

Columbus Lender Lunch

Hosted by SouthState Bank

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Banking Industry Challenges and Opportunities

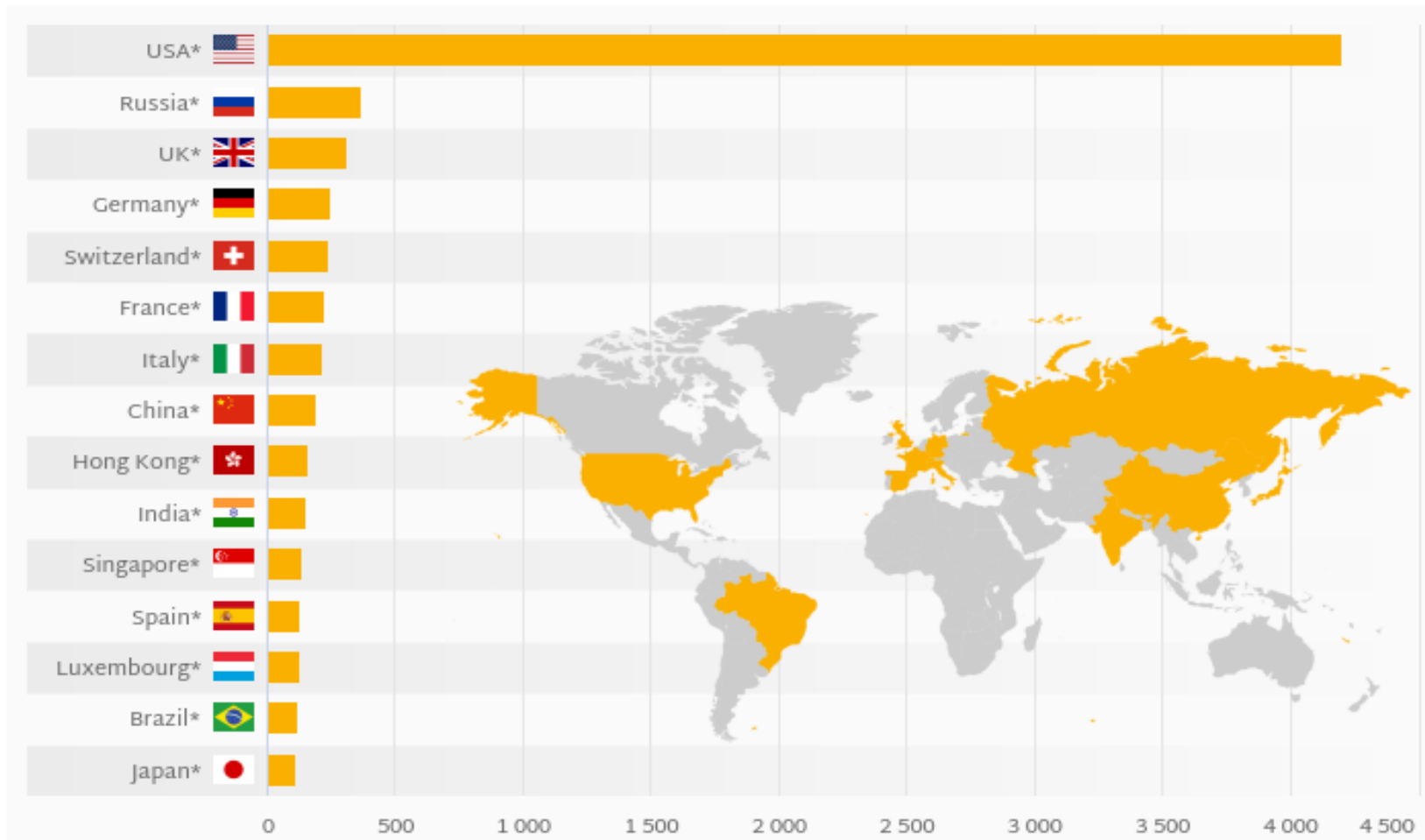


Why So Many Banks



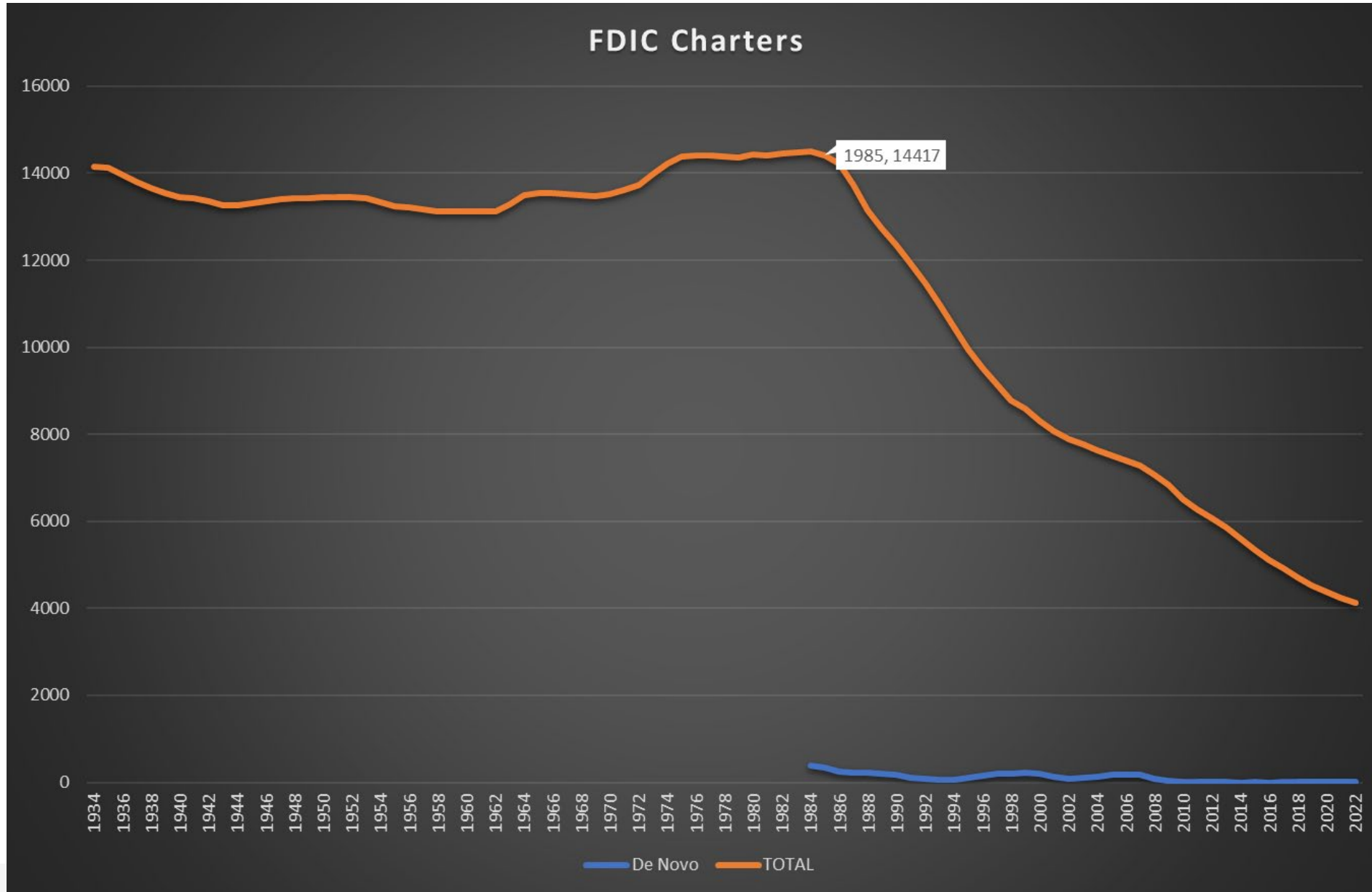
What Country Has the Most Banks?

