensive regulation by the CFPB in 2021, when our assets exceeded \$10 billion for the fourth consecutive quarter (our assets were greater than \$10 billion at the end of the second, third, and fourth quarters of 2020, and all four quarters of 2021). The CFPB's supervisory focus primarily involves an institution's compliance with federal consumer protection laws

The results of examination activity by any of our federal or state 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, among 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 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.

In reviewing merger and other acquisition transactions, the Federal Reserve 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.” The consideration of convenience and needs of the community to be served includes the institution’s performance under the Community Reinvestment Act (the “CRA”).

Additionally, the BHC Act provides that the Federal Reserve may not approve a merger or other acquisition transaction if the 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. In July 2021, President Biden issued an Executive Order on Promoting Competition in the American Economy. Among other initiatives, the Executive Order encouraged the federal banking agencies to review their current merger oversight practices under the BHC Act and the Bank Merger Act and adopt a plan for revitalization of such practices. There are many steps that must be taken by the agencies before any formal changes to the framework for evaluating bank mergers can be finalized, and the prospects for such action are uncertain at this time. However, the adoption of more expansive or prescriptive standards may have an impact on the merger and other acquisition activities of U.S. financial institutions like us.

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 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 and managerial strength to its bank subsidiaries. Under these requirements, a bank holding company is expected to commit financial resources and take other measures to support its bank subsidiaries even at times when the holding company may not be in a financial position to provide such resources or when the holding company may not be inclined to provide them. 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 of these requirements, a bank holding company may, among other things, be compelled 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. Any loans from the holding company to such subsidiary banks likely would 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.

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 risk-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 ratings on capital adequacy, asset quality, management, earnings, liquidity and sensitivity to market risks, or so-called "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 became subject to the large bank scorecard methodology in the second quarter of 2021.

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.

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.

In recent years, the federal banking agencies have indicated an intent, including through notices of proposed rulemaking, to modernize or otherwise modify their implementation of the CRA. The effects of any potential changes to the agencies' CRA rules will depend on the final form of any federal rulemaking and cannot be predicted at this time. Management will continue to evaluate any changes to the CRA's regulations and the impact they may have on us or the bank.

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 agencies 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.

Since the initial implementation of the Basel III Capital Rules, the U.S. federal banking agencies and other interested parties have proposed and, in certain cases, made changes to the rules based on a number of factors, including prevailing economic conditions and policy initiatives. For example, in September 2017 the U.S. federal banking agencies 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 and tax deferred assets. Those revisions, with certain modifications, took effect in April 2020. Similarly, 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 were 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. Many of the December 2017 proposals are still under consideration by the U.S. federal banking agencies, and the impact of the proposals on us and the bank will depend on the manner in which they ultimately are implemented.

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 were 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.

New proposals for changes to bank capital rules will continue to be made over time. We will monitor and adapt to changes to those rules as they occur.

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 agencies 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, 2021, 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 agencies 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 over the last decade, 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 agencies 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 February 2021, the federal banking agencies adopted final rules implementing a Net Stable Funding Ratio requirement, also for larger U.S. banking organizations. Neither we nor the bank is subject to either set of rules.

While we are not subject to the Liquidity Coverage Ratio or the Net Stable Funding Ratio rules, 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 \$449.8 million in dividends as of December 31, 2021, 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 agencies, the bank were engaged in or about to engage in an unsafe or unsound practice, the federal banking agencies 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

The Federal Reserve and other federal banking agencies promulgated guidance governing financial institutions with concentrations in commercial real estate lending entitled "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices". The guidance describes the criteria the agencies will use as indicators to identify institutions potentially exposed to commercial real estate ("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. The U.S. bank regulatory agencies issued additional 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. The agencies noted their belief that financial institutions had eased CRE underwriting standards in recent years and went on to identify actions that financial institutions should take to protect themselves from CRE-related credit losses during difficult economic cycles. The guidance also indicated that the agencies would pay special attention in the future to potential risks associated with CRE lending.

Privacy and Data Security

We are subject to a number of U.S. federal, state, local and foreign laws and regulations relating to consumer privacy and data protection. Under privacy protection provisions of the Gramm-Leach-Bliley Act of 1999 and its implementing regulations and guidance, we are limited in our ability to disclose certain non-public information about consumers to nonaffiliated third parties. Financial institutions, such as the bank, are required by statute and regulation to notify consumers of their privacy policies and practices and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. In addition, such financial institutions must appropriately safeguard their customers' nonpublic, personal information.

In recent years, privacy laws have been a particular focus in the United States, Europe, and elsewhere. Many new privacy laws, including the California Consumer Privacy Act and the Virginia Consumer Data Protection Act, create new individual privacy rights and impose increased obligations on companies handling personal data. In addition, multiple other states, the U.S. Congress, and regulators in and outside the United States are considering similar laws or regulations which could create new individual privacy rights and impose increased obligations on companies handling personal data. For example, in November 2021, the U.S. federal banking agencies adopted a rule regarding notification requirements for banking organizations related to significant computer security incidents. Under the final rule, a banking organization must notify its primary federal regulator within 36 hours of incidents that have materially disrupted or degraded, or are reasonably likely to materially disrupt or degrade, the banking organization's ability to deliver services to a material portion of its customer base, jeopardize the viability of key operations of the banking organization, or impact the stability of the financial sector. The rule becomes effective on April 1, 2022, with compliance required by May 1, 2022.

From an operational standpoint, cyberattacks and similar attempts to gain access to confidential customer information maintained by banks and other financial institutions have prompted the federal banking agencies to issue extensive guidance on cybersecurity. Among other things, financial institutions are expected to design multiple layers of security controls to establish lines of defense and ensure that their risk management processes address the risks posed by compromised customer credentials, including security measures to authenticate customers accessing internet-based services. A financial institution also should have a robust business continuity program to recover from a cyberattack and procedures for monitoring the security of third-party service providers that may have access to nonpublic data at the institution.

We take privacy and data security matters very seriously, and we work hard to protect confidential customer information. We will continue to monitor these areas, including applicable laws, rules, and regulatory guidance, very closely.

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 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 of directors 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.

In recent months, certain members of Congress and the leadership of certain federal banking agencies have expressed a heightened interest in the overdraft programs of U.S. banking organizations. In December 2021, the CFPB published a report providing data on banks' overdraft and non-sufficient funds fee revenues as well as observations regarding consumer protection issues relating to participation in such programs. In addition, the U.S. Office of the Comptroller of the Currency has identified potential options for reform of national bank overdraft protection practices, including providing a grace period before the imposition of a fee, refraining from charging multiple fees in a single day and eliminating fees altogether. We continue to monitor developments in the rules and regulations that apply to overdraft fees charged by banking institutions.

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, and the Durbin Amendment rules become effective for us on July 1, 2022. We do not anticipate those rules to have a material impact on our revenue.

Compensation Practices

Our compensation practices are subject to guidance provided by federal banking agencies designed to ensure that incentive compensation arrangements at banking organizations take into account risk and are consistent with safe and sound practices. Agency guidance is subject to change from time to time. For example, in 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 have required 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, which would have applied to banking institutions on a tiered basis based on asset size, has not yet been finalized.

The scope and content of the U.S. banking agencies' policies on compensation may continue to evolve in the near future. It cannot be determined at this time whether compliance with such policies will adversely affect the company's or the bank's ability to hire, retain and motivate its key employees.

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. Our total assets were greater than \$10 billion at the end of the second, third, and fourth quarters of 2020, and for all four quarters of 2021. We are now subject to CFPB supervisory and enforcement authority and 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 U.S. Securities and Exchange Commission (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 agencies 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.
- Pursuant to the Dodd-Frank Act, national and state-chartered banks may open an initial branch in a state other than its home state (*e.g.*, a host state) by establishing a *de novo* branch at any location in such host state at which a bank chartered in such host state could establish a branch. Applications to establish such branches must still be filed with the appropriate primary state and federal banking agencies.

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 are subject to heightened regulatory scrutiny and requirements as a result of our total assets exceeding \$10 billion for four consecutive quarters ending with the first quarter in 2021. It is difficult to anticipate the overall financial impact of the Dodd-Frank Act on the bank and us. However, compliance with the Dodd-Frank Act and its implementing regulations has resulted in, and is expected to continue to result in, additional operating and compliance costs that could have a material adverse effect on our business, financial condition and results of operations.

Regulation Extends Beyond Banking Agencies

In addition to regulations issued by the Alabama Banking Department and federal banking agencies, 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, 2021, we had 502 full-time equivalent employees. We have 191 employees located in our corporate office, including sales and operations, and 322 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, information technology 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 employees. 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, 2021 is set forth below.

Thomas A. Broughton, III (66) – 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.

William M. Foshee (67) – 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 (64) – Mr. Rushing has served as our Executive Vice President, and Chief Operating Officer since February 2021. From 2011 to 2021, he served as the Executive Vice President and Executive for Correspondent Banking for us and the bank. 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 (41) – 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.

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 “Investor Relations” in the drop down menu. We also have direct links to our filings with the 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. Stockholders may request hard copies of our filings, free of charge, by contacting our Senior Vice President of Investor Relations, Davis Mange, at 2500 Woodcrest Place, Birmingham, AL 35209, telephone (205) 949-3420.

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. 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 in Fairhope, Alabama, Fort Walton, Florida, Venice, Florida, Sarasota, Florida, Orlando, Florida and Columbus, Georgia in the past five 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, banks with total assets of at least \$10 billion are primarily examined by the CFPB with respect to federal consumer protection laws and regulations. As of September 30, 2021, we were reclassified as a large financial institution by the FDIC, and now are subject to additional requirements including, but not limited to, establishing a dedicated risk committee of our board of directors, calculating our FDIC deposit insurance assessment using the large bank pricing rule, and more frequent regulatory examinations. As a result of 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, 2021, 56.4% of our loan portfolio was composed of commercial and consumer real estate loans, of which 50.2% 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, 2021, our 10 largest borrowing relationships totaled \$728.7 million in commitments (including unfunded commitments), or approximately 7.6% 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, 2021 was \$116.7 million, or 1.22% 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 ASU 2016-13 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 seven 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. 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.

Our operations and financial performance could be adversely affected by natural disasters, and climate change can increase those risks while adding regulatory, compliance, reputational and other risks.

Natural disasters could have a material adverse effect on our financial position and results of operations. Natural disasters, such as hurricanes, tornados, earthquakes and similar unpredictable weather events, could affect us directly (by interrupting our systems, damaging our offices or otherwise preventing us from operating our business in the ordinary course) or indirectly (by damaging or destroying the businesses or properties of our customers or otherwise impairing our customers' ability to make loan payments on a timely basis or destroying property pledged as collateral for loans). 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.

Climate change may result in new or increased regulatory burdens, which could materially affect our results of operations by requiring us to implement costly measures to comply with any new laws and regulations related to climate change. Changes to regulations or market shifts in response to climate change may also impact the businesses of some of our customers, which may require us to adjust our lending portfolios and business strategies with respect to such customers.

In addition, the investing public is increasingly focused on the financial services industry's ability to manage environmental impact. We recently have adopted an Environmental, Social and Governance ("ESG") Policy in an effort to refine and track our compliance efforts; however, failure to appropriately manage our environmental impact could have a material adverse effect on our reputation and harm our ability to attract and retain customers and employees.

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. We will from time to time convert from one system to another in the normal course of business. Ineffective conversions could cause failure or interruption in the operation of our information systems. 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 including inflation rates, 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.

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, 2021, we held \$1.2 million in other real estate owned. The amount that we, as a mortgagee, may realize after a default is dependent upon factors outside of our control, including, but not limited to: general or local economic conditions; environmental cleanup liability; neighborhood assessments; interest rates; real estate tax rates; operating expenses of the mortgaged properties; supply of, and demand for, rental units or properties; ability to obtain and maintain adequate occupancy of the properties; zoning laws; governmental and regulatory rules; fiscal policies; and natural disasters. Our inability to manage the amount of costs or size of the risks associated with the ownership of real estate could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

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

Our profitability, like that of most financial institutions, depends to a large extent on our net interest income, which is the difference between our interest income on interest-earning assets, such as loans and investment securities, and our interest expense on interest-bearing liabilities, such as deposits and borrowings. We have positioned our asset portfolio to perform adequately in both a higher or lower interest rate environment, but this may not remain true in the future. Our interest sensitivity profile was somewhat asset sensitive as of December 31, 2021, generally meaning that our net interest income would increase 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 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 81% of the bank's liabilities as of December 31, 2021 were checking accounts and other liquid deposits, which are payable on demand or upon several days' notice, while by comparison, 62% 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, 2021, the fair value of our investment securities portfolio was approximately \$1.31 billion. 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, including risk-based and leverage capital requirements. We must maintain certain risk-based and leverage capital ratios as required by the Federal Reserve, 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.

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 agencies, 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, 2021, approximately 5% of our loan portfolio was 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 intended to cease persuading or compelling banks to submit LIBOR rates by the end of 2021. In subsequent announcements, the Financial Conduct Authority stated that the publication of one-week and two-month U.S. Dollar LIBOR rates would cease after December 31, 2021, but that the publication of other durations of U.S. Dollar LIBOR rates would 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 therefore discouraged banks from entering into new contracts that used 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 far 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, 2021, our bank could pay approximately \$449.8 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. The availability of vaccines and rates of vaccination have generally been effective in curtailing rates of infection in many parts of the United States. However, a significant portion of the population remain unvaccinated and the efficacy of the vaccines in preventing infection and serious illness is believed to deteriorate over time and may be ineffective against new variants of the virus. 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 7,500 loans for an aggregate balance of approximately \$1.50 billion under the program during 2020 and 2021. PPP loans are fixed, low interest rate loans that are guaranteed by the SBA and subject to numerous other regulatory requirements, and a borrower applied 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 this 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 I, 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. As domestic inflation continues to increase, the Federal Reserve is increasingly likely to raise interest rates. 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, 2021, we operated through 23 banking offices and 2 loan production offices. Our Woodcrest Place office also includes our corporate headquarters. Due to our focus on service-oriented banking with limited branch locations, each of these locations serves as a hub in our banking markets. 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
Total		2 Offices		
Crestview-Fort Walton Beach-Destin				
316 Racetrack Rd Ne	Ft. Walton Bch.	32547	Owned	8/3/2020
Total		1 Offices		
Tampa-St. Petersburg-Clearwater:				
4221 West Boy Scout Blvd. (1)	Tampa	33607	Leased	1/4/2016
Total		1 Office		
Orlando-Kissimmee-Sanford				
485 North Keller Road (2)	Orlando	32751	Leased	7/1/2021
Total		1 Office		
North Port-Sarasota-Bradenton:				
247 Tamiami Trail South Suite 100	Venice	34285	Leased	1/3/2021
240 South Pineapple Ave. (2)	Sarasota	34236	Leased	8/1/2019
Total		2 Office		
Total Offices in Florida		7 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	
Columbus:					
6400 Bradley Park Drive, Suite A	Columbus	31904	Leased	8/12/2020	
Total Offices in Georgia		3 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	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		25 Offices			

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

(2) Property serves as a loan production office.

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

PART II

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

Our common stock is listed on the New York Stock Exchange under the symbol "SFBS." As of February 22, 2022, there were 478 holders of record of our common stock. As of the close of business on February 23, 2022, the price of our common stock was \$85.30 per share.

Dividends

On December 20, 2021, our board of directors increased our quarterly cash dividend from \$0.20 per share to \$0.23 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 2021 other than those previously reported in our reports filed with the SEC.

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, 2021.

Equity Compensation Plan Information

The following table sets forth certain information as of December 31, 2021 relating to stock options, restricted stock and performance shares granted under our 2009 Amended and Restated Stock Incentive Plan and other options or restricted shares issued outside of such plans, if any.

Plan Category	Number of Securities To Be Issued Upon Exercise of Outstanding Awards (1)	Weighted-average Exercise Price of Outstanding Awards (2)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity Compensation Plans Approved by Security Holders	499,381	\$ 19.28	3,120,142
Equity Compensation Plans Not Approved by Security Holders	-	-	-
Total	499,381	\$ 19.28	3,120,142

(1) Includes 353,250 shares related to stock options, 127,478 shares related to non-vested restricted stock and 18,653 shares related to performance shares (assuming attainment of the maximum payout rate as set forth by the performance criteria).

(2) Excludes restricted shares and performance shares.

ITEM 6. [Reserved].

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

This section of the Form 10-K generally discusses 2021 and 2020 items and year-to-year comparisons between 2021 and 2020. Discussions of 2019 items and year-to-year comparisons between 2020 and 2019 that are not included in this Form 10-K can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is designed to provide a reader of the Company's financial statements with a narrative from the perspective of management on the Company's financial condition, results of operations, liquidity and certain other factors that may affect future results. In certain instances, parenthetical references are made to relevant sections of the Notes to Consolidated Financial Statements to direct the reader to a further detailed discussion. This section should be read in conjunction with the Consolidated Financial Statements included in this Annual Report on Form 10-K.

Overview

The Company

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 full service banking offices located in Alabama, Florida, Georgia, South Carolina and Tennessee. We also operate loan production offices in Florida. Our principal business is to accept deposits from the public and to make loans and other investments. Our principal source of funds for loans and investments are demand, time, savings, and other deposits and the amortization and prepayment of loans and borrowings. Our principal sources of income are interest and fees collected on loans, interest and dividends collected on other investments and service charges. Our principal expenses are interest paid on savings and other deposits, interest paid on our other borrowings, employee compensation, office expenses and other overhead expenses.

