

# Nashville Lender Lunch

Hosted by SouthState Bank



**Chris Nichols**

Director of Capital Markets



**Ed Kofman**

Director of Loan Hedging



**Steve Olson**

Managing Director ARC  
Program



# Banking Industry Challenges and Opportunities

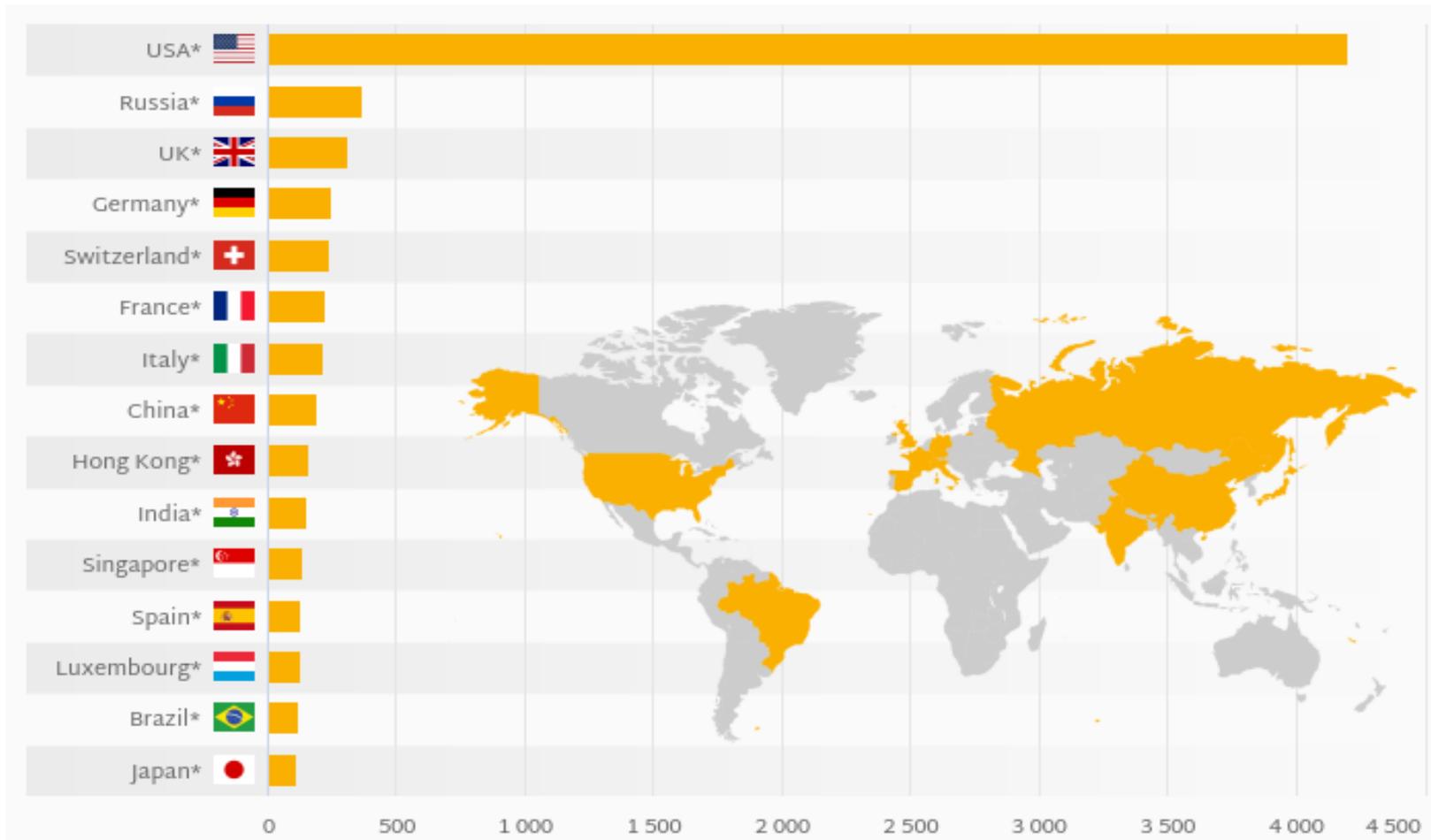


# Why So Many Banks



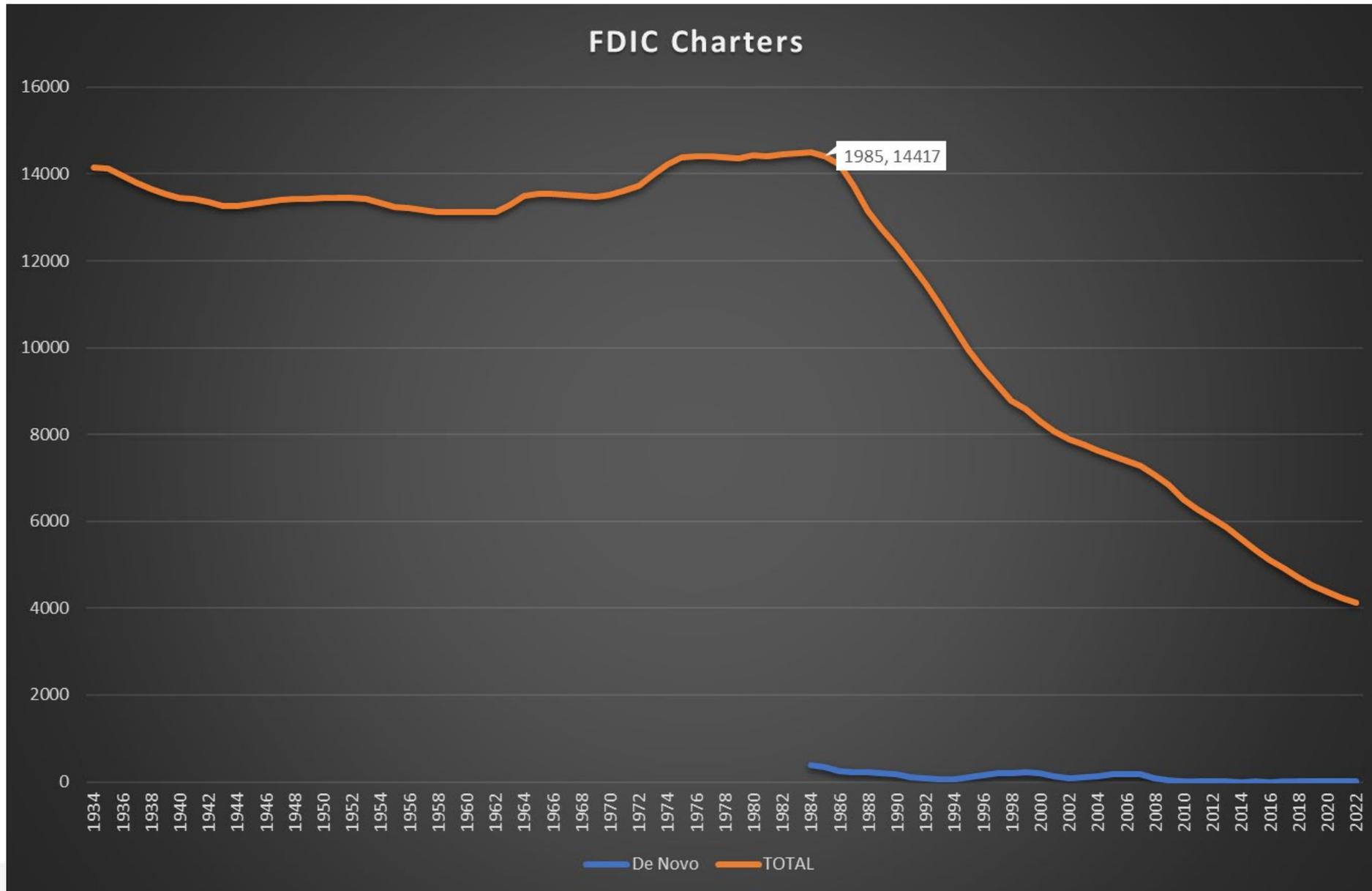
## What Country Has the Most Banks?