Number of Banks (banks), 2022 or latest



Source: National Statistical Office, * Data from 2020

Competitive Landscape

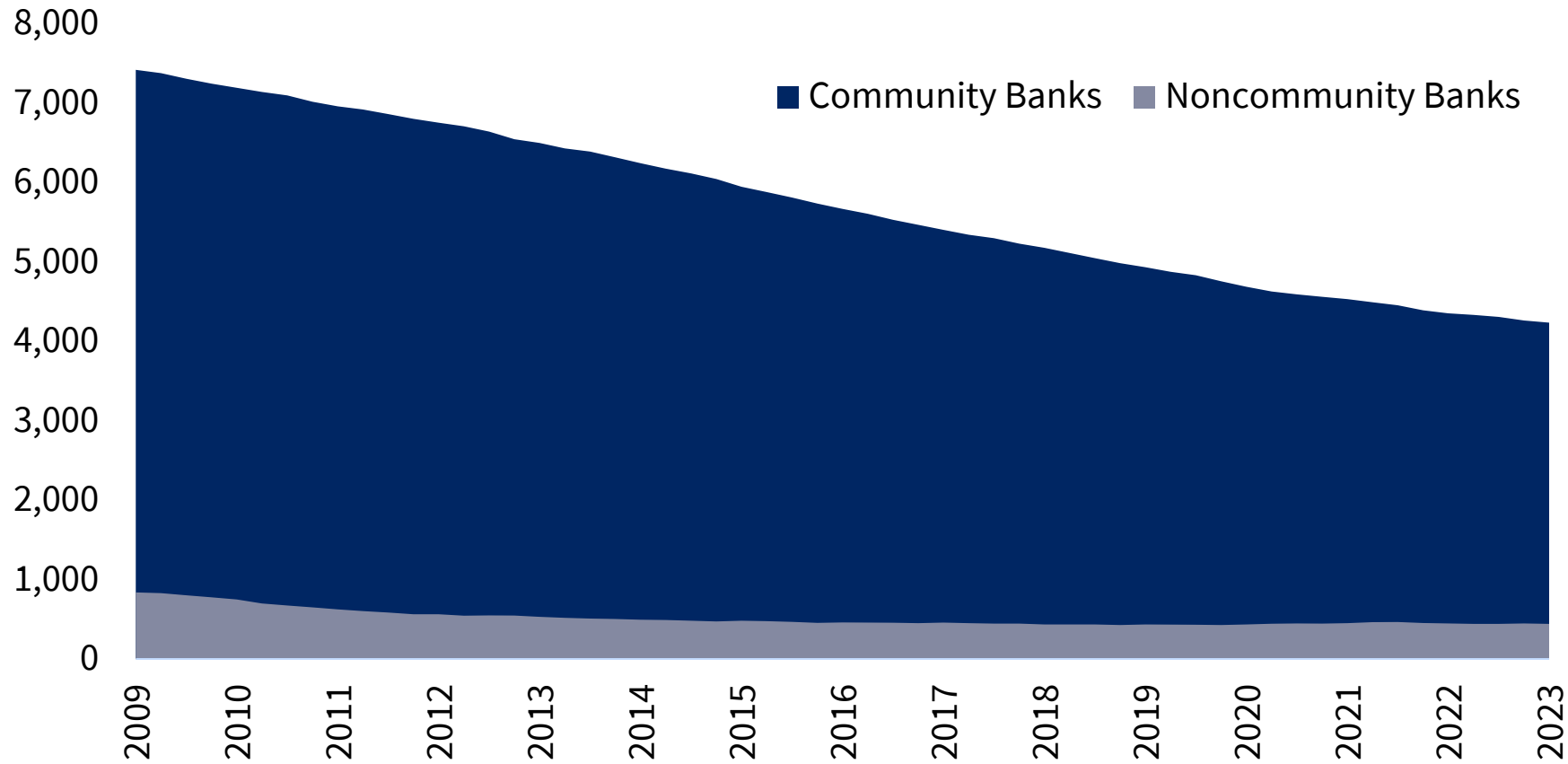


70% decline in the number of FDIC charters, 350 – 400 banks acquired per year

Competitive Landscape



Count of Banks



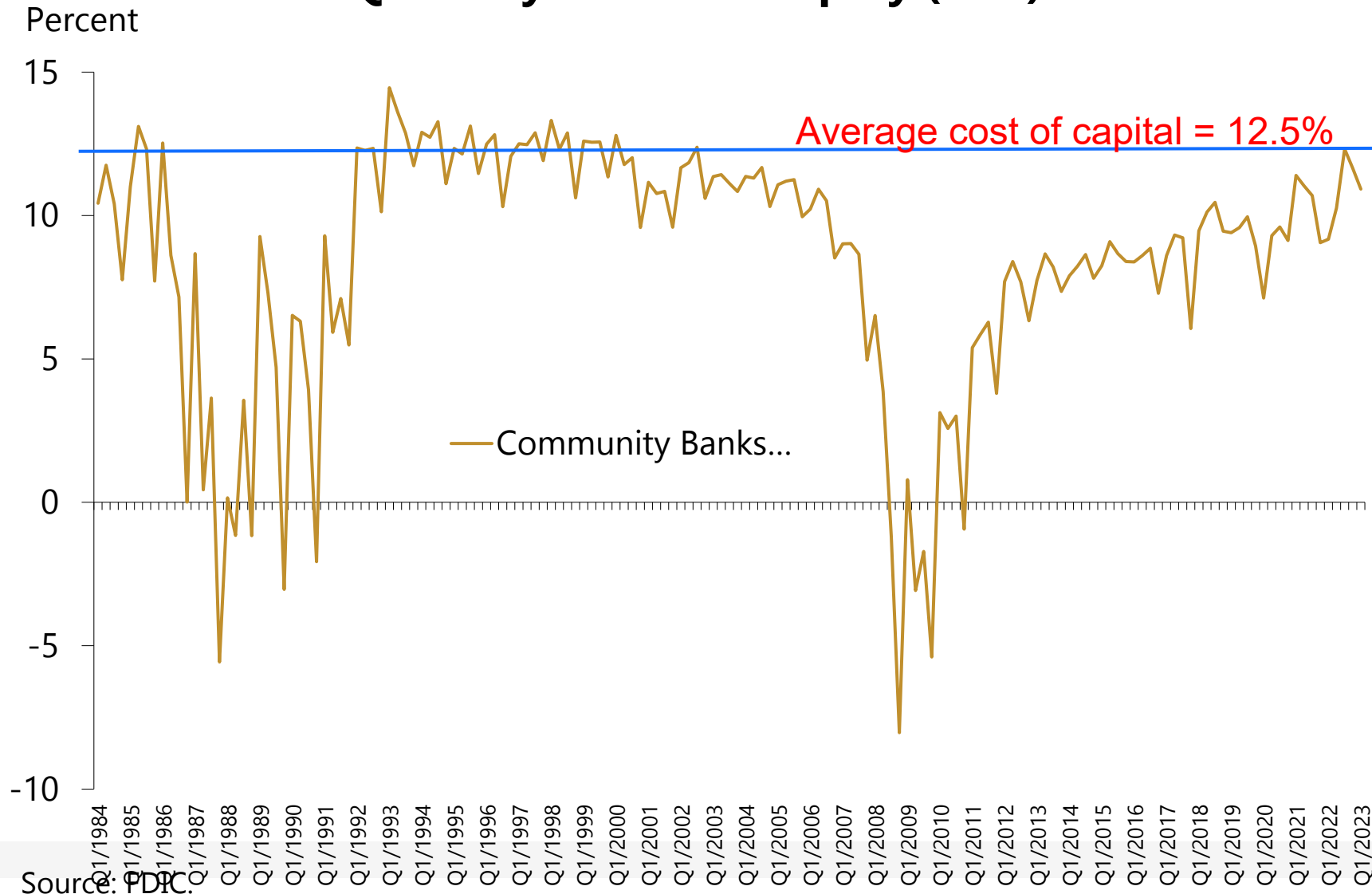
Not all banks are consolidating equally

Source: FDIC. Data is as of 1Q2023.

Competitive Landscape

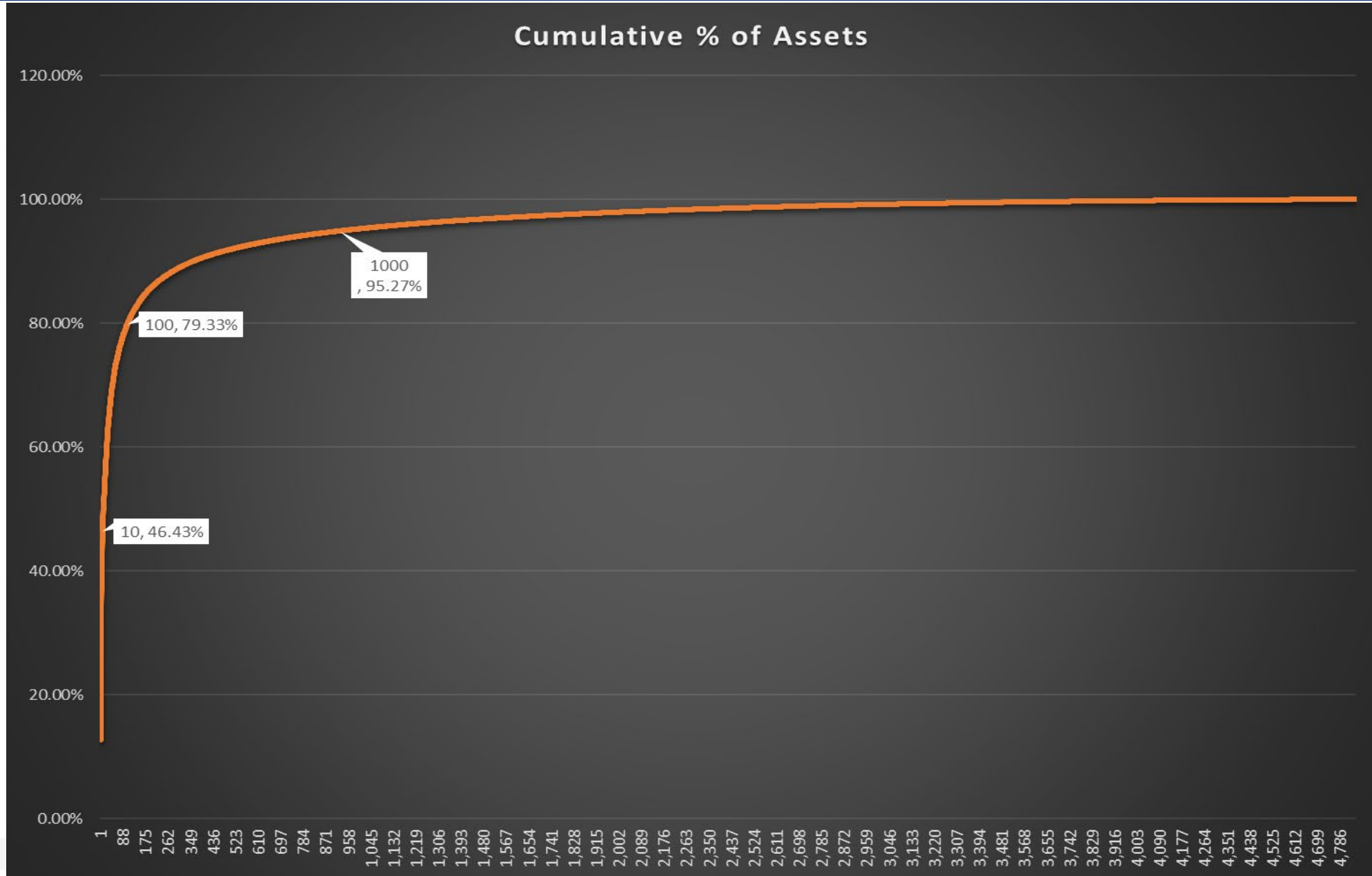


Community Banks (<\$10Bn assets) Quarterly Return on Equity (ROE)