2021 Highlights

- Diluted earnings per common share of \$3.82 in 2021 increased \$0.69, or 22%, from 2020.
- Average loans of \$8.73 billion for 2021 increased \$570.6 million, or 7%, from a year ago.
- Average deposits of \$11.20 billion for 2021 increased \$2.22 billion, or 25%, from a year ago.

- Net interest income of \$384.8 million in 2021 increased \$46.4 million, or 14%, from 2020. Net interest margin of 2.94% in 2021 decreased 37 bps from 3.31% in 2020. The decrease was primarily driven by the continued low interest rate environment as well as increased liquidity during 2021.
- Noninterest income of \$33.5 million in 2021 increased \$3.3 million, or 11%, from 2020, primarily due to increases in credit card income and the value of our interest rate cap, partially offset by decreases in mortgage banking income and deposit service charges.
- Noninterest expense of \$133.1 million in 2021 increased \$21.6 million, or 19%, from 2020, primarily driven by a \$9.2 million write down of investments in certain tax credit partnerships.

Impact of the Coronavirus/COVID-19 Pandemic

The COVID-19 pandemic has resulted in government authorities and businesses throughout the world implementing numerous measures intended to contain and limit the spread of COVID-19, including travel restrictions, border closures, quarantines, shelter-in-place and lock-down orders, mask and social distancing requirements, and business limitations and shutdowns. The spread of COVID-19 and increased variants has caused and may continue to cause us to make significant modifications to our business practices, including establishing strict health and safety protocols for our offices, restricting physical participation in meetings, events, and conferences. We will continue to actively monitor the situation and may take further actions that alter our business practices as may be required by federal, state, or local authorities or that we determine are in the best interest of our employees, customers, or business partners.

The rapidly changing global market and economic conditions as a result of the COVID-19 pandemic have impacted, and are expected to continue to impact, our operations and business. The broader implications of the COVID-19 pandemic and related global economic unpredictability on our business, financial condition, and results of operations remain uncertain. For additional information on how the COVID-19 pandemic has impacted and could continue to negatively impact our business, see below for specific discussion in the respective areas, and also refer to “Part I, Item 1A, Risk Factors” in this Form 10-K.

Results of Operations

The following discussion and analysis presents the more significant factors that affected our financial condition as of December 31, 2021 and 2020 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 filed with the SEC on February 25, 2021 ([2020 FORM 10-K](#)) for a discussion and analysis of the more significant factors that affected periods prior to 2020.

Net Income Available to Common Stockholders

Net income available to common stockholders was \$207.7 million for the year ended December 31, 2021, compared to \$169.5 million for the year ended December 31, 2020. As discussed herein, this increase in net income is primarily attributable to an increase in noninterest income and a decrease in interest expense, partially offset by an increase in noninterest expense. Basic and diluted net income per common share were \$3.83 and \$3.82, respectively, for the year ended December 31, 2021, compared to \$3.15 and \$3.13, respectively, for the year ended December 31, 2020. Return on average assets was 1.53% in 2021, compared to 1.59% in 2020, and return on average common stockholders’ equity was 19.26% in 2021, compared to 18.55% in 2020.

The following tables present a summary of our statements of income, including the percent change in each category, for the years ended December 31, 2021 compared to 2020, and for the years ended December 31, 2020 compared to 2019, respectively.

	Year Ended December 31,		Change from the Prior Year
	2021	2020	
	(Dollars in Thousands)		
Interest income	\$ 416,305	\$ 389,022	7.01%
Interest expense	31,802	50,985	(37.62%)
Net interest income	384,503	338,037	13.75%
Provision for credit losses	31,517	42,434	(25.73%)
Net interest income after provision for credit losses	352,986	295,603	19.41%
Noninterest income	33,452	30,116	11.08%
Noninterest expense	133,089	111,511	19.35%
Income before income taxes	253,349	214,208	18.27%
Income taxes	45,615	44,639	2.19%
Net income	207,734	169,569	22.51%
Dividends on preferred stock	62	63	(1.59%)
Net income available to common stockholders	\$ 207,672	\$ 169,506	22.52%

	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%

Performance Ratios

The following table presents selected ratios of our results of operations for the years ended December 31, 2021, 2020 and 2019.

	For the Years Ended December 31,		
	2021	2020	2019
Return on average assets	1.53%	1.59%	1.73%
Return on average stockholders' equity	19.27%	18.55%	19.16%
Dividend payout ratio	20.98%	22.39%	21.76%
Net interest margin (1)	2.94%	3.31%	3.46%
Efficiency ratio (2)	31.84%	30.29%	32.75%
Average stockholders' equity to average total assets	7.95%	8.59%	9.02%

(1) Net interest margin in 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.

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. Net interest income is the single largest component of operating revenues. Management seeks to optimize this revenue while balancing interest rate, credit, and liquidity risks. 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 13.7% for the year ended December 31, 2021 from the year ended December 31, 2020. Net interest income increased primarily due to the large increase in average earning assets discussed below. Total interest expense decreased 37.6% year-over-year, which also factored into the increase in net interest income. The primary driver of the decrease in our interest expense was the decrease in average rates paid on interest-bearing liabilities. As reflected in the net interest margin discussion below, average interest rate yields on average earning assets negatively impacted our interest income to a lesser amount.

Average earning assets increased 27.9% in 2021 from 2020, which was primarily driven by the increase in loans and interest-bearing deposits in the bank. Excluding the impact of PPP loan forgiveness, all of our regional markets grew loans during 2021. All of our regional markets grew deposits during 2021.

Average interest-bearing liabilities increased 21.6% in 2021 from 2020, which reflects the increase in interest-bearing deposits. The increase in interest-bearing deposits was mostly attributable to PPP loan proceeds remaining in customer deposit accounts and organic growth of our deposit base. Despite the increase in average interest-bearing liabilities, interest expense decreased 37.6% primarily due to the low rate environment and a more favorable deposit mix.

Net Interest Margin Analysis

The banking industry uses two key ratios to measure relative profitability of net interest revenue, which are the net interest spread and the net interest margin. The net interest spread measures the difference between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities. The net interest spread eliminates the effect of noninterest-earning assets as well as noninterest-bearing deposits and other noninterest-bearing funding sources and gives a direct perspective on the effect of market interest rate movements. The net interest margin is an indication of the profitability of a company's balance sheet and is defined as net interest revenue as a percentage of total average interest-earning assets, which includes the positive effect of funding a portion of interest-earning assets with noninterest-bearing deposits and stockholders' equity.

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, 2021, 2020 and 2019, 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)

	2021			2020			2019		
	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 (1)									
(2):									
Taxable	\$ 8,698,782	\$ 384,675	4.42%	\$ 8,123,927	\$ 361,370	4.45%	\$ 6,831,998	\$ 352,996	5.17%
Tax-exempt (3)	26,779	1,094	4.09	31,064	1,274	4.10	33,131	1,338	4.04
Total loans, net of unearned income	8,725,561	385,769	4.42	8,154,991	362,644	4.45	6,865,129	354,334	5.16
Mortgage loans held for sale	8,242	155	1.88	14,337	231	1.61	4,970	156	3.14
Debt securities:									
Taxable	980,462	25,413	2.59	801,134	22,122	2.76	588,082	17,008	2.89
Tax-exempt (3)	14,983	369	2.46	34,975	870	2.49	68,805	1,563	2.27
Total debt securities (4)	995,445	25,782	2.59	836,109	22,992	2.75	656,887	18,571	2.83
Federal funds sold	17,091	29	0.17	61,712	332	0.54	267,327	6,038	2.26
Restricted equity securities	220	7	3.18	-	-	-	-	-	-
Interest-	3,351,462	4,840	0.14	1,170,095	3,165	0.27	536,765	12,020	2.24

bearing balances with banks									
Total interest- earning assets	\$ 13,098,021	\$ 416,582	3.18%	\$ 10,237,244	\$ 389,364	3.80%	8,331,078	391,119	4.69%
Non-interest- earning assets:									
Cash and due from banks	81,539			77,413			73,226		
Net premises and equipment	60,798			57,310			58,419		
Allowance for loan losses, accrued interest and other assets	314,863			272,900			175,881		
Total assets	<u>\$ 13,555,221</u>			<u>\$ 10,644,867</u>			<u>\$ 8,638,604</u>		

Interest-bearing liabilities:									
Interest-bearing deposits:									
Interest-bearing demand deposits									
deposits	\$ 1,394,678	2,687	0.19%	1,059,629	3,752	0.35%	928,611	7,585	0.82%
Savings	110,968	197	0.18	77,364	274	0.35	57,078	320	0.56
Money market	5,202,374	13,697	0.26	4,519,170	25,758	0.57	4,038,143	67,998	1.68
Time deposits (5)	805,982	9,988	1.24	836,098	15,446	1.85	702,245	15,055	2.14
Total interest-bearing deposits	7,514,002	26,569	0.35	6,492,261	45,230	0.70	5,726,077	90,958	1.59
Federal funds purchased	1,160,745	2,473	0.21	627,561	2,700	0.43	398,679	9,076	2.28
Other borrowings	64,696	2,760	4.27	64,709	3,055	4.72	64,684	3,124	4.83
Total interest-bearing liabilities	\$ 8,739,443	\$ 31,802	0.36%	\$ 7,184,531	\$ 50,985	0.71%	6,189,440	103,158	1.67%
Non-interest-bearing liabilities:									
Non-interest-bearing checking									
	3,689,311			2,492,500			1,632,385		
Other liabilities	48,392			53,874			37,708		
Stockholders' equity	1,059,317			898,023			777,757		
Unrealized gains on securities	18,758			15,939			1,314		
Total liabilities and stockholders' equity	\$ 13,555,221			\$ 10,644,867			\$ 8,638,604		
Net interest income	\$ 384,780			\$ 338,379			\$ 287,961		
Net interest spread			2.82%			3.09%			3.02%
Net interest margin (6)			2.94%			3.31%			3.46%

(1) Non-accrual loans are included in average loan balances in all periods. Loan fees of \$35,204, \$19,408 are included in interest income in 2021 and 2020, respectively.

(2) Accretion on acquired loan discounts of \$100 is included in interest income in 2020.

(3) Interest income and yields are presented on a fully taxable equivalent basis using a tax rate of 21%.

(4) Unrealized gains of \$25,276 and \$18,955 are excluded from the yield calculation in 2021 and 2020, respectively.

(5) Accretion on acquired CD premiums of \$75 and \$63 are included in interest expense in 2021 and 2020, respectively.

(6) Net interest margin is net interest revenue divided by average interest-earning assets.

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,					
	2021 Compared to 2020 Increase (Decrease) in Interest Income and Expense Due to Changes in:			2020 Compared to 2019 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	\$ 25,432	\$ (2,127)	\$ 23,305	\$ 61,402	\$ (53,028)	\$ 8,374
Tax-exempt	(175)	(5)	(180)	(85)	21	(64)
Total loans, net of unearned income	25,257	(2,132)	23,125	61,317	(53,007)	8,310
Mortgage loans held for sale	(110)	34	(76)	180	(105)	75
Debt securities:						
Taxable	4,713	(1,422)	3,291	5,914	(800)	5,114
Tax-exempt	(492)	(9)	(501)	(830)	137	(693)
Total debt securities	4,221	(1,431)	2,790	5,084	(663)	4,421
Federal funds sold	(156)	(147)	(303)	(2,867)	(2,839)	(5,706)
Restricted equity securities	7	-	7	-	-	-
Interest-bearing balances with banks	3,700	(2,025)	1,675	7,037	(15,892)	(8,855)
Total interest-earning assets	32,919	(5,701)	27,218	70,751	(72,506)	(1,755)
Interest-bearing liabilities:						
Interest-bearing demand deposits	965	(2,030)	(1,065)	949	(4,782)	(3,833)
Savings	92	(169)	(77)	93	(139)	(46)
Money market	3,435	(15,496)	(12,061)	7,282	(49,522)	(42,240)
Time deposits	(538)	(4,920)	(5,458)	2,640	(2,249)	391
Total interest-bearing deposits	3,954	(22,615)	(18,661)	10,964	(56,692)	(45,728)
Federal funds purchased	1,568	(1,795)	(227)	3,459	(9,835)	(6,376)
Other borrowed funds	(1)	(294)	(295)	1	(70)	(69)

Total interest-bearing liabilities	<u>5,521</u>	<u>(24,704)</u>	<u>(19,183)</u>	<u>14,424</u>	<u>(66,597)</u>	<u>(52,173)</u>
Increase (decrease) in net interest income	<u>\$ 27,398</u>	<u>\$ 19,003</u>	<u>\$ 46,401</u>	<u>\$ 56,327</u>	<u>\$ (5,909)</u>	<u>\$ 50,418</u>

* The rate/volume variance is allocated on a pro rata basis between the volume variance and the rate variance in the table above.

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 previous period. The rate variance is calculated as the change in rates times the previous period average balance. The rate/volume variance is calculated as the change in rates times the change in average balances.

From 2020 to 2021, 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 unfavorable as average rates paid on interest-bearing liabilities decreased 35 basis points while yields on average earning assets decreased 62 basis points.

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, while our deposit rates remained unchanged during 2021. Also, we have not competed for new loans on interest rate alone, but rather we have relied significantly on effective marketing to attract business customers.

Our net interest spread and net interest margin were 2.82% and 2.94%, respectively, for the year ended December 31, 2021, compared to 3.09% and 3.31%, respectively, for the year ended December 31, 2020. The decrease in net interest spread and net interest margin was primarily attributable to increases in average interest-bearing balances with banks, which more than tripled to \$3.4 billion in 2021. The majority of these funds were kept at the Federal Reserve, which only earned an average interest rate of 0.127% during 2021. Our average interest-earning assets for the year ended December 31, 2021 increased \$2.86 billion, or 27.9%, to \$13.1 billion from \$10.24 billion for the year ended December 31, 2020. Average loans grew \$570.6 million, or 7.0%, average debt securities grew \$159.6 million, or 19.1%, and average federal funds sold and interest-bearing balances with banks grew \$2.14 billion, or 173.5%. Our average interest-bearing liabilities increased \$1.55 billion, or 21.6%, to \$8.74 billion for the year ended December 31, 2021 from \$7.18 billion for the year ended December 31, 2020. All of our markets had an increase in total deposits during 2021. The ratio of our average interest-earning assets to average interest-bearing liabilities increased from 142.5% for the year ended December 31, 2020 to 149.9% for the year ended December 31, 2021, as average noninterest-bearing deposits and stockholders' equity grew by a combined \$1.36 billion, or 40.0%, from 2020 to 2021.

Our average interest-earning assets produced a taxable equivalent yield of 3.18% for the year ended December 31, 2021, compared to 3.80% for the year ended December 31, 2020. The average rate paid on interest-bearing liabilities was 0.36% for the year ended December 31, 2021, compared to 0.71% for the year ended December 31, 2020.

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 decreased 25.7% for the year ended December 31, 2021 when compared to the year-ended December 31, 2020. The decrease in provision expense is primarily the result of a \$26.3 million decrease in net charge-offs as well as improvement in economic projections used to inform loss driver forecasts with the ACL model. Nonperforming loans decreased to \$12.1 million, or 0.13% of total loans, at December 31, 2021 from \$19.0 million, or 0.22% of total loans, at December 31, 2020. During 2021, we had net charged-off loans totaling \$2.8 million, compared to net charged-off loans of \$29.1 million for 2020. The ratio of net charged-off loans to average loans was 0.03% for 2021 compared to 0.36% for 2020. The ACL for December 31, 2021 totaled \$116.7 million, or 1.22% of loans, net of unearned income. The ACL totaled \$87.9 million, or 1.04% of loans, net of unearned income, at December 31, 2020.

Noninterest Income

Noninterest income for the years ended December 31, 2021 and 2020 were as follows.

	2021	2020	Change	Percentage change
Service charges on deposit accounts	\$ 6,839	\$ 7,528	\$ (689)	(9.2%)
Mortgage banking	7,340	8,747	(1,407)	(16.1%)
Credit card income	7,347	5,916	1,431	24.2%
Securities gains	620	-	620	N/M
Increase in cash surrender value life insurance	6,642	6,310	332	5.3%
Other operating income	4,664	1,615	3,049	188.8%
Total noninterest income	\$ 33,452	\$ 30,116	\$ 3,336	11.1%

Noninterest income increased \$3.3 million, or 11.1%, to \$33.5 million in 2021 from \$30.1 million in 2020, primarily due to increases in credit card income and the value of our interest rate cap, partially offset by decreases in mortgage banking income and deposit service charges. The value of our interest rate cap derivative increased from \$139,000 as of December 31, 2020 to \$1.2 million as of December 31, 2021, primarily a result of increased probabilities of rate hikes by the Federal Reserve during 2022. Merchant service revenue increased \$666,000, or 118.1%, to \$1.2 million in 2021 compared to 2020. Service charges on deposit accounts decreased \$689,000, or 9.2%, to \$6.8 million in 2021 compared to \$7.5 million 2020 due to analyzed costs that supported the growth in non-interest deposits, settlement services, and correspondent banks added during 2021. Mortgage banking income decreased \$1.4 million, or 16.1%, to \$7.3 million in 2021 compared to \$8.7 million in 2020. The bank began retaining mortgage loans otherwise originated for sale during the third quarter of 2021 to leverage our excess liquidity and increase yields on earning assets. As of December 31, 2021, we had retained a total of 202 1-4 family mortgages for an aggregate balance of \$76.9 million. Credit card income increased \$1.4 million, or 24.2%, to \$7.3 million in 2021 compared to \$5.9 million in 2020. The number of credit card accounts increased 31.5% from 2020 to 2021 while the aggregate amount of spend on all credit card accounts increased 36%. The increase in cash surrender value of bank-owned life insurance contracts increased \$332,000, or 5.3%, to \$6.6 million in 2021 compared to \$6.3 million 2020. We purchased multiple life insurance contracts totaling \$60.7 million during the second half of 2020. Other operating income increased 188.8% in 2021 compared to 2020.