Number of Banks (banks), 2022 or latest



Source: National Statistical Office, \* Data from 2020

# Competitive Landscape

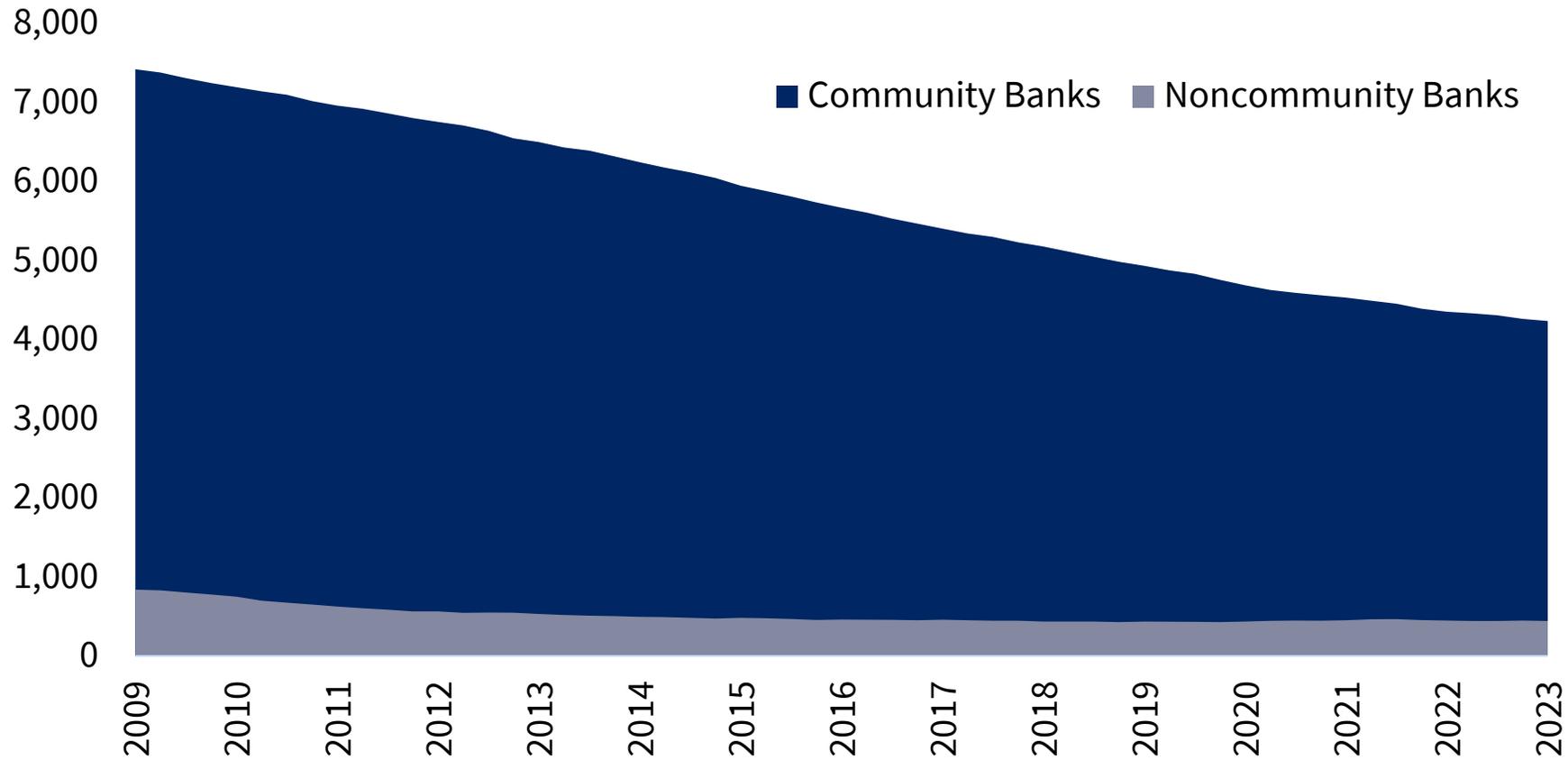


70% decline in the number of FDIC charters, 350 – 400 banks acquired per year

# Competitive Landscape



Count of Banks



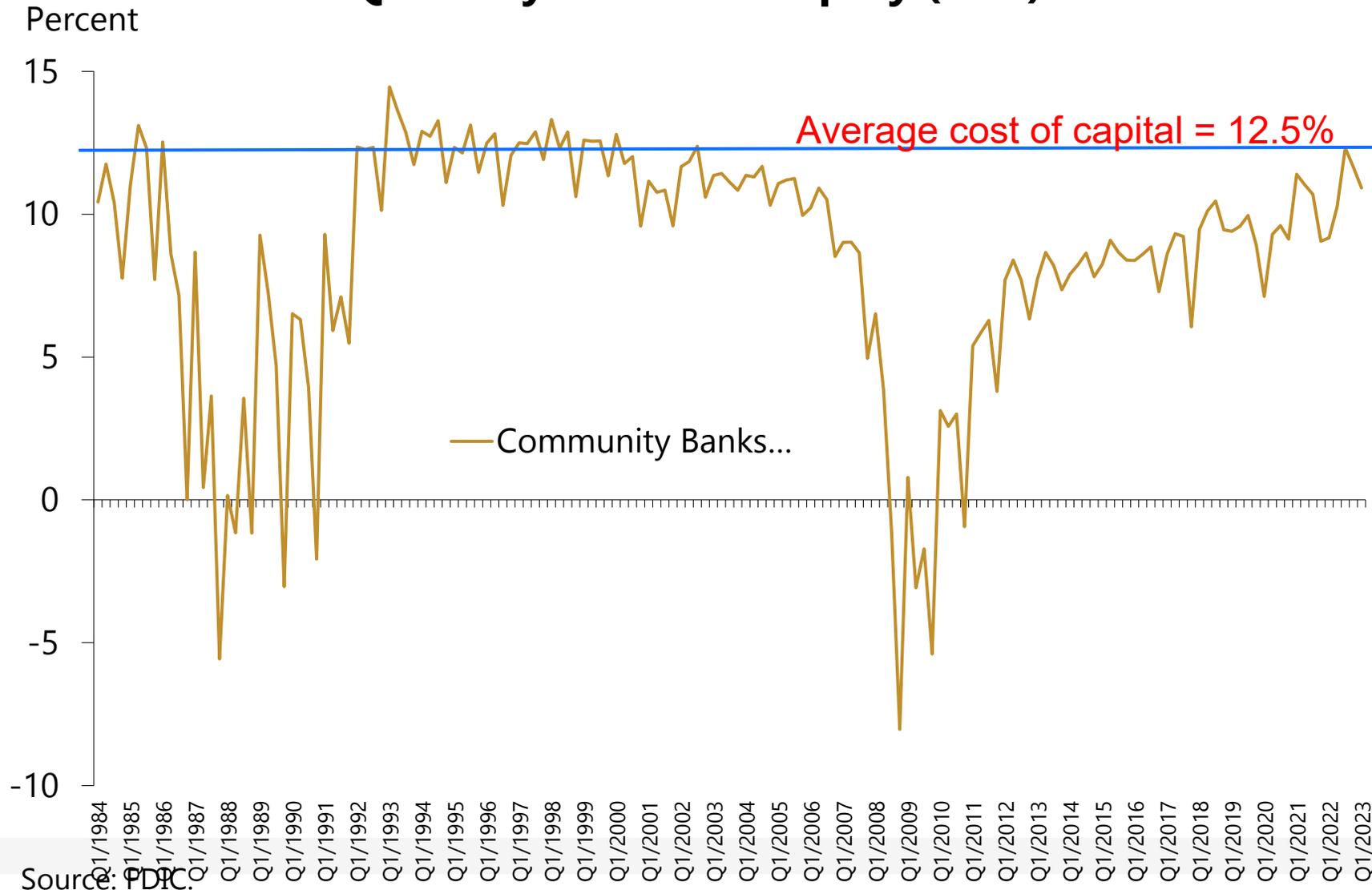
Not all banks are consolidating equally

Source: FDIC. Data is as of 1Q2023.

