

# Dallas Lunch & Learn!

Hosted by SouthState Bank



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# Banking Industry Challenges and Opportunities

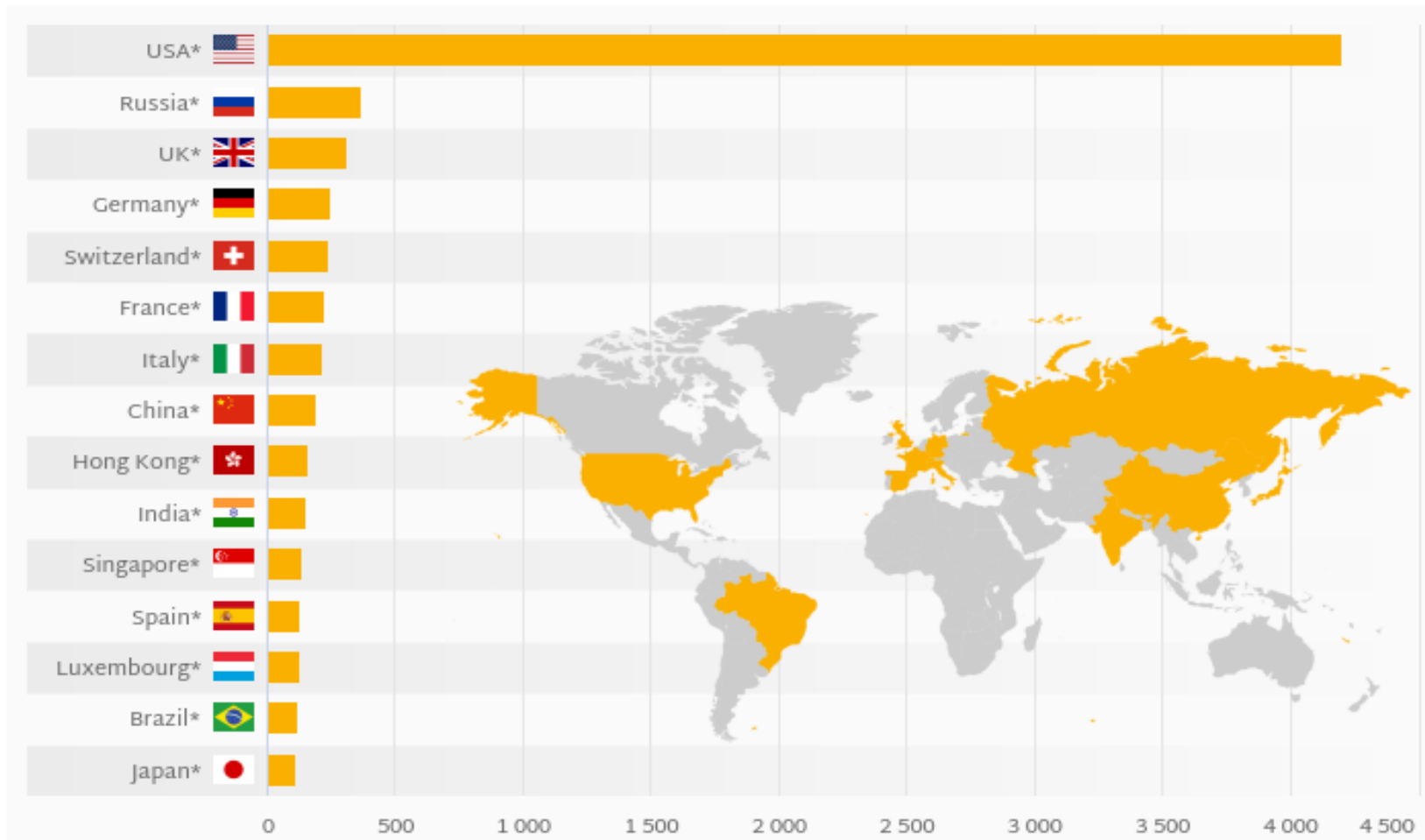


# Why So Many Banks



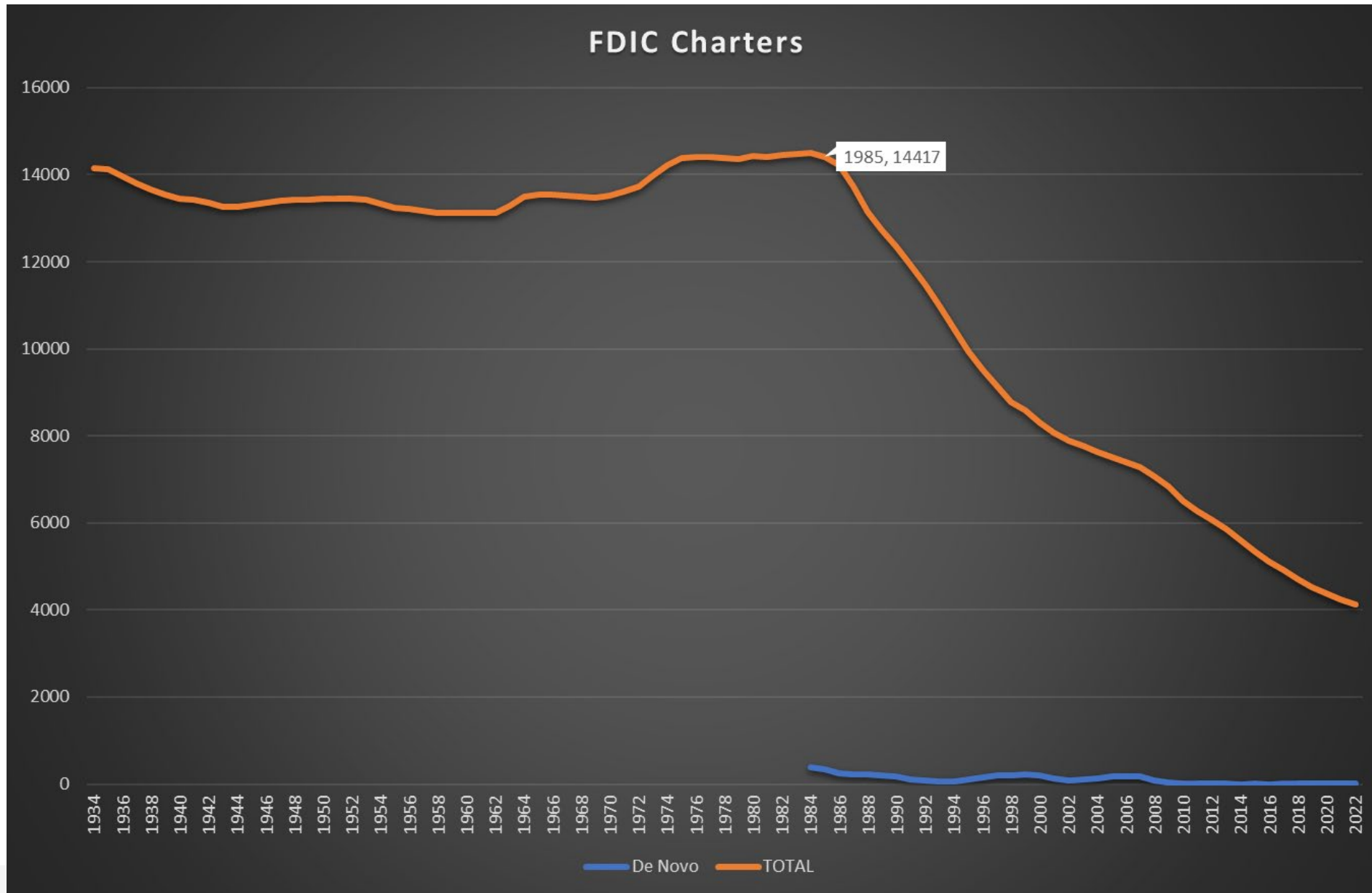
## What Country Has the Most Banks?