Noninterest Expense

Noninterest expense for the years ended December 31, 2021 and 2020 were as follows.

	2021	2020	Change	Percentage change
Salaries and employee benefits	\$ 67,728	\$ 61,414	\$ 6,314	10.3%
Equipment and occupancy expense	11,404	10,070	1,334	13.2%
Third party processing and other services	16,362	13,778	2,584	18.8%
Professional services	3,891	4,242	(351)	(8.3%)
FDIC and other regulatory assessments	5,679	4,354	1,325	30.4%
Other real estate owned expense	868	2,163	(1,295)	(59.9%)
Other operating expenses	27,157	15,490	11,667	75.3%
Total noninterest expenses	\$ 133,089	\$ 111,511	\$ 21,578	19.4%

Noninterest expenses increased \$21.6 million, or 19.4%, to \$133.1 million for the year ended December 31, 2021 from \$111.5 million for the year ended December 31, 2020. Increased salaries and employee benefits expenses, deconversion expense associated with our change in system hosting vendors and write-downs of certain tax credit equity investments were the primary drivers of the increase in noninterest expense. Salary and employee benefits expenses increased \$6.3 million, or 10.3%, to \$67.7 million in 2021 compared to 2020. We had 502 full-time equivalent employees as of December 31, 2021 compared to 493 as of December 31, 2020, a 1.8% increase. Incentive expense increased 37.4% year over year. We increased our annual incentive accrual based on the increased loan production in 2021 and on final anticipated payouts for 2021 PPP loan originations. Equipment and occupancy expense increased \$1.3 million, or 13.2%, to \$11.4 million in 2021 compared to 2020. Third party processing and other services increased \$2.6 million or 18.8%, to \$16.4 million in 2021 compared to 2020. We incurred a 25% increase in core system hosting charges with our current vendor when we notified them that we would be converting to another vendor in 2022. 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 decreased \$351,000, or 8.3%, in 2021 compared to 2020. FDIC assessments increased \$1.3 million, or 30.4% to \$5.7 million from 2020 to 2021. This increase was primarily the result of increased assets which increases our assessment base. Expenses on other real estate owned decreased \$1.3 million to \$868,000 in 2021 compared to \$2.1 million in 2020. Other operating expenses increased \$11.7 million, or 75.3%, to \$27.2 million in 2021 compared to 2020. The primary driver of the increase in other operating expense was an \$8.8 million write down of equity investments totaling \$40.0 million in two Federal New Market Tax Credit partnerships during 2021. We recognized \$10.5 million in tax credits related to these Federal New Market Tax Credit partnerships in 2021, which is recorded in provision for income taxes on the consolidated statement of income. Changes in other operating expenses from 2020 to 2021 are detailed in Note 15 - "Other Operating Income and Expenses," to the Consolidated Financial Statements.

Income Tax Expense

Income tax expense was \$45.6 million for the year ended December 31, 2021 compared to \$44.6 million in 2020. Our effective tax rates for 2021 and 2020 were 18.00% and 20.84%, respectively. We recognized \$10.5 million in credits during 2021 related to new investments in two Federal New Market Tax Credits. We also recognized excess tax benefits as an income tax credit to our income tax expense from the exercise and vesting of stock options and restricted stock during 2021 of \$2.8 million, compared to \$1.6 million during 2020. 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, 2021, were \$15.45 billion, an increase of \$3.52 billion, or 29.5%, over total assets of \$11.93 billion as of December 31, 2020. Average assets for the year ended December 31, 2021 were \$13.56 billion, an increase of \$2.91 billion, or 27.3%, over average assets of \$10.64 billion for the year ended December 31, 2020. Growth in loans, interest-bearing balances with banks, and federal funds sold were the primary reasons for the increase in ending and average total assets. Year-end 2021 loans were \$9.53 billion, up \$1.07 billion, or 12.6%, over year-end 2020 total loans of \$8.47 billion. Paycheck Protection Program (“PPP”) loans decreased from \$900.5 million at December 31, 2020 to \$230.2 million at December 31, 2021. Excluding this decrease in PPP loans, total loans increased \$1.74 billion, or 23.0% during 2021.

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, 2021 were \$15.30 billion, or 99.0% of total assets of \$15.45 billion. Earning assets as of December 31, 2020 were \$11.76 billion, or 98.6% of total assets of \$11.93 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. At December 31, 2021, mortgage-backed securities represented 56.6% of the investment portfolio, corporate debt represented 29.1% of the investment portfolio, state and municipal securities represented 1.7% of the investment portfolio, government agency securities represented 0.5%, and U.S. Treasury securities represented 12.1% 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, 2021, any structured investment vehicles or any private-label mortgage-backed securities. The amortized cost of securities in our portfolio totaled \$1.29 billion at December 31, 2021, compared to \$861.2 million at December 31, 2020.

The following table presents the book value and weighted average yield of our securities as of December 31, 2021 by their stated maturities (this maturity schedule excludes security prepayment and call features).

	Maturity of Debt Securities - Weighted Average Yield					Total
	One Year or Less	After One Year through Five Years	After Five Years through Ten Years	More Than Ten Years		
At December 31, 2021:						
Securities Available for Sale:						
U.S. Treasury Securities	\$ 5,997	\$ 3,006	\$ -	\$ -	\$ -	\$ 9,003
Government Agency Securities	6,001	21	-	-	-	6,022
Mortgage-backed securities	23	2,562	80,729	341,058		424,372
State and municipal securities	5,934	6,709	8,793	94		21,530
Corporate debt	14,981	22,025	329,613	3,000		369,619
Total	\$ 32,936	\$ 34,323	\$ 419,135	\$ 344,152	\$ -	\$ 830,546
Tax-equivalent Yield (1)						
U.S. Treasury Securities	2.07%	1.59%	-%	-%		1.91%
Government Agency Securities	2.10	5.09	-	-		2.11
Mortgage-backed securities	2.97	2.63	2.43	1.30		1.52
State and municipal securities	2.13	2.30	1.94	5.96		2.12
Corporate debt	3.69	4.63	4.37	4.50		4.36
Total weighted average yield (2)	2.82%	3.76%	3.95%	1.33%		2.81%
Securities Held to Maturity:						
U.S. Treasury Securities	\$ -	\$ 49,663	\$ 99,600	\$ -	\$ -	\$ 149,263
Mortgage-backed securities	-	-	-	310,641		310,641
State and municipal securities	250	-	2,803	-		3,053
Total	\$ 250	\$ 49,663	\$ 102,403	\$ 310,641	\$ -	\$ 462,957
Tax-equivalent Yield (1)						
U.S. Treasury Securities	-%	1.15%	1.31%	-%		1.26%
Mortgage-backed securities	-	-	-	2.23		2.23
State and municipal securities	3.21	-	1.85	-		1.96
Total weighted average yield (2)	3.21%	1.15%	1.33%	2.23%		1.91%

(1) Yields on tax-exempt securities are computed on a fully tax-equivalent basis using a tax rate of 21% and are net of the effects of certain disallowed interest deductions.

(2) Weighted Average Yield is calculated by taking the sum of each category of securities multiplied by the respective tax-equivalent yield for a given maturity, and dividing by the sum of the securities for the same maturity.

As of December 31, 2021, we had \$58.4 million in federal funds sold, compared with \$1.8 million at December 31, 2020. At year-end 2021, 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.

During the fourth quarter of 2021, the bank began buying U.S. Treasury Securities and Mortgage-backed securities to absorb excess liquidity. The bank is currently targeting the addition of \$50 million per month, net of paydowns and maturities, of each of these categories of debt securities during 2022.

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

The following is a condensed overview of changes in our loan portfolio. Please see Note 3 - "Loans" in the Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data elsewhere in this report for a more detailed analysis of our loan portfolio by type of loan.

Section 1102 of the CARES Act created the Paycheck Protection Program, a program administered by the SBA to provide loans to small businesses for payroll and other basic expenses during the COVID-19 pandemic. Our bank 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 were required from borrowers and neither the government nor lenders were 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, extended the life of the PPP, effectively creating a second round of PPP loans for eligible businesses. Effective May 28, 2021, the PPP was closed to new applications. Additionally, section 541 of the CAA extended the relief provided by the CARES Act for financial institutions to suspend the GAAP accounting treatment for troubled debt restructuring to January 1, 2022.

We funded approximately 7,400 loans for a total amount of \$1.5 billion for clients under the PPP since April 2020. 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 have been instrumental in assisting our borrowers in navigating through the pandemic. This capital injection, along with the level of capital each borrower had immediately prior to the beginning of the COVID-19 pandemic, are critical factors in determining the continued business viability of our borrowers. As of January 31, 2022, we have received payment from the SBA on almost 6,300 of our loans totaling \$1.3 billion.

We had total loans of approximately \$9.5 billion at December 31, 2021. 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.

The following table details our loans at December 31, 2021, 2020 and 2019:

	2021	2020	2019
	(Dollars in Thousands)		
Commercial, financial and agricultural	\$ 2,984,053	\$ 3,295,900	\$ 2,696,210
Real estate - construction	1,103,076	593,614	521,392
Real estate - mortgage:			
Owner-occupied commercial	1,874,103	1,693,428	1,587,478
1-4 family mortgage	826,765	711,692	644,188
Other mortgage	2,678,084	2,106,184	1,747,394
Total real estate - mortgage	5,378,952	4,511,304	3,979,060
Consumer	66,853	64,870	64,789
Total Loans	9,532,934	8,465,688	7,261,451
Less: Allowance for credit losses	(116,660)	(87,942)	(76,584)
Net Loans	\$ 9,416,274	\$ 8,377,746	\$ 7,184,867

The following table details the percentage composition of our loan portfolio by type at December 31, 2021, 2020 and 2019:

	2021	2020	2019
Commercial, financial and agricultural	31.30%	38.93%	37.13%
Real estate - construction	11.57	7.01	7.18
Real estate - mortgage:			
Owner-occupied commercial	19.66	20.00	21.86
1-4 family mortgage	8.67	8.41	8.87
Other mortgage	28.10	24.88	24.07
Total real estate - mortgage	56.43	53.29	54.80
Consumer	0.70	0.77	0.89
Total Loans	100.00%	100.00%	100.00%

The following table details maturities and sensitivity to interest rate changes for our loan portfolio at December 31, 2021:

	Due in 1 year or less	After 1 year to 5 years	After 5 years to 15 years (in Thousands)	After 15 years	Total
Commercial, financial and agricultural	\$ 1,225,142	\$ 1,448,750	\$ 308,656	\$ 1,505	\$ 2,984,053
Real estate - construction	329,198	661,448	110,032	2,398	1,103,076
Real estate - mortgage:					
Owner-occupied commercial	229,010	866,574	767,001	11,518	1,874,103
1-4 family mortgage	75,456	251,122	212,248	287,939	826,765
Other mortgage	398,939	1,760,865	494,468	23,812	2,678,084
Total real estate - mortgage	<u>703,405</u>	<u>2,878,561</u>	<u>1,473,717</u>	<u>323,269</u>	<u>5,378,952</u>
Consumer	42,596	22,211	2,046	-	66,853
Total Loans	<u>\$ 2,300,341</u>	<u>\$ 5,010,970</u>	<u>\$ 1,894,451</u>	<u>\$ 327,172</u>	<u>\$ 9,532,934</u>
Less: Allowance for loan losses					(116,660)
Net Loans					<u>\$ 9,416,274</u>
Amount due after one year at					
fixed interest rates:					
Commercial, financial and agricultural	\$ 1,152,531				
Real estate - construction	343,010				
Real estate - mortgage:					
Owner-occupied commercial	1,476,554				
1-4 family mortgage	394,915				
Other mortgage	1,940,535				
Total real estate - mortgage	<u>3,812,004</u>				
Consumer	14,583				
Total loans	<u>\$ 5,322,128</u>				
Amount due after one year at					
variable interest rates:					
Commercial, financial and agricultural	\$ 606,380				
Real estate - construction	430,868				
Real estate - mortgage:					
Owner-occupied commercial	168,539				
1-4 family mortgage	356,394				
Other mortgage	338,610				
Total real estate - mortgage	<u>863,543</u>				
Consumer	9,674				
Total loans	<u>\$ 1,910,465</u>				

Asset Quality

The following table presents a summary of the allowance for credit losses, net charge-offs and certain credit ratios for the years ended December 31, 2021, 2020 and 2019.

	As of and for the Years Ended December 31,		
	2021	2020	2019(1)
	(Dollars in Thousands)		
Allowance for credit losses to total loans outstanding	1.22%	1.04%	1.05 %
Allowance for credit losses (1)	\$ 116,660	\$ 87,942	\$ 76,584
Total loans outstanding	\$ 9,532,934	\$ 8,465,688	\$ 7,261,451
Nonaccrual loans to total loans outstanding	0.07%	0.17%	0.41 %
Nonaccrual loans	\$ 6,762	\$ 13,973	\$ 30,091
Total loans outstanding	\$ 9,532,934	\$ 8,465,688	\$ 7,261,451
Allowance for credit losses to nonaccrual loans	1,725.23%	629.37%	254.51 %
Allowance for credit losses (1)	\$ 116,660	\$ 87,942	\$ 76,584
Nonaccrual loans	\$ 6,762	\$ 13,973	\$ 30,091
Net charge-offs during the period to average loans outstanding:			
Commercial, financial and agricultural	0.07%	0.75%	0.56 %
Net charge-offs during the period	\$ 2,318	\$ 23,684	\$ 14,709
Average amount outstanding	\$ 3,127,227	\$ 3,145,647	\$ 2,603,807
Real estate - construction	-%	0.18%	- %
Net charge-offs (recoveries) during the period	\$ (38)	\$ 1,000	\$ (3)
Average amount outstanding	\$ 806,705	\$ 547,818	\$ 553,091
Real estate - mortgage:			
Owner-occupied commercial	-%	0.23%	0.25 %
Net charge-offs during the period	\$ 54	\$ 3,884	\$ 3,882
Average amount outstanding	\$ 1,760,591	\$ 1,663,831	\$ 1,523,430
1-4 family mortgage	0.02%	0.06%	0.04 %
Net charge-offs during the period	\$ 132	\$ 373	\$ 263
Average amount outstanding	\$ 739,389	\$ 673,895	\$ 631,683
Other mortgage	-%	-%	0.18 %
Net charge-offs during the period	\$ 7	\$ -	\$ 2,724
Average amount outstanding	\$ 2,294,574	\$ 1,931,130	\$ 1,513,531
Total real estate - mortgage	-%	0.10%	0.19 %
Net charge-offs during the period	\$ 193	\$ 4,257	\$ 6,869
Average amount outstanding	\$ 4,794,554	\$ 4,268,856	\$ 3,668,644
Consumer	0.50%	0.22%	0.76 %
Net charge-offs during the period	\$ 326	\$ 135	\$ 485
Average amount outstanding	\$ 64,736	\$ 61,661	\$ 63,421
Total loans	0.03%	0.36%	0.32 %
Net charge-offs during the period	\$ 2,799	\$ 29,076	\$ 22,060
Average amount outstanding	\$ 8,725,561	\$ 8,154,991	\$ 6,865,129

(1) The year 2019 was accounted for under the incurred loss methodology and not restated to reflect the adoption of ASC 326.

Effective January 1, 2020, we adopted the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 326, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaced the incurred loss methodology for determining our provision for credit losses and allowance for credit losses with the current expected credit loss (“CECL”) model. Upon the adoption of ASC 326 the total amount of the allowance for credit losses (“ACL”) 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. Fluctuations in the estimated allowances by portfolio segment offset one another, for the most part, and, as a result, the overall estimated amount of ACL did not significantly change as a result of the change in methodology. Peer historical loss rates were utilized to better align with loss expectations given the Company’s low historical loss experience. The ACL is established and maintained at levels needed to absorb anticipated credit losses from identified and otherwise inherent risks in the loan portfolio as of the balance sheet date. In assessing the adequacy of the ACL, 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 is adequate at December 31, 2021.