# Competitive Landscape

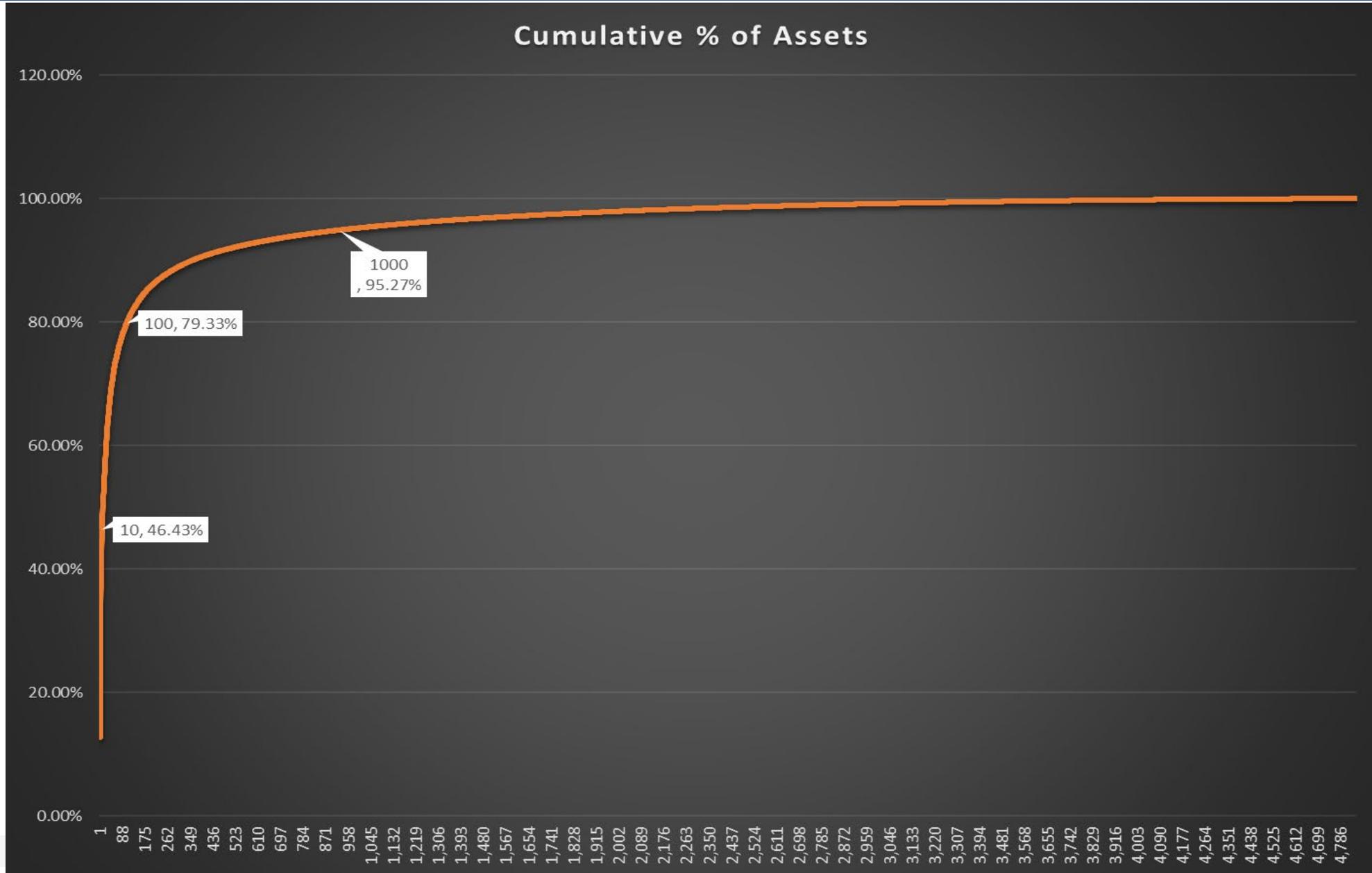


## Community Banks (<\$10Bn assets) Quarterly Return on Equity (ROE)



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

# Competitive Landscape



# Challenge for Community Banks



# NIM – ROA/ROE relationship



**Custom Peer Group**  
 Banks: [10](#)  
 Assets \$1,091.7 mm | ROE 9.32% | ROA 0.95%

**State: TN**  
 Banks: [121](#)  
 Assets \$1,875.2 mm | ROE 10.22% | ROA 1.08%

**>25B**  
 Banks: [81](#)  
 Assets \$234,109.9 mm | ROE 11.54% | ROA 1.09%

[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**

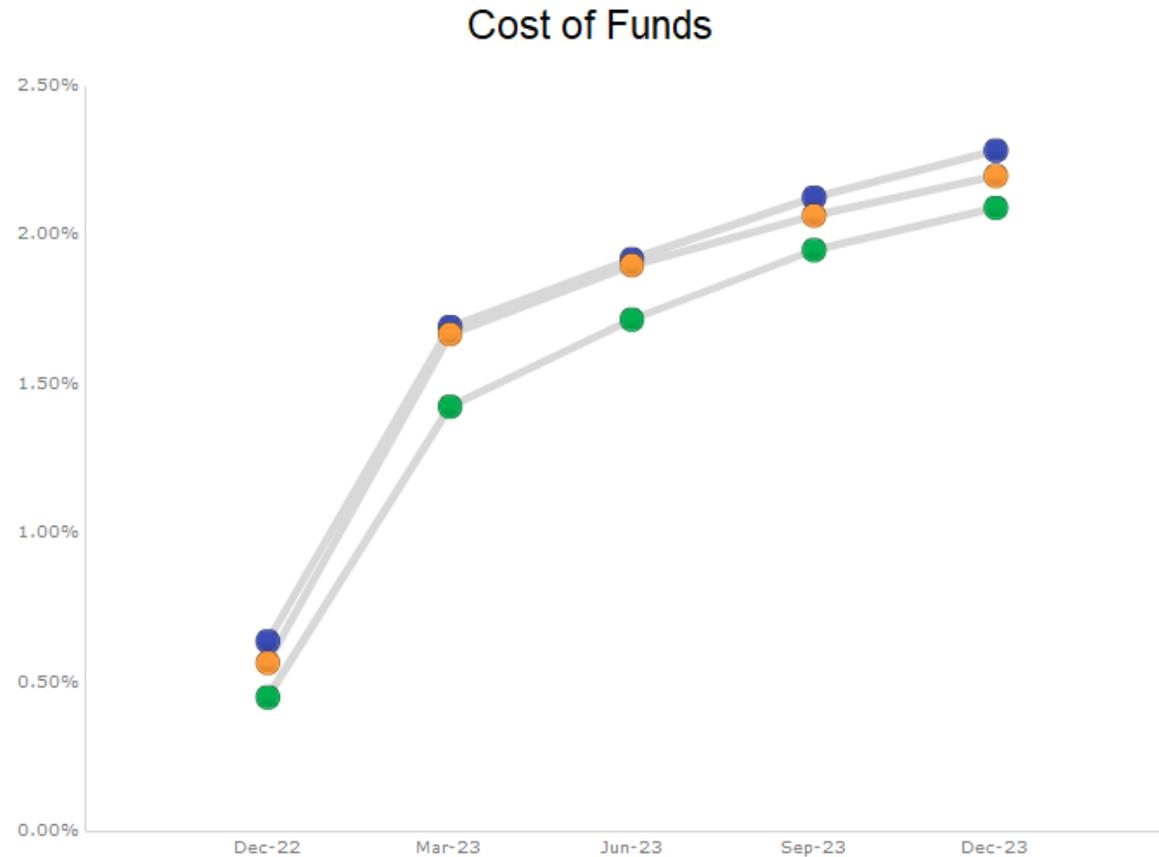
**Non-Interest Income**

**Operating Expense**

**Income & Expense**

**Balance Sheet**

Quarters
  Years



Custom Peer Group					
	0.64%	1.69%	1.92%	2.13%	2.29%
State: TN					
	0.45%	1.43%	1.72%	1.95%	2.09%
>25B					
	0.57%	1.67%	1.90%	2.07%	2.20%

# NIM – ROA/ROE relationship



## Custom Peer Group

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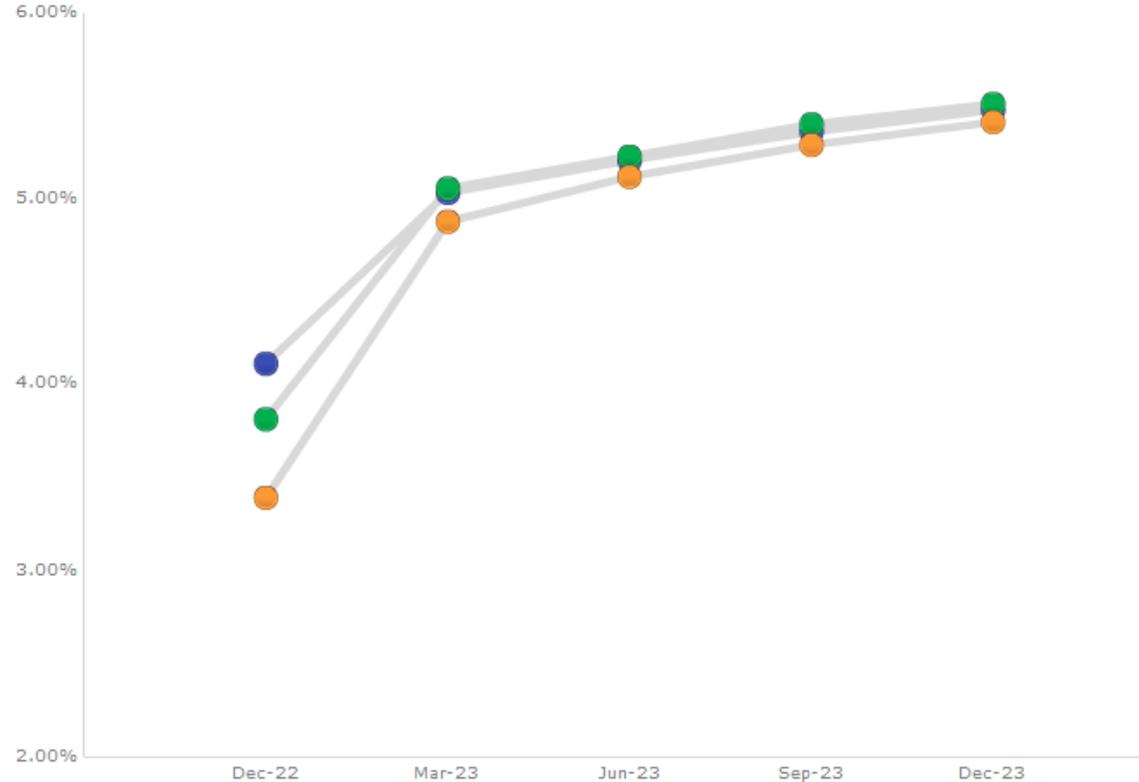
**Operating Expense**

**Income & Expense**

**Balance Sheet**

Quarters  Years

## Yield on Earning Assets



### Custom Peer Group

4.11%	5.03%	5.21%	5.36%	5.48%
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### State: TN

3.81%	5.06%	5.23%	5.40%	5.51%
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### >25B

3.39%	4.88%	5.12%	5.29%	5.41%
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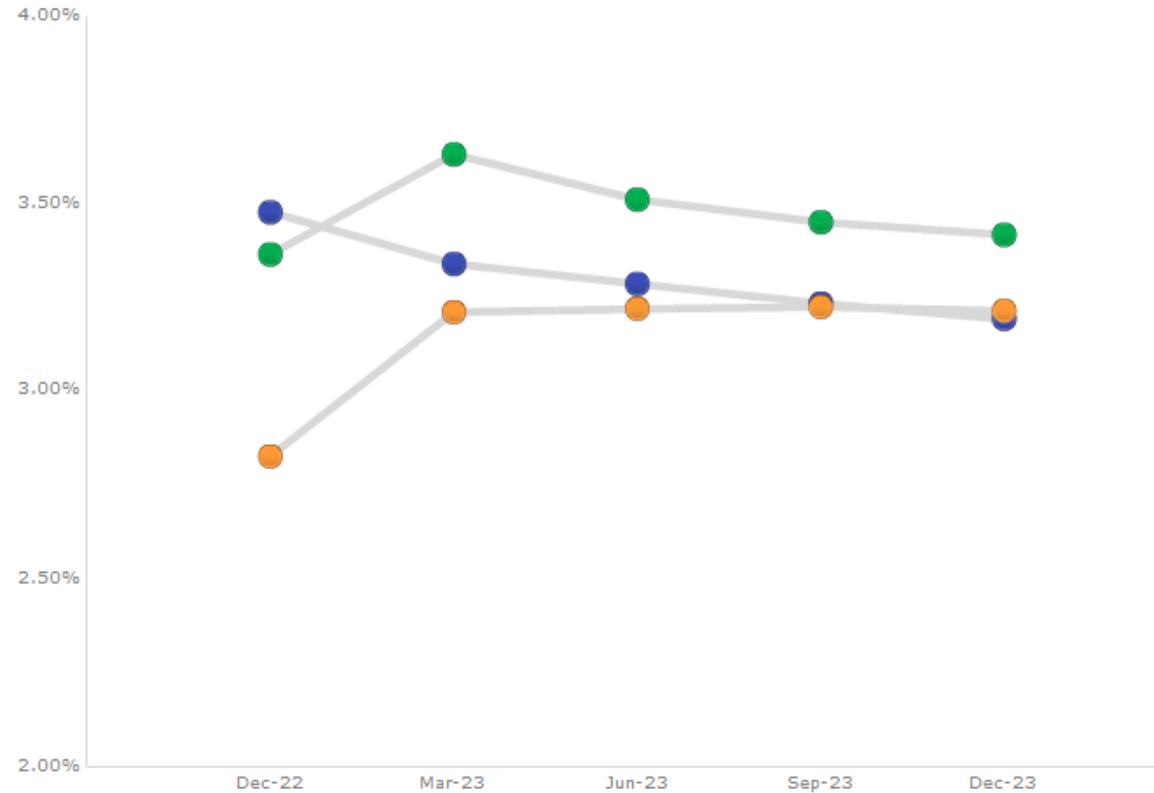
**Operating Expense**

**Income & Expense**

**Balance Sheet**

Quarters
  Years

## Net Interest Margin



### Custom Peer Group

3.48%	3.34%	3.29%	3.23%	3.19%
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### State: TN

3.36%	3.63%	3.51%	3.45%	3.42%
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### >25B

2.83%	3.21%	3.22%	3.22%	3.21%
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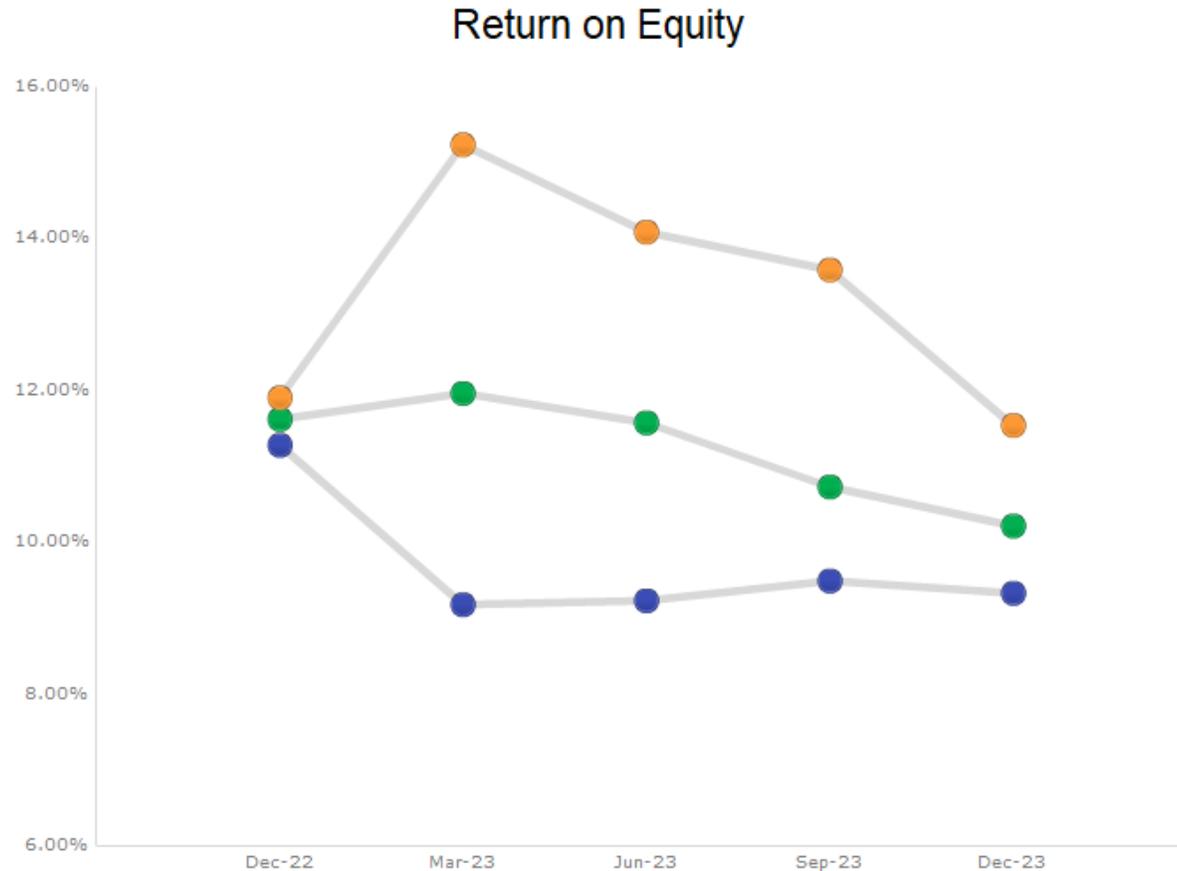
**Non-Interest Income**