Number of Banks (banks), 2022 or latest



Source: National Statistical Office, \* Data from 2020

# Competitive Landscape

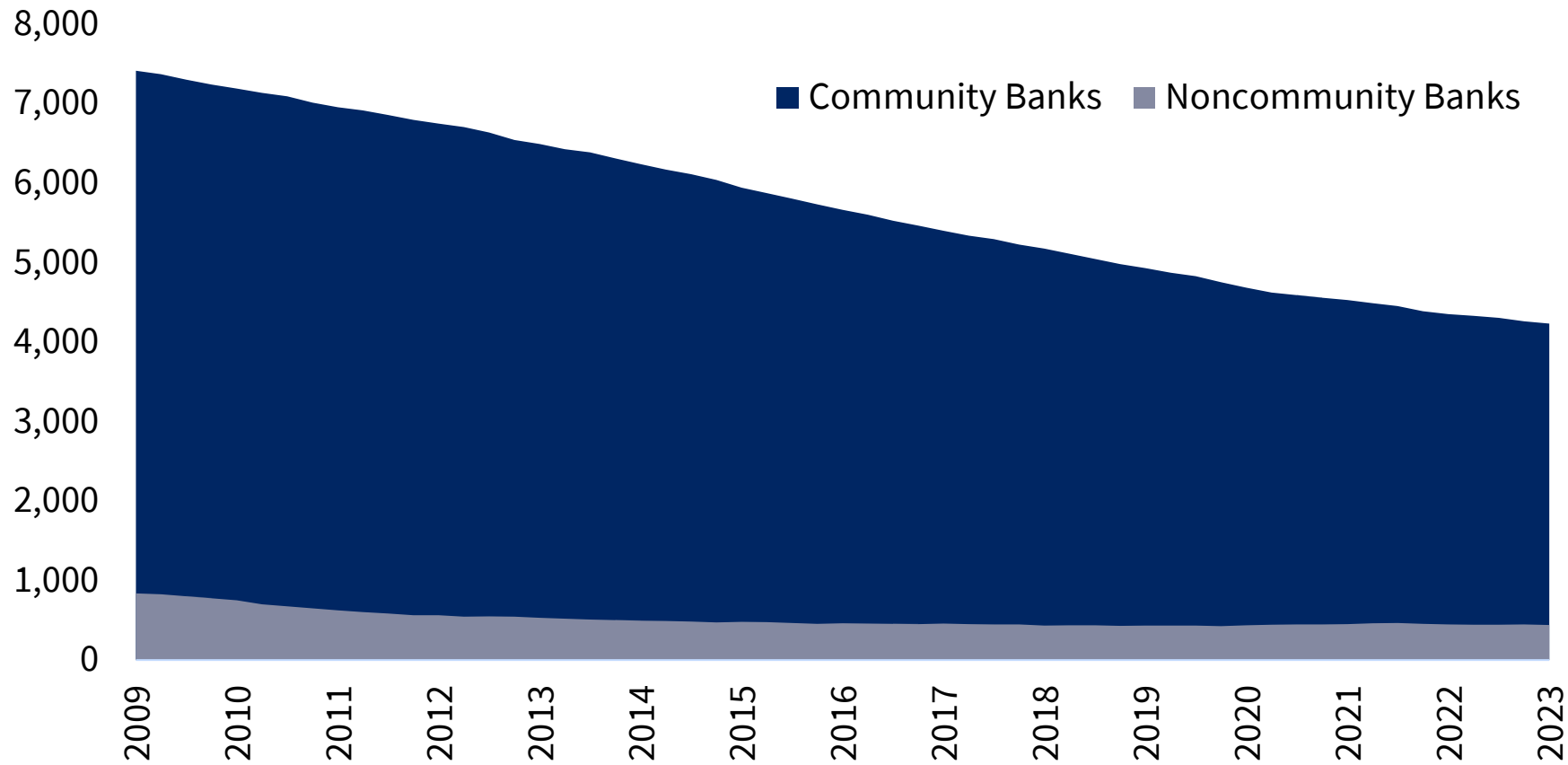


70% decline in the number of FDIC charters, 350 – 400 banks acquired per year

# Competitive Landscape



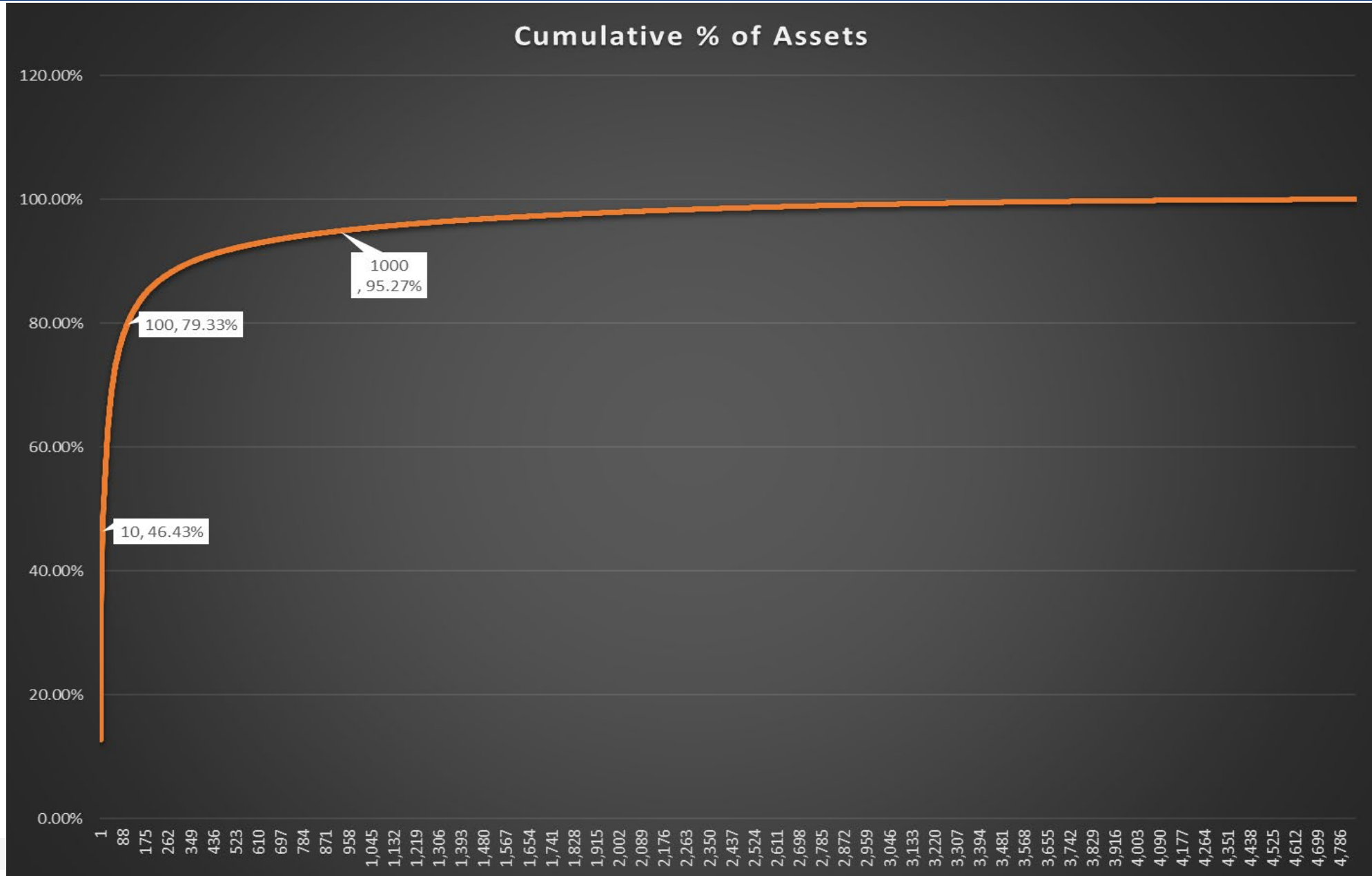
Count of Banks



Not all banks are consolidating equally

Source: FDIC. Data is as of 1Q2023.

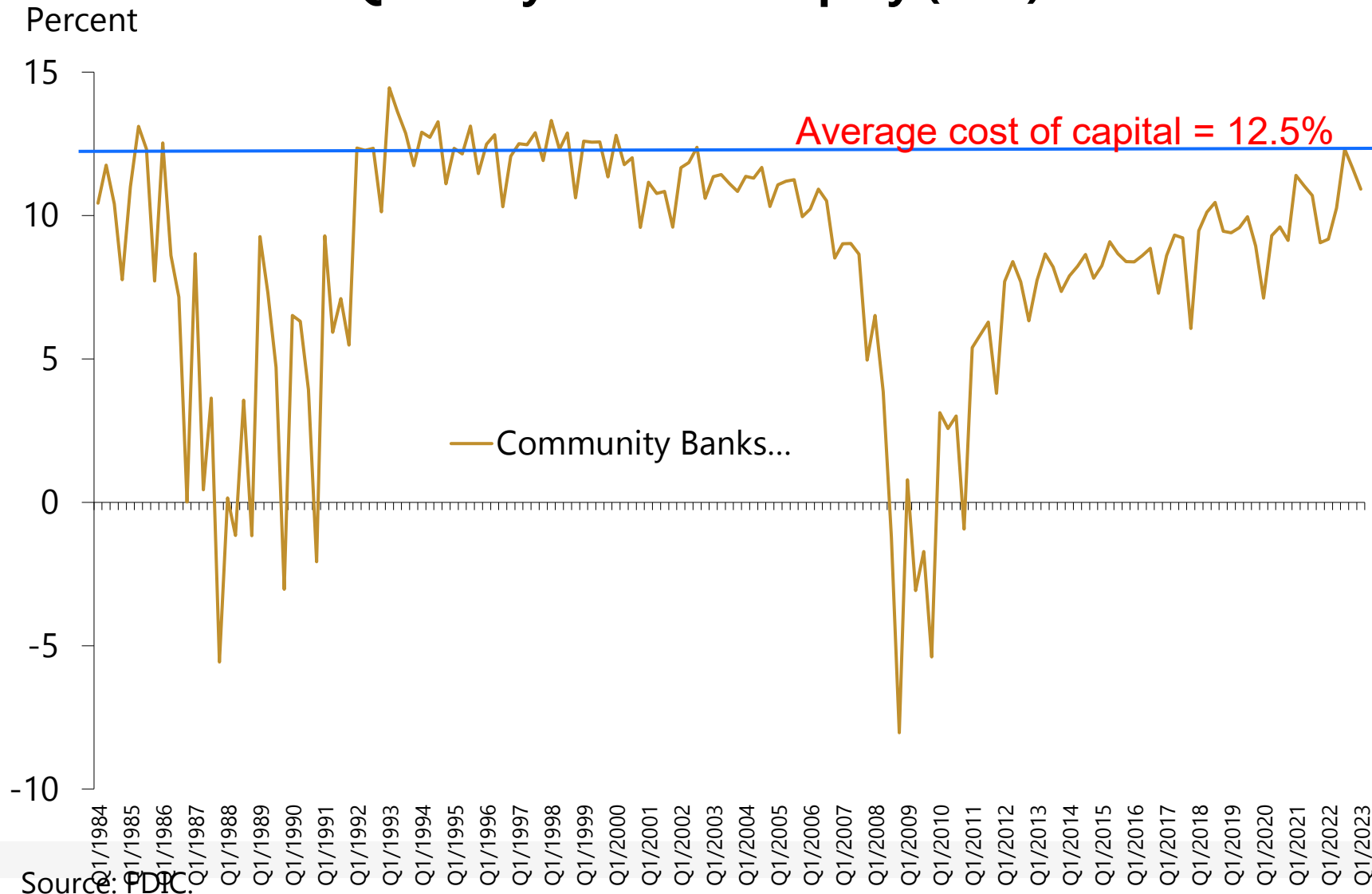
# Competitive Landscape



# Competitive Landscape



## Community Banks (<\$10Bn assets) Quarterly Return on Equity (ROE)



Defunct bank ROE =  
1.66% (~ 12k banks,  
over 40yrs)