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

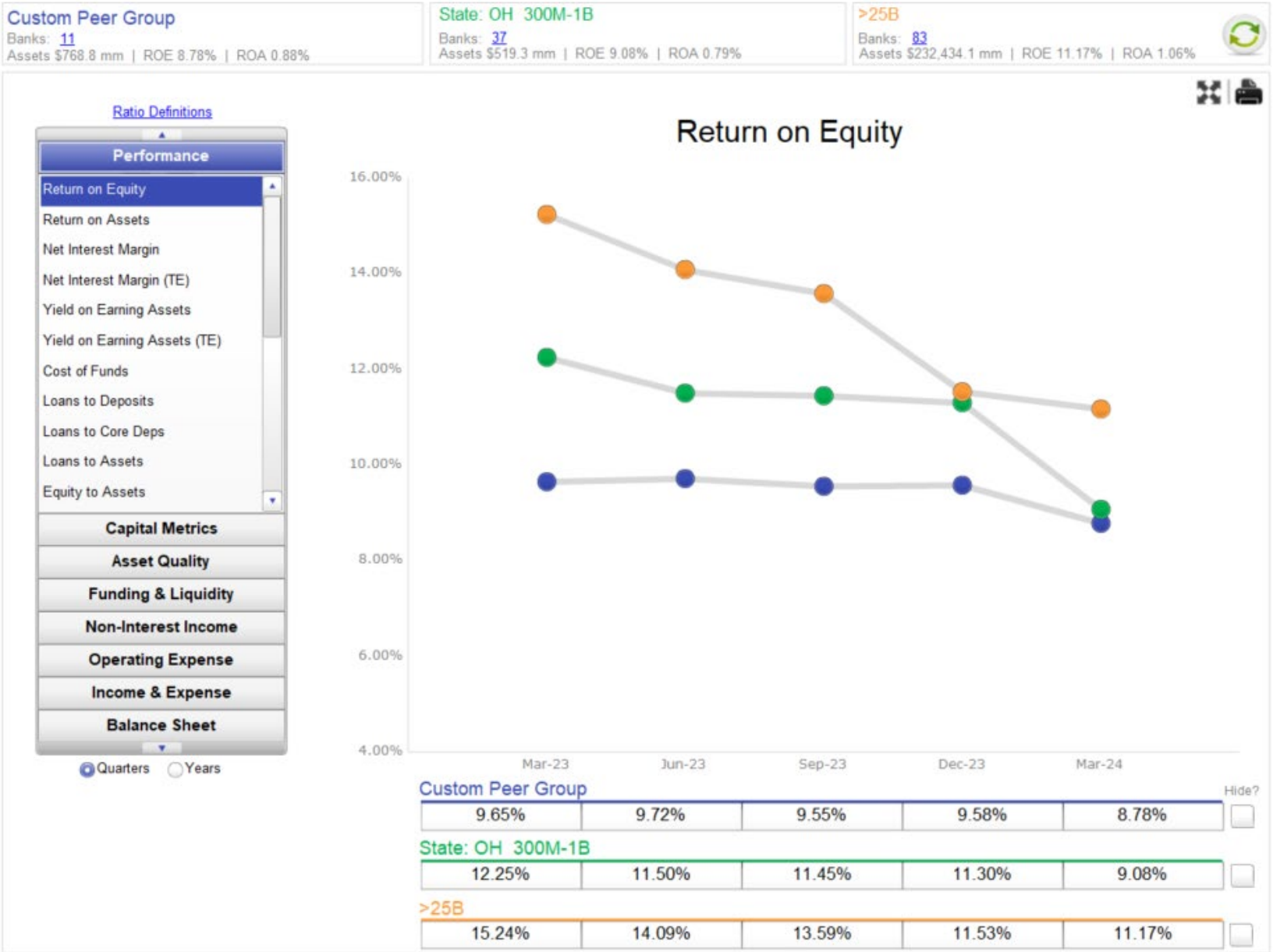
Competitive Landscape



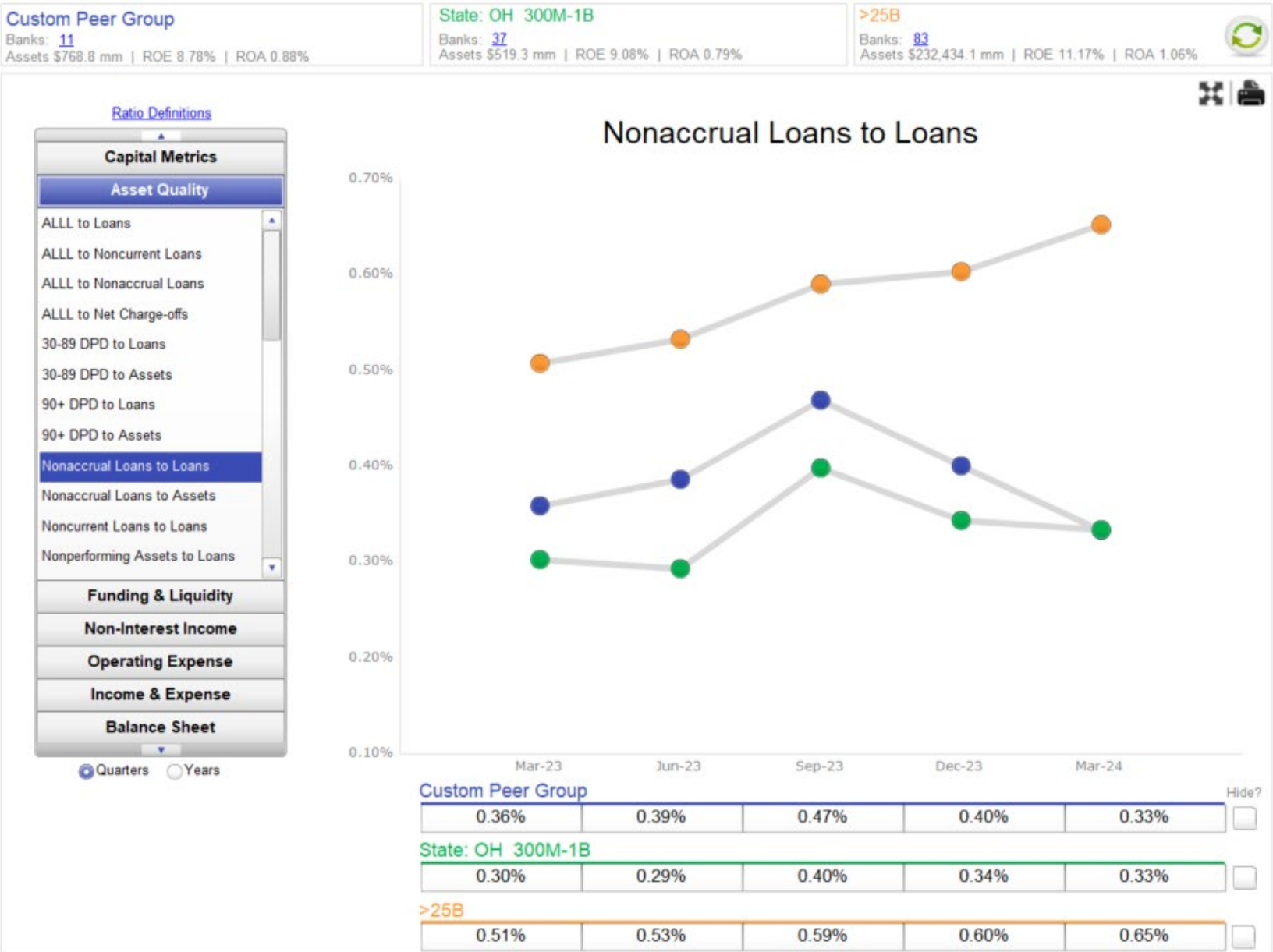
Challenge for Community Banks



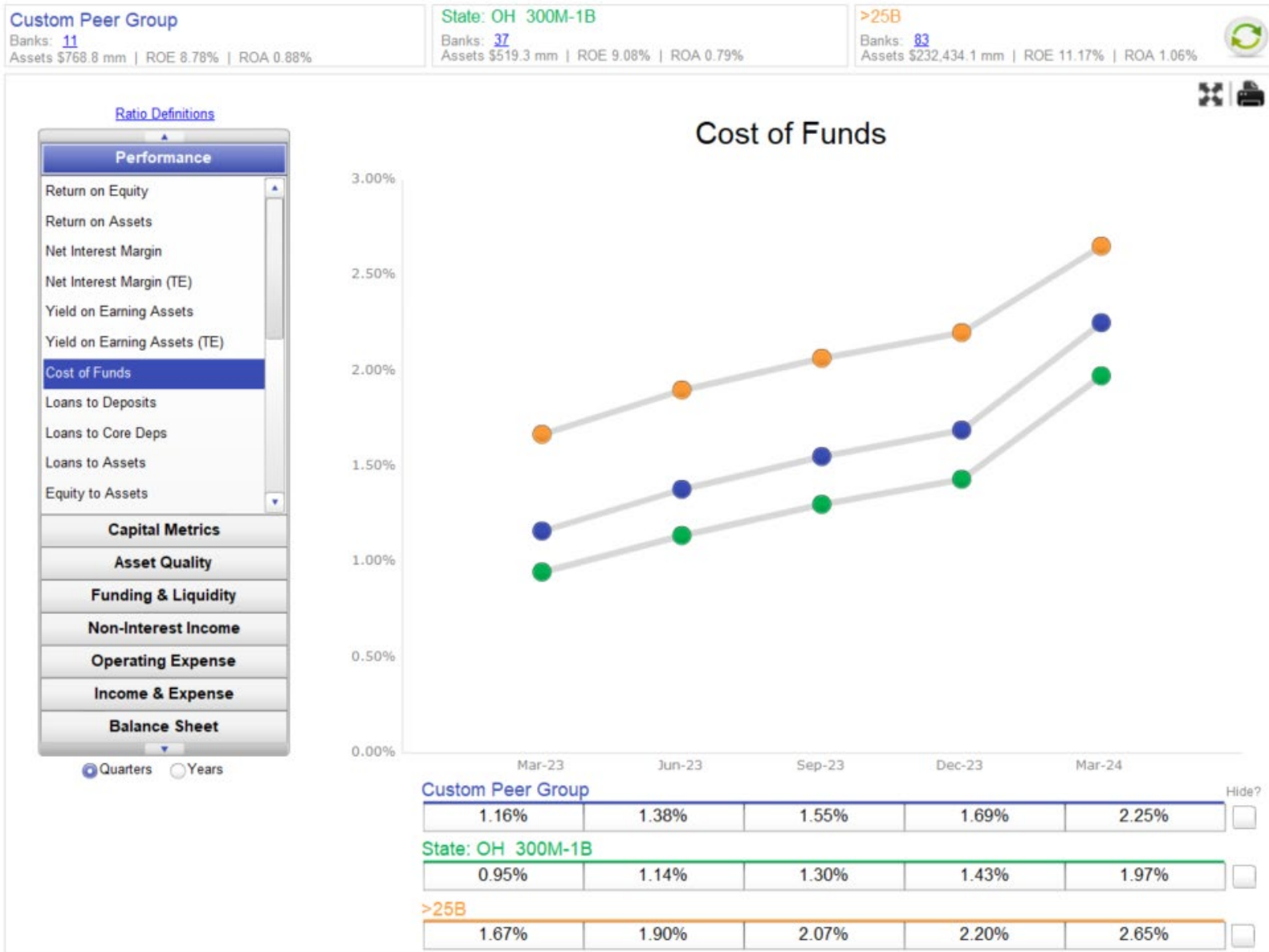
Challenges – ROE



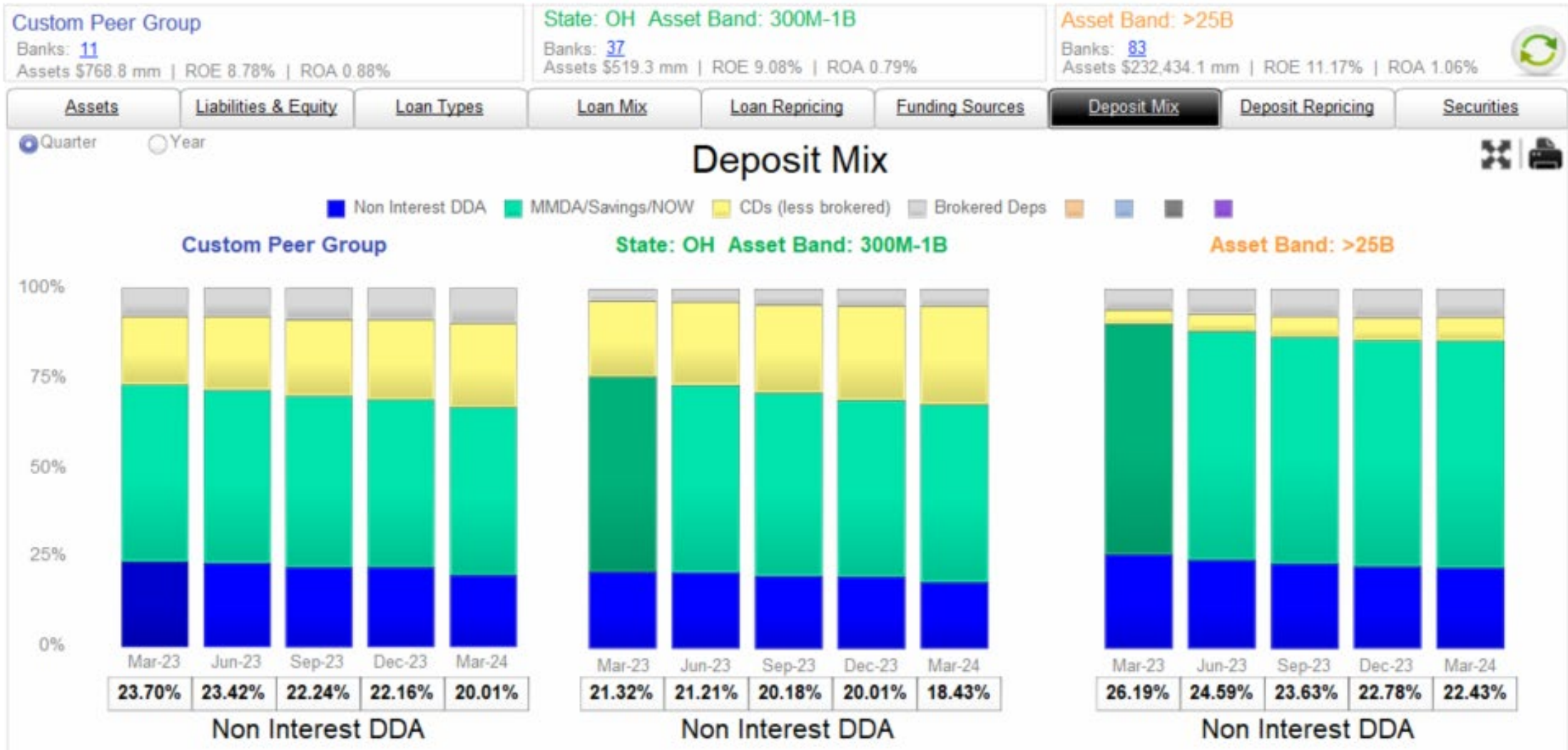
Challenges – No Credit Quality Issues Yet



Challenges – COF rising



Challenges – deposit mix changing