**Operating Expense**

**Income & Expense**

**Balance Sheet**

Quarters
  Years



**Custom Peer Group**

11.28%	9.18%	9.23%	9.49%	9.32%
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**State: TN**

11.62%	11.96%	11.57%	10.73%	10.22%
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**>25B**

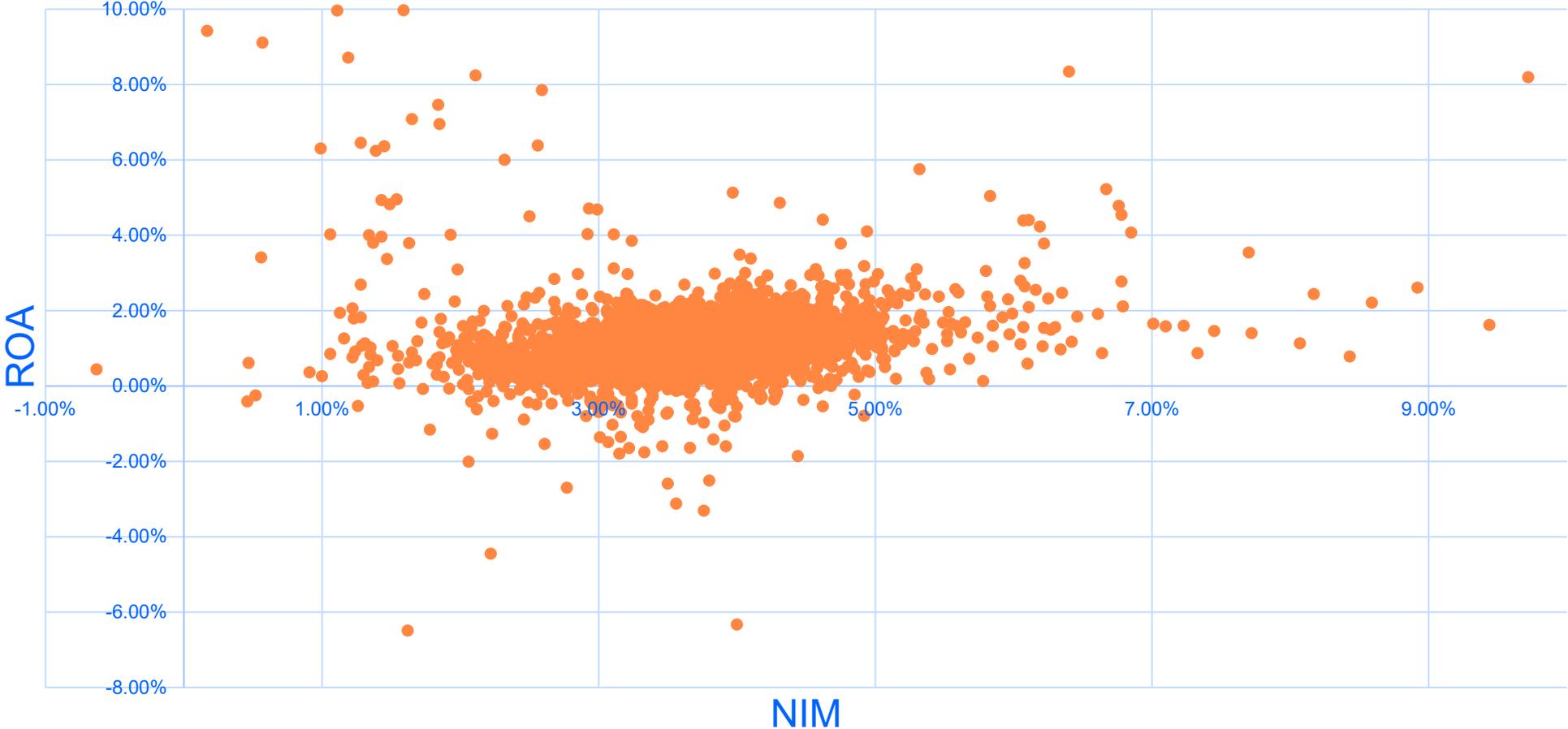
11.91%	15.24%	14.09%	13.59%	11.54%
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# NIM – ROA/ROE relationship



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

Correlation (R2) = - 0.02



# Efficiency Ratios



<b>Custom Peer Group</b> Banks: <a href="#">10</a> Assets \$1,091.7 mm   ROE 9.32%   ROA 0.95%	<b>State: TN</b> Banks: <a href="#">121</a> Assets \$1,875.2 mm   ROE 10.22%   ROA 1.08%	<b>&gt;25B</b> Banks: <a href="#">81</a> Assets \$234,109.9 mm   ROE 11.54%   ROA 1.09%
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[Ratio Definitions](#)

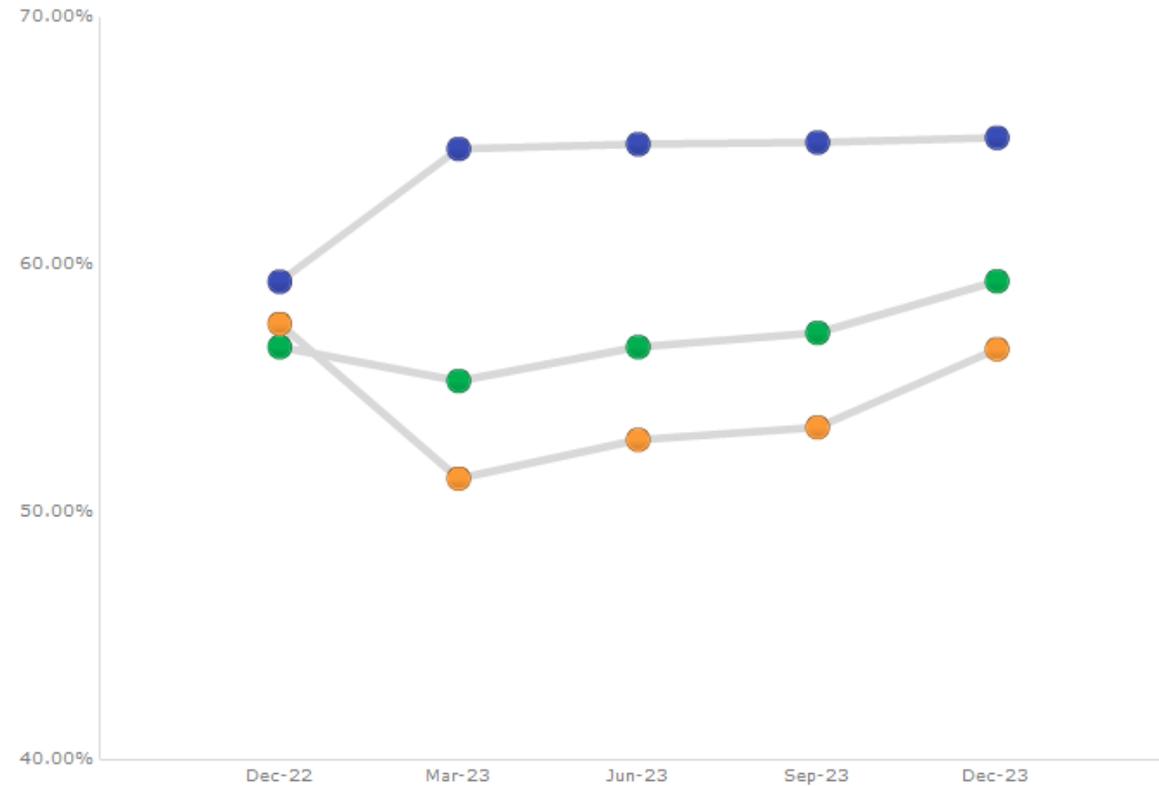
- Non-Interest Income
- Operating Expense
- Non-Interest Expense to Earning Assets
- Additional Non-Interest Expense to Earning Assets
- Net Overhead to Earning Assets
- Efficiency Ratio**
- Efficiency Ratio (TE)
- Salaries to Full-Time Employees
- Premises and Equipment to FTE
- Number of Full Time Employees
- Net Income per Employee (\$ 000s)
- Revenue to Full-Time Employees (\$ 000s)
- Pretax Net Income per Employee (\$ 000s)
- Deposits per Employee (\$ 000s)
- Salaries & Benefits to Net Income
- Salaries & Benefits to Total Revenue
- Salaries & Benefits to Total Revenue

**Income & Expense**

**Balance Sheet**

Quarters  Years

Efficiency Ratio

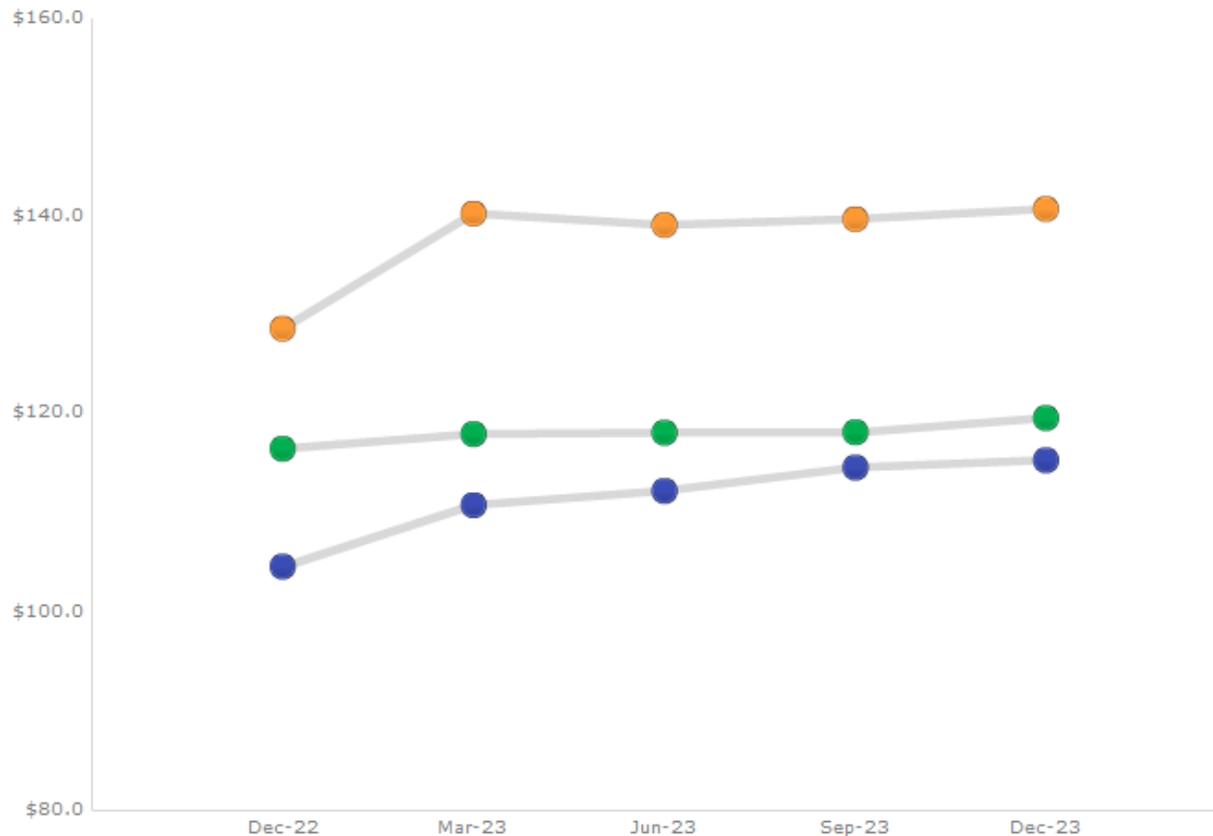


Custom Peer Group				
59.30%	64.67%	64.87%	64.93%	65.13%
State: TN				
56.67%	55.29%	56.66%	57.25%	59.32%
>25B				
57.61%	51.35%	52.92%	53.42%	56.59%