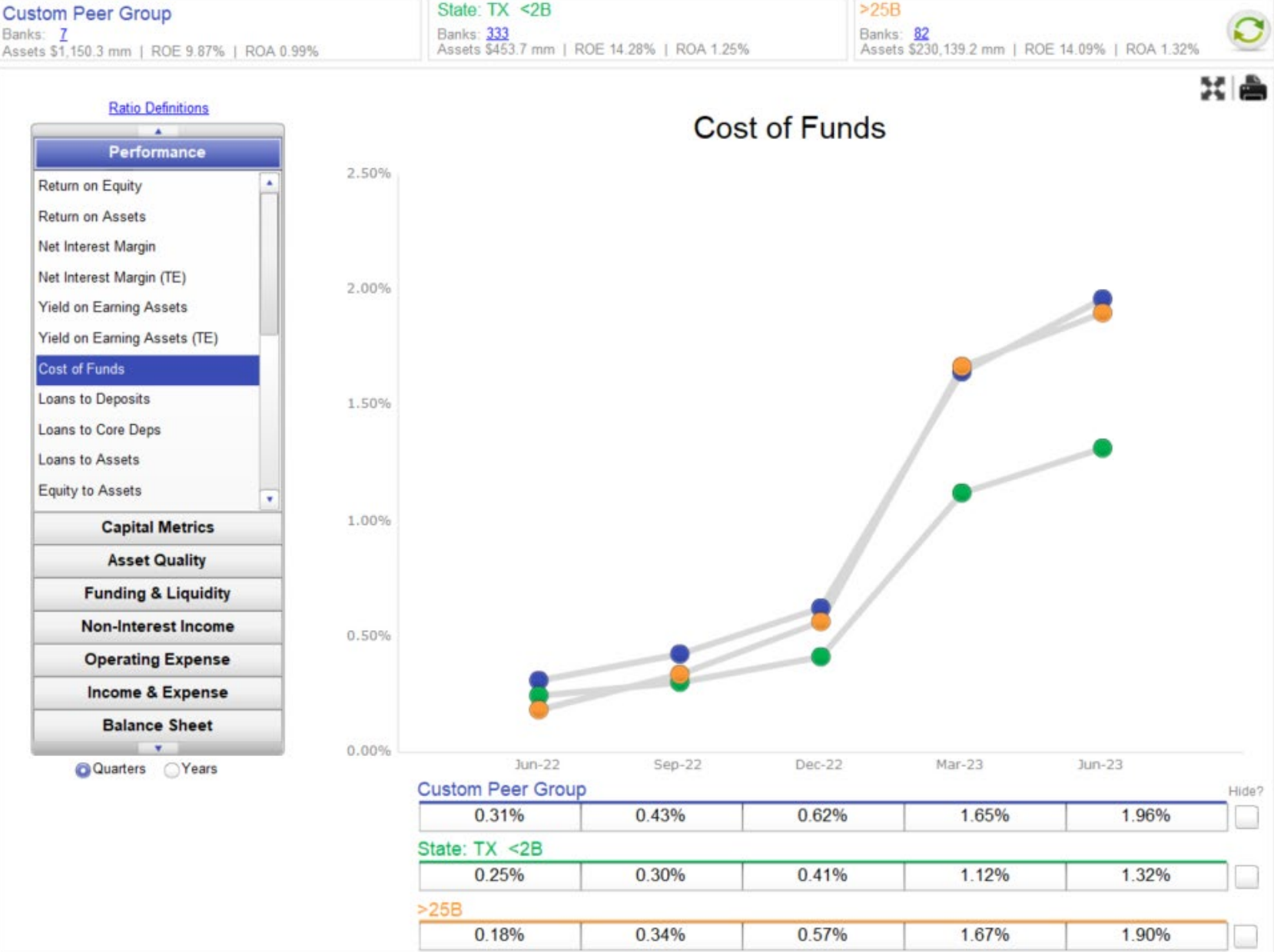
# Challenge for Community Banks

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# Higher COF, higher NIM, lower ROE



# Higher COF, higher NIM, lower ROE



### Custom Peer Group

Banks: 7  
Assets \$1,150.3 mm | ROE 9.87% | ROA 0.99%

### State: TX <2B

Banks: 333  
Assets \$453.7 mm | ROE 14.28% | ROA 1.25%

### >25B

Banks: 82  
Assets \$230,139.2 mm | ROE 14.09% | ROA 1.32%



#### Ratio Definitions

**Performance**

- Return on Equity
- Return on Assets
- Net Interest Margin
- Net Interest Margin (TE)
- Yield on Earning Assets**
- Yield on Earning Assets (TE)
- Cost of Funds
- Loans to Deposits
- Loans to Core Deps
- Loans to Assets
- Equity to Assets

**Capital Metrics**

**Asset Quality**

**Funding & Liquidity**

**Non-Interest Income**

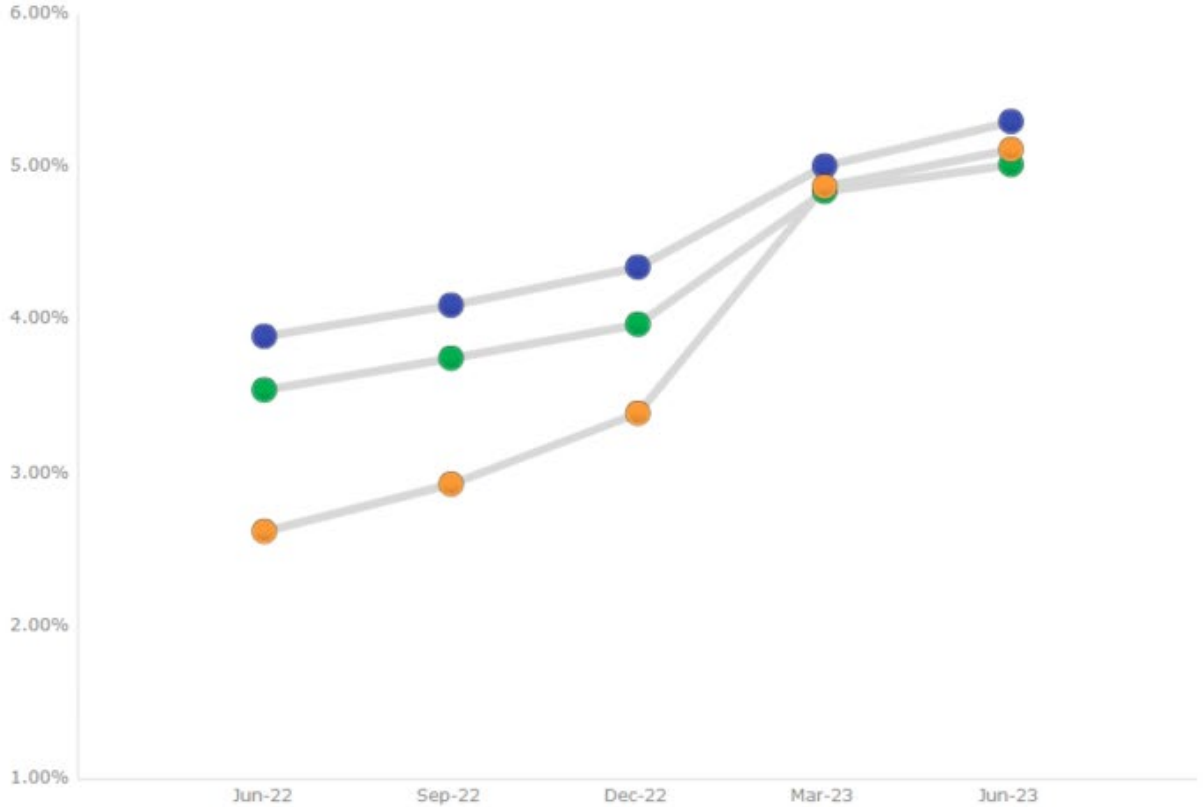
**Operating Expense**

**Income & Expense**

**Balance Sheet**

Quarters  Years

### Yield on Earning Assets



#### Custom Peer Group

3.90%	4.10%	4.35%	5.01%	5.30%	<input type="checkbox"/>
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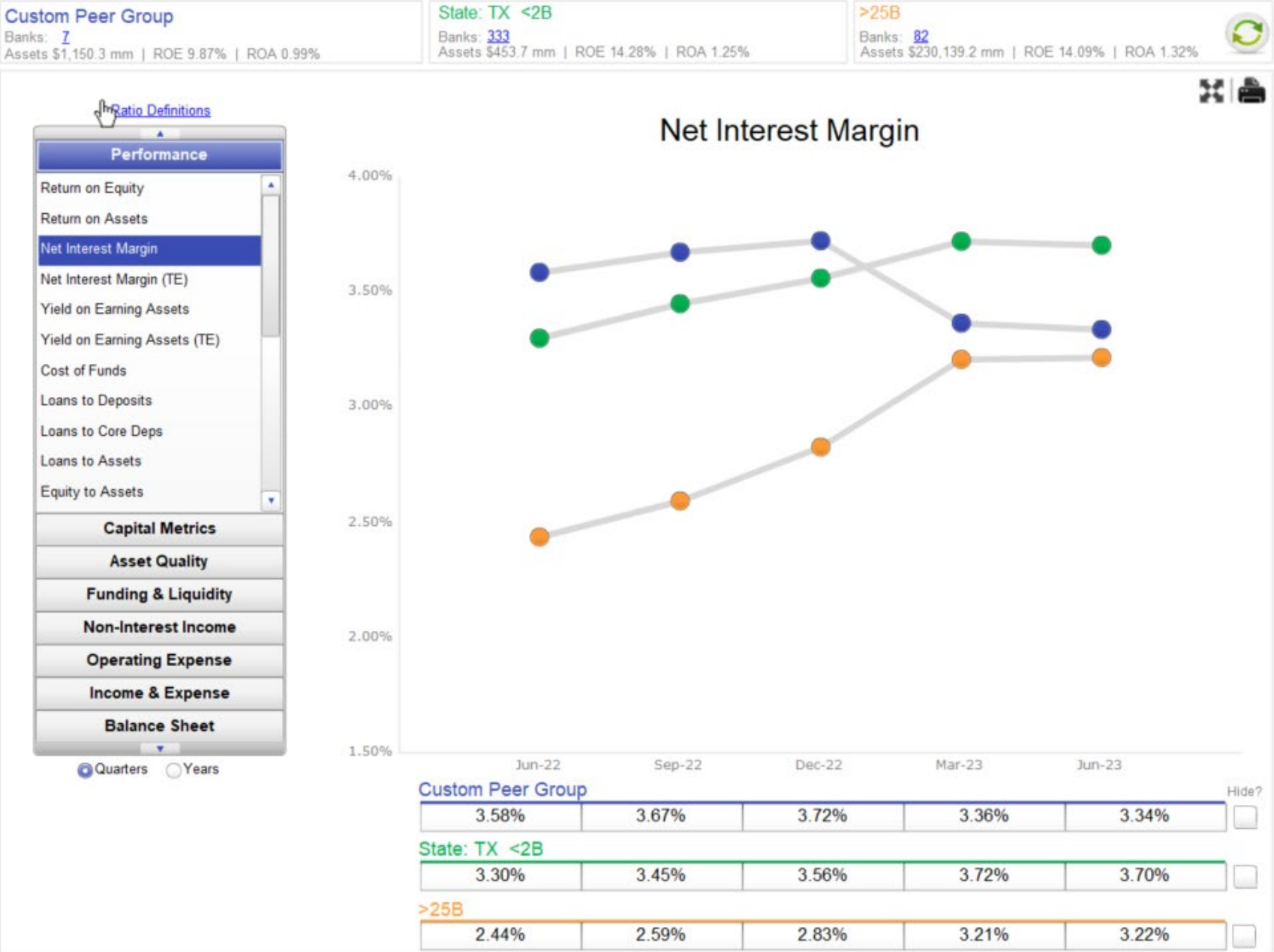
#### State: TX <2B

3.55%	3.75%	3.97%	4.84%	5.02%	<input type="checkbox"/>
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#### >25B

2.62%	2.93%	3.39%	4.88%	5.12%	<input type="checkbox"/>
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# Higher COF, higher NIM, lower ROE