The ACL for December 31, 2021 and 2020 was calculated under the CECL methodology and totaled \$116.7 million and \$87.9 million, or 1.22% and 1.04% of loans, net of unearned income, respectively. The allowance for loan losses 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. Excluding PPP loans, the allowance for credit losses as a percentage of total loans at December 30, 2021 and 2020 was 1.25% and 1.16%, respectively. The increase in the ACL as a percent of total loans at December 31, 2021 from December 31, 2020 is largely the result of a net decrease in PPP loans totaling \$670 million, which were excluded from the ACL, and \$1.7 billion in net loan growth, excluding PPP loans, during 2021. This loan growth was primarily within our real estate – mortgage and real estate – construction loan categories which have increased \$868 million and \$509 million, respectively. We added a new qualitative environmental factor to address the termination of the PPP for the effect it could have on various businesses that will need to be self-sustaining without the assistance of PPP as well as potential risk of nonpayment from SBA due to fraud within PPP loans. This new qualitative factor totaled \$1.4 million at December 31, 2021. Additionally, we added a qualitative factor totaling \$2.0 million to address the risk associated with a high level of loan growth within our newest market, West Central Florida. Net credit charge-offs to average loans were 0.03% for the year ended December 31, 2021, compared to 0.36% and 0.32% for the years ended December 31, 2020 and 2019, respectively. Nonaccrual loans decreased to \$6.8 million, or 0.07% of total loans, at December 31, 2021 from \$14.0 million, or 0.17% of total loans, at December 31, 2020, and were \$30.1 million, or 0.31% of total loans, at December 31, 2019. The improvement in net credit charge-offs and nonaccrual loan totals at December 31, 2021 compared to December 31, 2020 and 2019 is the result of the improving economic environment within the markets we serve as well as the overall credit quality of our loan portfolio.

We maintain an ACL 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 ACL, modified to take into account the probability of a drawdown on the commitment. The ACL 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 \$1.3 million at December 31, 2021. At December 31, 2020, the allowance for unfunded commitments was \$2.2 million.

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,					
	2021		2020		2019	
	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	\$ 41,869	31.30%	\$ 36,370	38.93%	\$ 43,666	37.13%
Real estate - construction	26,994	11.57	16,057	7.01	2,768	7.18
Real estate - mortgage	45,829	56.43	33,722	53.29	29,653	54.80
Consumer	1,968	0.70	1,793	0.77	497	0.89
Total	\$ 116,660	100.00%	\$ 87,942	100.00%	\$ 76,584	100.00%

We use 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, we utilize and forecast national unemployment rate as a loss driver. We also utilize and forecast GDP growth as a second loss driver for our agricultural and consumer loan pools. Consistent forecasts of the loss drivers are used across the loan segments. A reasonable and supportable period of twelve months was utilized followed by a six-month straight-line reversion to long term averages at December 31, 2021, December 31, 2020 and upon implementation of CECL on January 1, 2020. We leveraged economic projections from reputable and independent sources to inform our loss driver forecasts. At December 31, 2021, we forecasted a national unemployment rate and national GDP growth rate similar to levels experienced just prior to the pandemic. At December 31, 2020, we forecasted a significantly higher national unemployment rate as well as a slightly higher national GDP growth rate. We expect national unemployment rate and GDP growth rate to remain at pre-pandemic levels over the forecast period.

We use a loss-rate method to estimate expected credit losses for our commercial revolving lines of credit and credit card pools. An expected loss ratio is applied based on internal and peer historical losses.

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. We consider 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, including inflation.

PPP loans outstanding totaled \$230.2 million and \$900.5 million at December 31, 2021 and December 31, 2020, respectively, and are included within the Commercial, financial and agricultural loan category.

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, 2021, 2020 and 2019:

	2021		2020		2019	
	Balance	Number of Loans	Balance	Number of Loans	Balance	Number of Loans
(Dollars in Thousands)						
Nonaccrual loans:						
Commercial, financial and agricultural	\$ 4,343	17	\$ 11,709	22	\$ 14,729	29
Real estate - construction	-	-	234	1	1,588	2
Real estate - mortgage:						
Owner-occupied commercial	1,021	2	1,259	4	10,826	3
1-4 family mortgage	1,398	12	771	7	1,440	5
Other mortgage	-	-	-	-	1,507	1
Total real estate - mortgage	2,419	14	2,030	11	13,773	9
Consumer	-	-	-	-	-	-
Total nonaccrual loans	\$ 6,762	31	\$ 13,973	34	\$ 30,091	40
90+ days past due and accruing:						
Commercial, financial and agricultural	\$ 39	4	\$ 11	2	\$ 201	3
Real estate - construction	-	-	-	-	-	-
Real estate - mortgage:						
Owner-occupied commercial	-	-	-	-	-	-
1-4 family mortgage	611	3	104	1	873	5
Other mortgage	4,656	1	4,805	1	4,924	1
Total real estate - mortgage	5,267	4	4,909	2	5,797	6
Consumer	29	22	61	25	23	8
Total 90+ days past due and accruing	\$ 5,335	30	\$ 4,981	29	\$ 6,021	17
Total nonperforming loans	\$ 12,097	61	\$ 18,954	63	\$ 36,112	57
Plus: Other real estate owned and repossessions	1,208	5	6,497	11	8,178	12
Total nonperforming assets	\$ 13,305	66	\$ 25,451	74	\$ 44,290	69
Restructured accruing loans:						
Commercial, financial and agricultural	\$ 431	2	\$ 818	3	\$ 625	2
Real estate - construction	-	-	-	-	-	-
Real estate - mortgage:						
Owner-occupied commercial	-	-	-	-	-	-
1-4 family mortgage	-	-	-	-	-	-
Other mortgage	-	-	-	-	-	-
Total real estate - mortgage	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Total restructured accruing loans	\$ 431	2	\$ 818	3	\$ 625	2
Total nonperforming assets and restructured accruing loans	\$ 13,736	68	\$ 26,269	77	\$ 44,915	71
Ratios:						
Nonperforming loans to total loans	0.13%		0.22%		0.50%	
Nonperforming assets to total loans plus other real estate owned and repossessions	0.14%		0.30%		0.61%	
Nonperforming assets and restructured accruing loans to total loans plus other real estate	0.14%		0.31%		0.62%	

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. 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 ACL 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.

On December 27, 2020, the CAA was signed into law and extended the period established by Section 4013 of the CARES Act to the earlier of January 1, 2022 or the date that is 60 days after the date on which the national COVID-19 emergency terminates. In keeping with this guidance from regulators, the bank offered short-term modifications made in response to COVID-19 to borrowers who were current and otherwise not past due. 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, 2021, we carry \$4.0 million of accrued interest income on deferrals made to COVID-19 affected borrowers compared to \$5.8 million at December 31, 2020. At this time, we are unable to project the materiality of such an impact on future deferrals to COVID-19 affected borrowers, but we recognize the breadth of the economic impact may affect our 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, 2021, 2020 and 2019:

Types of Deposits:	For Year Ended December 31,					
	2021		2020		2019	
	Average Balance	Yields/Rates	Average Balance	Yields/Rates	Average Balance	Yields/Rates
	(Dollars in Thousands)					
Non-interest-bearing demand deposits	\$ 3,689,311	-%	\$ 2,492,500	-%	\$ 1,632,385	-%
Interest-bearing demand deposits	1,394,678	0.19%	1,059,629	0.35%	928,611	0.82%
Money market accounts	5,202,374	0.26%	4,519,170	0.57%	4,038,143	1.68%
Savings accounts	110,968	0.18%	77,364	0.35%	57,078	0.56%
Time deposits	755,982	1.24%	768,016	1.90%	702,245	2.20%
Brokered time deposits	50,000	1.68%	68,082	1.68%	-	-%
Total deposits	<u>\$ 11,203,313</u>		<u>\$ 8,984,761</u>		<u>\$ 7,358,462</u>	

The following table presents the portion of our total deposits in excess of insurance limit as of December 31, 2021, 2020, and 2019, respectively.

	Uninsured Deposits For the Year Ended December 31,		
	2021	2020	2019
Uninsured deposits	\$ 10,650,189	\$ 7,718,687	\$ 5,251,424

The following table presents the maturities of our time deposits in excess of insurance limit as of December 31, 2021.

	Portion of time deposits in excess of insurance limit December 31, 2021 (In Thousands)
Time deposits otherwise uninsured with a maturity of:	
3 months or less	\$ 68,392
Over 3 months through 6 months	69,277
Over 6 months through 12 months	72,076
Over 12 months	76,531
Total	\$ 286,276

The uninsured deposit data for 2021, 2020, and 2019 reflect the deposit insurance impact of “combined ownership segregation” of escrow and other accounts at an aggregate level but do not reflect an evaluation of all of the account styling distinctions that would determine the availability of deposit insurance to individual accounts based on FDIC regulations. Total average deposits for the year ended December 31, 2021 were \$11.20 billion, an increase of \$2.20 billion, or 24.7%, over total average deposits of \$8.98 billion for the year ended December 31, 2020. Average noninterest-bearing deposits increased by \$1.20 billion, or 48%, from \$2.49 billion for the year ended December 31, 2020 to \$3.69 billion for the year ended December 31, 2021.

Borrowed Funds

We had available \$986.0 million in unused federal funds lines of credit with regional banks as of December 31, 2021, compared to \$923.0 million as of December 31, 2020. The increase was attributable to additional lines of credit initiated with new banks during 2021. These lines are subject to certain restrictions.

Federal funds purchased from correspondent banks averaged \$1.16 billion, \$627.6 million and \$398.7 million for 2021, 2020 and 2019, respectively. We paid average interest rates on these funds of 0.21%, 0.43% and 2.28% for the same three years, respectively. The maximum amount outstanding at a month-end during 2021 and 2020 was \$1.71 billion and \$851.5 million, respectively.

Stockholders' Equity

Stockholders' equity increased \$159.2 million during 2021, to \$1.15 billion at December 31, 2021 from \$992.9 million at December 31, 2020. The increase in stockholders' equity resulted primarily from net income of \$207.7 million during the year ended December 31, 2021, less dividends paid or declared on our common stock of \$45.0 million during the year ended December 31, 2021.

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, 2021, 2020 and 2019:

	2021	2020	2019
	(In Thousands)		
Commitments to extend credit	\$ 3,515,818	\$ 2,606,258	\$ 2,303,788
Credit card arrangements	366,525	286,128	248,617
Standby letters of credit and financial guarantees	61,856	66,208	48,394
Total	<u>\$ 3,944,199</u>	<u>\$ 2,958,594</u>	<u>\$ 2,600,799</u>

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 bank periodically enters into derivative contracts to manage exposures to movements in interest rates. The bank 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 is 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, 2021 the interest rate cap had a fair value of \$1.2 million and remaining term of 1.3 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 to customers 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, 2021 and 2020 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, 2021, 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

Sources and Uses of Funds

The following table illustrates, during the years presented, the mix of our funding sources and the assets in which those funds are invested as a percentage of our average total assets for the period indicated. Average assets totaled \$13.55 billion in 2021 compared to \$10.64 billion in 2020, and to \$8.64 billion in 2019.

	2021	For the Year Ended 2020	2019
Sources of Funds:			
Deposits:			
Non-interest-bearing	27.3%	23.5%	18.9%
Interest-bearing	55.5	61.1	66.3
Federal funds purchased	8.6	5.9	4.6
Long term debt and other borrowings	0.5	0.6	0.8
Other liabilities	0.3	0.5	0.4
Equity capital	7.8	8.4	9.0
Total sources	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Uses of Funds:			
Loans	64.4%	76.7%	79.5%
Securities	7.3	7.9	7.6
Interest-bearing balances with banks	24.7	11.0	6.2
Federal funds sold	0.1	0.6	3.1
Other assets	3.4	3.8	3.6
Total uses	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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 Bank's main source of liquidity is customer interest-bearing and noninterest bearing deposit accounts. 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. Liquidity is also available from funding sources consisting primarily of federal funds purchased, FHLB loan advances and available-for-sale securities. 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, 2021, our liquid assets, represented by cash and due from banks, federal funds sold and unpledged available-for-sale securities, totaled \$5.1 billion. Additionally, at such date we had available to us approximately \$986.0 million in unused federal funds lines of credit with regional banks, subject to certain restrictions and collateral requirements, to meet short term funding needs.

As a separate entity from the bank, we also have separate liquidity obligations. We are responsible for the payment of dividends to our stockholders and interest and principal on our outstanding indebtedness. As a source of internal liquidity, we have access to the capital markets. We also may continue periodic offerings of debt and equity securities. However, our ultimate source of liquidity consists of dividends from the Bank, which are limited by applicable law and regulations. In 2021 and 2020, the Bank paid dividends of \$46.0 million and \$45.0 million to us, respectively. For a detailed discussion on the regulatory limitation on Bank dividends, see "Supervision and Regulation - Payment of Dividends" in Item 1.

We believe these sources of funding are adequate to meet both our immediate (within the next 12 months) and our longer term 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.

Capital Adequacy

As of December 31, 2021, 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, 2021. 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, 2021.

	Well-Capitalized	Actual at December 31, 2021
CET 1 Capital Ratio	6.50%	10.50%
Tier 1 Capital Ratio	8.00%	10.50%
Total Capital Ratio	10.00%	11.55%
Leverage ratio	5.00%	7.79%

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

Critical Accounting Estimates

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. If our assumptions regarding the adequacy of our allowance for credit losses are not accurate, we may incur credit losses in excess of our current allowance for credit losses and be required to make material additions to our allowance. Such additional provision for credit losses could have a material adverse effect on our business and results of operations. Our regulators may disagree with our assumptions and could require us to materially increase our allowance for credit losses.

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.

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. Because of the uncertainty of estimates involved, the ultimate resolution may result in a payment that is different from the current estimate of the tax liabilities and can be significant to the Company's consolidated financial position, results of operations or cash flows.

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, 2021, 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, 2021. 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)				
<i>Interest-earning assets:</i>					
Loans, including mortgages held for sale	\$ 3,893,883	\$ 1,700,971	\$ 3,598,005	\$ 224,529	\$ 9,417,388
Securities	78,363	153,543	697,149	383,783	1,312,838
Federal funds sold	58,372	-	-	-	58,372
Interest bearing balances with banks	4,106,790	-	-	-	4,106,790
Total interest-earning assets	<u>\$ 8,137,408</u>	<u>\$ 1,854,514</u>	<u>\$ 4,295,154</u>	<u>\$ 608,312</u>	<u>\$ 14,895,388</u>
<i>Interest-bearing liabilities:</i>					
<i>Deposits:</i>					
Interest-bearing checking	\$ 1,613,567	\$ -	\$ -	\$ -	\$ 1,613,567
Money market and savings	5,225,021	-	-	-	5,225,021
Time deposits	204,797	361,898	246,642	-	813,337
Federal funds purchased	-	-	-	64,706	64,706
Other borrowings	1,711,777	-	-	-	1,711,777
Total interest-bearing liabilities	<u>8,755,162</u>	<u>361,898</u>	<u>246,642</u>	<u>64,706</u>	<u>9,428,408</u>
Interest sensitivity gap	<u>\$ (617,754)</u>	<u>\$ 1,492,616</u>	<u>\$ 4,048,512</u>	<u>\$ 543,606</u>	<u>\$ 5,466,980</u>
Cumulative sensitivity gap	<u>\$ (617,754)</u>	<u>\$ 874,862</u>	<u>\$ 4,923,374</u>	<u>\$ 5,466,980</u>	<u>\$ -</u>
Percent of cumulative sensitivity Gap to total interest-earning assets	(4.15)%	5.87%	33.05%	36.70%	

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 0.10%, the Federal Reserve increased its targeted federal funds rate by 5 basis points to its current rate of 0.15%. At December 31, 2021, 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, 2021

	0 bps	-100 bps	+100 bps	+200 bps	+300 bps	+400 bps
	(Dollars in Thousands)					
Economic value of equity	\$ 1,152,015	\$ 944,652	\$ 1,241,872	\$ 1,321,361	\$ 1,388,178	\$ 1,440,019
Actual dollar change		\$ (207,363)	\$ 89,857	\$ 169,346	\$ 236,163	\$ 288,004
Percent change		(18.00)%	7.80%	14.70%	20.50%	25.00%

The one-year gap ratio of positive 5.87% indicates that we would show an increase 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.

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<u>Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements</u>	<u>63</u>
<u>Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting</u>	<u>65</u>
<u>Consolidated Balance Sheets at December 31, 2021 and 2020</u>	<u>67</u>
<u>Consolidated Statements of Income for the Years Ended December 31, 2021, 2020 and 2019</u>	<u>68</u>
<u>Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2021, 2020 and 2019</u>	<u>69</u>
<u>Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2021, 2020 and 2019</u>	<u>70</u>
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2021, 2020 and 2019</u>	<u>71</u>
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Report of Independent Registered Public Accounting Firm

Stockholders and the Board of Directors
ServisFirst Bancshares, Inc.
Birmingham, Alabama

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, 2021 and 2020, 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, 2021, 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, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, 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, 2021, 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, 2022, 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 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 the critical audit matter 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 \$9.5 billion and \$116.7 million as of December 31, 2021, respectively. 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, and more specifically the qualitative factor adjustments applied in the allowance, as a critical audit matter. The principal considerations for our determination of the qualitative factor adjustments as a critical audit matter are 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:

- Evaluated the design and tested the operating effectiveness of key controls relating to the Company's allowance, including controls over the determination of qualitative factor adjustments, the precision of management's review and approval of the resulting estimate, and the third-party model validation and testing of the model's performance.
- Assessed the appropriateness and reasonableness of the qualitative factor adjustment framework, including evaluating management's judgments as to which factors and relevant assessed risks impacted the qualitative adjustments for each loan pool.
- Evaluated and tested the reasonableness and relevance of data utilized in the qualitative factor adjustments, including considering the data's completeness and accuracy and testing the mathematical accuracy of the calculations.
- Utilized the assistance of the firm's internal specialists to test the mathematical operation of the model, evaluate the reasonableness of assumptions and judgments used in forecast components, and evaluate the adequacy of the third-party model validation of the allowance model.
- Analyzed the total qualitative factor adjustment applied to each loan pool, in comparison to changes in the Company's quantitatively driven expected credit losses and loan pools and evaluated the appropriateness and level of the total qualitative factor adjustment applied in the overall allowance.