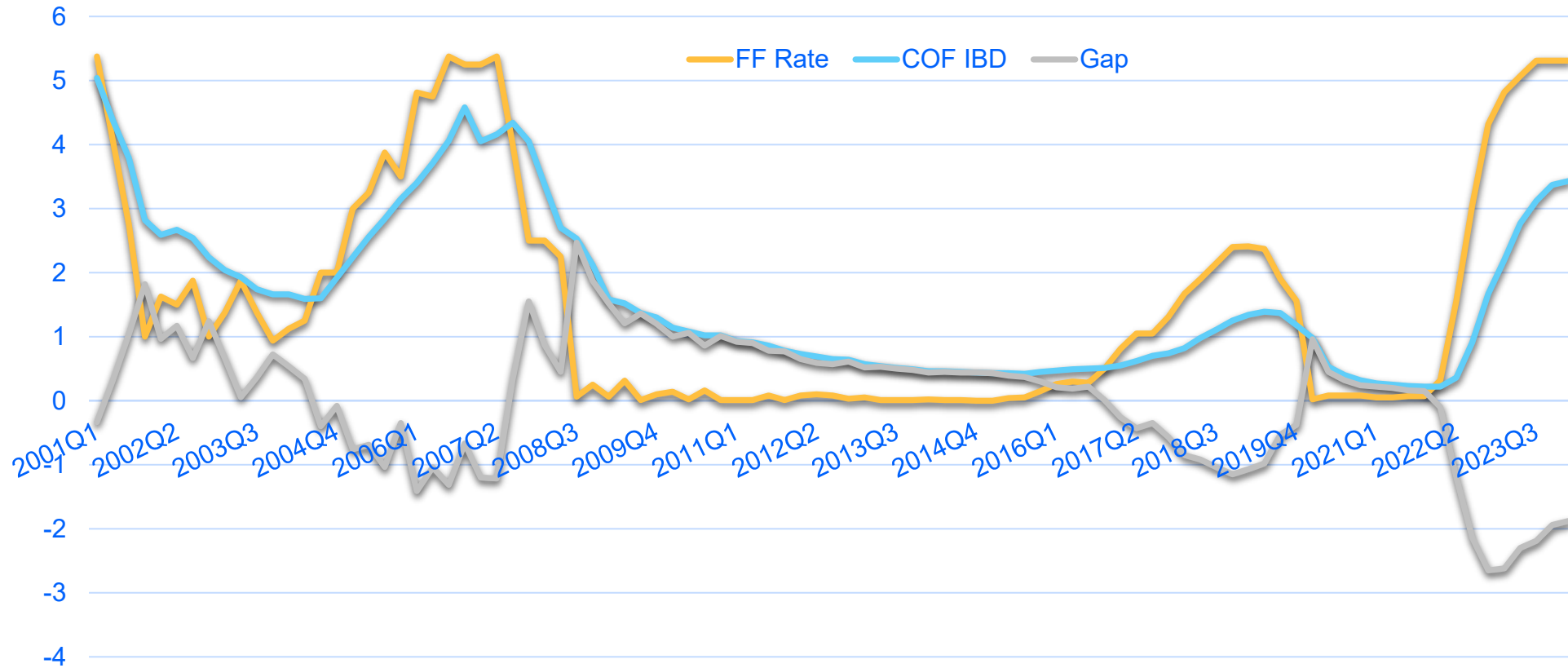


Community Bank Challenges



COF – future costs

US Commercial Banks FF vs COF Gap



Challenges – Yield



Custom Peer Group
 Banks: [11](#)
 Assets \$768.8 mm | ROE 8.78% | ROA 0.88%

State: OH 300M-1B
 Banks: [37](#)
 Assets \$519.3 mm | ROE 9.08% | ROA 0.79%

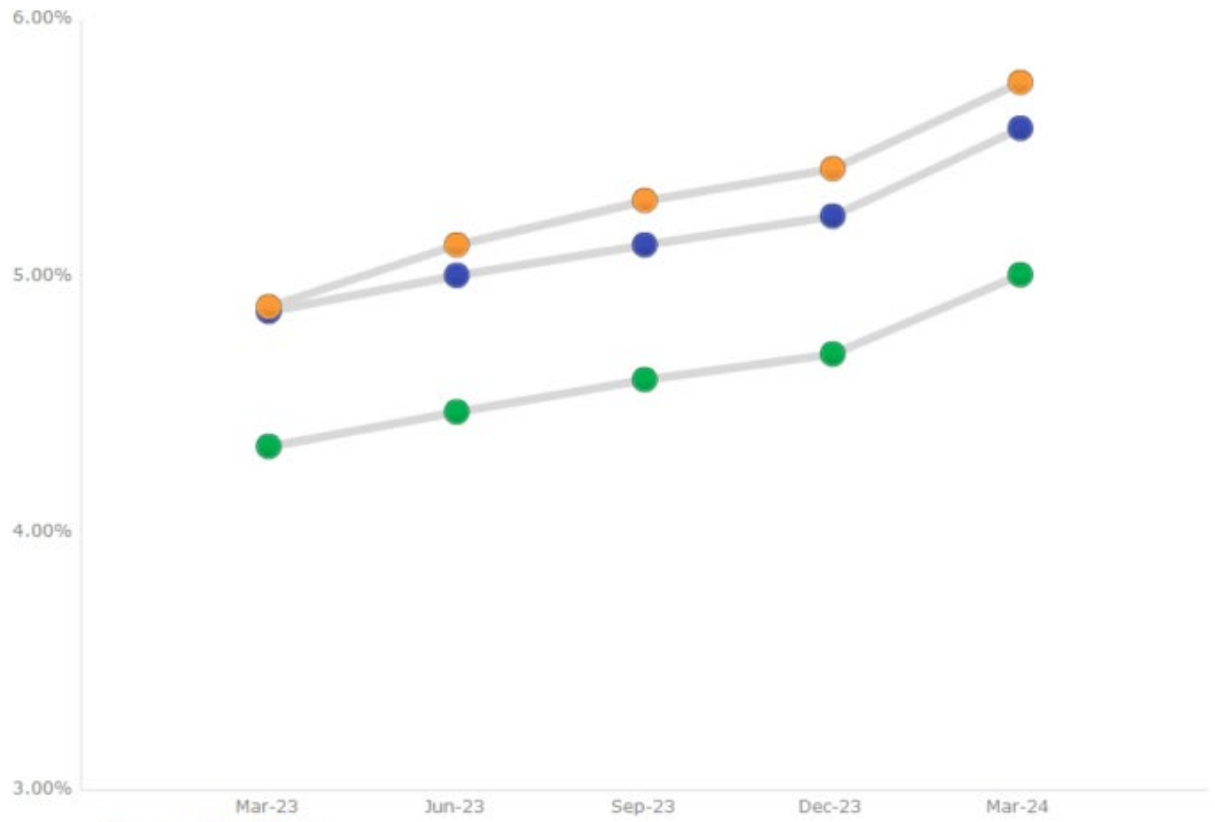
>25B
 Banks: [83](#)
 Assets \$232,434.1 mm | ROE 11.17% | ROA 1.06%