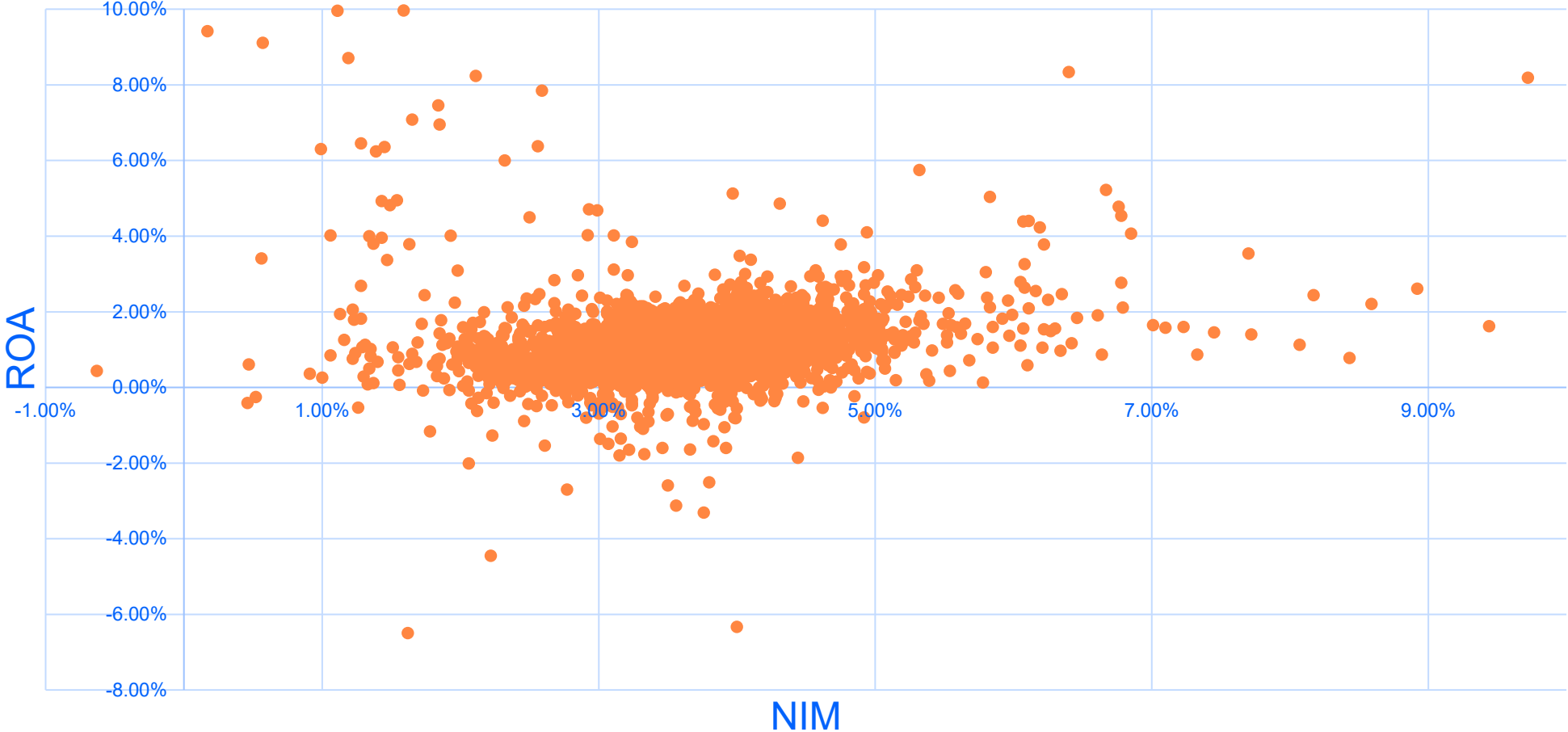


# Higher COF, lower NIM, lower ROE

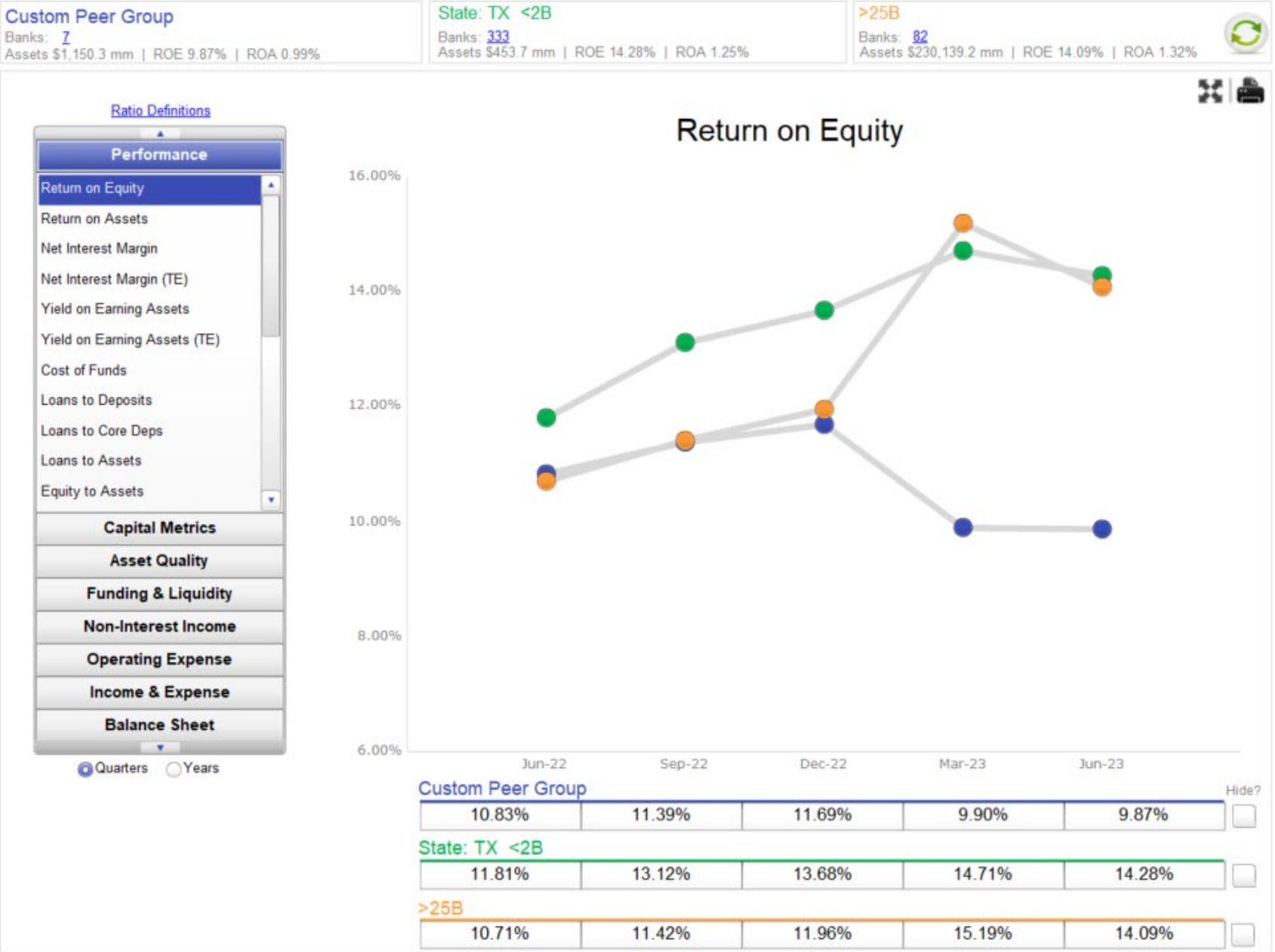


All Banks - 5YR AVG Net Interest Margin vs. 5YR AVG ROA

Correlation (R2) = - 0.02



# Higher COF, lower NIM, lower ROE



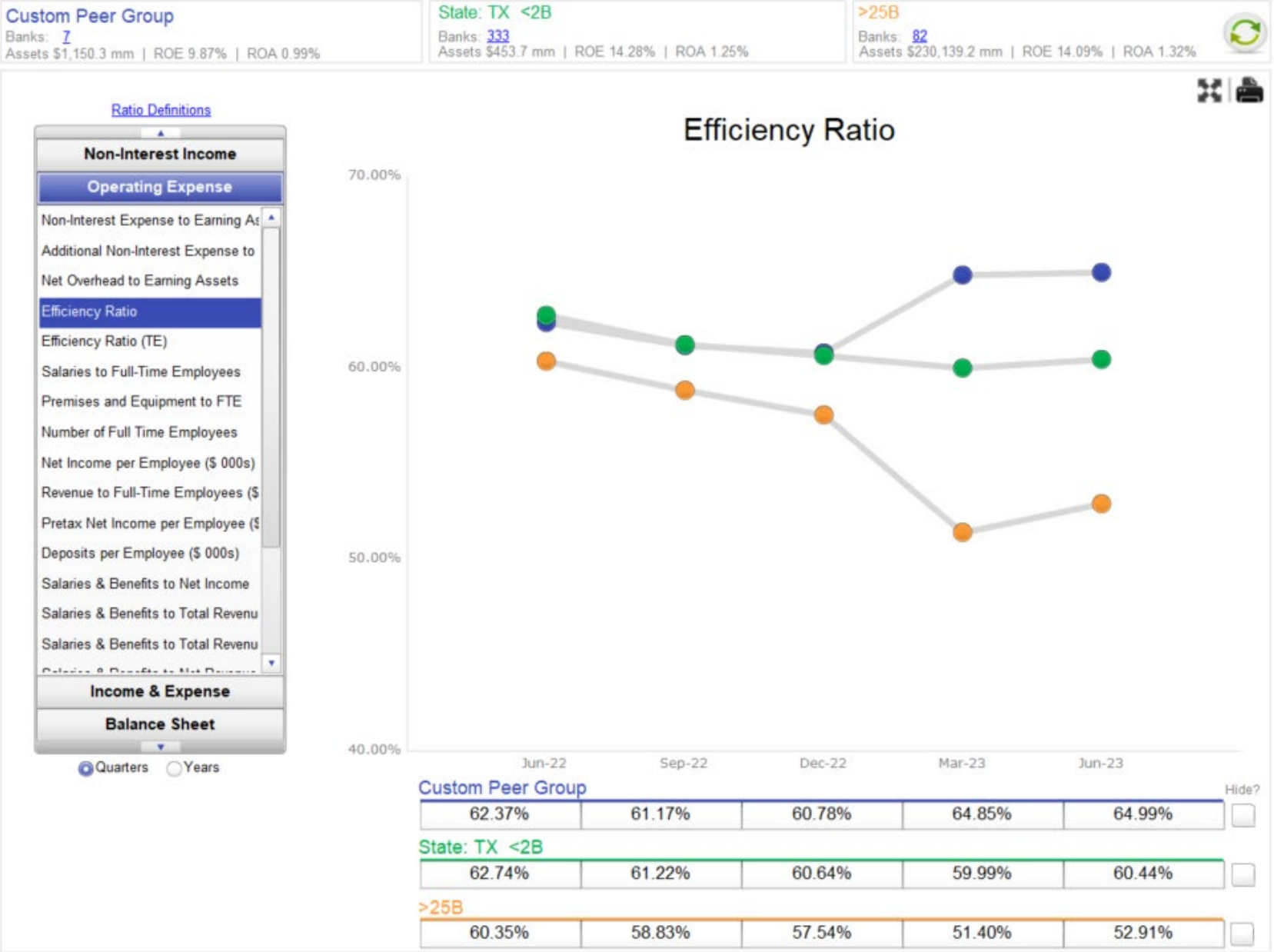
# Opportunities for Community Banks

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Scale (efficiency ratio), Credit Quality, Non-interest Income, Long-term Relationships