/s/ Dixon Hughes Goodman LLP

We have served as the Company's auditor since 2014.

**Atlanta, Georgia
February 25, 2022**

Report of Independent Registered Public Accounting Firm

Stockholders and the Board of Directors
ServisFirst Bancshares, Inc.
Birmingham, Alabama

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, 2021, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, 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 the Company as of December 31, 2021 and 2020, and for each of the three years in the period ended December 31, 2021, and our report dated February 25, 2022, 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, 2022**

SERVISFIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	December 31, 2021	December 31, 2020
ASSETS		
Cash and due from banks	\$ 56,934	\$ 93,655
Interest-bearing balances due from depository institutions	4,106,790	2,115,985
Federal funds sold	58,372	1,771
Cash and cash equivalents	4,222,096	2,211,411
Available for sale debt securities, at fair value	842,570	886,688
Held to maturity debt securities (fair value of \$466,286 at December 31, 2021 and \$250 at December 31, 2020)	462,957	250
Restricted equity securities	7,311	-
Mortgage loans held for sale	1,114	14,425
Loans	9,532,934	8,465,688
Less allowance for credit losses	(116,660)	(87,942)
Loans, net	9,416,274	8,377,746
Premises and equipment, net	60,300	54,969
Accrued interest and dividends receivable	34,831	36,841
Deferred tax asset, net	37,772	31,072
Other real estate owned and repossessed assets	1,208	6,497
Bank owned life insurance contracts	283,074	276,387
Goodwill and other identifiable intangible assets	13,638	13,908
Other assets	65,661	22,460
Total assets	<u>\$ 15,448,806</u>	<u>\$ 11,932,654</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest-bearing demand	\$ 4,799,767	\$ 2,788,772
Interest-bearing	7,653,069	7,186,952
Total deposits	12,452,836	9,975,724
Federal funds purchased	1,711,777	851,545
Other borrowings	64,706	64,748
Accrued interest and dividends payable	13,619	12,321
Other liabilities	53,853	35,464
Total liabilities	14,296,791	10,939,802
Stockholders' equity:		
Preferred stock, par value \$0.001 per share; 1,000,000 authorized and undesignated at December 31, 2021 and December 31, 2020	-	-
Common stock, par value \$0.001 per share; 100,000,000 shares authorized; 54,227,060 shares issued and outstanding at December 31, 2021, and 53,943,751 shares issued and outstanding at December 31, 2020	54	54
Additional paid-in capital	226,397	223,856
Retained earnings	911,008	748,224
Accumulated other comprehensive income	14,056	20,218
Total stockholders' equity attributable to ServisFirst Bancshares, Inc.	1,151,515	992,352
Noncontrolling interest	500	500
Total stockholders' equity	1,152,015	992,852
Total liabilities and stockholders' equity	<u>\$ 15,448,806</u>	<u>\$ 11,932,654</u>

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,		
	2021	2020	2019
Interest income:			
Interest and fees on loans	\$ 385,721	\$ 362,664	\$ 354,308
Taxable securities	25,413	22,122	17,008
Nontaxable securities	302	739	1,429
Federal funds sold	29	332	6,038
Other interest and dividends	4,840	3,165	12,020
Total interest income	<u>416,305</u>	<u>389,022</u>	<u>390,803</u>
Interest expense:			
Deposits	26,569	45,230	90,958
Borrowed funds	5,233	5,755	12,200
Total interest expense	<u>31,802</u>	<u>50,985</u>	<u>103,158</u>
Net interest income	384,503	338,037	287,645
Provision for credit losses	31,517	42,434	22,638
Net interest income after provision for credit losses	<u>352,986</u>	<u>295,603</u>	<u>265,007</u>
Noninterest income:			
Service charges on deposit accounts	6,839	7,528	7,029
Mortgage banking	7,340	8,747	4,361
Credit card income	7,347	5,916	7,076
Securities gains	620	-	27
Increase in cash surrender value life insurance	6,642	6,310	3,746
Other operating income	4,664	1,615	1,743
Total noninterest income	<u>33,452</u>	<u>30,116</u>	<u>23,982</u>
Noninterest expenses:			
Salaries and employee benefits	67,728	61,414	57,783
Equipment and occupancy expense	11,404	10,070	9,272
Third party processing and other services	16,362	13,778	11,234
Professional services	3,891	4,242	4,235
FDIC and other regulatory assessments	5,679	4,354	2,975
Other real estate owned expense	868	2,163	415
Other operating expenses	27,157	15,490	16,214
Total noninterest expenses	<u>133,089</u>	<u>111,511</u>	<u>102,128</u>
Income before income taxes	<u>253,349</u>	<u>214,208</u>	<u>186,861</u>
Provision for income taxes	45,615	44,639	37,618
Net income	<u>207,734</u>	<u>169,569</u>	<u>149,243</u>
Dividends on preferred stock	62	63	63
Net income available to common stockholders	<u>\$ 207,672</u>	<u>\$ 169,506</u>	<u>\$ 149,180</u>
Basic earnings per common share	<u>\$ 3.83</u>	<u>\$ 3.15</u>	<u>\$ 2.79</u>
Diluted earnings per common share	<u>\$ 3.82</u>	<u>\$ 3.13</u>	<u>\$ 2.76</u>

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2021	2020	2019
Net income	\$ 207,734	\$ 169,569	\$ 149,243
Other comprehensive (loss) income, net of tax:			
Unrealized net holding (losses) gains arising during period from securities available for sale, net of tax of \$(2,966), \$3,845 and \$2,788 for 2021, 2020, and 2019, respectively	(11,161)	14,469	10,511
Amortization of net unrealized gains on securities transferred from available-for-sale to held-to-maturity, net of tax of \$319 for 2021	(1,196)	-	-
Reclassification adjustment for securities transferred from available-for-sale to held-to-maturity net of tax of \$1,480 for 2021	5,705	-	-
Reclassification adjustment for net gains (losses) on call and sale of securities, net of tax of \$130 and \$(6), 2021 and 2019, respectively	490	-	(21)
Other comprehensive (loss) income, net of tax	(6,162)	14,469	10,490
Comprehensive income	<u>\$ 201,572</u>	<u>\$ 184,038</u>	<u>\$ 159,733</u>

See Notes to Consolidated Financial Statements.

SERVISFIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT 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, 2019	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	-	-	169,569
Balance, December 31, 2020	53,943,751	\$ -	\$ 54	\$ 223,856	\$ 748,224	\$ 20,218	\$ 500	\$ 992,852
Common dividends paid, \$0.60 per share	-	-	-	-	(32,520)	-	-	(32,520)
Common dividends declared, \$0.23 per share	-	-	-	-	(12,472)	-	-	(12,472)
Preferred dividends paid	-	-	-	-	(62)	-	-	(62)
Dividends on nonvested restricted stock recognized as compensation expense	-	-	-	-	104	-	-	104
Issue restricted shares pursuant to stock incentives, net of forfeitures	57,570	-	-	-	-	-	-	-
Issue shares of common stock upon exercise of stock options	225,739	-	-	3,534	-	-	-	3,534
52,261 shares of common stock withheld in net settlement upon exercise of stock options	-	-	-	(2,848)	-	-	-	(2,848)
Stock-based compensation	-	-	-	1,855	-	-	-	1,855

expense									
Other comprehensive (loss), net of tax	-	-	-	-	-	(6,162)	-	(6,162)	
Net income	-	-	-	-	207,734	-	-	207,734	
Balance, December 31, 2021	<u>54,227,060</u>	<u>\$ -</u>	<u>\$ 54</u>	<u>\$ 226,397</u>	<u>\$ 911,008</u>	<u>\$ 14,056</u>	<u>\$ 500</u>	<u>\$ 1,152,015</u>	

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2021	2020	2019
OPERATING ACTIVITIES			
Net income	\$ 207,734	\$ 169,569	\$ 149,243
Adjustments to reconcile net income to net cash provided by			
Deferred tax	(5,061)	(9,727)	(1,077)
Provision for credit losses	31,517	42,434	22,638
Depreciation	4,118	3,832	3,682
Accretion on acquired loans	-	(100)	(90)
Amortization of core deposit intangible	270	271	270
Net amortization of debt securities available for sale	14,665	5,605	3,095
Decrease (increase) in accrued interest and dividends receivable	2,010	(10,579)	(2,192)
Stock-based compensation expense	1,855	1,332	1,100
Increase in accrued interest payable	1,298	387	1,553
Proceeds from sale of mortgage loans held for sale	234,086	284,881	135,359
Originations of mortgage loans held for sale	(213,435)	(284,247)	(137,190)
Gain on call of securities available for sale	(620)	-	(27)
Gain on sale of mortgage loans held for sale	(7,340)	(8,747)	(4,361)
Net loss (gain) on sale of other real estate owned and repossessed assets	288	(8)	(122)
Write down of other real estate owned and repossessed assets	845	1,861	287
Operating losses of tax credit partnerships	4	4	8
Increase in cash surrender value of life insurance contracts	(6,642)	(6,310)	(3,746)
Net change in other assets, liabilities, and other operating activities	739	832	(4,155)
Net cash provided by operating activities	<u>266,331</u>	<u>191,290</u>	<u>164,275</u>
INVESTMENT ACTIVITIES			
Purchase of debt securities available for sale	(416,903)	(334,596)	(293,832)
Proceeds from maturities, calls and paydowns of debt securities available for sale	177,166	220,993	117,265
Proceeds from sale of debt securities available for sale	5,000	-	18,920
Purchases of debt securities held to maturity	(290,769)	-	(250)
Proceeds from maturities, calls and paydowns of debt securities held to maturity	94,797	-	-
Purchases of restricted equity securities	(7,311)	-	-
Investment in tax credit partnership and SBIC	(43,912)	(636)	-
Increase in loans	(1,072,363)	(1,236,698)	(754,533)
Purchase of premises and equipment	(9,449)	(2,305)	(2,356)
Purchase of bank owned life insurance contracts	(45)	(60,682)	(75,000)
Proceeds from sale of other real estate owned and repossessed assets	2,695	2,853	1,437
Net cash used in investing activities	<u>(1,561,094)</u>	<u>(1,411,071)</u>	<u>(988,349)</u>
FINANCING ACTIVITIES			
Net increase in non-interest-bearing deposits	2,010,995	1,038,893	192,538
Net increase in interest-bearing deposits	466,117	1,406,398	422,187
Net increase in federal funds purchased	860,232	380,796	182,024
Proceeds from issuance of 4% Subordinated Notes due October 21, 2030, net of issuance cost	-	34,750	-
Repayment of 5% Subordinated Notes due July 15, 2025	-	(34,710)	-
Proceeds from exercise of stock options	3,534	3,487	2,123
Taxes paid in net settlement of tax obligation upon exercise of stock options	(2,848)	(729)	(1,977)
Dividends paid on common stock	(32,520)	(28,230)	(24,053)
Dividends paid on preferred stock	(62)	(63)	(63)
Net cash provided by financing activities	<u>3,305,448</u>	<u>2,800,592</u>	<u>772,779</u>
Net increase in cash and cash equivalents	2,010,685	1,580,811	(51,295)
Cash and cash equivalents at beginning of period	2,211,411	630,600	681,895
Cash and cash equivalents at end of period	<u>\$ 4,222,096</u>	<u>\$ 2,211,411</u>	<u>\$ 630,600</u>
SUPPLEMENTAL DISCLOSURE			
Cash paid/(received) for:			
Interest	\$ 30,504	\$ 50,598	\$ 101,605
Income taxes	56,651	50,867	42,232
Income tax refund	(3)	(47)	(86)
NONCASH TRANSACTIONS			
Other real estate acquired in settlement of loans	\$ 2,318	\$ 2,945	\$ 4,611
Internally financed sale of other real estate owned	3,779	40	-
Available-for-sale securities transferred to held-to-maturity portfolio	261,026	-	-
Dividends declared	12,472	10,787	9,384

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.

Debt Securities

Debt securities are classified based on the Company's intention on the date of purchase. All debt securities classified as available-for-sale are recorded at fair value with any unrealized gains and losses reported in accumulated other comprehensive income (loss), net of the deferred income tax effects. Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at historical cost and adjusted for amortization of premiums and accretion of discounts.

Transfers of debt securities into the held-to-maturity category from available-for-sale category are made at fair value at the date of transfer. The unrealized holding gain or loss at the date of transfer is retained in other comprehensive income and in the carrying value of the held-to-maturity securities. Such amounts are amortized over the remaining life of the security.

Interest and dividends on securities, including amortization of premiums and accretion of discounts calculated under the effective interest method, are included in interest income. For certain securities, amortization of premiums and accretion of discounts is computed based on the anticipated life of the security which may be shorter than the stated life of the security. Realized gains and losses from the sale of securities are determined using the specific identification method and are recorded on the trade date of the sale.

Restricted Equity Securities

Investments in restricted equity securities without a readily determinable market value are carried at cost.

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, 2021 and 2020.

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 (“ACL”)

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

ACL—Debt Securities

Management uses a systematic methodology to determine its ACL for held-to-maturity debt securities. The ACL is a valuation account that is deducted from the amortized cost basis to present the net amount expected to be collected on the held-to-maturity portfolio. Management considers the effects of past events, current conditions, and reasonable and supportable forecasts on the collectability of the portfolio. The Company’s estimate of its ACL involves a high degree of judgment; therefore, Management’s process for determining expected credit losses may result in a range of expected credit losses. Management monitors the held-to-maturity portfolio to determine whether a valuation account would need to be recorded. As of December 31, 2021, the Company had \$463.0 million of held-to-maturity securities and no related valuation account.

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.

The Company excludes the accrued interest receivable balance from the amortized cost basis in measuring expected credit losses on debt securities and does not record an ACL on accrued interest receivable.

ACL – Loans

The ACL 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.

ACL – Unfunded Loan Commitments

The ACL 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 ACL is reported as a component of other liabilities within the consolidated balance sheets. Adjustments to the ACL for 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

Land is carried at cost. Premises and equipment are carried 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. Leases are 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 as 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 term 1 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 are not 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 discount 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 of 12 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

The Company has recorded \$13.6 million of goodwill at December 31, 2021 in connection with the acquisition of Metro Bancshares, Inc. in 2015. 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 carrying value of a reporting unit exceeds its fair 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.

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.

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. 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 designates the derivative on the date the derivative contract is entered into as a hedge of the (1) fair value of a recognized asset or liability or of an unrecognized firm commitment (a “fair-value” hedge) or (2) a forecasted transaction of the variability of cash flows to be received or paid related to a recognized asset or liability (a “cash-flow” hedge). Changes in the fair value of a derivative that is highly effective as a fair-value hedge, and that is designated and qualifies as a fair-value hedge, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk (including losses or gains on firm commitments), are recorded in current-period earnings. The changes in a derivative’s fair value that are included in the assessment of hedge effectiveness for a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded in other comprehensive income until earnings are affected by the variability of cash flows (e.g., when periodic settlements on a variable-rate asset or liability are recorded in earnings). The remaining gain or loss on the derivative, if any, in excess of the cumulative change in the present value of future cash flows of the hedged item is recognized in earnings.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair-value or cash-flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge’s inception and on an ongoing basis, as necessary, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively, as discussed below. The Company discontinues hedge accounting prospectively when: (1) it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item (including firm commitments or forecasted transactions); (2) the derivative expires or is sold, terminated, or exercised; (3) the derivative is re-designated as a hedge instrument, because it is unlikely that a forecasted transaction will occur; (4) a hedged firm commitment no longer meets the definition of a firm commitment; or (5) management determines that designation of the derivative as a hedge instrument is no longer appropriate.

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair-value hedge, hedge accounting is discontinued prospectively and the derivative will continue to be carried on the balance sheet at its fair value with all changes in fair value being recorded in earnings but with no offsetting being recorded on the hedged item or in other comprehensive income for cash flow hedges.

The Company uses derivatives to hedge interest rate exposures associated with mortgage loan originations. 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 rate lock commitments to customers as of December 31, 2021 and 2020 were not material and have not been recorded.

Revenue Recognition

The Company records revenue from contracts with customers in accordance with ASC Topic 606, *Revenue from Contracts with Customers* (“ASC 606”). 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. 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.

Stock-Based Compensation

At December 31, 2021, 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 ASC 718-10, *Compensation – Stock Compensation* with respect to employee stock options, restricted stock and performance-based stock. Specifically, awards 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 stock 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. Performance shares represent the opportunity to earn shares of the Company's common stock after a prescribed period and based on the relative market performance of the Company's stock, subject to the recipient's continued employment through the end of the performance period. The actual shares earned under the performance shares units generally range between zero and 150% of the target level award, depending on the total stockholder return (TSR) of the Company over the performance period ranked relative to the TSR of a defined peer group of companies. A Monte Carlo simulation is used to estimate the fair value of the performance shares as of the valuation date. Compensation expense is recognized regardless of the extent to which the market condition is satisfied.