[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

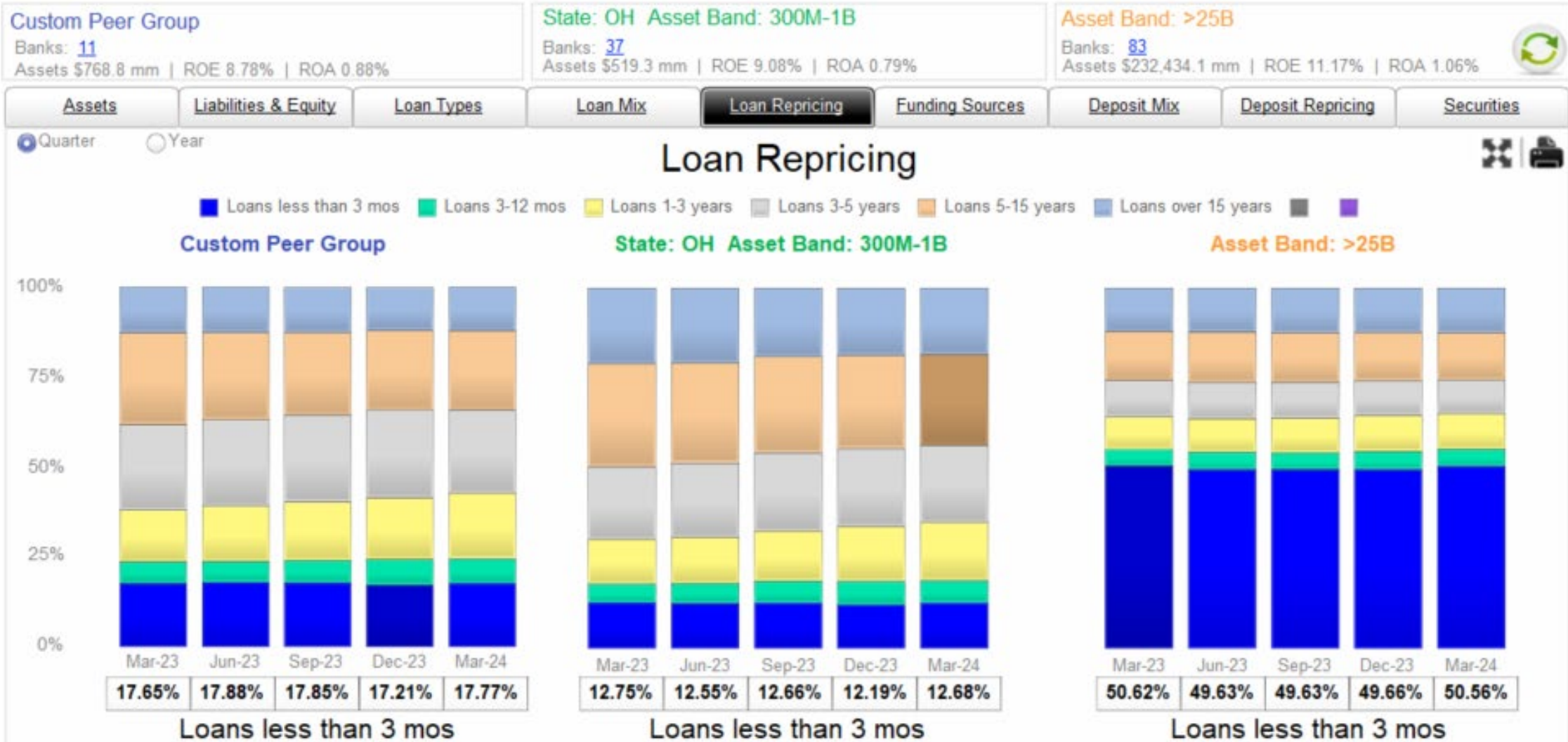
Quarters
 Years

Yield on Earning Assets



Custom Peer Group	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Hide?
	4.86%	5.00%	5.12%	5.23%	5.58%	<input type="checkbox"/>
State: OH 300M-1B	4.34%	4.47%	4.60%	4.70%	5.01%	<input type="checkbox"/>
>25B	4.88%	5.12%	5.29%	5.42%	5.75%	<input type="checkbox"/>