# Efficiency Ratios



# Efficiency Ratios – not these drivers

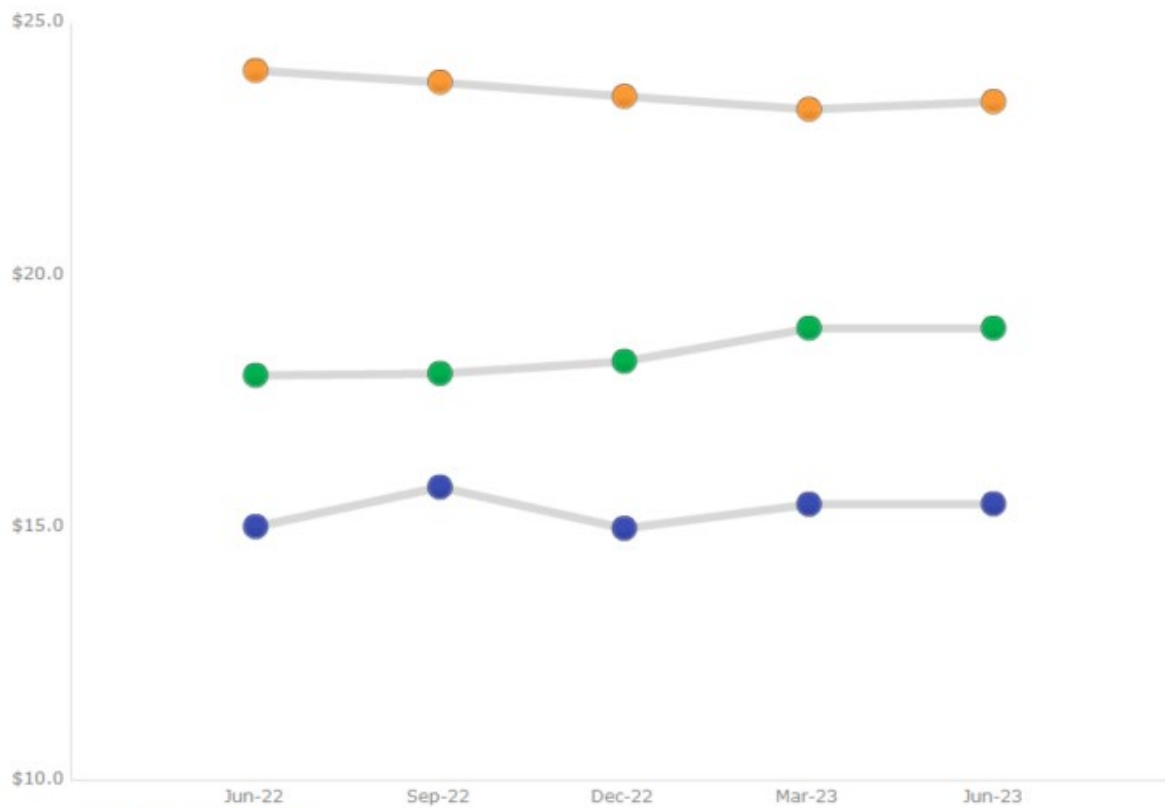


Salaries to Full-Time Employees



Custom Peer Group				
\$110	\$115	\$112	\$123	\$121
State: TX <2B				
\$95	\$95	\$97	\$101	\$101
>25B				
\$133	\$132	\$129	\$140	\$139

Premises and Equipment to FTE



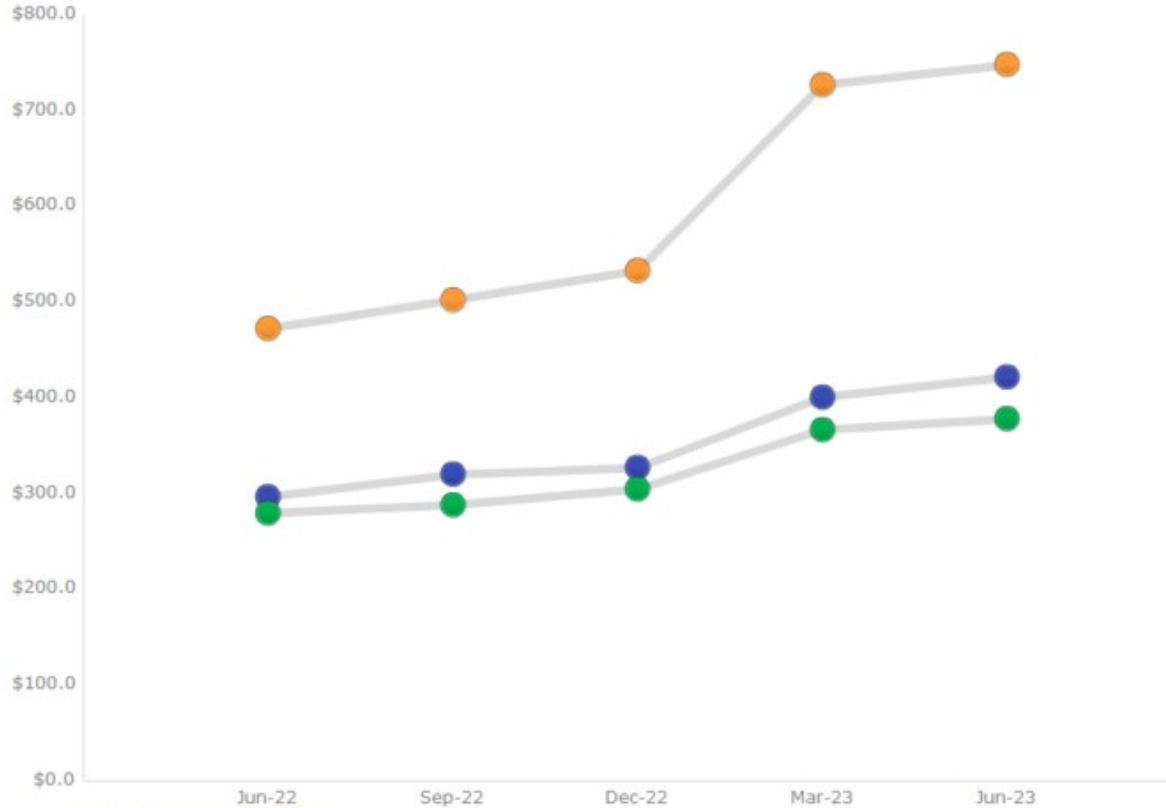
Custom Peer Group				
\$15	\$16	\$15	\$15	\$15
State: TX <2B				
\$18	\$18	\$18	\$19	\$19
>25B				
\$24	\$24	\$24	\$23	\$23





# Efficiency Ratios – these drivers

### Revenue to Full-Time Employees (\$ 000s)



### Net Income per Employee (\$ 000s)



Custom Peer Group

\$297	\$320	\$327	\$401	\$422
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State: TX <2B

\$280	\$288	\$305	\$367	\$378
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>25B

\$473	\$502	\$533	\$727	\$748
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Custom Peer Group

\$75	\$82	\$82	\$75	\$74
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State: TX <2B

\$75	\$79	\$83	\$89	\$87
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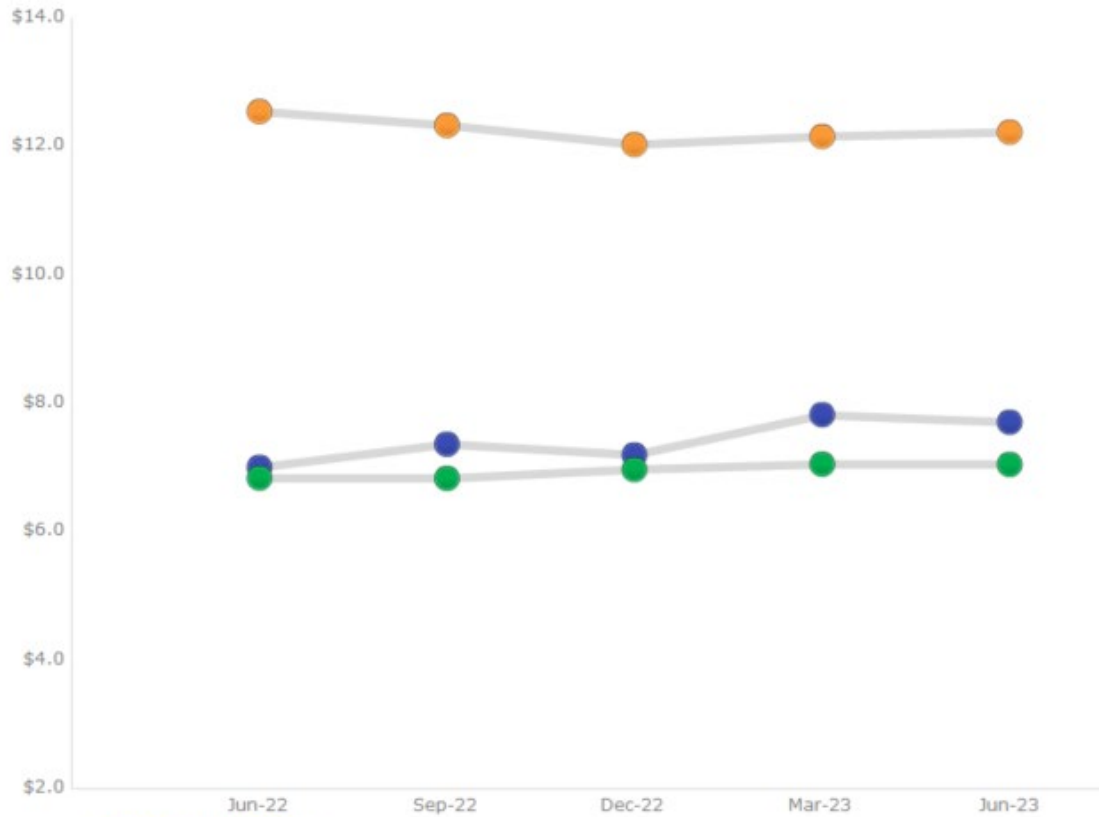
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\$126	\$131	\$133	\$170	\$160
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# Efficiency Ratios – these drivers