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 performance shares.

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.

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 available-for-sale debt securities and amortization of unrealized gains and losses on debt securities transferred from available-for-sale to held-to-maturity at the time of transfer. Amounts reported as accumulated comprehensive income are shown net of taxes.

Advertising

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2021, 2020 and 2019 was \$498,000, \$338,000 and \$581,000, 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 Accounting Standards Update ("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 Company adopted ASC 326 effective January 1, 2020. Amounts reported for periods beginning on or after January 1, 2020 are presented under ASC 326, except quarterly periods in 2020, 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 \$500,000, and a decrease in deferred tax assets of \$376,000. 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.

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 2021, the FASB issued ASU No. 2021-06 *Presentation of Financial Statements (Topic 205), Financial Services—Depository and Lending (Topic 942), and Financial Services—Investment Companies (Topic 946): Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants*. This ASU amends and adds various SEC paragraphs to the codification pursuant to the issuance of SEC Final Rule Releases No. 33-10786 and No. 33-10835 issued to improve disclosure rules. The ASU was effective upon issuance. The adoption of this disclosure guidance did not have a material impact on the Company's consolidated financial statements.

Recent Accounting Pronouncements

In July 2021, the FASB issued ASU 2021-05, *Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments*, which amends guidance so that lessors are no longer required to record a selling loss at lease commencement for a lease with any variable lease payments that do not depend on an index or rate. A lessor would classify such leases as an operating lease rather than a sales-type or direct financing lease. The update is effective for the Company for its fiscal year beginning after December 15, 2021, including interim periods within those years. The Company does not expect adoption of ASU 2021-05 to have an impact on its consolidated 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, 2021 and 2020 are summarized as follows:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Market Value
(In Thousands)				
December 31, 2021				
Debt Securities Available for Sale				
U.S. Treasury Securities	\$ 9,003	\$ 101	\$ -	\$ 9,104
Government Agency Securities	6,022	19	-	6,041
Mortgage-backed securities	424,372	3,474	(2,685)	425,161
State and municipal securities	21,531	173	(70)	21,634
Corporate debt	369,618	11,659	(647)	380,630
Total	<u>\$ 830,546</u>	<u>\$ 15,426</u>	<u>\$ (3,402)</u>	<u>\$ 842,570</u>
Debt Securities Held to Maturity				
U.S. Treasury Securities	\$ 149,263	\$ 25	\$ (668)	\$ 148,620
Mortgage-backed securities	310,641	5,251	(1,271)	314,621
State and municipal securities	3,053	2	(10)	3,045
Total	<u>\$ 462,957</u>	<u>\$ 5,278</u>	<u>\$ (1,949)</u>	<u>\$ 466,286</u>
December 31, 2020				
Debt 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	<u>\$ 861,156</u>	<u>\$ 26,054</u>	<u>\$ (522)</u>	<u>\$ 886,688</u>
Debt Securities Held to Maturity				
State and municipal securities	250	-	-	250
Total	<u>\$ 250</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 250</u>

During the third quarter of 2021, the company transferred, at fair value, \$261.3 million of mortgage-backed securities from the available-for-sale portfolio to the held-to-maturity portfolio. The related unrealized after-tax gains of \$5.6 million remained in accumulated other comprehensive income and will be amortized over the remaining life of the securities, offsetting the related amortization of discount on the transferred securities. No gains or losses were recognized at the time of the transfer.

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 2021 and 2020, there were no holdings of debt securities of any issuer, other than the U.S. government and its agencies, in an amount greater than 10% of stockholders' equity.

The amortized cost and fair value of debt securities as of December 31, 2021 and 2020 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, 2021		December 31, 2020	
	Amortized Cost	Market Value	Amortized Cost	Market Value
	(In Thousands)			
Debt securities available for sale				
Due within one year	\$ 32,913	\$ 33,232	\$ 30,797	\$ 31,060
Due from one to five years	31,760	32,307	59,828	61,481
Due from five to ten years	338,407	348,594	288,002	293,886
Due after ten years	3,094	3,276	5,122	5,152
Mortgage-backed securities	424,372	425,161	477,407	495,109
	<u>\$ 830,546</u>	<u>\$ 842,570</u>	<u>\$ 861,156</u>	<u>\$ 886,688</u>
Debt securities held to maturity				
Due within one year	\$ 250	\$ 250	\$ 250	\$ 250
Due from one to five years	49,663	49,419	-	-
Due from five to ten years	102,403	101,996	-	-
Mortgage-backed securities	310,641	314,621	-	-
	<u>\$ 462,957</u>	<u>\$ 466,286</u>	<u>\$ 250</u>	<u>\$ 250</u>

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, 2021 and 2020.

	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, 2021						
U.S. Treasury Securities	\$ (668)	\$ 123,698	\$ -	\$ -	\$ (668)	\$ 123,698
Government Agency Securities	-	-	-	-	-	-
Mortgage-backed securities	(3,956)	437,489	-	-	(3,956)	437,489
State and municipal securities	(71)	5,680	(9)	228	(80)	5,908
Corporate debt	(647)	61,677	-	-	(647)	61,677
Total	<u>\$ (5,342)</u>	<u>\$ 628,544</u>	<u>\$ (9)</u>	<u>\$ 228</u>	<u>\$ (5,351)</u>	<u>\$ 628,772</u>
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	<u>\$ (522)</u>	<u>\$ 63,243</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (522)</u>	<u>\$ 63,243</u>

At December 31, 2021, no allowance for credit losses has been recognized on available for sale debt securities in an unrealized loss position as the Company does not 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. The Company does not intend to sell these debt securities and it is more likely than not 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. Furthermore, the Company performed an analysis that determined that the following securities have a zero expected credit loss: U.S. Treasury Securities; and, Agency-Backed Securities, including securities issued by GNMA, FNMA, FHLB, FFCB and SBA. All of the U.S. Treasury and Agency-Backed Securities have the full faith and credit backing of the United States Government or one of its agencies. All debt securities in an unrealized loss position as of December 31, 2021 continue to perform as scheduled and the Company does not believe there is a possible credit loss or that an allowance for credit loss on these debt securities is necessary.

The following table summarizes information about sales and calls of debt securities.

	Years Ended December 31,		
	2021	2020	2019
	(In Thousands)		
Sale and call proceeds	\$ 56,780	\$ 27,857	\$ 35,220
Gross realized gains	\$ 620	\$ -	\$ 42
Gross realized losses	-	-	15
Net realized gain	\$ 620	\$ -	\$ 27

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, 2021 and 2020 was \$481.3 million and \$477.6 million, respectively.

Restricted equity securities is comprised entirely of a restricted investment in Federal Home Loan Bank of Atlanta stock for membership requirement.

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 has prioritized assisting its clients through this troubled time. The Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) provided for Paycheck Protection Program (“PPP”) loans to be made by banks to employers with less than 500 employees if they continued to employ their existing workers. The American Rescue Plan Act of 2021, which was signed into law on March 21, 2021, provided additional relief for businesses, states, municipalities and individuals by, among other things, allocating additional funds for the PPP. Effective May 28, 2021, the PPP was closed to new applications. The Company funded approximately 7,400 loans for a total amount of \$1.5 billion for clients under the PPP since April 2020. At December 31, 2021 and December 31, 2020, unaccrued deferred loan origination fees, net of costs, related to PPP loans totaled \$7.2 million and \$17.8 million, respectively. PPP loan origination fees recorded to interest income totaled \$27.3 million and \$14.1 million for the years ended December 31, 2021 and 2020, respectively. PPP loans outstanding totaled \$230.2 million and \$900.5 million at December 31, 2021 and 2020, respectively. PPP loans are included within the commercial, financial and agricultural loan category in the table below.

The composition of loans at December 31, 2021 and 2020 is summarized as follows:

	December 31,	
	2021	2020
	(In Thousands)	
Commercial, financial and agricultural	\$ 2,984,053	\$ 3,295,900
Real estate - construction	1,103,076	593,614
Real estate - mortgage:		
Owner-occupied commercial	1,874,103	1,693,428
1-4 family mortgage	826,765	711,692
Other mortgage	2,678,084	2,106,184
Total real estate - mortgage	5,378,952	4,511,304
Consumer	66,853	64,870
Total Loans	9,532,934	8,465,688
Less: Allowance for credit losses	(116,660)	(87,942)
Net Loans	\$ 9,416,274	\$ 8,377,746

Changes in the ACL during the years ended December 31, 2021, 2020 and 2019 are as follows:

	Years Ended December 31,		
	2021	2020	2019
	(In Thousands)		
Balance, beginning of year	\$ 87,942	\$ 76,584	\$ 68,600
Impact of adopting ASC 326	-	(2,000)	-
Loans charged off	(4,114)	(29,568)	(22,489)
Recoveries	1,315	492	429
Allocation from LGP (1)	-	-	7,406
Provision for credit losses	31,517	42,434	22,638
Balance, end of year	<u>\$ 116,660</u>	<u>\$ 87,942</u>	<u>\$ 76,584</u>

(1) In 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.

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 ACL 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.

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. At December 31, 2021 and 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 leveraged economic projections from reputable and independent sources to inform its loss driver forecasts. The Company expects national unemployment and national GDP growth to be at levels experienced prior to the pandemic as the economy continues to come back on-line over the next year.

The Company uses a loss-rate method to estimate expected credit losses for its C&I 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. 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. Management has applied the loss-rate method to C&I lines of credit and to credit cards due to their generally short-term nature. An expected loss ratio is applied based on internal and peer historical losses.

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.

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.

Changes in the allowance for credit losses, segregated by loan type, during the years ended December 31, 2021 and 2020, respectively, are as follows:

	Commercial, financial and agricultural	Real estate - construction	Real estate - mortgage	Consumer	Total
(In Thousands)					
Year Ended December 31, 2021					
Allowance for credit losses:					
Balance at December 31, 2020	\$ 36,370	\$ 16,057	\$ 33,722	\$ 1,793	\$ 87,942
Charge-offs	(3,453)	(14)	(279)	(368)	(4,114)
Recoveries	1,135	52	86	42	1,315
Provision	7,817	10,899	12,300	501	31,517
Balance at December 31, 2021	<u>\$ 41,869</u>	<u>\$ 26,994</u>	<u>\$ 45,829</u>	<u>\$ 1,968</u>	<u>\$ 116,660</u>
Year Ended December 31, 2020					
Allowance for loan 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	<u>\$ 36,370</u>	<u>\$ 16,057</u>	<u>\$ 33,722</u>	<u>\$ 1,793</u>	<u>\$ 87,942</u>

We maintain an ACL 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 ACL for loans, modified to take into account the probability of a drawdown on the commitment. The ACL 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 \$1.3 million and \$2.2 million at December 31, 2021 and 2020, respectively. The provision expense for unfunded commitments was reduced by \$900,000 for the year ended December 31, 2021 and was \$1.2 million for the year ended December 31, 2020. Prior to January 1, 2020, except quarterly periods in 2020 which were not restated, the allowance for losses on unfunded loan commitments was calculated using an incurred losses methodology.

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 tables below presents loan balances classified by credit quality indicator, loan type and based on year of origination as of December 31, 2021 and 2020:

December 31, 2021	2021	2020	2019	2018	2017	Prior	Revolving Loans	Total
(In Thousands)								
Commercial, financial and agricultural								
Pass	\$ 800,822	\$ 294,841	\$ 209,086	\$ 130,579	\$ 114,870	\$ 127,572	\$ 1,216,153	\$ 2,893,923
Special Mention	1,245	1,323	942	846	915	784	19,801	25,856
Substandard	-	387	10,039	1,741	1,501	7,966	42,640	64,274
Doubtful	-	-	-	-	-	-	-	-
Total Commercial, financial and agricultural	\$ 802,067	\$ 296,551	\$ 220,067	\$ 133,166	\$ 117,286	\$ 136,322	\$ 1,278,594	\$ 2,984,053
Real estate - construction								
Pass	\$ 597,497	\$ 260,723	\$ 110,671	\$ 16,452	\$ 13,704	\$ 17,356	\$ 76,662	\$ 1,093,065
Special Mention	-	-	6,594	2,500	-	917	-	10,011
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Real estate - construction	\$ 597,497	\$ 260,723	\$ 117,265	\$ 18,952	\$ 13,704	\$ 18,273	\$ 76,662	\$ 1,103,076
Owner-occupied commercial								
Pass	\$ 406,473	\$ 352,642	\$ 231,197	\$ 182,812	\$ 162,648	\$ 430,638	\$ 96,860	\$ 1,863,270
Special Mention	101	-	2,417	779	476	2,688	-	6,461
Substandard	-	-	-	-	-	4,372	-	4,372
Doubtful	-	-	-	-	-	-	-	-
Total Owner-occupied commercial	\$ 406,574	\$ 352,642	\$ 233,614	\$ 183,591	\$ 163,124	\$ 437,698	\$ 96,860	\$ 1,874,103
1-4 family mortgage								
Pass	\$ 299,686	\$ 117,579	\$ 68,044	\$ 46,954	\$ 37,374	\$ 37,970	\$ 210,338	\$ 817,945
Special Mention	-	1,000	517	116	260	912	3,033	5,838
Substandard	-	150	593	241	231	611	1,156	2,982
Doubtful	-	-	-	-	-	-	-	-
Total 1-4 family mortgage	\$ 299,686	\$ 118,729	\$ 69,154	\$ 47,311	\$ 37,865	\$ 39,493	\$ 214,527	\$ 826,765
Other mortgage								
Pass	\$ 882,849	\$ 481,012	\$ 411,426	\$ 174,700	\$ 272,555	\$ 353,621	\$ 81,202	\$ 2,657,365
Special Mention	-	-	130	376	2,720	4,656	-	7,882
Substandard	-	-	-	4,497	8,340	-	-	12,837
Doubtful	-	-	-	-	-	-	-	-
Total Other mortgage	\$ 882,849	\$ 481,012	\$ 411,556	\$ 179,573	\$ 283,615	\$ 358,277	\$ 81,202	\$ 2,678,084
Consumer								
Pass	\$ 16,303	\$ 4,845	\$ 2,896	\$ 983	\$ 903	\$ 3,649	\$ 37,250	\$ 66,829
Special Mention	-	-	-	-	-	24	-	24
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Consumer	\$ 16,303	\$ 4,845	\$ 2,896	\$ 983	\$ 903	\$ 3,673	\$ 37,250	\$ 66,853
Total Loans								
Pass	\$ 3,003,630	\$ 1,511,642	\$ 1,033,320	\$ 552,480	\$ 602,054	\$ 970,806	\$ 1,718,465	\$ 9,392,397
Special Mention	1,346	2,323	10,600	4,617	4,371	9,981	22,834	56,072
Substandard	-	537	10,632	6,479	10,072	12,949	43,796	84,465
Doubtful	-	-	-	-	-	-	-	-
Total Loans	\$ 3,004,976	\$ 1,514,502	\$ 1,054,552	\$ 563,576	\$ 616,497	\$ 993,736	\$ 1,785,095	\$ 9,532,934

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

Nonperforming loans include nonaccrual loans and loans 90 or more days past due and still accruing. Loans by performance status as of December 31, 2021 and 2020 are as follows:

December 31, 2021	Performing	Nonperforming (In Thousands)	Total
Commercial, financial and agricultural	\$ 2,979,671	\$ 4,382	\$ 2,984,053
Real estate - construction	1,103,076	-	1,103,076
Real estate - mortgage:			
Owner-occupied commercial	1,873,082	1,021	1,874,103
1-4 family mortgage	824,756	2,009	826,765
Other mortgage	2,673,428	4,656	2,678,084
Total real estate - mortgage	5,371,266	7,686	5,378,952
Consumer	66,824	29	66,853
Total	\$ 9,520,837	\$ 12,097	\$ 9,532,934

December 31, 2020	Performing	Nonperforming (In Thousands)	Total
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

Loans by past due status as of December 31, 2021 and 2020 are as follows:

December 31, 2021	Past Due Status (Accruing Loans)				Total Past Due	Total Nonaccrual	Current	Total Loans	Nonaccrual With No ACL
	30-59 Days	60-89 Days	90+ Days						
	(In Thousands)								
Commercial, financial and agricultural	\$ 516	\$ 77	\$ 39	\$ 632	\$ 4,343	\$ 2,979,078	\$ 2,984,053	\$ 2,059	
Real estate - construction	-	-	-	-	-	1,103,076	1,103,076	-	
Real estate - mortgage:									
Owner-occupied commercial	143	-	-	143	1,021	1,872,939	1,874,103	1,021	
1-4 family mortgage	-	703	611	1,314	1,398	824,053	826,765	483	
Other mortgage	-	-	4,656	4,656	-	2,673,428	2,678,084	-	
Total real estate - mortgage	143	703	5,267	6,113	2,419	5,370,420	5,378,952	1,504	
Consumer	93	23	29	145	-	66,708	66,853	-	
Total	\$ 752	\$ 803	\$ 5,335	\$ 6,890	\$ 6,762	\$ 9,519,282	\$ 9,532,934	\$ 3,563	

December 31, 2020	Past Due Status (Accruing Loans)				Total Past Due	Total Nonaccrual	Current	Total Loans	Nonaccrual With No ACL
	30-59 Days	60-89 Days	90+ Days						
(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	

There was no interest earned on nonaccrual loans for the years ended December 31, 2021 and 2020.