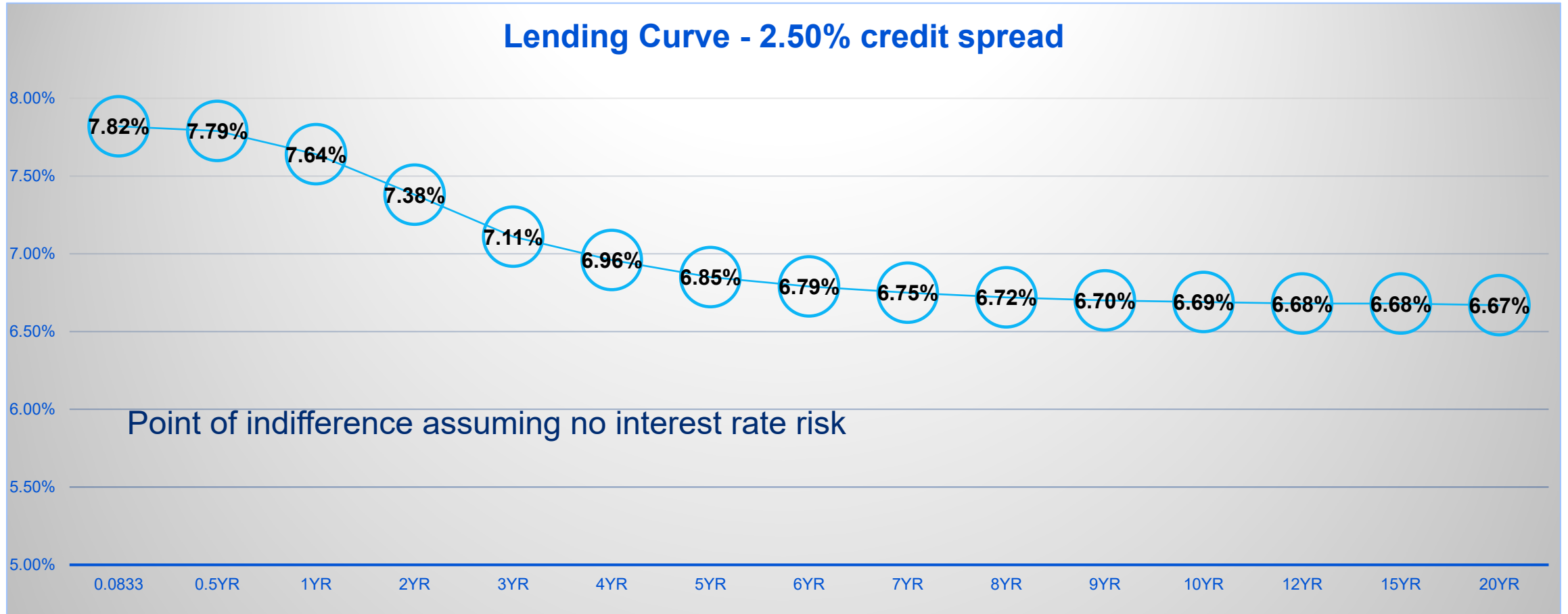
Challenges – Loan Repricing



Community Bank Challenges - Lending Curve



An inverted yield curve creating a lending anomaly

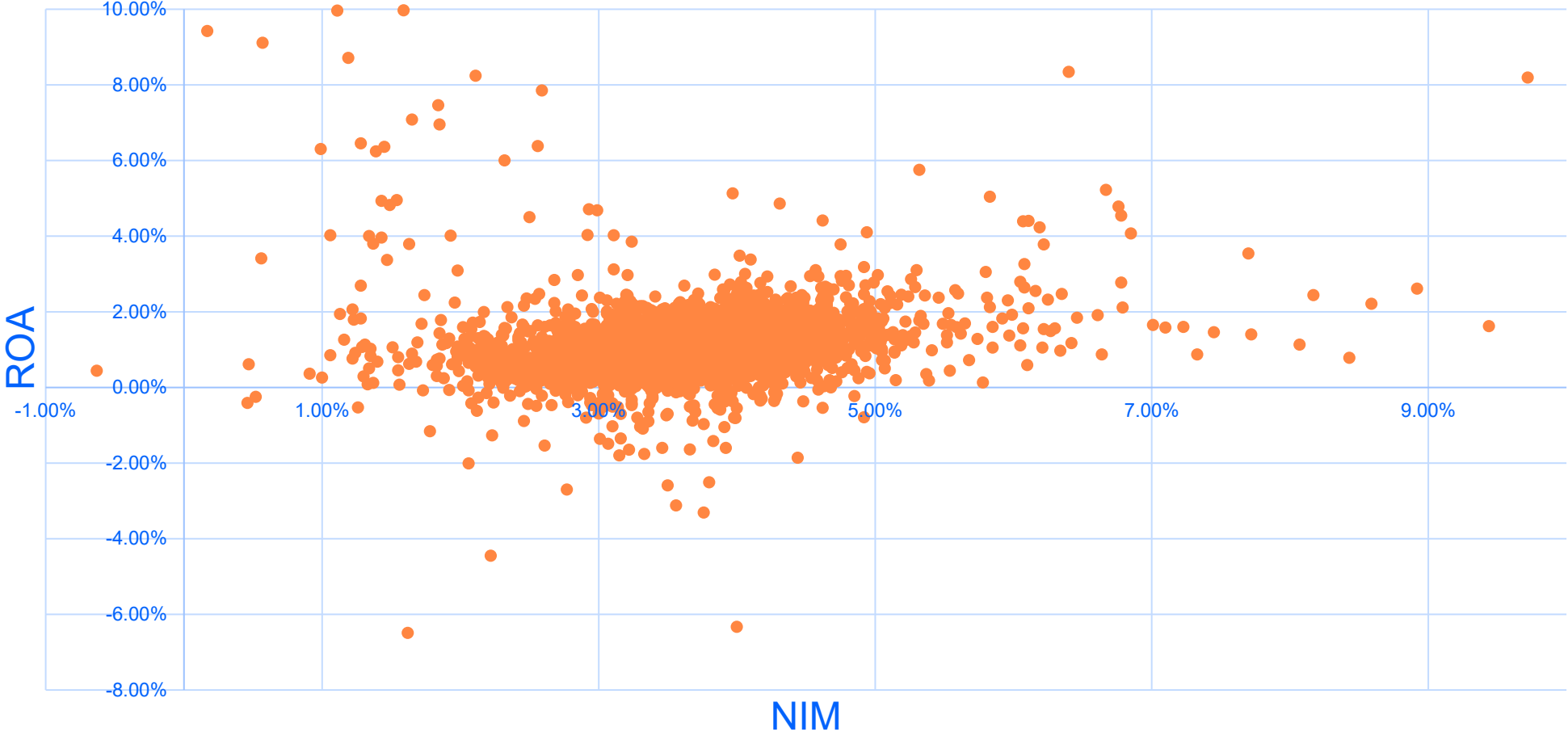


NIM – ROA/ROE relationship to NIM

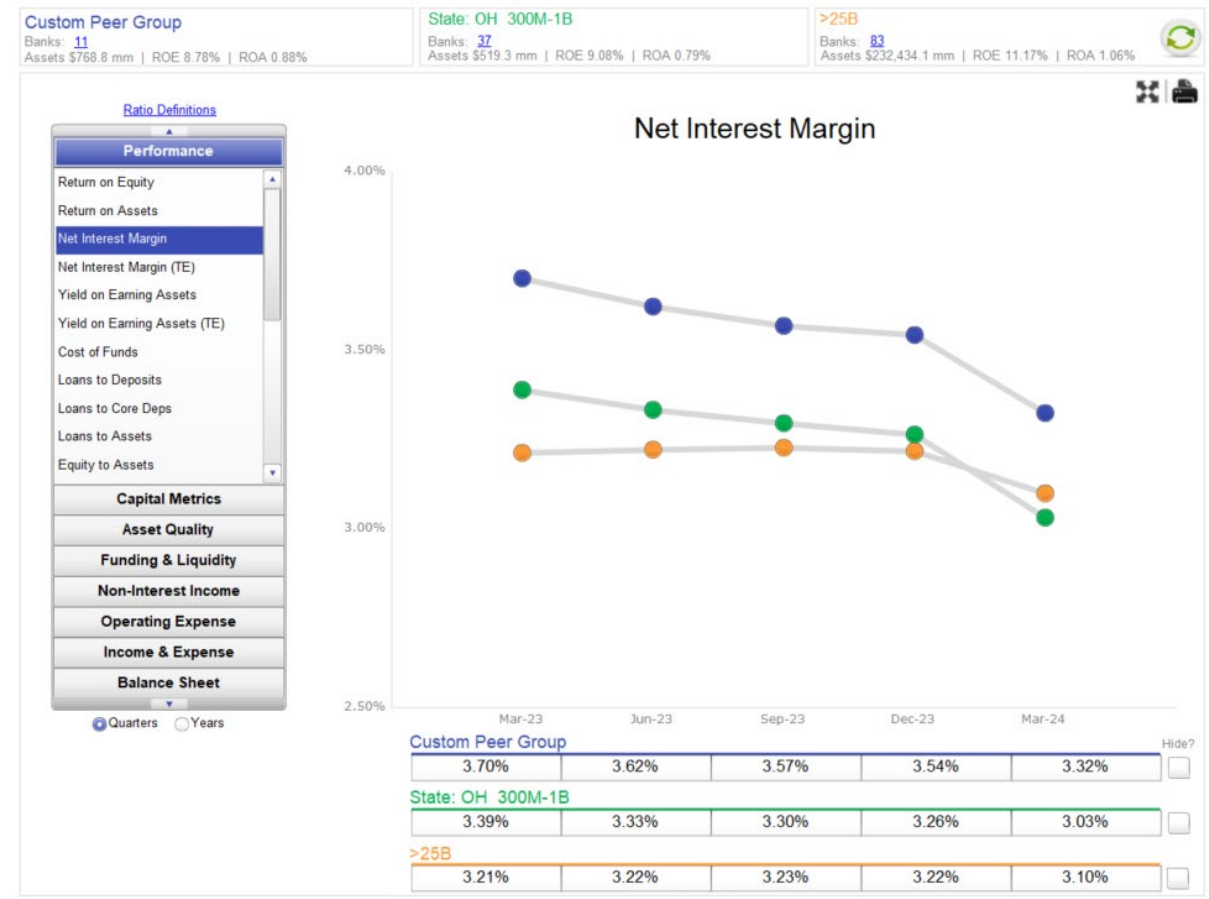
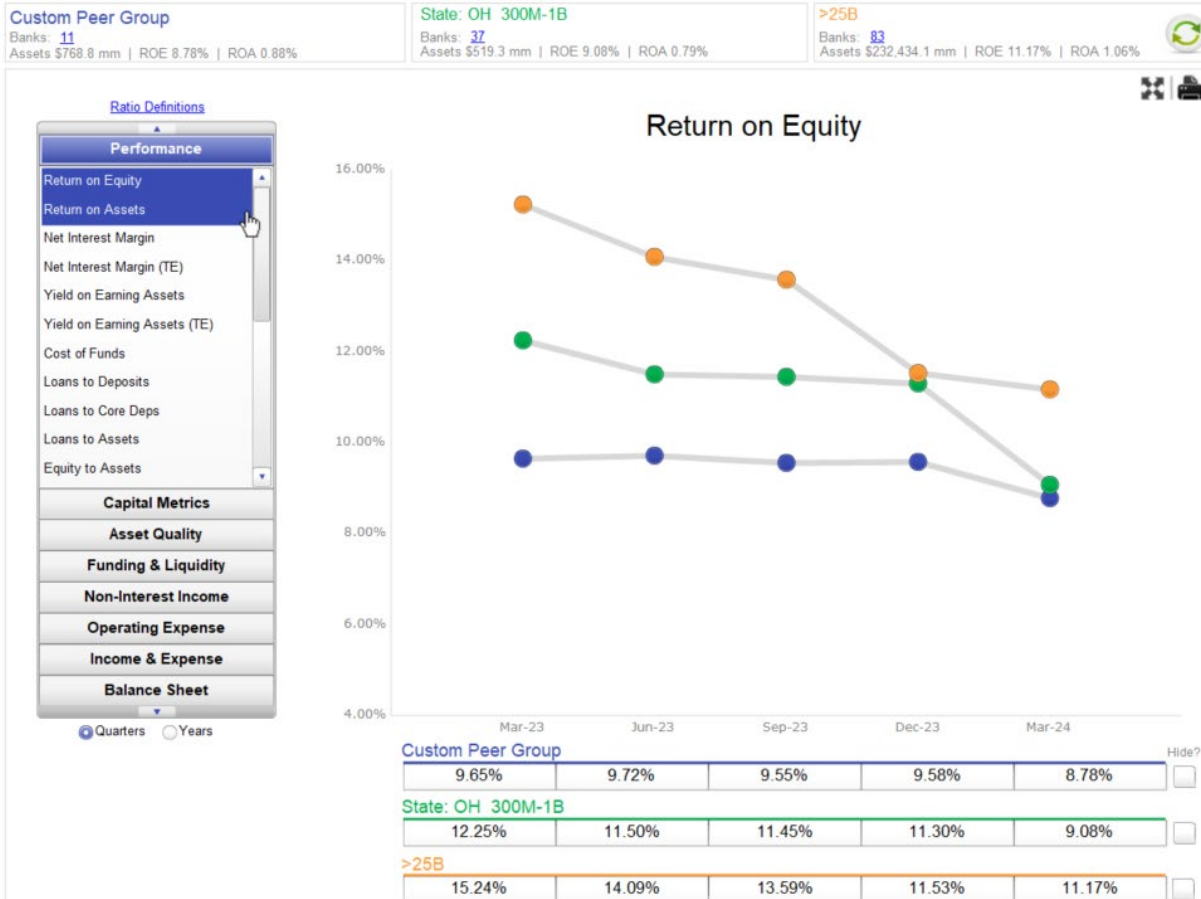


All Banks - 5YR AVG Net Interest Margin vs. 5YR AVG ROA

Correlation (R2) = - 0.02



NIM – ROE relationship to NIM



Efficiency Ratios



Custom Peer Group
 Banks: 11 | Assets \$768.8 mm | ROE 8.78% | ROA 0.88%

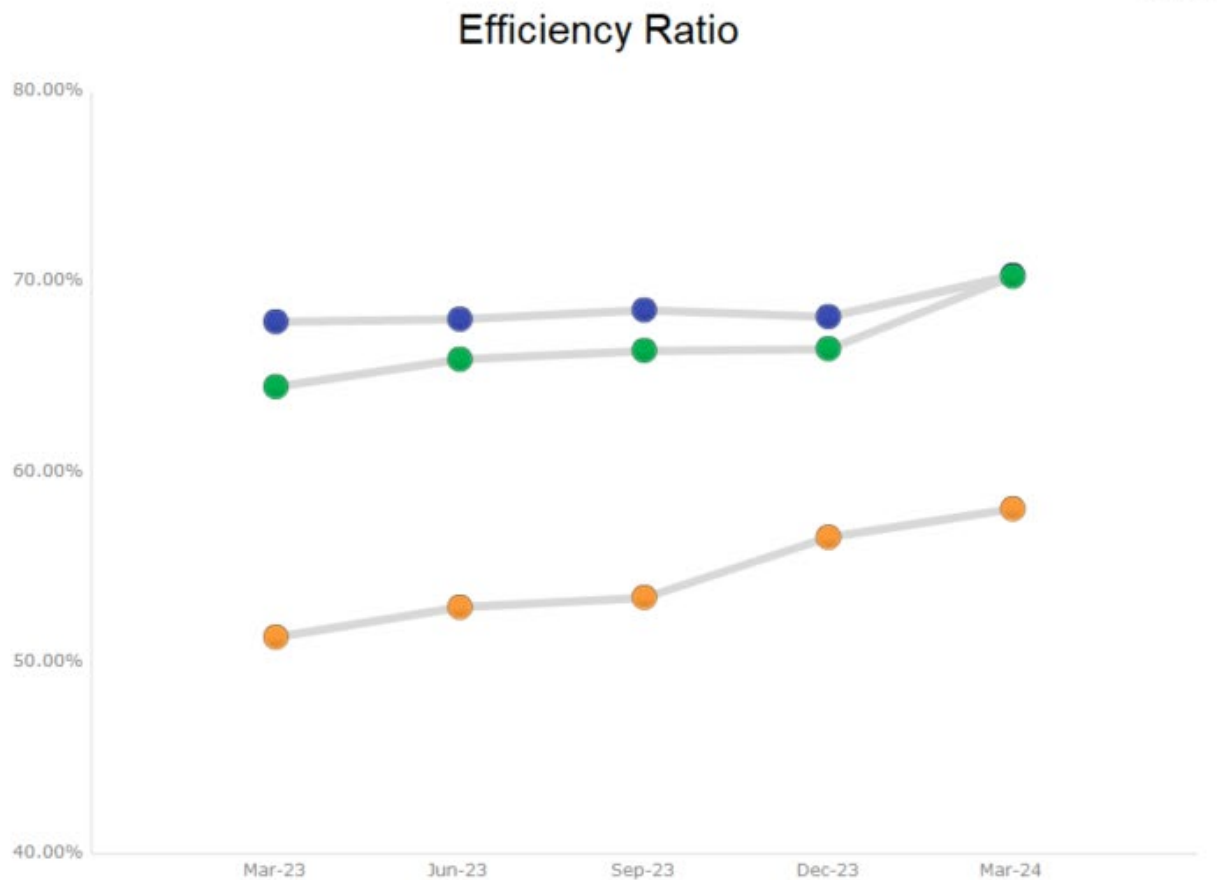
State: OH 300M-1B
 Banks: 37 | Assets \$519.3 mm | ROE 9.08% | ROA 0.79%

>25B
 Banks: 83 | Assets \$232,434.1 mm | ROE 11.17% | ROA 1.06%

[Ratio Definitions](#)

- Non-Interest Income**
- Operating Expense**
 - Non-Interest Expense to Earning As
 - Additional Non-Interest Expense to 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 (\$
 - Pretax Net Income per Employee (\$
 - Deposits per Employee (\$ 000s)
 - Salaries & Benefits to Net Income
 - Salaries & Benefits to Total Revenue
 - Salaries & Benefits to Total Revenue
 - Salaries & Benefits to Net Revenue
- Income & Expense**
- Balance Sheet**