### Assets per Employee (\$ millions)



Custom Peer Group

\$7.0	\$7.4	\$7.2	\$7.8	\$7.7
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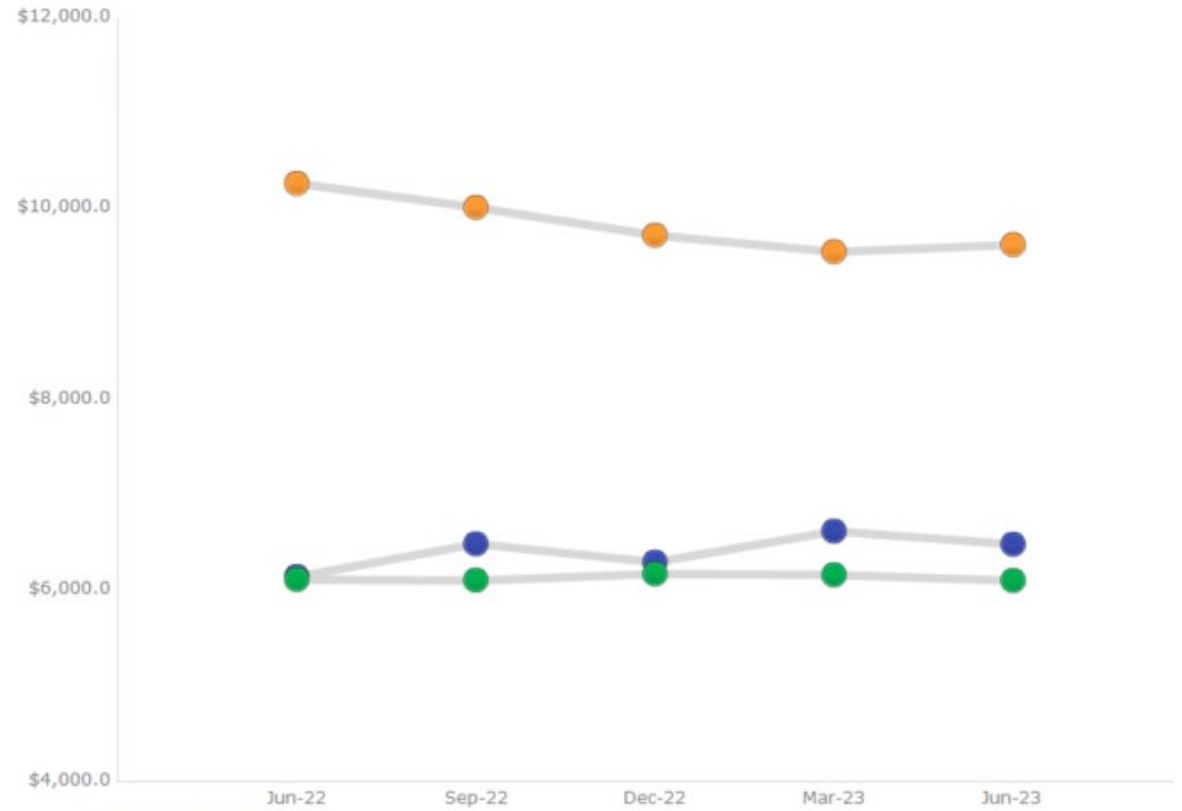
State: TX <2B

\$6.8	\$6.8	\$7.0	\$7.1	\$7.0
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>25B

\$12.5	\$12.3	\$12.0	\$12.2	\$12.2
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### Deposits per Employee (\$ 000s)



Custom Peer Group

\$6,149	\$6,489	\$6,297	\$6,623	\$6,486
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State: TX <2B

\$6,116	\$6,108	\$6,177	\$6,167	\$6,106
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>25B

\$10,264	\$10,012	\$9,723	\$9,549	\$9,623
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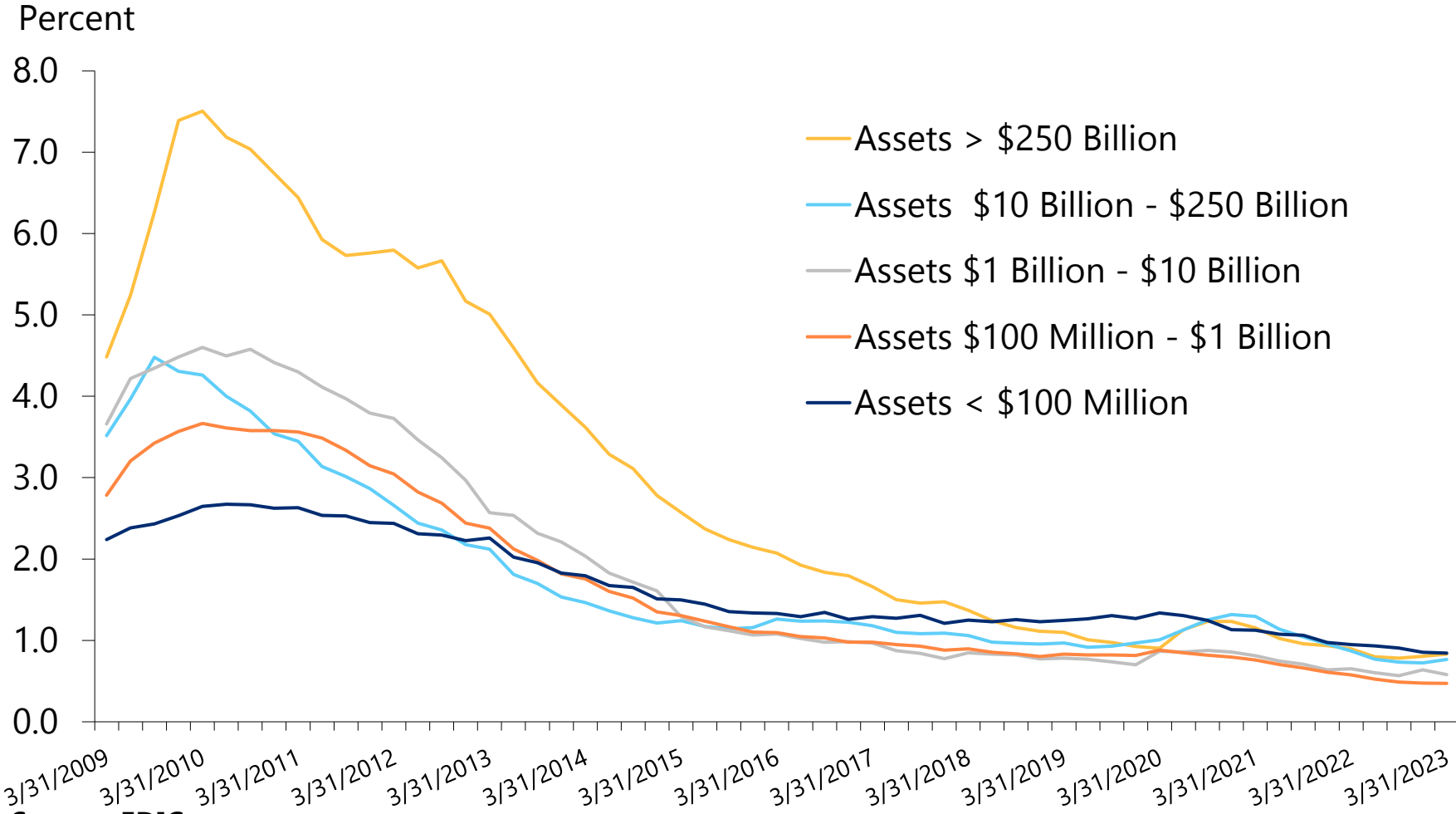


# Efficiency Ratios – scale matters

	Average Loan Size
Wells Fargo Bank	\$3,826,157
JPMorgan Chase	\$2,419,298
Bank of America	\$4,616,192
US Bank	\$2,356,782
PNC Financial	\$5,521,871
Regions Bank	\$6,248,154
Key Bank	\$6,982,759
Citi Bank	\$2,705,570
M&T Bank	\$2,713,273
Average	\$4,154,451



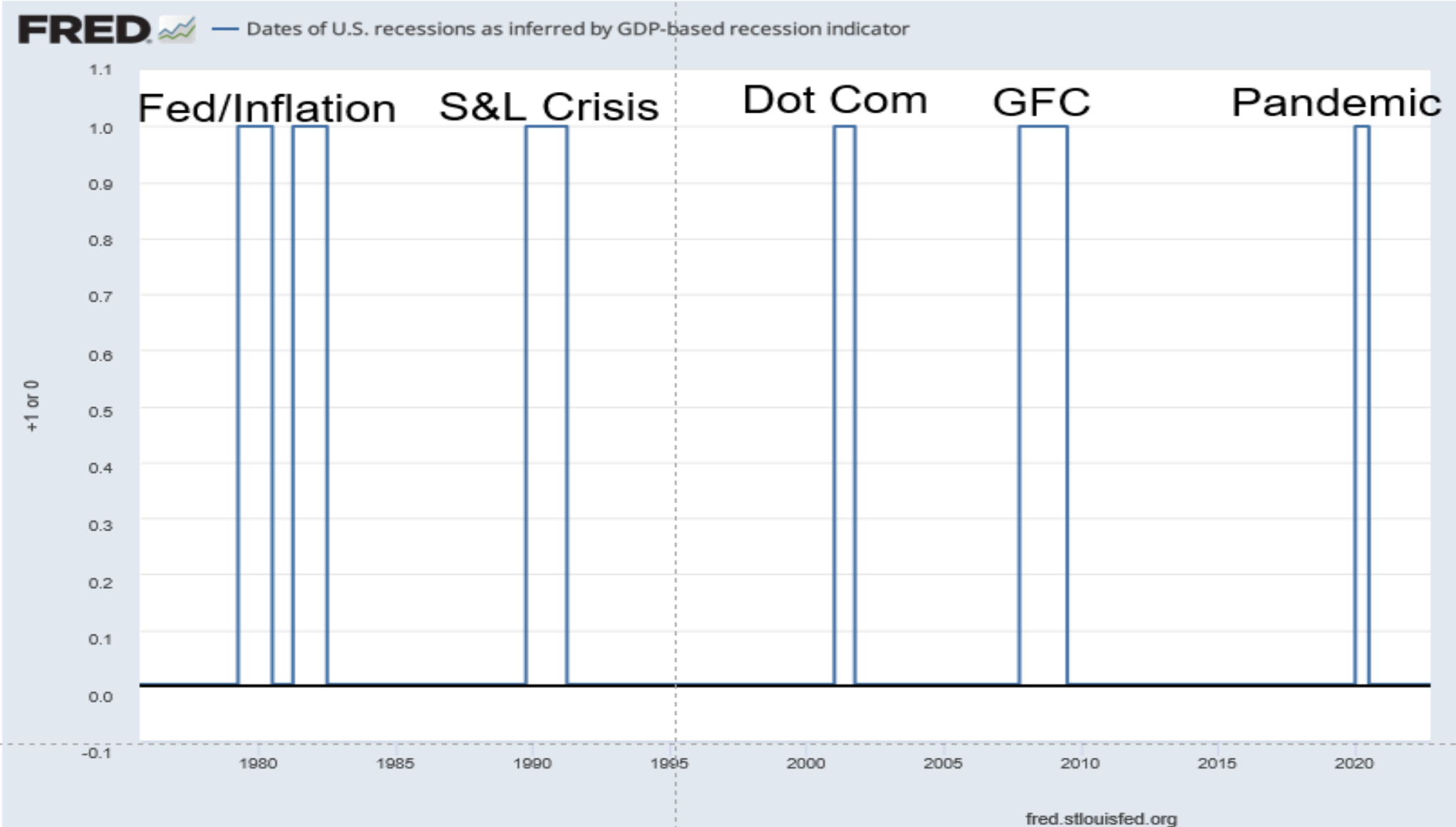
## Noncurrent Loans, % of Total Loans & Leases