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:

December 31, 2021	Real Estate	Accounts Receivable	Equipment	Other	Total	ACL Allocation
Commercial, financial and agricultural	\$ 13,067	\$ 5,075	\$ 18,533	\$ 27,599	\$ 64,274	\$ 9,727
Real estate - mortgage:						
Owner-occupied commercial	4,372	-	-	-	4,372	1,371
1-4 family mortgage	2,982	-	-	-	2,982	163
Other mortgage	12,837	-	-	-	12,837	31
Total real estate - mortgage	20,191	-	-	-	20,191	1,565
Total	\$ 33,258	\$ 5,075	\$ 18,533	\$ 27,599	\$ 84,465	\$ 11,292

December 31, 2020	Real Estate	Accounts Receivable	Equipment	Other	Total	ACL Allocation
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 real estate - mortgage	18,467	971	-	36	19,474	547
Total	\$ 38,075	\$ 28,923	\$ 16,877	\$ 4,630	\$ 88,505	\$ 7,690

On March 22, 2020, an 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 Troubled Debt Restructuring ("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. On December 27, 2020, President Trump signed into law the Consolidated Appropriations Act 2021, which extended the period established by Section 4013 of the CARES Act to the earlier of January 1, 2022 or the date that is 60 days after the date on which the national COVID-19 emergency terminates. In accordance with such guidance, the Bank offered 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, 2021, there were 12 loans outstanding totaling \$1.5 million that have payment deferrals in connection with the COVID-19 relief provided by the CARES Act. All of these remaining deferrals are principal and interest deferrals. The CARES Act precluded all of the Company's COVID-19 loan modifications from being classified as a TDR as of December 31, 2021.

TDRs at December 31, 2021 and 2020 totaled \$2.6 million and \$1.5 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, 2021		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
(In Thousands)			
Troubled Debt Restructurings			
Commercial, financial and agricultural	2	\$ 1,155	\$ 1,155
Real estate - construction	-	-	-
Real estate - mortgage:			
Owner-occupied commercial	1	991	991
1-4 family mortgage	-	-	-
Other mortgage	-	-	-
Total real estate - mortgage	1	991	991
Consumer	-	-	-
	<u>3</u>	<u>\$ 2,146</u>	<u>\$ 2,146</u>
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	-	-	-
	<u>4</u>	<u>\$ 1,532</u>	<u>\$ 1,532</u>

There were no loans which were modified in the previous twelve months (i.e., the twelve months prior to default) that defaulted during the years ended December 31, 2021 and December 31, 2020, respectively. For purposes of this disclosure, default is defined as 90 days past due and still accruing or placement on nonaccrual status.

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, 2021 and 2020 are as follows:

	Years Ended December 31,	
	2021	2020
	(In Thousands)	
Balance, beginning of year	\$ 36,969	\$ 24,681
Additions	3,168	-
Advances	90,553	41,183
Repayments	(79,445)	(28,895)
Removal	(65)	-
Balance, end of year	<u>\$ 51,180</u>	<u>\$ 36,969</u>

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, 2021, 2020 and 2019 follows:

	2021	2020	2019
	(In Thousands)		
Balance at beginning of year	\$ 6,497	\$ 8,178	\$ 5,169
Transfers from loans and capitalized expenses	2,318	2,985	4,611
Foreclosed properties sold	(6,474)	(2,813)	(1,437)
Write downs and partial liquidations	(1,133)	(1,853)	(165)
Balance at end of year	<u>\$ 1,208</u>	<u>\$ 6,497</u>	<u>\$ 8,178</u>

NOTE 5. PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	December 31,	
	2021	2020
	(In Thousands)	
Land	\$ 5,830	\$ 5,830
Building	38,261	36,365
Furniture and equipment	31,183	27,466
Leasehold improvements	13,400	10,789
Construction in progress	62	867
Total premises and equipment, cost	88,736	81,317
Accumulated depreciation	(28,436)	(26,348)
Total premises and equipment, net	<u>\$ 60,300</u>	<u>\$ 54,969</u>

The provisions for depreciation charged to occupancy and equipment expense for the years ended December 31, 2021, 2020 and 2019 were \$4.1 million, \$3.8 million, and \$3.7 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, 2021	December 31, 2020
Right-of-use assets	\$ 17,916	\$ 10,452
Lease liabilities	\$ 18,549	\$ 10,645
Weighted average remaining lease term	6.8	4.9
Weighted average discount rate	2.46%	3.2%

Lease costs during the years ended December 31, 2021 and 2020 were as follows (in thousands):

	2021	2020
Operating lease cost	\$ 4,009	\$ 3,476
Short-term lease cost	-	45
Variable lease cost	430	151
Sublease income	(94)	(93)
Net lease cost	<u>\$ 4,345</u>	<u>\$ 3,579</u>

The following table reconciles future undiscounted lease payments due under non-cancelable leases to the aggregate lease liability as of December 31, 2021:

	(In Thousands)
2022	\$ 4,084
2023	3,520
2024	2,566
2025	2,481
2026	1,903
Thereafter	5,509
Total lease payments	<u>\$ 20,063</u>
Less: imputed interest	(1,514)
Present value of operating lease liabilities	<u>\$ 18,549</u>

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, 2021 and 2020 was \$69.9 million and \$4.0 million, respectively. During 2021, the Company invested in two Federal New Market Tax Credit partnerships, two Federal Historic Tax Credit partnerships and two Low-Income Housing Tax Credit partnerships with recorded investment in each totaling \$63.3 million, \$1.5 million and \$1.1 million, respectively, at December 31, 2021. The amount of recorded investment included in loans of the Company totaled \$32.0 million at December 31, 2021. There were no loans included in the Company's recorded investment at December 31, 2020. The remaining amounts are included in other assets.

NOTE 8. DEPOSITS

Deposits at December 31, 2021 and 2020 were as follows:

	December 31,	
	2021	2020
	(In Thousands)	
Noninterest-bearing demand	\$ 4,799,767	\$ 2,788,772
Interest-bearing checking	6,707,778	6,276,910
Savings	131,955	89,418
Time deposits, \$250,000 and under	256,185	273,301
Time deposits, over \$250,000	507,151	497,323
Brokered time deposits	50,000	50,000
	<u>\$ 12,452,836</u>	<u>\$ 9,975,724</u>

The scheduled maturities of time deposits at December 31, 2021 were as follows:

	(In Thousands)
2022	\$ 566,698
2023	174,332
2024	26,993
2025	10,039
2026	35,275
Total	<u>\$ 813,336</u>

At December 31, 2021 and 2020, overdraft deposits reclassified to loans were \$4.0 million and \$1.4 million, respectively.

NOTE 9. FEDERAL FUNDS PURCHASED

At December 31, 2021, the Company had \$1.71 billion in federal funds purchased from its correspondent banks that are clients of its correspondent banking unit, compared to \$851.5 million at December 31, 2020. Rates paid on these funds were between 0.15% and 0.25% as of December 31, 2021 and 0.15% and 0.25% as of December 31, 2020.

At December 31, 2021, the Company had available lines of credit totaling approximately \$986.0 million with various financial institutions for borrowing on a short-term basis, compared to \$923.0 million at December 31, 2020. At December 31, 2021, 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 \$44,000 and \$64,000 as of December 31, 2021 and 2020, 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 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, 2021, the interest rate cap had a fair value of \$1.15 million and remaining term of 1.4 years.

The Company has entered into forward loan sale commitments with secondary market investors to deliver loans on a “best efforts delivery” basis, which do not meet the definition of a derivative instrument. 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 is not 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, 2021 and December 31, 2020 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 \$1.9 million, \$1.3 million and \$1.1 million for the years ended December 31, 2021, 2020 and 2019, 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 to 5,550,000 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, 2021, there are a total of 3,140,562 shares available to be granted under the Plan.

Stock-based compensation expense for stock-based awards 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 years ended December 31, 2021 and 2020. The assumptions used in determining the fair value of 2019 stock option awards were as follows:

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

The weighted average grant-date fair value of options granted during the year ended December 31, 2019 was \$12.40.

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, 2021:				
Outstanding at beginning of year	641,450	\$ 18.15	4.6	\$ 16,985
Exercised	(278,200)	12.58	2.8	20,131
Forfeited	(10,000)	38.38	5.2	466
Outstanding at end of year	<u>353,250</u>	\$ 19.28	3.8	\$ 23,525
Exercisable at December 31, 2021:	<u>264,000</u>	\$ 12.89	2.8	\$ 19,353
Year Ended December 31, 2020:				
Outstanding at beginning of year	965,750	\$ 15.20	4.9	\$ 21,914
Exercised	(306,300)	11.38	2.9	8,854
Forfeited	(18,000)	30.79	6.1	171
Outstanding at end of year	<u>641,450</u>	\$ 18.15	4.6	\$ 16,985
Exercisable at December 31, 2020:	<u>182,200</u>	\$ 12.86	3.5	\$ 4,998
Year Ended December 31, 2019:				
Outstanding at beginning of year	1,238,750	\$ 13.02	5.2	\$ 23,355
Granted	36,000	34.04	9.6	132
Exercised	(288,800)	7.56	2.5	8,534
Forfeited	(20,200)	24.88	6.2	259
Outstanding at end of year	<u>965,750</u>	\$ 15.20	4.9	\$ 21,914
Exercisable at December 31, 2019:	<u>278,500</u>	\$ 8.28	3.0	\$ 8,355

Exercisable options at December 31, 2021 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	49,000	\$ 5.41	1.1	\$ 3,897
6.00 - 7.00	53,500	6.92	2.6	4,174
15.00 - 16.00	81,000	15.41	3.0	5,632
17.00 - 18.00	21,500	17.17	3.3	1,457
18.00 - 19.00	6,000	18.49	3.7	732
19.00 - 20.00	49,000	19.16	4.1	3,223
25.00 - 26.00	4,000	25.41	4.7	238
	<u>264,000</u>	\$ <u>12.89</u>	<u>2.8</u>	\$ <u>19,353</u>

As of December 31, 2021, there was \$393,000 of total unrecognized compensation cost related to non-vested stock options. As of December 31, 2021, non-vested stock options had a weighted average remaining time to vest of 1.6 years.

Restricted Stock and Performance Shares

The Company periodically grants restricted stock awards that vest upon service conditions. Dividend payments are made during the vesting period. 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, 2021, there was \$2.8 million of total unrecognized compensation cost related to non-vested restricted stock. As of December 31, 2021, non-vested restricted stock had a weighted average remaining time to vest of 2.0 years.

The Company periodically grants performance shares that give plan participants the opportunity to earn between 0% and 150% of the target number of performance shares granted based on the relative market performance of the Company's stock, and are subject to the recipient's continued employment through the end of the performance period. The number of performance shares earned is determined by reference to the Company's total shareholder return relative to a peer group of other publicly traded banks and bank holding companies during the performance period. The performance period is generally three years starting on the grant date. The fair value of performance stock is determined using a Monte Carlo simulation model on the grant date. As of December 31, 2021, there was \$460,000 of total unrecognized compensation cost related to non-vested performance stock. As of December 31, 2021, non-vested performance stock had a weighted average remaining time to vest of 2.0 years.

The following table summarizes restricted stock and performance stock activity:

	Restricted Stock		Performance Stock	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Year Ended December 31, 2021:				
Non-vested at beginning of year	84,307	\$ 34.92	-	\$ -
Granted	69,295	48.92	12,437	37.05
Vested	(14,274)	29.33	-	-
Forfeited	(12,353)	39.60	-	-
Non-vested at end of year	<u>126,975</u>	\$ 42.28	<u>12,437</u>	\$ 37.05
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	<u>84,307</u>	\$ 34.92	<u>-</u>	\$ -
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	<u>71,290</u>	\$ 32.24	<u>-</u>	\$ -

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 \$1.6 million, \$2.0 million, and \$1.7 million for 2021, 2020 and 2019, 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 \$449.8 million in dividends as of December 31, 2021.

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, 2021, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2021, 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, 2021.

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, 2021:						
CET I Capital to Risk Weighted Assets:						
Consolidated	\$ 1,123,826	9.95%	\$ 508,027	4.50%	N/A	N/A
ServisFirst Bank	1,185,161	10.50%	507,969	4.50%	\$ 733,733	6.50%
Tier I Capital to Risk Weighted Assets:						
Consolidated	1,124,326	9.96%	677,370	6.00%	N/A	N/A
ServisFirst Bank	1,185,661	10.50%	677,292	6.00%	903,056	8.00%
Total Capital to Risk Weighted Assets:						
Consolidated	1,306,992	11.58%	903,160	8.00%	N/A	N/A
ServisFirst Bank	1,303,621	11.55%	903,056	8.00%	1,128,821	10.00%
Tier I Capital to Average Assets:						
Consolidated	1,124,326	7.39%	608,883	4.00%	N/A	N/A
ServisFirst Bank	1,185,661	7.79%	608,826	4.00%	761,033	5.00%
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%

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,		
	2021	2020	2019
	(In Thousands)		
Other Operating Income			
ATM fee income	\$ 1,443	\$ 1,234	\$ 1,001
Mark to market interest rate cap derivative	1,013	(656)	-
Gain (loss) on sale of fixed assets	433	9	5
Merchant services fees	1,231	565	415
Other	544	463	322
Total other operating income	\$ 4,664	\$ 1,615	\$ 1,743
Other Operating Expenses			
Other loan expenses	\$ 2,744	\$ 4,886	\$ 3,476
Customer and public relations	1,840	1,052	2,545
Sales and use tax	1,016	528	640
Write-down investment in tax credit partnerships	9,152	346	746
Telephone	453	541	1,131
Donations and contributions	544	506	837
Marketing	498	338	581
Supplies	504	495	572
Fraud and forgery losses	425	463	577
Directors fees	659	632	545
Postage	290	278	393
Other operational losses	144	1,662	36
Core processing deconversion expense	3,007	-	-
Other	5,881	3,763	4,135
Total other operating expenses	\$ 27,157	\$ 15,490	\$ 16,214

NOTE 16. INCOME TAXES

The components of income tax expense are as follows:

	Year Ended December 31,		
	2021	2020	2019
	(In Thousands)		
Current tax expense:			
Federal	\$ 45,248	\$ 50,016	\$ 36,683
State	5,428	4,350	2,012
Total current tax expense	<u>50,676</u>	<u>54,366</u>	<u>38,695</u>
Deferred tax (benefit) expense:			
Federal	(5,596)	(9,342)	(166)
State	535	(385)	(911)
Total deferred tax (benefit)	<u>(5,061)</u>	<u>(9,727)</u>	<u>(1,077)</u>
Total income tax expense	<u>\$ 45,615</u>	<u>\$ 44,639</u>	<u>\$ 37,618</u>

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, 2021	
	Amount	% of Pre-tax Earnings
	(In Thousands)	
Income tax at statutory federal rate	\$ 53,203	21.00%
Effect on rate of:		
State income tax, net of federal tax effect	4,952	1.95%
Tax-exempt income, net of expenses	(242)	(0.10)%
Bank-owned life insurance contracts	(1,395)	(0.55)%
Excess tax benefit from stock compensation	(2,335)	(0.92)%
Federal tax credits	(11,019)	(4.35)%
Other	2,451	0.97%
Effective income tax and rate	<u>\$ 45,615</u>	<u>18.00%</u>

	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	<u>\$ 44,639</u>	<u>20.84%</u>

	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	<u>\$ 37,618</u>	<u>20.13%</u>

The components of net deferred tax asset are as follows:

	December 31,	
	2021	2020
	(In Thousands)	
Deferred tax assets:		
Allowance for credit losses	\$ 29,237	\$ 21,600
Other real estate owned	520	728
Nonqualified equity awards	816	873
Nonaccrual interest	289	322
State tax credits	3,988	6,091
Deferred loan fees	5,087	5,875
Reserve for unfunded commitments	435	600
Accrued bonus	3,910	2,594
Capital loss carryforward	1,867	1,480
Lease liability	4,654	2,671
Deferred revenue	31	42
Other deferred tax assets	1,429	885
Total deferred tax assets	<u>52,263</u>	<u>43,761</u>
Deferred tax liabilities:		
Net unrealized gain on securities available for sale	3,723	5,360
Depreciation	4,872	4,011
Prepaid expenses	607	543
Investments	696	79
Right-of-use assets and other leasing transactions	4,495	2,622
Acquired intangible assets	6	74
Other deferred tax liabilities	92	-
Total deferred tax liabilities	<u>14,491</u>	<u>12,689</u>
Net deferred tax assets	<u>\$ 37,772</u>	<u>\$ 31,072</u>

The Company believes its net deferred tax asset is recoverable as of December 31, 2021 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, 2018 through 2021. The Company is also currently open to audit by several state departments of revenue for the years ended December 31, 2018 through 2021. 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 \$169,000 and \$152,000 as of December 31, 2021 and 2020, respectively. Unrecognized income tax benefits as of December 31, 2021 and December 31, 2020, that, if recognized, would impact the effective income tax rate totaled \$3,659,000 and \$3,238,000 (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 2021, 2020 and 2019 in the amount of unrecognized tax benefits that are included in the consolidated balance sheets.