Quarters Years

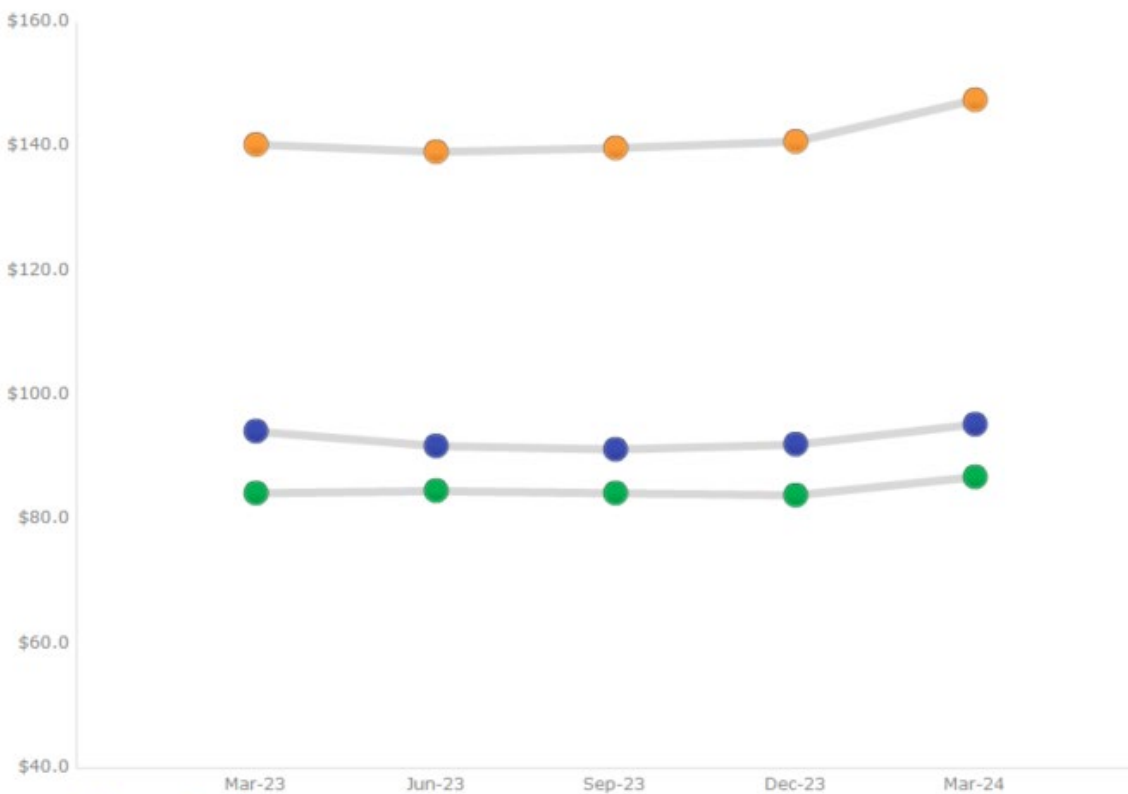


Custom Peer Group	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Hide?
	67.93%	68.05%	68.53%	68.18%	70.36%	<input type="checkbox"/>
State: OH 300M-1B	64.51%	65.94%	66.40%	66.50%	70.30%	<input type="checkbox"/>
>25B	51.38%	52.96%	53.46%	56.61%	58.12%	<input type="checkbox"/>

Efficiency Ratios – not these drivers

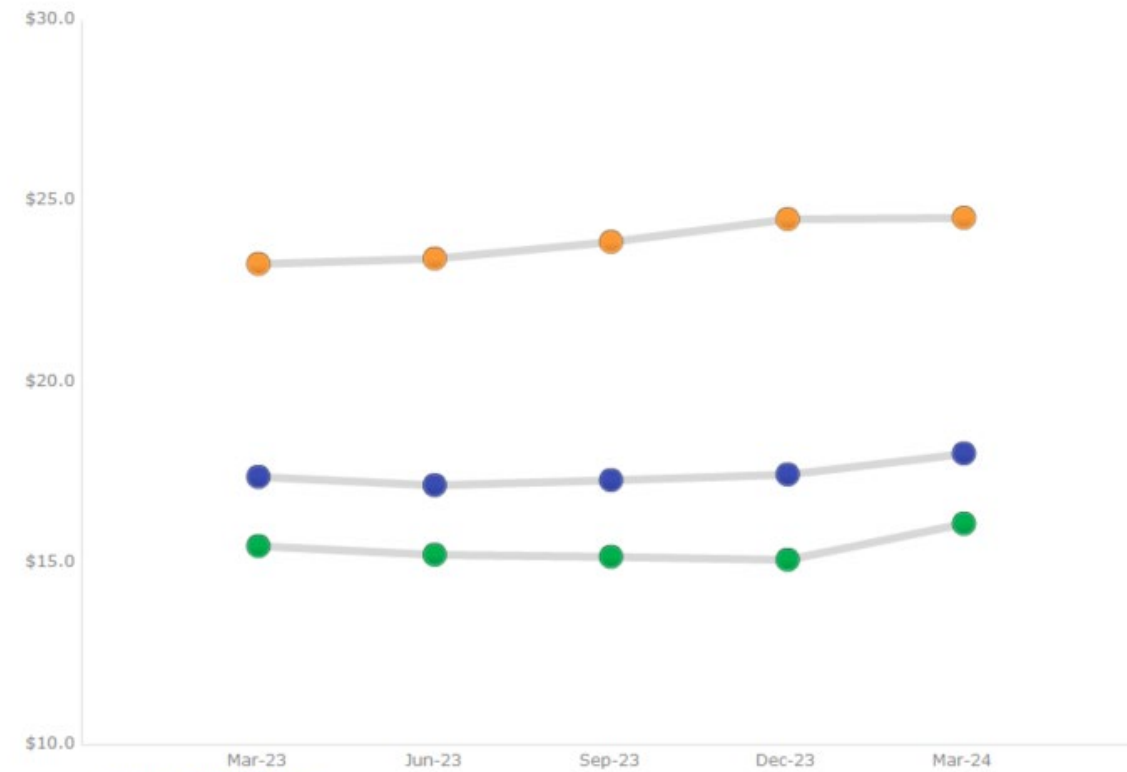


Salaries to Full-Time Employees



Custom Peer Group				
\$94	\$92	\$91	\$92	\$95
State: OH 300M-1B				
\$84	\$85	\$84	\$84	\$87
>25B				
\$140	\$139	\$140	\$141	\$148

Premises and Equipment to FTE

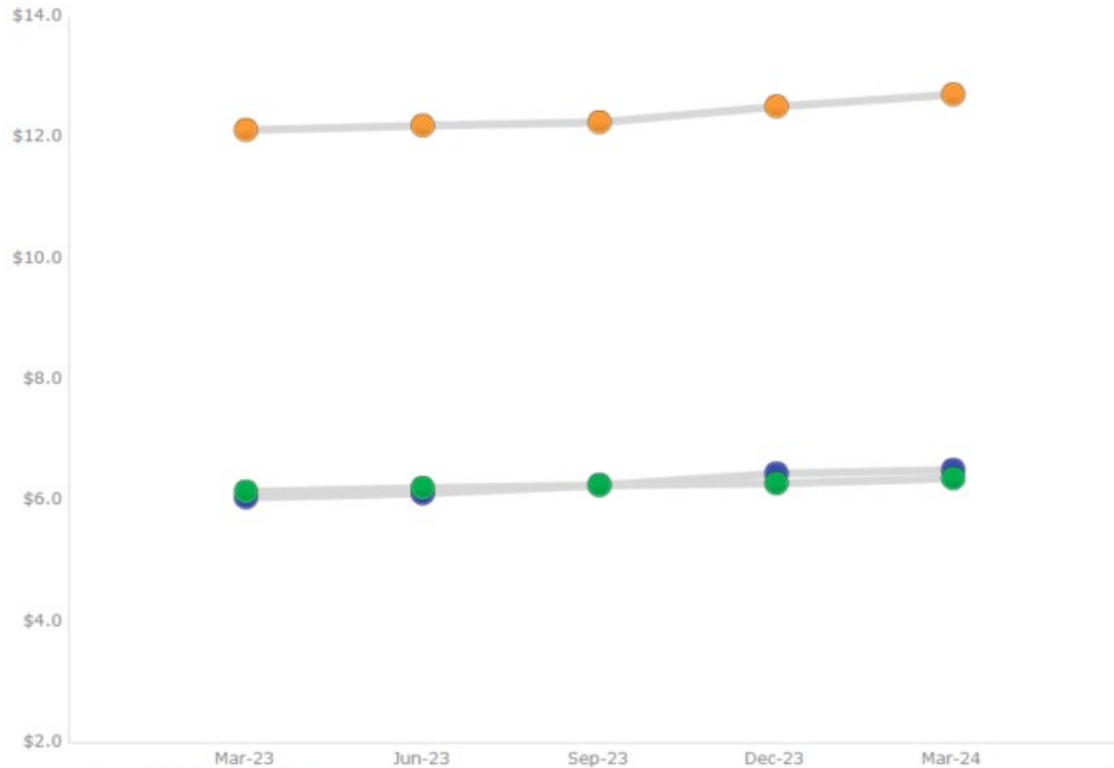


Custom Peer Group				
\$17	\$17	\$17	\$17	\$18
State: OH 300M-1B				
\$15	\$15	\$15	\$15	\$16
>25B				
\$23	\$23	\$24	\$25	\$25

Efficiency Ratios – these drivers



Assets per Employee (\$ millions)



Custom Peer Group

\$6.1	\$6.1	\$6.3	\$6.5	\$6.5
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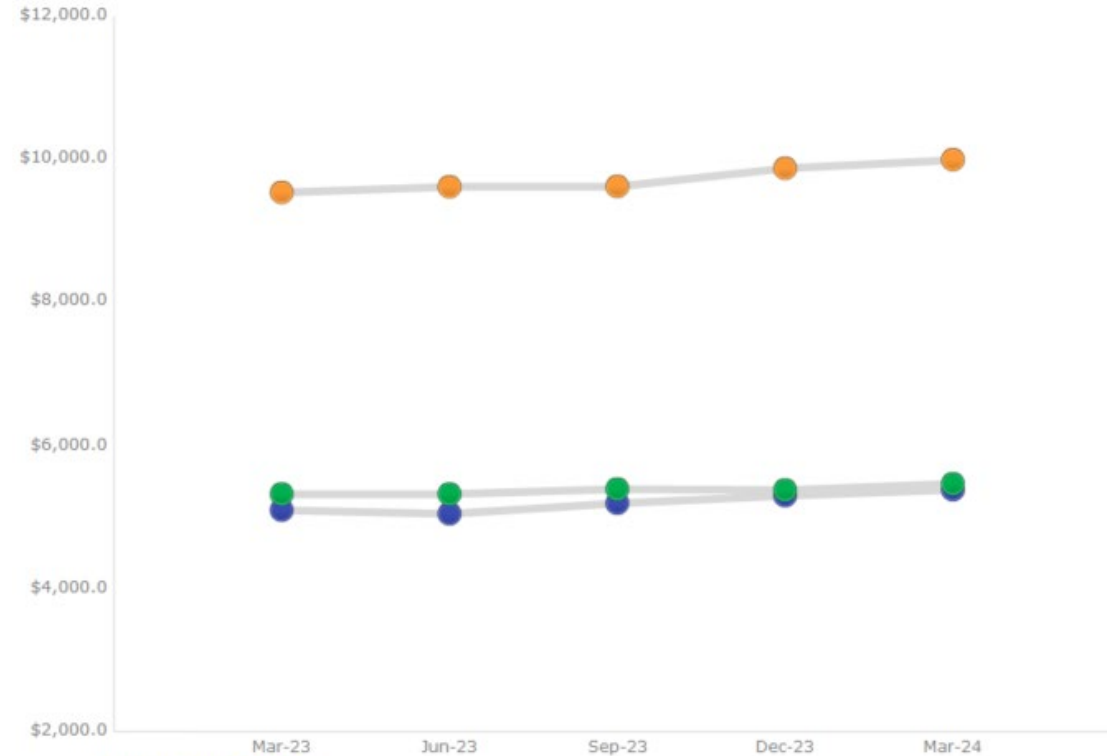
State: OH 300M-1B