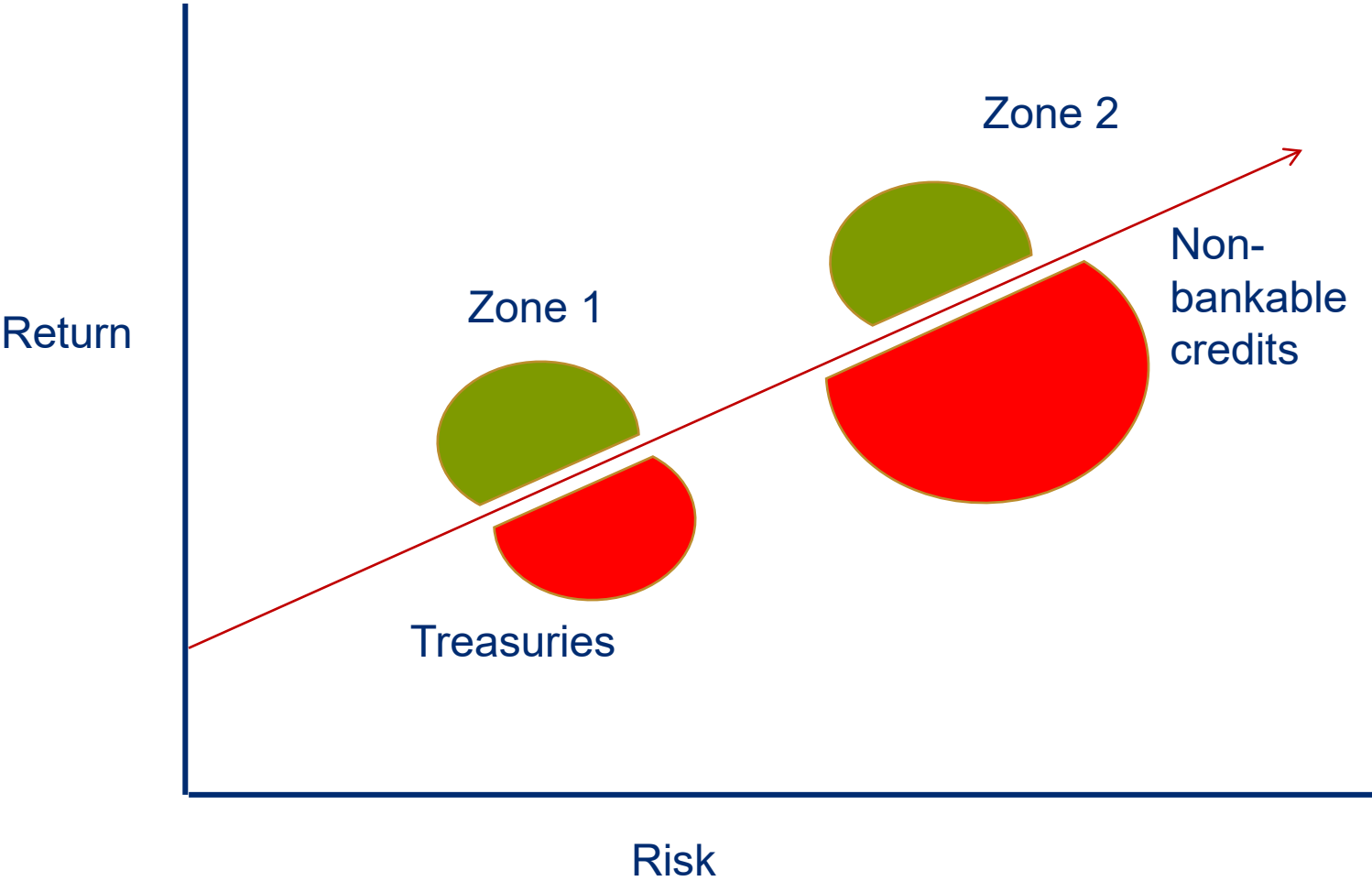
Source: FDIC.

Note: Noncurrent Loans = Loans 90 Days or More Past-Due + Loans in Nonaccrual

# Credit Quality



# Credit Quality

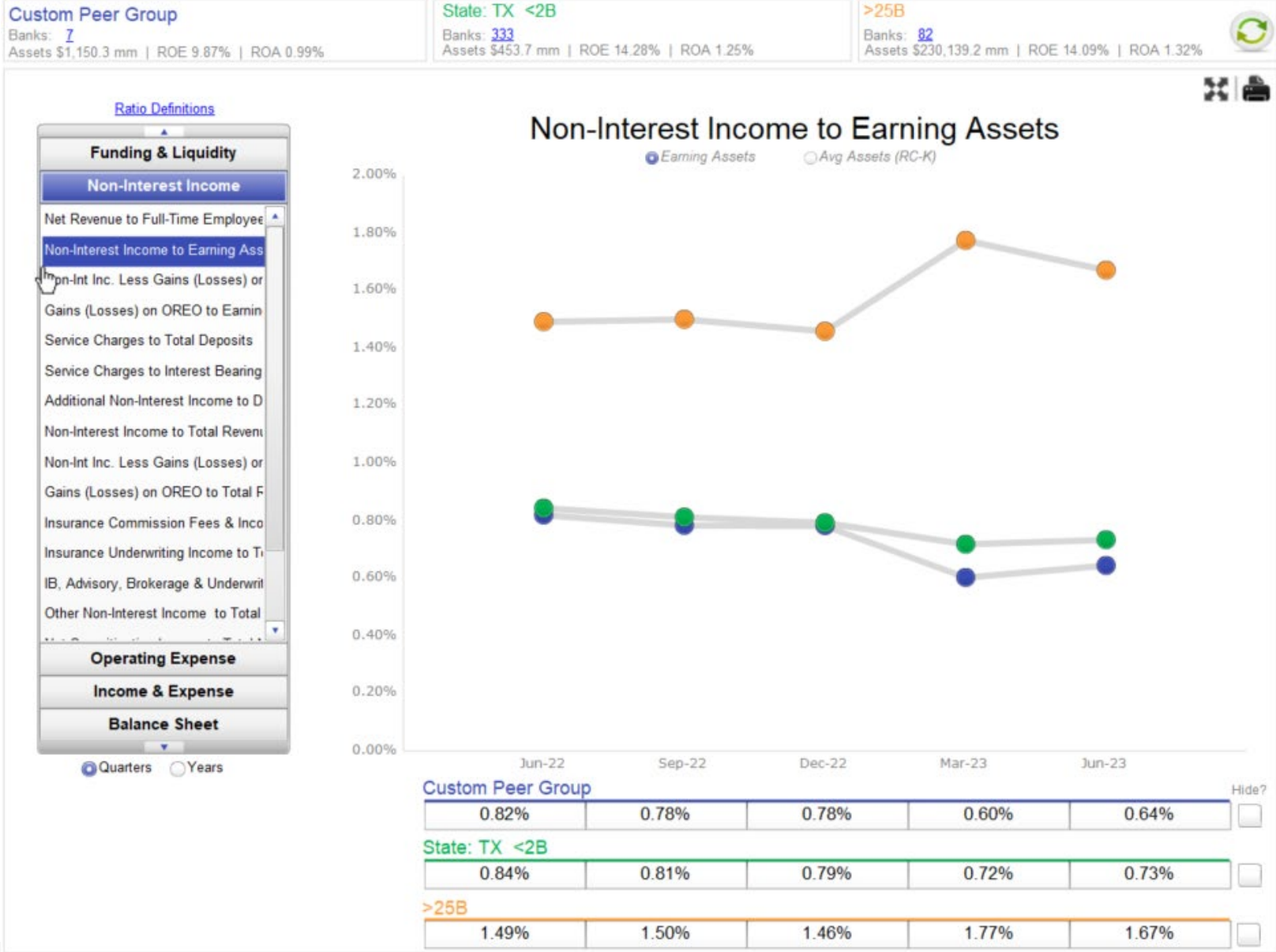




## 5yr Avg - Correlation to ROA - all banks \$100mm to \$10Bn assets

1	Nonint Inc/ Avg Assets	0.901
2	Nonint Exp/ Avg Assets	0.424
3	Net Loan Charge-Offs/ Avg Tot Lns & Lses	0.053
4	Average of Interest Exp/ Avg Assets	-0.049
5	Average of Interest Income/ Avg Assets	-0.033
6	Provision Exp/ Avg Assets	0.032
7	Yield on Earning Assets (%)	-0.028
8	Realized Gains/ Avg Assets	-0.026
9	Net Interest Income/ Avg Assets	-0.020
10	Net Interest Margin	-0.014
11	Net Loan Charge-offs	0.013
12	Total Assets	-0.004