	2021	2020	2019
	(In Thousands)		
Balance, beginning of year	\$ 3,238	\$ 2,683	\$ 2,133
Increases related to prior year tax positions	864	997	998
Decreases related to prior year tax positions	-	-	-
Increases related to current year tax positions	-	-	-
Settlements	-	-	-
Lapse of statute	(443)	(442)	(448)
Balance, end of year	<u>\$ 3,659</u>	<u>\$ 3,238</u>	<u>\$ 2,683</u>

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:

	2021	2020	2019
	(In Thousands)		
Commitments to extend credit	\$ 3,515,818	\$ 2,606,258	\$ 2,303,788
Credit card arrangements	366,525	286,128	248,617
Standby letters of credit and financial guarantees	61,856	66,208	48,394
Total	<u>\$ 3,944,199</u>	<u>\$ 2,958,594</u>	<u>\$ 2,600,799</u>

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 pursuant to the exercise of stock options or vesting of performance shares. The difference in earnings per share under the two-class method was not significant at December 31, 2021, 2020 and 2019.

	Year Ended December 31,		
	2021	2020	2019
	(Dollar Amounts In Thousands Except Per Share Amounts)		
Earnings Per Share			
Weighted average common shares outstanding	54,160,990	53,844,482	53,530,766
Net income available to common stockholders	\$ 207,672	\$ 169,506	\$ 149,180
Basic earnings per common share	\$ 3.83	\$ 3.15	\$ 2.79
Weighted average common shares outstanding	54,160,990	53,844,482	53,530,766
Dilutive effects of assumed exercise of stock options and vesting of performance shares	273,583	374,555	572,308
Weighted average common and dilutive potential common shares outstanding	54,434,573	54,219,037	54,103,074
Net income available to common stockholders	\$ 207,672	\$ 169,506	\$ 149,180
Diluted earnings per common share	\$ 3.82	\$ 3.13	\$ 2.76

NOTE 20. RELATED PARTY TRANSACTIONS

As more fully described in Note 3 “Loans”, the Company had outstanding loan balances, as made in the ordinary course of business, to related parties as of December 31, 2021 and 2020 in the amount of \$51.2 million and \$37.0 million, respectively. Deposits of related parties are also accepted in the ordinary course of business. The aggregate balances of related party deposits are insignificant as of December 31, 2021 and 2020, 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 individual 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, 2021 was 0% to 75% and 24.1%, respectively. The range of fair value adjustments and weighted average adjustment as of December 31, 2020 was 0% to 56% and 22.3%, 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 \$6.2 million and \$25.8 million during the years ended December 31, 2021 and 2020, respectively.

Other Real Estate Owned and Repossessed Assets. Other real estate assets ("OREO") acquired through, or in lieu of, foreclosure 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 are charged to the allowance for credit losses subsequent to foreclosure. 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, 2021 was 0% to 100% and 40.6%, respectively. The range of fair value adjustments and weighted average adjustment as of December 31, 2020 was 5% to 27% and 12.5%, respectively. These measurements are classified as Level 3 within the valuation hierarchy. Net losses on the sale and write-downs of OREO of \$1.1 million and \$2.5 million was recognized during the years ended December 31, 2021 and 2020, 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 \$50,000 classified as OREO as of December 31, 2021, compared to \$209,000 as of December 31, 2020.

There was one residential real estate loan that was in the process of being foreclosed for \$299,000 as of December 31, 2021.

The following table presents the Company's financial assets and financial liabilities carried at fair value on a recurring basis as of December 31, 2021 and December 31, 2020. There were no liabilities measured at fair value on a recurring basis as of December 31, 2021 and December 31, 2020.

	Fair Value Measurements at December 31, 2021 Using			
	Quoted Prices in	Significant Other	Significant	Total
	Active Markets			
	for Identical	Inputs	Inputs (Level 3)	
Assets (Level 1)	(Level 2)	(Level 3)		
(In Thousands)				
Assets Measured on a Recurring Basis:				
Available-for-sale debt securities:				
U.S. Treasury securities	\$ 9,104	\$ -	\$ -	\$ 9,104
Government agency securities	-	6,041	-	6,041
Mortgage-backed securities	-	425,161	-	425,161
State and municipal securities	-	21,634	-	21,634
Corporate debt	-	363,638	16,992	380,630
Total available-for-sale debt securities	9,104	816,474	16,992	842,570
Interest rate cap derivative	-	1,152	-	1,152
Total assets at fair value	\$ 9,104	\$ 817,626	\$ 16,992	\$ 843,722

Fair Value Measurements at December 31, 2020 Using				
	Quoted Prices in	Significant Other	Significant	Total
	Active Markets			
	for Identical	Inputs	Inputs (Level 3)	
	Assets (Level 1)	(Level 2)	(Level 3)	
(In Thousands)				
Assets Measured on a Recurring Basis:				
Available-for-sale debt 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	-	323,649	-	323,649
Total available-for-sale debt securities	14,357	872,331	-	886,688
Interest rate cap derivative	-	139	-	139
Total assets at fair value	\$ 14,357	\$ 872,470	\$ -	\$ 886,827

The carrying amount and estimated fair value of the Company's financial instruments measured on a nonrecurring basis were as follows:

Fair Value Measurements at December 31, 2021 Using				
	Quoted Prices in	Significant	Significant	Total
	Active Markets			
	for Identical	Observable	Inputs (Level 3)	
	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)	
(In Thousands)				
Assets Measured on a Nonrecurring Basis:				
Loans individually evaluated	\$ -	\$ -	\$ 73,173	\$ 73,173
Other real estate owned and repossessed assets	-	-	1,208	1,208
Total assets at fair value	\$ -	\$ -	\$ 74,381	\$ 74,381

Fair Value Measurements at December 31, 2020 Using				
	Quoted Prices in	Significant	Significant	Total
	Active Markets			
	for Identical	Observable	Inputs (Level 3)	
	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)	
(In Thousands)				
Assets Measured on a Nonrecurring Basis:				
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

There were no liabilities measured at fair value on a non-recurring basis as of December 31, 2021 and December 31, 2020.

In the case of the debt securities portfolio, the Company monitors the portfolio to ascertain when transfers between levels have been affected. For the year ended December 31, 2021, there were four transfers between Levels 1, 2 or 3.

The table below includes a rollforward of the balance sheet amounts for the year ended December 31, 2021 and December 31, 2020 (including the change in fair value) for financial instruments classified by the Company within Level 3 of the valuation hierarchy measured at fair value on a recurring basis including changes in fair value due in part to observable factors that are part of the valuation methodology:

	For the year ended December 31,	
	2021	2020
	Available-for-sale	Available-for-sale
	Securities	Securities
(In Thousands)		
Fair value, beginning of period	\$ -	\$ 6,596
Transfers into Level 3	6,000	-
Total realized gains included in income	-	-
Changes in unrealized gains/losses included in other comprehensive income for assets and liabilities still held at period-end	492	(15)
Purchases	18,000	-
Transfers out of Level 3	(7,500)	(6,581)
Fair value, end of period	\$ 16,992	\$ -

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,			
	2021		2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial Assets:				
Level 1 Inputs:				
Cash and cash equivalents	\$ 4,163,724	\$ 4,163,724	\$ 2,209,640	\$ 2,209,640
Level 2 Inputs:				
Federal funds sold	58,372	58,372	1,771	1,771
Held to maturity debt securities	462,707	466,036	-	-
Mortgage loans held for sale	1,114	1,111	14,425	14,497
Level 3 Inputs:				
Debt securities held to maturity	250	250	250	250
Loans, net	9,416,274	9,403,012	8,377,746	8,387,718
Financial Liabilities:				
Level 2 Inputs:				
Deposits	\$ 12,452,836	\$ 12,454,140	\$ 9,975,724	\$ 9,987,665
Federal funds purchased	1,711,777	1,711,777	851,545	851,545
Other borrowings	64,706	65,476	64,748	65,560

NOTE 22. PARENT COMPANY FINANCIAL INFORMATION

The following information presents the condensed balance sheet of the Company as of December 31, 2021 and 2020 and the condensed statements of income and cash flows for the years ended December 31, 2021, 2020 and 2019.

CONDENSED BALANCE SHEETS (In Thousands)

	December 31, 2021	December 31, 2020
ASSETS		
Cash and due from banks	\$ 14,553	\$ 14,685
Investment in subsidiary	1,212,850	1,052,083
Other assets	1,291	1,119
Total assets	<u>\$ 1,228,694</u>	<u>\$ 1,067,887</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Other borrowings	\$ 64,706	\$ 64,748
Other liabilities	12,473	10,787
Total liabilities	<u>77,179</u>	<u>75,535</u>
Stockholders' equity:		
Preferred stock, par value \$0.001 per share; 1,000,000 authorized and undesignated at December 31, 2021 and December 31, 2020	-	-
Common stock, par value \$0.001 per share; 100,000,000 shares authorized; 54,227,060 shares issued and outstanding at December 31, 2021 and 53,943,751 shares issued and outstanding at December 31, 2020	54	54
Additional paid-in capital	226,397	223,856
Retained earnings	911,008	748,224
Accumulated other comprehensive income	14,056	20,218
Total stockholders' equity	<u>1,151,515</u>	<u>992,352</u>
Total liabilities and stockholders' equity	<u>\$ 1,228,694</u>	<u>\$ 1,067,887</u>

CONDENSED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 and 2019
(In Thousands)

	2021	2020	2019
Income:			
Dividends received from subsidiary	\$ 46,000	\$ 45,000	\$ 37,000
Total income	46,000	45,000	37,000
Expense:			
Other expenses	2,715	2,936	2,930
Total expenses	2,715	2,936	2,930
Equity in undistributed earnings of subsidiary	164,387	127,442	115,110
Net income	207,672	169,506	149,180
Net income available to common stockholders	\$ 207,672	\$ 169,506	\$ 149,180

STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019
(In Thousands)

	2021	2020	2019
Operating activities			
Net income	\$ 207,672	\$ 169,506	\$ 149,180
Adjustments to reconcile net income to net cash provided by operating activities:			
Other	(93)	204	38
Equity in undistributed earnings of subsidiary	(164,387)	(127,442)	(115,110)
Net cash provided by operating activities	43,192	42,268	34,108
Investing activities			
Other	(120)	-	(1,000)
Net cash used in investing activities	(120)	-	(1,000)
Financing activities			
Proceeds from issuance of subordinated notes	-	34,710	-
Redemption of subordinated notes	-	(34,750)	-
Dividends paid on common stock	(43,204)	(37,614)	(32,071)
Net cash used in financing activities	(43,204)	(37,654)	(32,071)
Net change in cash and cash equivalents	(132)	4,614	1,037
Cash and cash equivalents at beginning of year	14,685	10,071	9,034
Cash and cash equivalents at end of year	\$ 14,553	\$ 14,685	\$ 10,071

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.

	2021 Quarter Ended			
	(Dollars in thousands, except per share data)			
	March 31	June 30	September 30	December 31
Interest income	\$ 100,396	\$ 102,719	\$ 104,236	\$ 108,954
Interest expense	8,031	8,051	7,916	7,804
Net interest income	92,365	94,668	96,320	101,150
Provision for credit losses	7,451	9,652	5,963	8,451
Net income available to common stockholders	51,455	49,996	52,499	53,722
Net income per common share, basic	\$ 0.95	\$ 0.92	\$ 0.97	\$ 0.99
Net income per common share, diluted	\$ 0.95	\$ 0.92	\$ 0.96	\$ 0.99

	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

(1) The first three quarters of 2020 were estimated and recorded under the incurred loss methodology and not restated for the adoption of ASC 326. The Company elected to delay the adoption of CECL as allowed under the CARES Act.

ITEM 9. CHANGES IN 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, 2021.

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, 2021.

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, 2021, 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, 2021, 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, 2021, based on those criteria.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2021, 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.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not Applicable.

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 2022 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 2022 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 2022 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 2022 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 2022 Annual Meeting of Stockholders.

The Independent Registered Public Accounting Firm is Dixon Hughes Goodman LLP (PCAOB Firm ID NO. 57) located in Atlanta, Georgia.

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

	<u>Page</u>
Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements	63
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Consolidated Balance Sheets at December 31, 2021 and 2020	67
Consolidated Statements of Income for the Years Ended December 31, 2021, 2020 and 2019	68
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2021, 2020 and 2019	69
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2021, 2020 and 2019	70
Consolidated Statements of Cash Flows for the Years Ended December 31, 2021, 2020 and 2019	71
Notes to Consolidated Financial Statements	72

The required schedules have been omitted as the information is included within the consolidated financial statements and notes listed above.

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

<u>EXHIBIT NO.</u>	<u>NAME OF EXHIBIT</u>
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*	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).
10.2*	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).
10.3*	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).

- [10.4*](#) [First Amendment to the ServisFirst Bancshares, Inc. Amended and Restated 2009 Stock Incentive Plan \(incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed November 1, 2016\).](#)
- [10.5*](#) [Form of Nonqualified Stock Option Award pursuant to the ServisFirst Bancshares, Inc. Amended and Restated 2009 Stock Incentive Plan \(incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q, filed November 1, 2016\).](#)
- [10.6*](#) [Form of Restricted Stock Award Agreement pursuant to the ServisFirst Bancshares, Inc. Amended and Restated 2009 Stock Incentive Plan \(incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-8, filed June 17, 2014\).](#)
- [10.7*](#) [Second Amendment to the ServisFirst Bancshares, Inc. Amended and Restated 2009 Stock Incentive Plan \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed September 17, 2018\).](#)
- [10.8*](#) [Third Amendment to the ServisFirst Bancshares, Inc. Amended and Restated 2009 Stock Incentive Plan \(incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed April 30, 2019\).](#)
- [10.9*](#) [Form of Nonqualified Stock Option Award \(Revised 2019\)\(incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, filed April 30, 2019\).](#)
- [10.10*](#) [Form of Restricted Stock Award Agreement \(Revised 2019\)\(incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q, filed April 30, 2019\).](#)
- [10.11*](#) [Endorsement Split-Dollar Agreement with Thomas A. Broughton III dated November 9, 2020 \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed November 13, 2020\).](#)
- [10.12*](#) [Endorsement Split-Dollar Agreement with William M. Foshee dated November 9, 2020 \(incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed November 13, 2020\).](#)
- [10.13*](#) [Endorsement Split-Dollar Agreement with Rodney E. Rushing dated November 9, 2020 \(incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed November 13, 2020\).](#)
- [10.14*](#) [Form of Executive Officer Change in Control Agreement \(filed as Exhibit 10 to the Company's Current Report on Form 8-K dated February 25, 2021\).](#)
- [10.15*](#) [ServisFirst Bancshares, Inc. Annual Incentive Plan, effective January 1, 2021 \(filed as Exhibit 10 to the Company's Current Report on Form 8-K dated January 25, 2021\).](#)

<u>10.16*</u>	<u>Form of ServisFirst Bancshares, Inc. 2021 Performance Share Award Agreement (filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q, filed April 29, 2021).</u>
<u>10.17*</u>	<u>Form of ServisFirst Bancshares, Inc. 2021 Restricted Stock Award Agreement (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q, filed April 29, 2021).</u>
<u>21</u>	<u>List of Subsidiaries</u>
<u>23</u>	<u>Consent of Dixon Hughes Goodman LLP</u>
<u>24</u>	<u>Power of Attorney</u>
<u>31.1</u>	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a)</u>
<u>31.2</u>	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a)</u>
<u>32.1</u>	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350</u>
<u>32.2</u>	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350</u>
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 in 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, 2022

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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/Thomas A. Broughton, III</u> Thomas A. Broughton, III	Chairman, President, Chief Executive Officer and Director (Principal Executive Officer)	February 25, 2022
<u>/s/ William M. Foshee</u> William M. Foshee	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 25, 2022
* <u>Irma L. Tudor</u>	Director	February 25, 2022
* <u>Michael D. Fuller</u>	Director	February 25, 2022
* <u>James J. Filler</u>	Director	February 25, 2022
* <u>Joseph R. Cashio</u>	Director	February 25, 2022
* <u>Hatton C. V. Smith</u>	Director	February 25, 2022
* <u>Christopher J. Mettler</u>	Director	February 25, 2022

*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, 2022

List of Subsidiaries

<u>Subsidiaries</u>	<u>Jurisdiction of State of Incorporation</u>
ServisFirst Bank	Alabama
SF Intermediate Holding Company, Inc.	Alabama
SF Holding 1, Inc.	Alabama
SF Realty 1, Inc.	Alabama
SF FLA Realty, Inc.	Alabama
SF GA Realty, Inc.	Alabama
SF TN Realty, Inc.	Alabama

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 on Forms S-8 (Nos. 333-170507, 333-196825 and 333-213869) and Form S-3 (No. 333-258665) of ServisFirst Bancshares, Inc. of our reports dated February 25, 2022, with respect to the consolidated financial statements of ServisFirst Bancshares, Inc. and subsidiaries and the effectiveness of internal control over financial reporting, included in this Annual Report on Form 10-K for the year ended December 31, 2021.

/s/ Dixon Hughes Goodman LLP

Atlanta, Georgia
February 25, 2022

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, 2021.

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

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

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, 2022

/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.

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, 2022

/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.

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, 2021, 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, 2022

/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.

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, 2021, 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, 2022

/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.