# Efficiency Ratios – not these drivers

## Salaries to Full-Time Employees



Custom Peer Group

\$105	\$111	\$112	\$115	\$115
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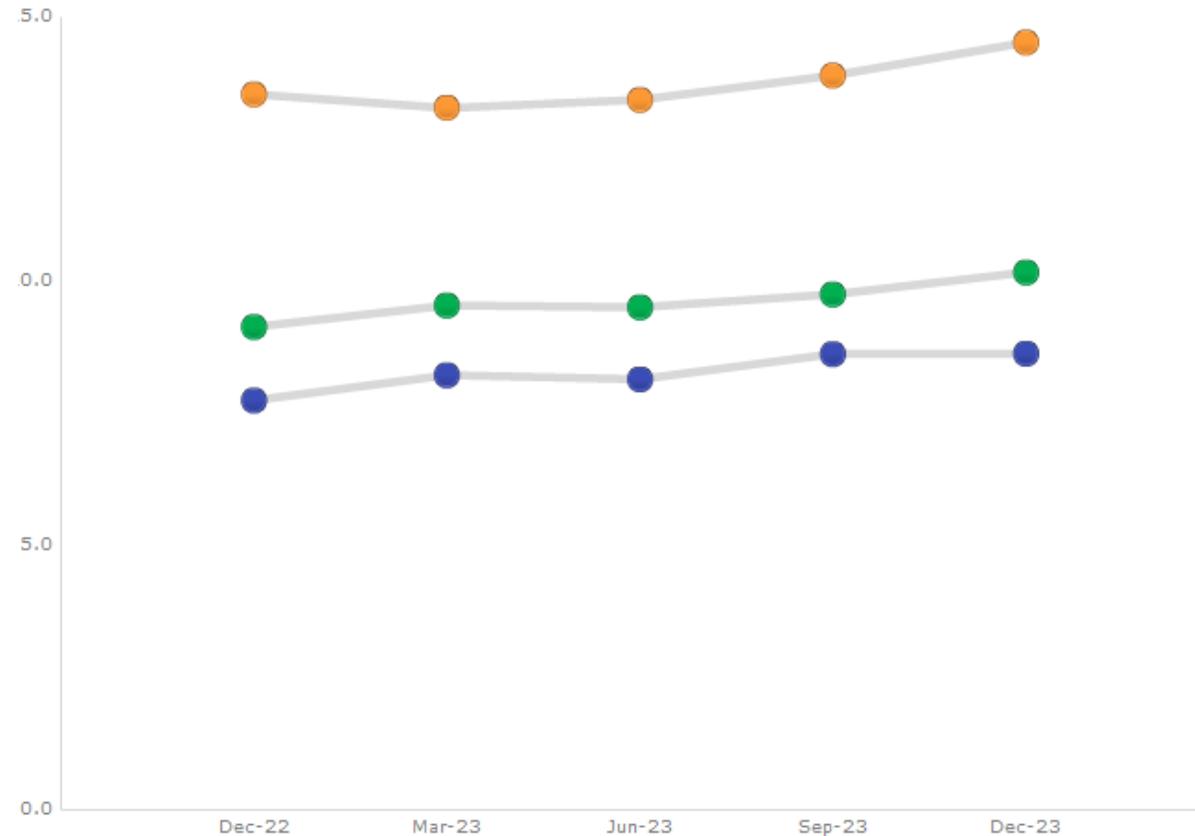
State: TN

\$117	\$118	\$118	\$118	\$120
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>25B

\$129	\$140	\$139	\$140	\$141
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## Premises and Equipment to FTE



Custom Peer Group

\$18	\$18	\$18	\$19	\$19
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State: TN

\$19	\$20	\$20	\$20	\$20
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>25B

\$24	\$23	\$23	\$24	\$25
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# Efficiency Ratios – these drivers

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



Custom Peer Group

\$344	\$411	\$432	\$457	\$47
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State: TN

\$376	\$469	\$495	\$510	\$52
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>25B

\$532	\$727	\$747	\$767	\$78
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### Net Income per Employee (\$ 000s)



Custom Peer Group

\$88	\$72	\$73	\$77	\$78
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State: TN

\$106	\$111	\$108	\$100	\$97
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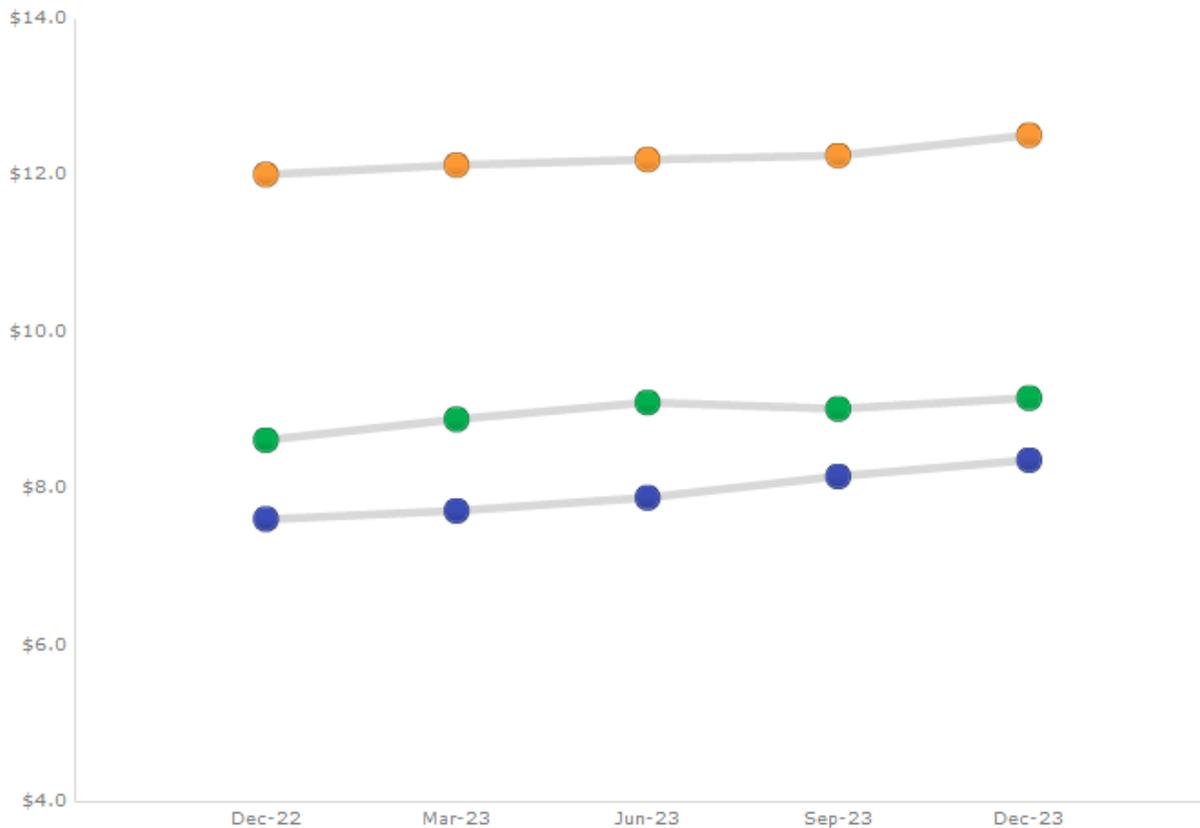
>25B

\$132	\$170	\$160	\$156	\$135
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# Efficiency Ratios – these drivers

### Assets per Employee (\$ millions)



Custom Peer Group

\$7.6	\$7.7	\$7.9	\$8.2	\$8.4
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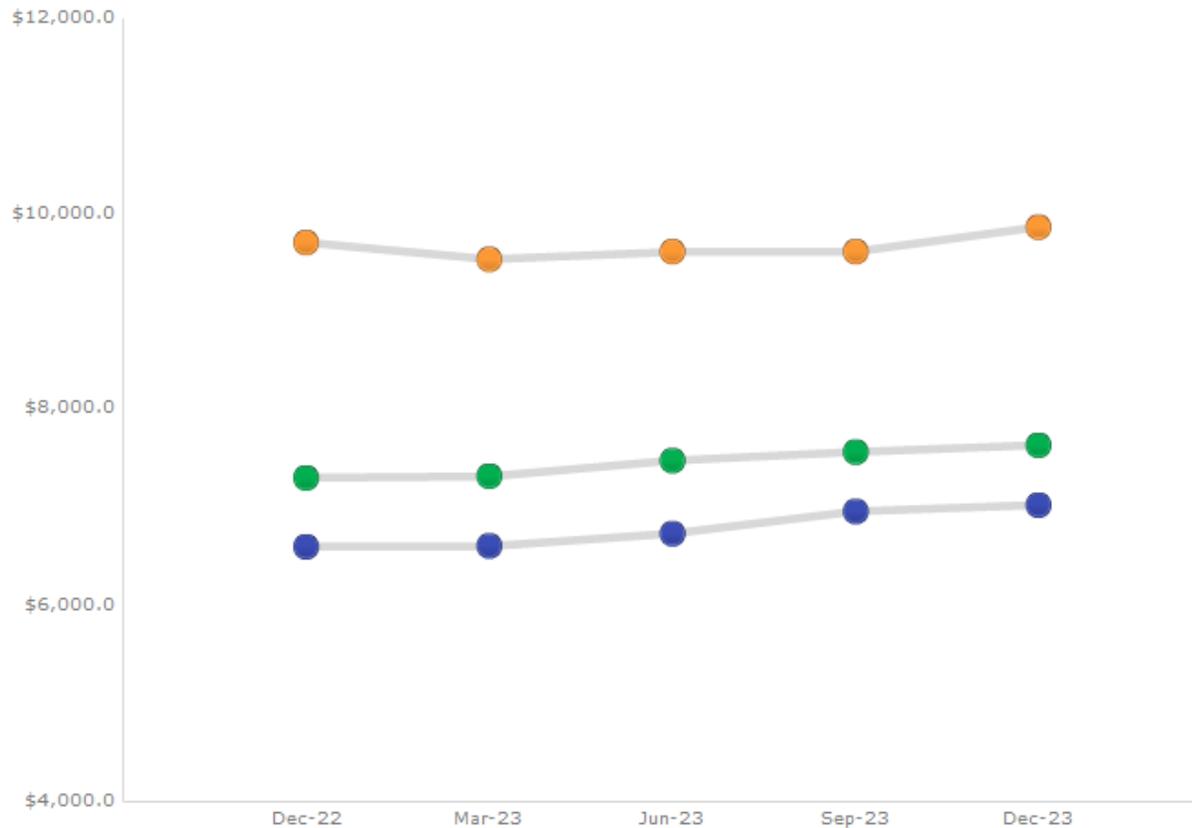
State: TN