# Non-interest Income

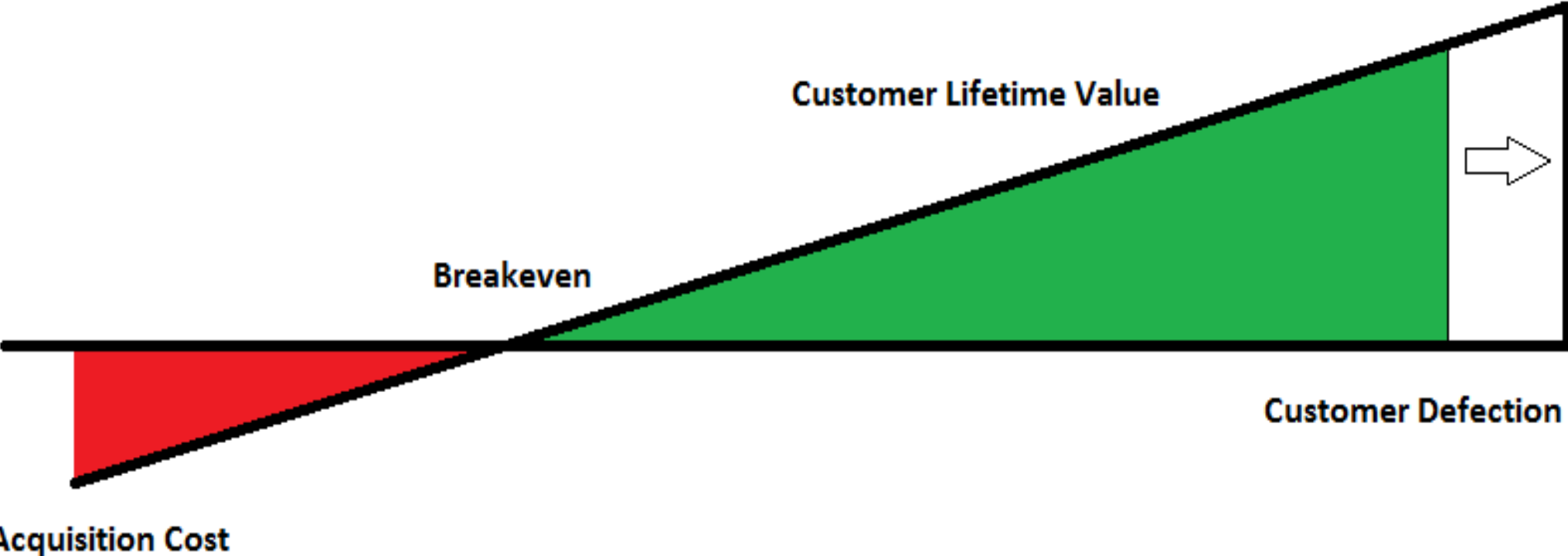




# Long-term relationships



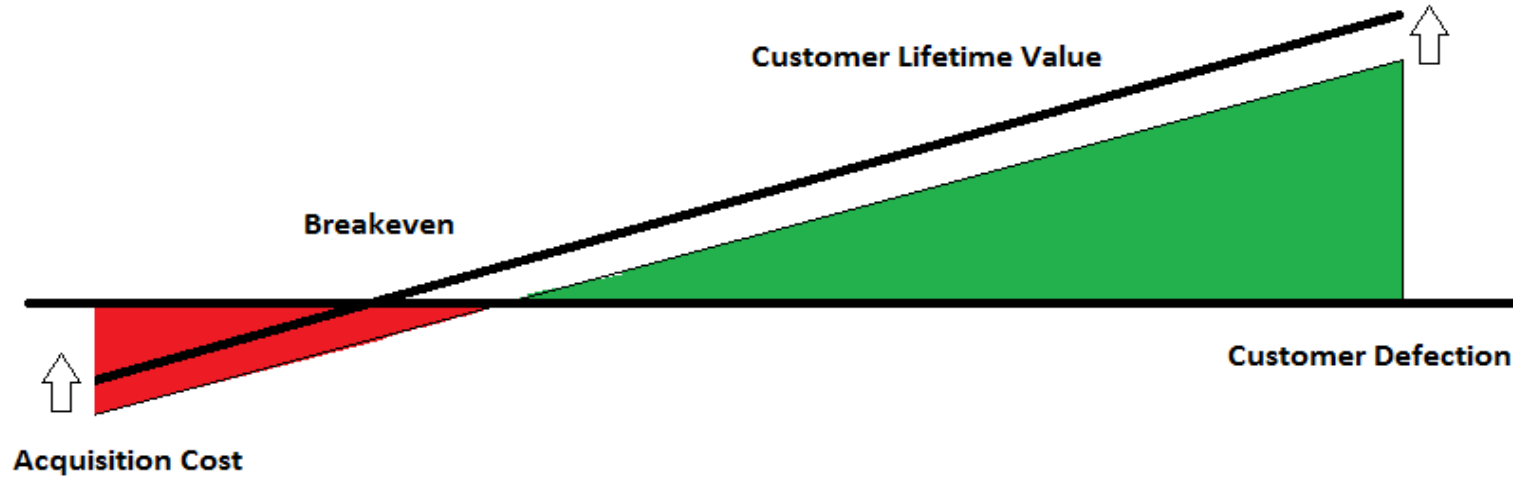
Increasing Retention / Reducing Churn



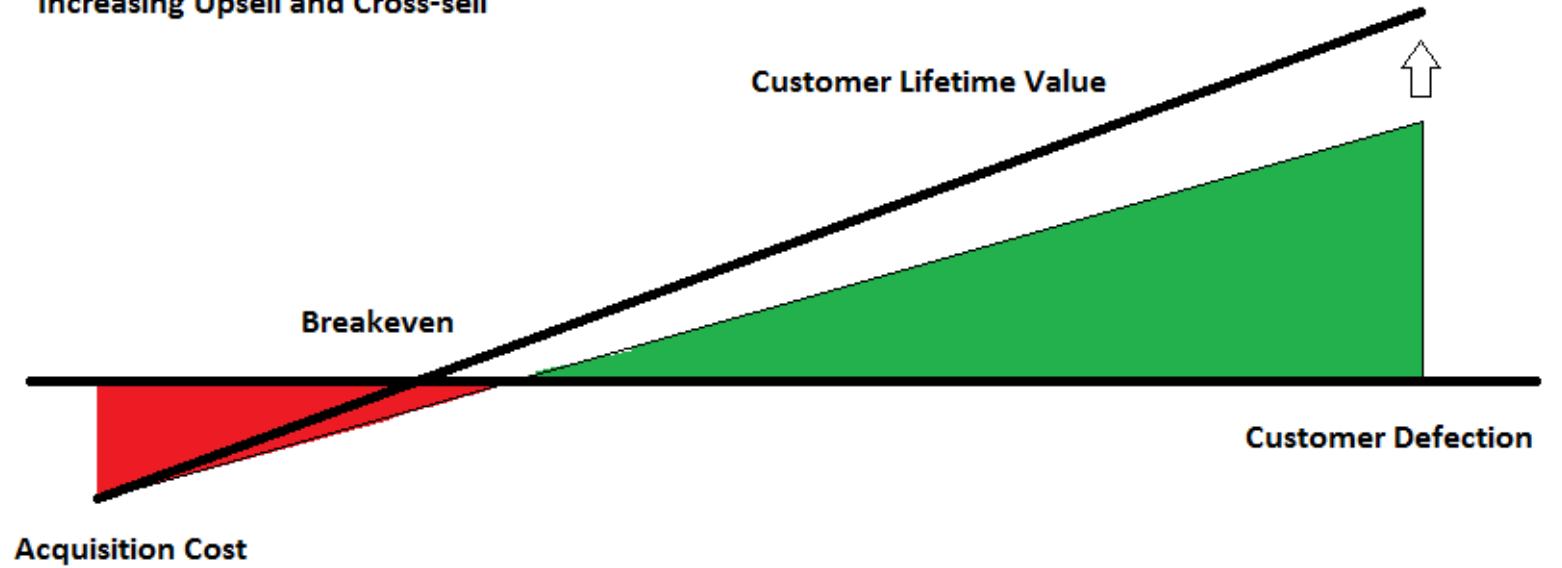
# Long-term relationships



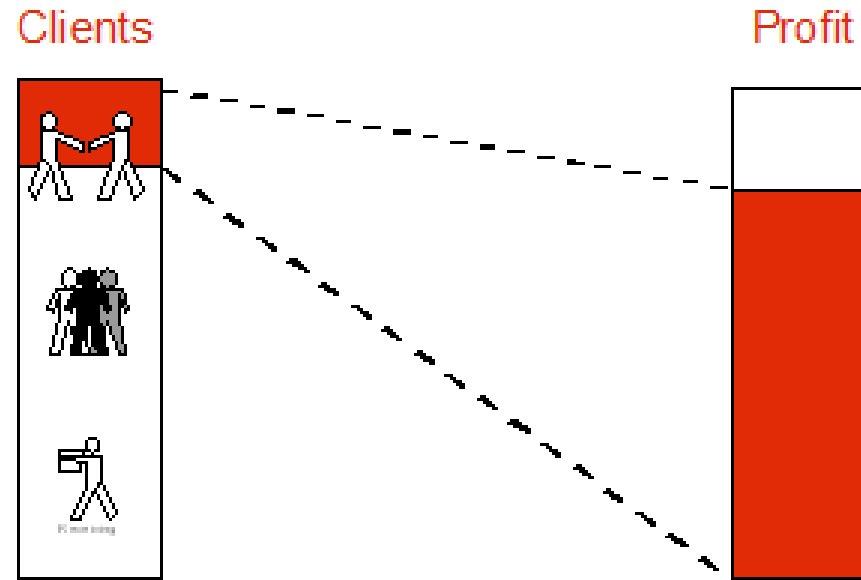
Lowering Acquisition Costs



Increasing Upsell and Cross-sell



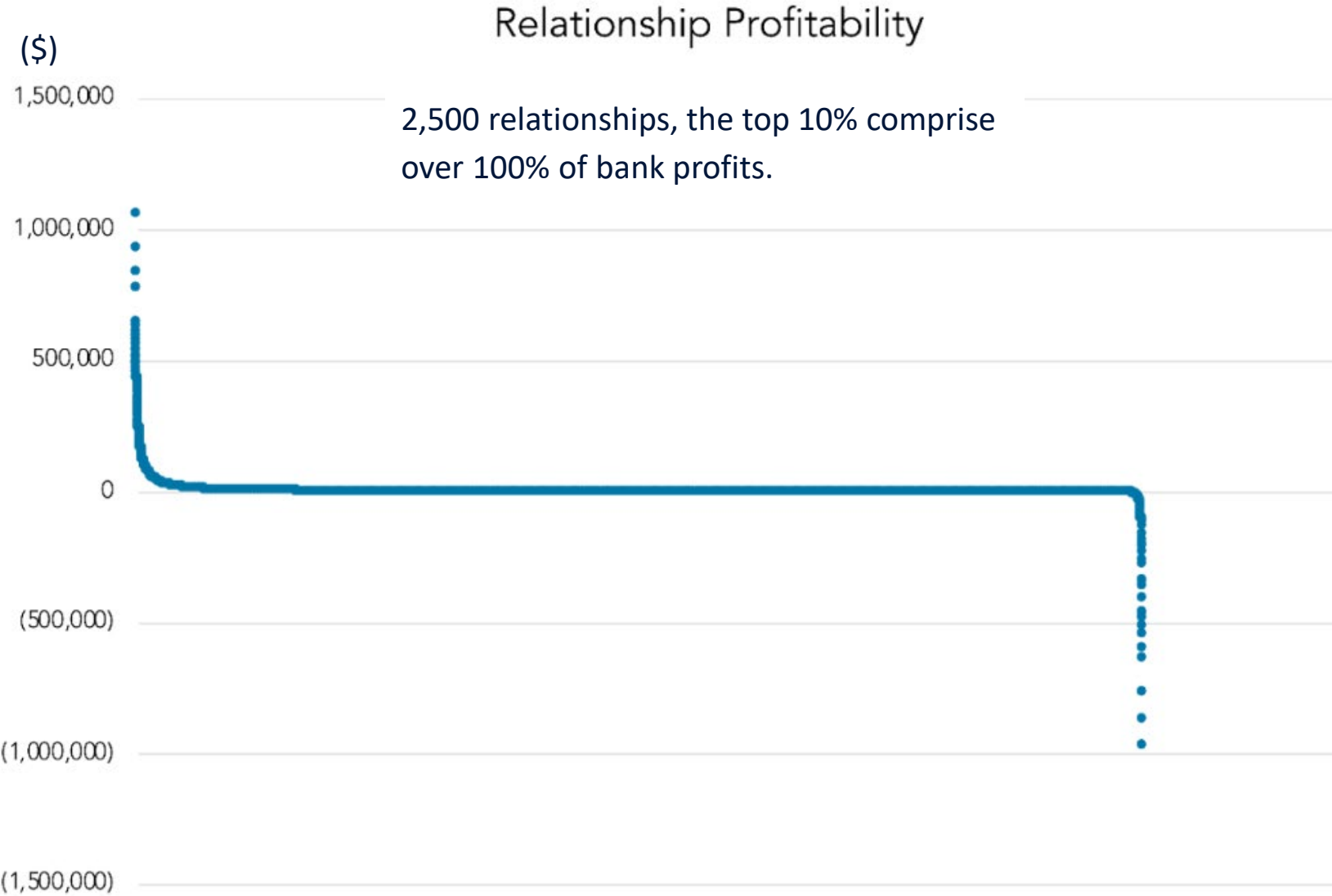
# Dissecting Relationship Profitability



The top 20% of your clients  
Generate 80% of your profit

**In banking, 10 % of customers generate 120% of your profit**

# Dissecting Relationship Profitability



# Thank you!

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Basis Risk – the risk that the floating rate interest payments made on the loan and the floating rate interest payments received on the hedge contract could be mismatched, specifically if the floating rate indices, spreads, and other terms are not exact.

Amortization Risk – the risk of the potential mismatch between the outstanding principal amount of the loan and the outstanding notional amount of the hedge. Amortization mismatches could also result in termination of portions of the hedge prior to maturity and under unfavorable conditions.

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