\$8.6	\$8.9	\$9.1	\$9.0	\$9.2
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>25B

\$12.0	\$12.1	\$12.2	\$12.3	\$12.5
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### Deposits per Employee (\$ 000s)



Custom Peer Group

\$6,602	\$6,608	\$6,736	\$6,963	\$7,027
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State: TN

\$7,304	\$7,322	\$7,483	\$7,572	\$7,639
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>25B

\$9,711	\$9,537	\$9,615	\$9,617	\$9,868
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# Opportunities for Community Banks

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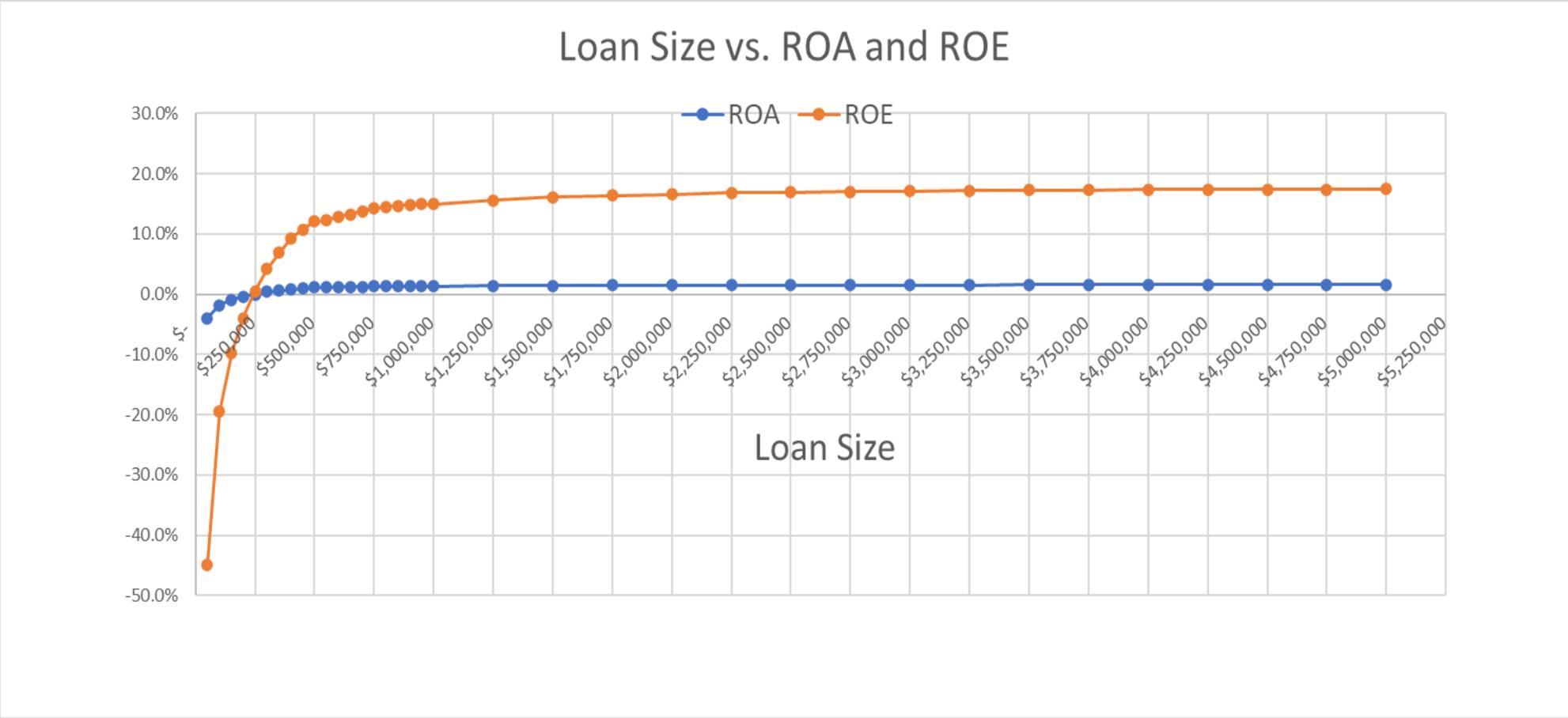
**Size, Term, Credit Quality, Non-interest Income, Long-term Relationships**



# Loan Size – scale matters



5yr CRE loan, S + 2.50%





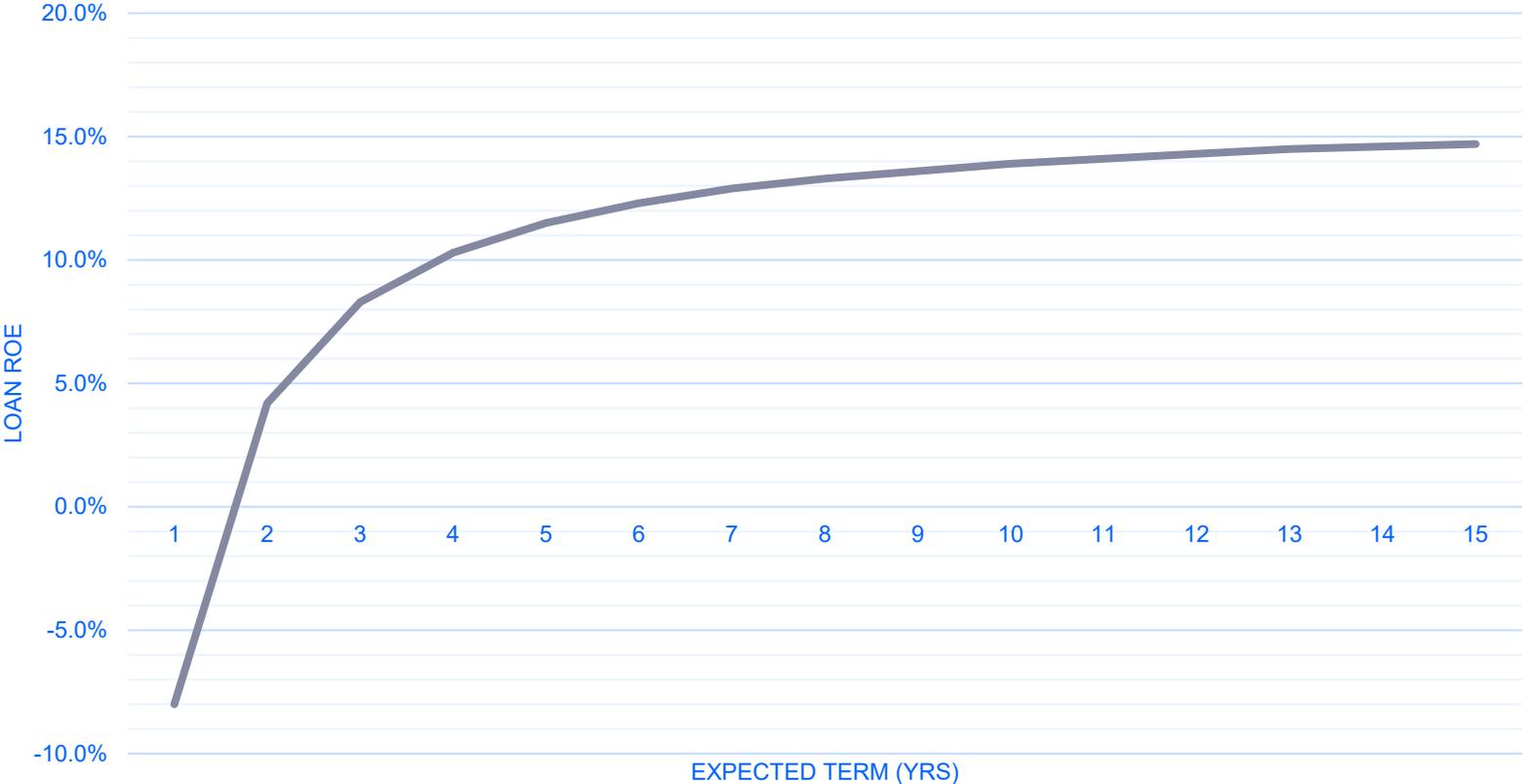
# Loan Size – scale matters

	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

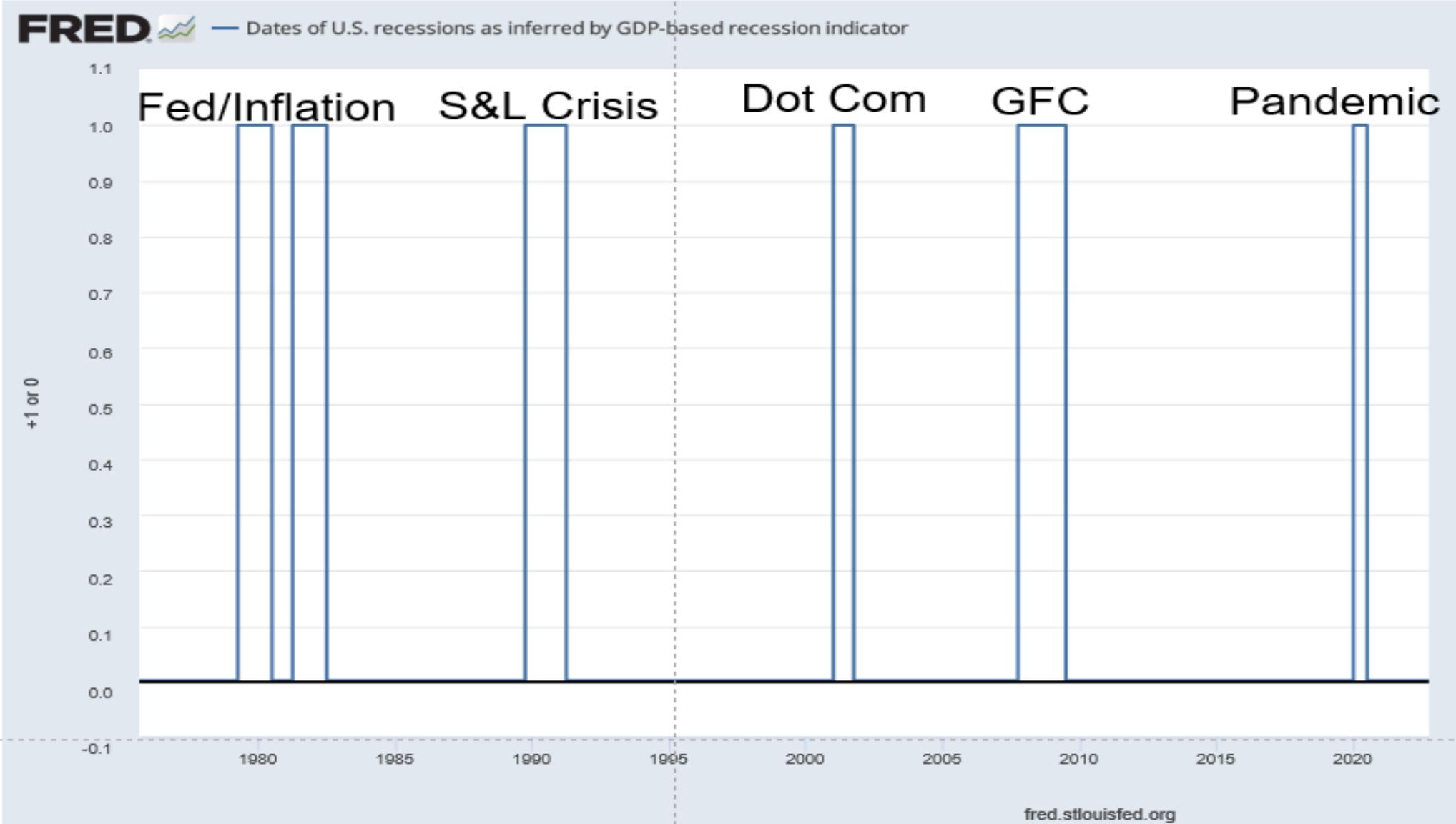


\$500k CRE loan, S + 2.50%

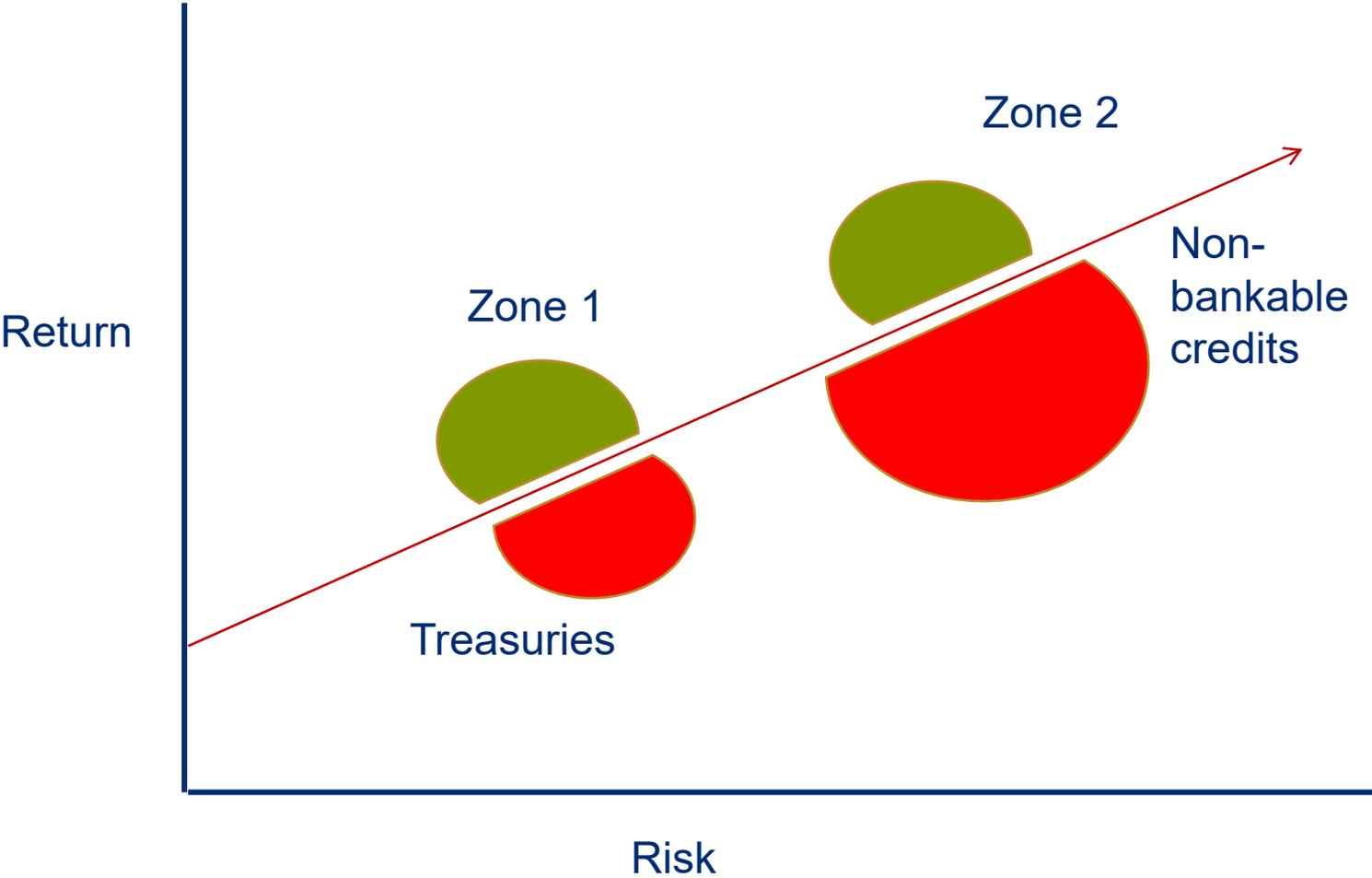
### Loan Term vs. ROE



# 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



**Custom Peer Group**  
 Banks: 10  
 Assets \$1,091.7 mm | ROE 9.32% | ROA 0.95%

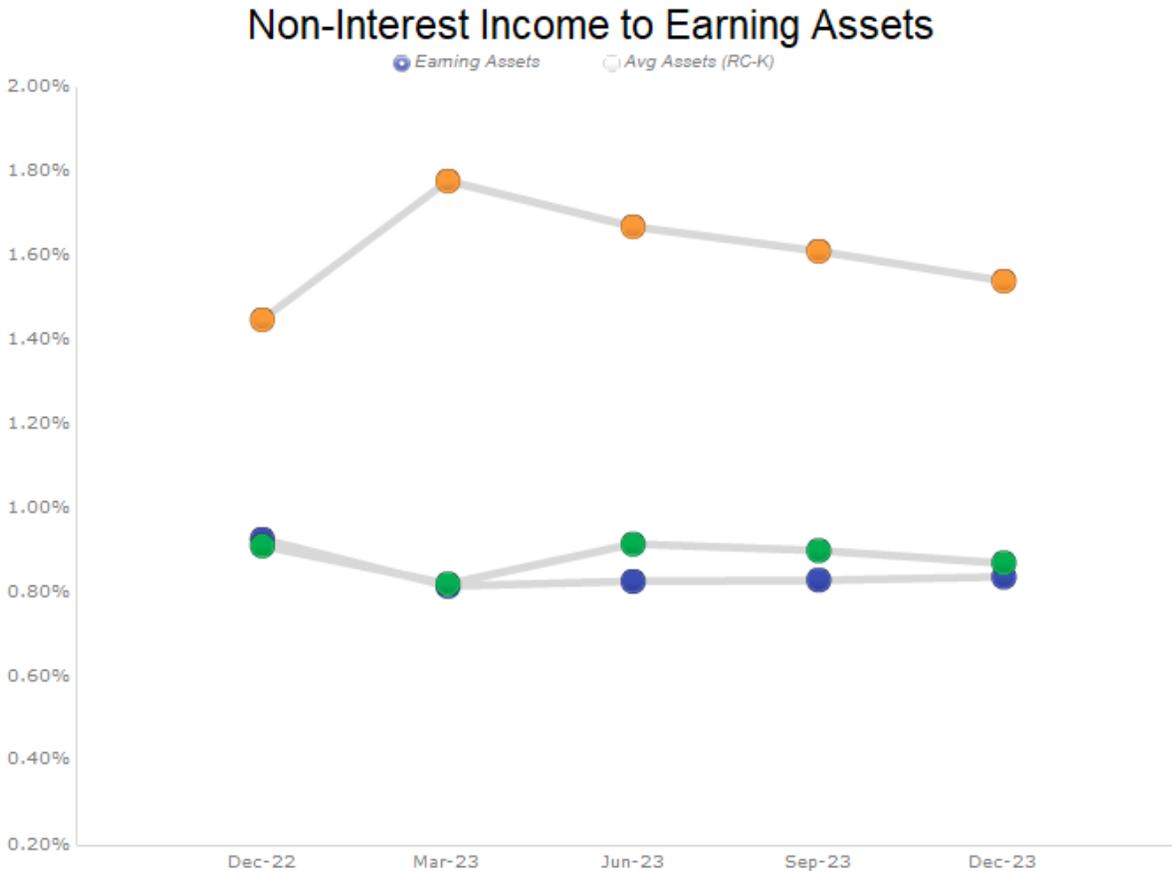
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- Non-Interest Income**
  - Net Revenue to Full-Time Employee
  - Non-Interest Income to Earning Assets**
  - Non-Int Inc. Less Gains (Losses) on
  - Gains (Losses) on OREO to Earning
  - Service Charges to Total Deposits
  - Service Charges to Interest Bearing
  - Additional Non-Interest Income to I
  - Non-Interest Income to Total Reve
  - Non-Int Inc. Less Gains (Losses) on
  - Gains (Losses) on OREO to Total R
  - Insurance Commission Fees & Inco
  - Insurance Underwriting Income to
  - IB, Advisory, Brokerage & Underwri
  - Other Non-Interest Income to Total
- Operating Expense
- Income & Expense
- Balance Sheet

Quarters  Years

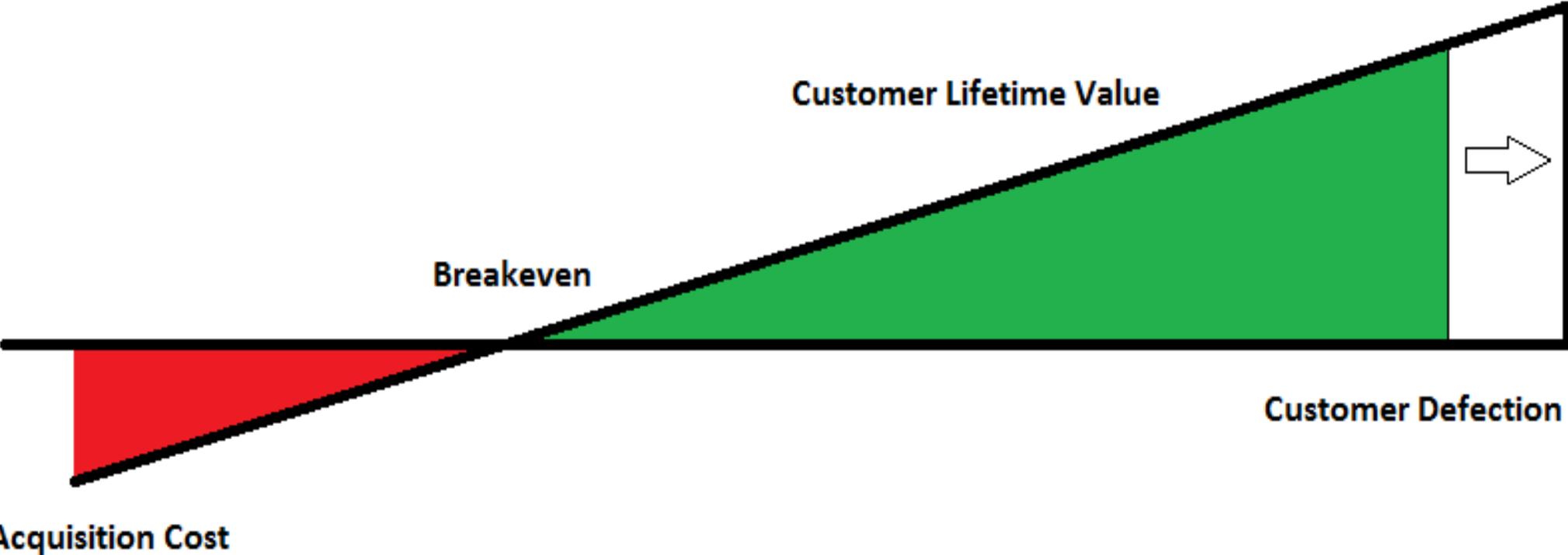


Custom Peer Group	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
	0.93%	0.82%	0.83%	0.83%	0.84%
State: TN	0.91%	0.82%	0.92%	0.90%	0.87%
>25B	1.45%	1.78%	1.67%	1.61%	1.54%

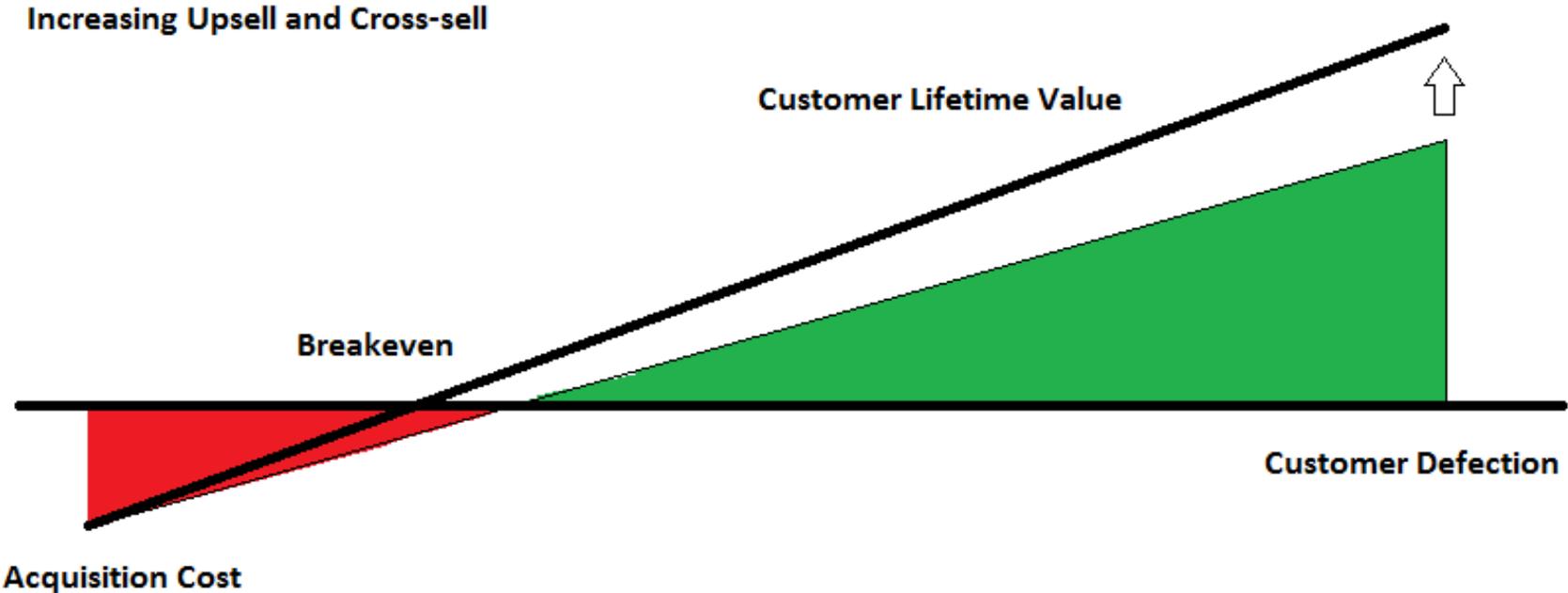
# Long-term relationships



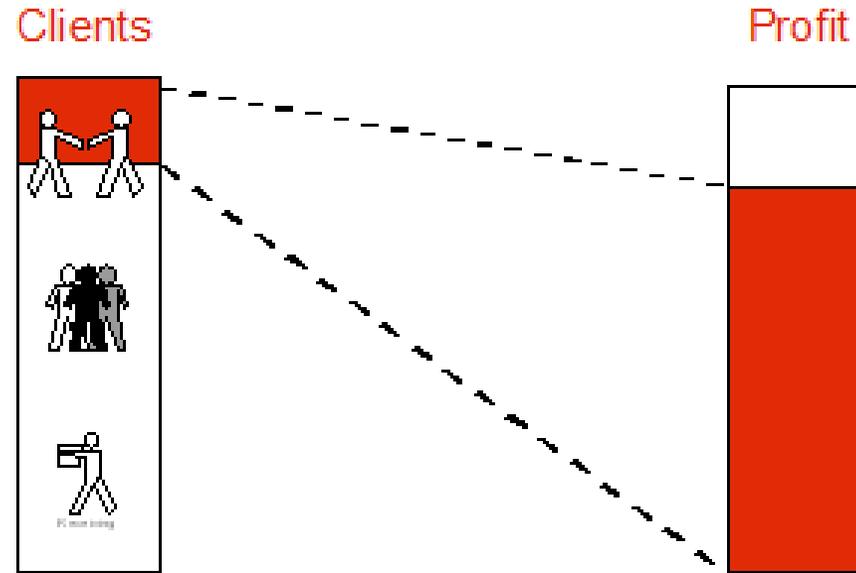
Increasing Retention / Reducing Churn



# Long-term relationships



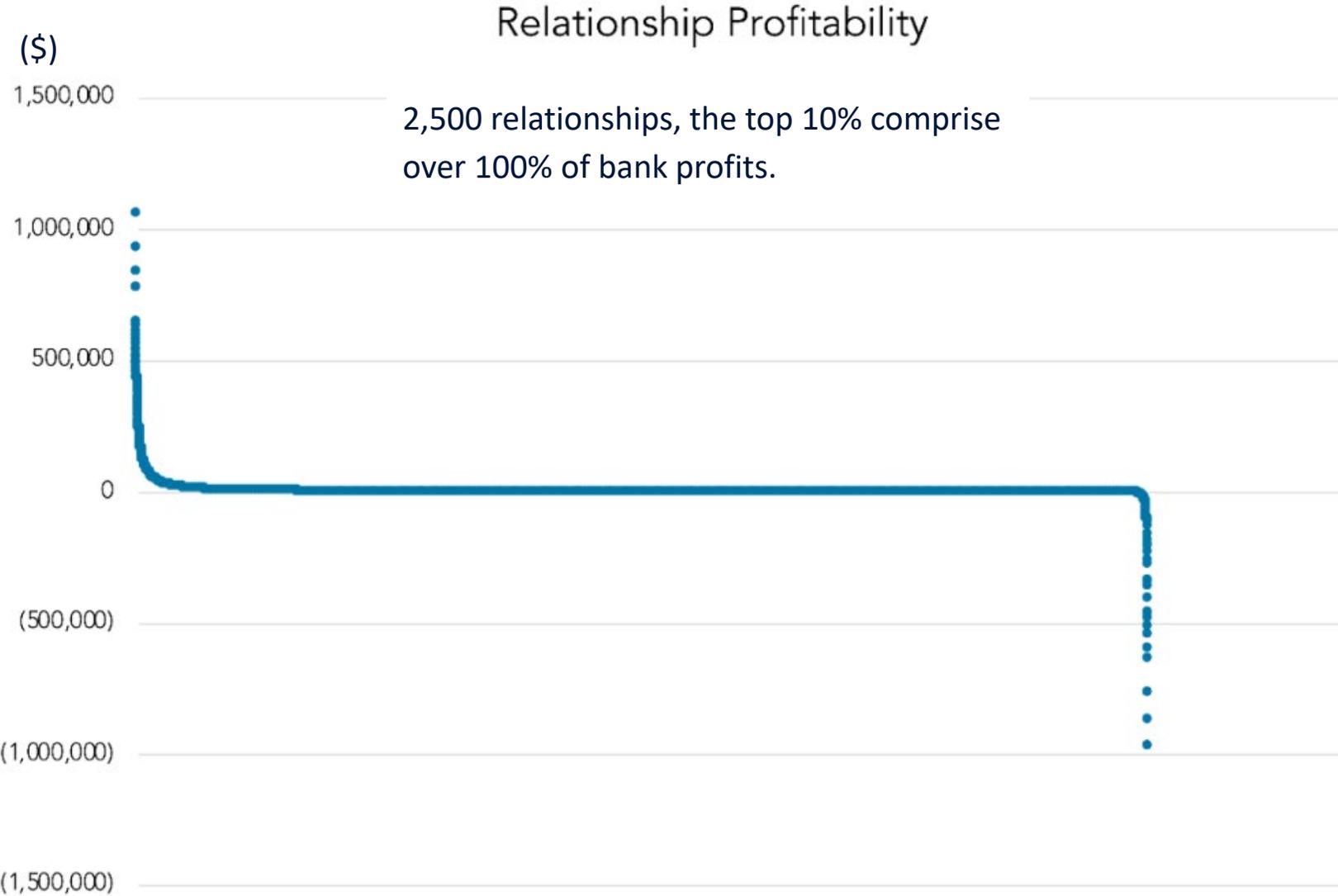
# Dissecting Relationship Profitability



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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In addition to any specific risks discussed herein, there are other factors that may influence the performance of an interest rate hedge product.

Counterparty Risk – the risk that the counterparty will not perform pursuant to the contract terms. Borrowers should carefully assess counterparty risk when engaging in such a transaction as described herein.

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.

Termination Risk – the risk that the hedge could be terminated as a result of certain events including payment default or other defined events of default. A termination of a hedge may result in payment received by the borrower or owed to the Bank depending on the market at the time of termination.

Prior to entering into any interest rate hedge transaction, recipients should determine, in consultation with their own legal, tax, regulatory, and accounting advisors, the economic risks and merits, as well as the legal, tax, regulatory and accounting characteristics and consequences of any transaction.

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