\$6.2	\$6.2	\$6.3	\$6.3	\$6.4
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>25B

\$12.1	\$12.2	\$12.3	\$12.5	\$12.7
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Deposits per Employee (\$ 000s)



Custom Peer Group

\$5,093	\$5,043	\$5,189	\$5,297	\$5,381
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State: OH 300M-1B

\$5,318	\$5,320	\$5,388	\$5,374	\$5,464
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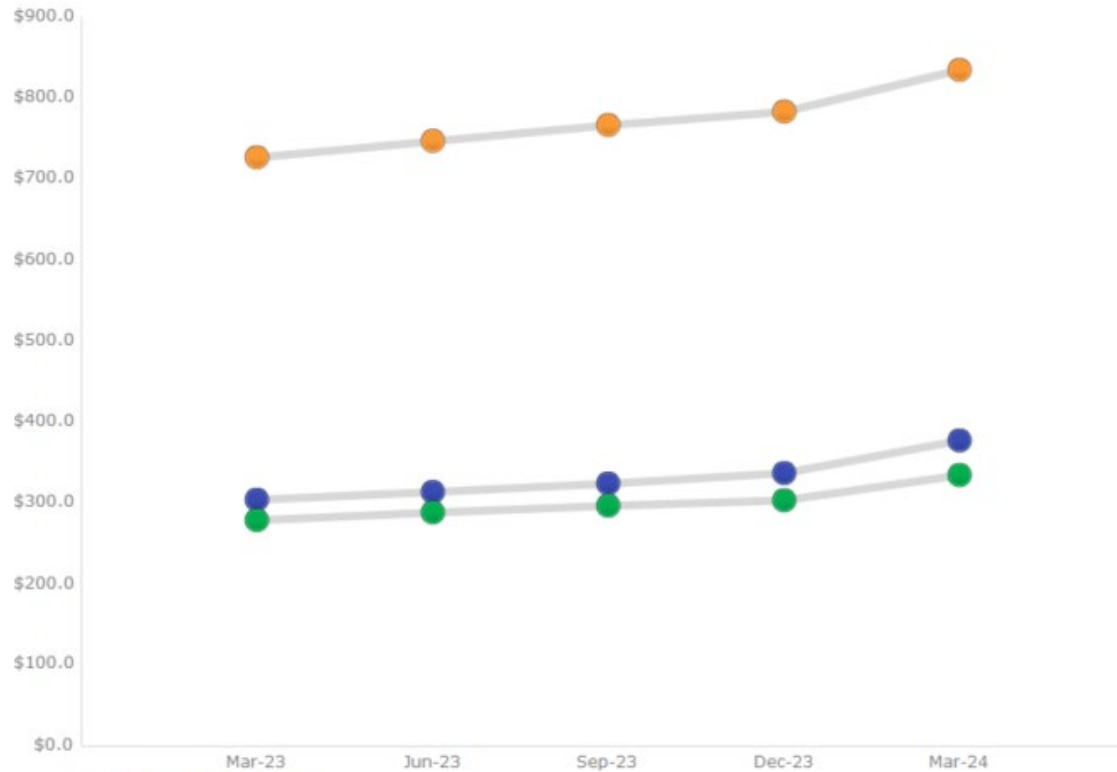
>25B

\$9,536	\$9,615	\$9,618	\$9,871	\$9,989
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Efficiency Ratios – these drivers



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



Custom Peer Group

\$305	\$314	\$325	\$337	\$378
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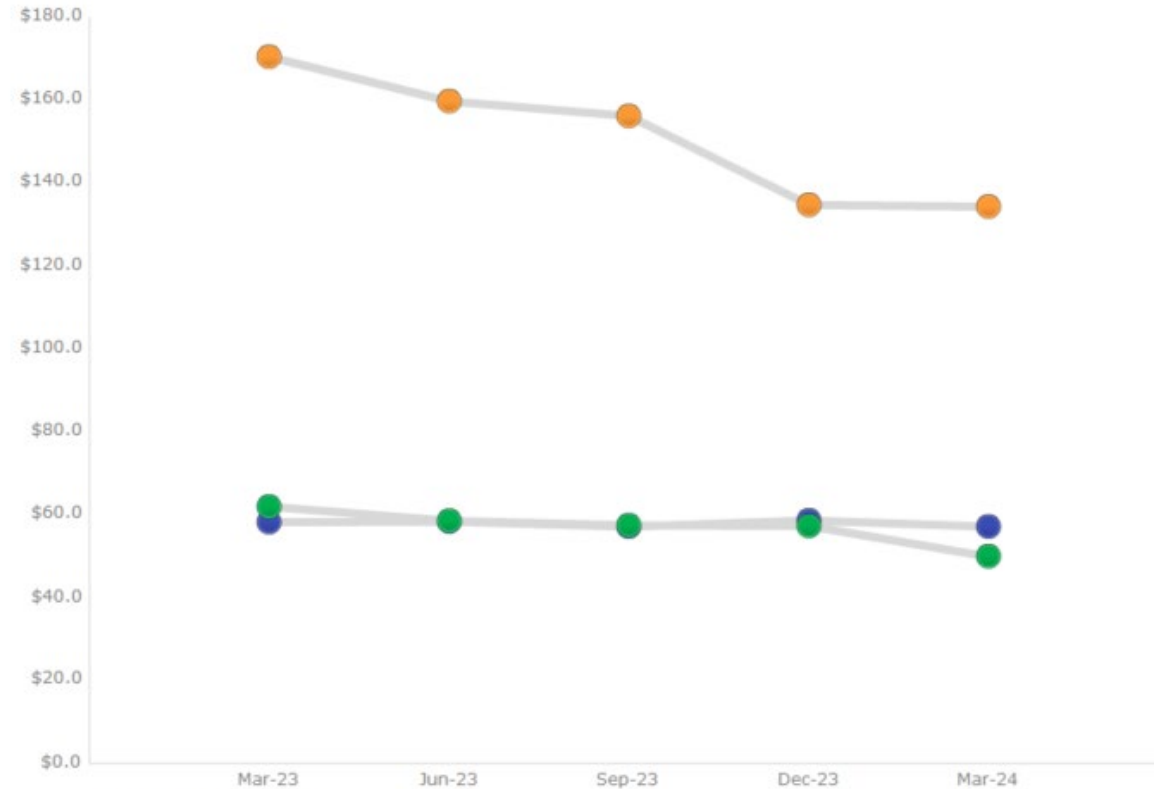
State: OH 300M-1B

\$279	\$289	\$297	\$304	\$335
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>25B

\$727	\$747	\$767	\$784	\$835
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Net Income per Employee (\$ 000s)



Custom Peer Group

\$58	\$58	\$57	\$59	\$57
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State: OH 300M-1B

\$62	\$58	\$57	\$57	\$50
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>25B

\$170	\$160	\$156	\$135	\$134
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Opportunities for Community Banks

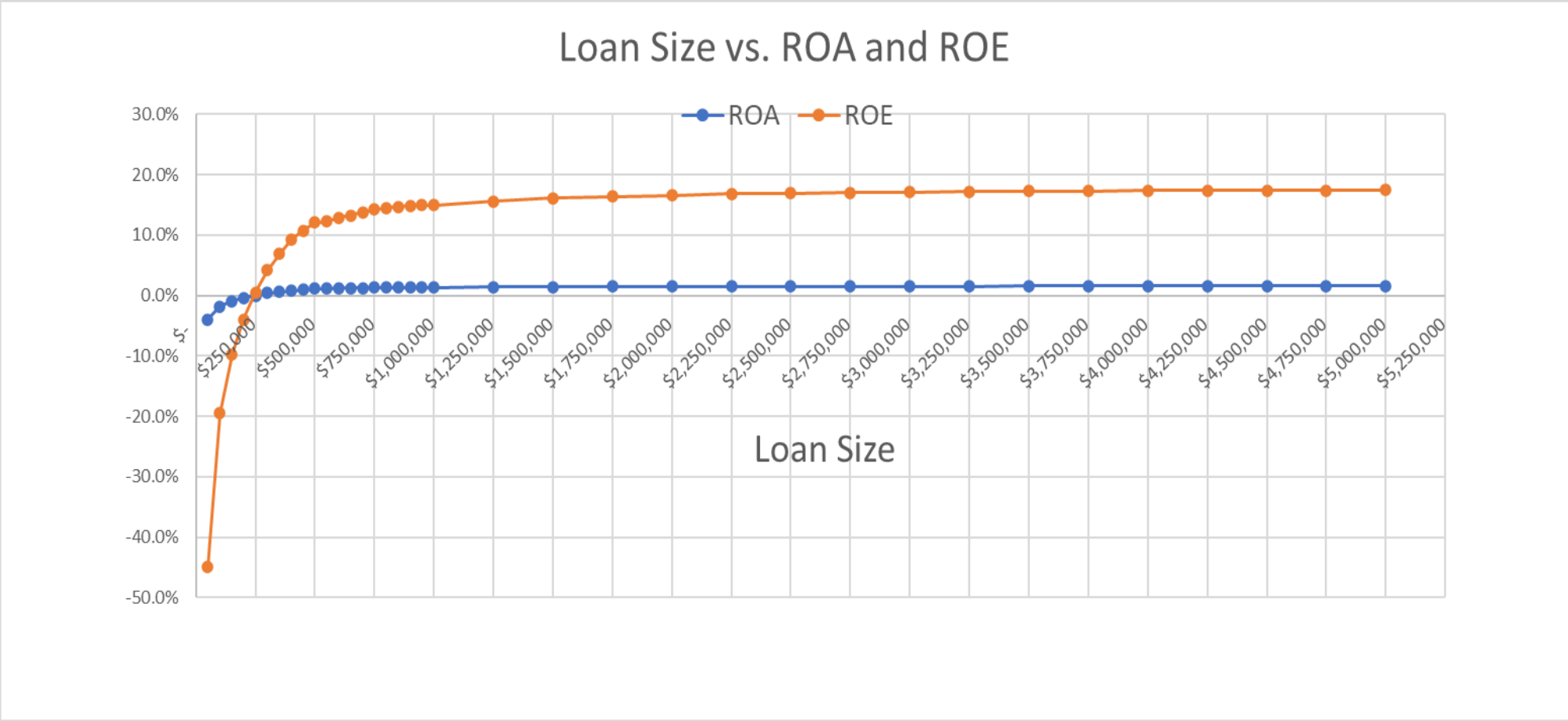
Size, Term, Credit Quality, Non-interest Income, Long-term Relationships



Loan Size – scale matters



5yr CRE loan, S + 2.50%





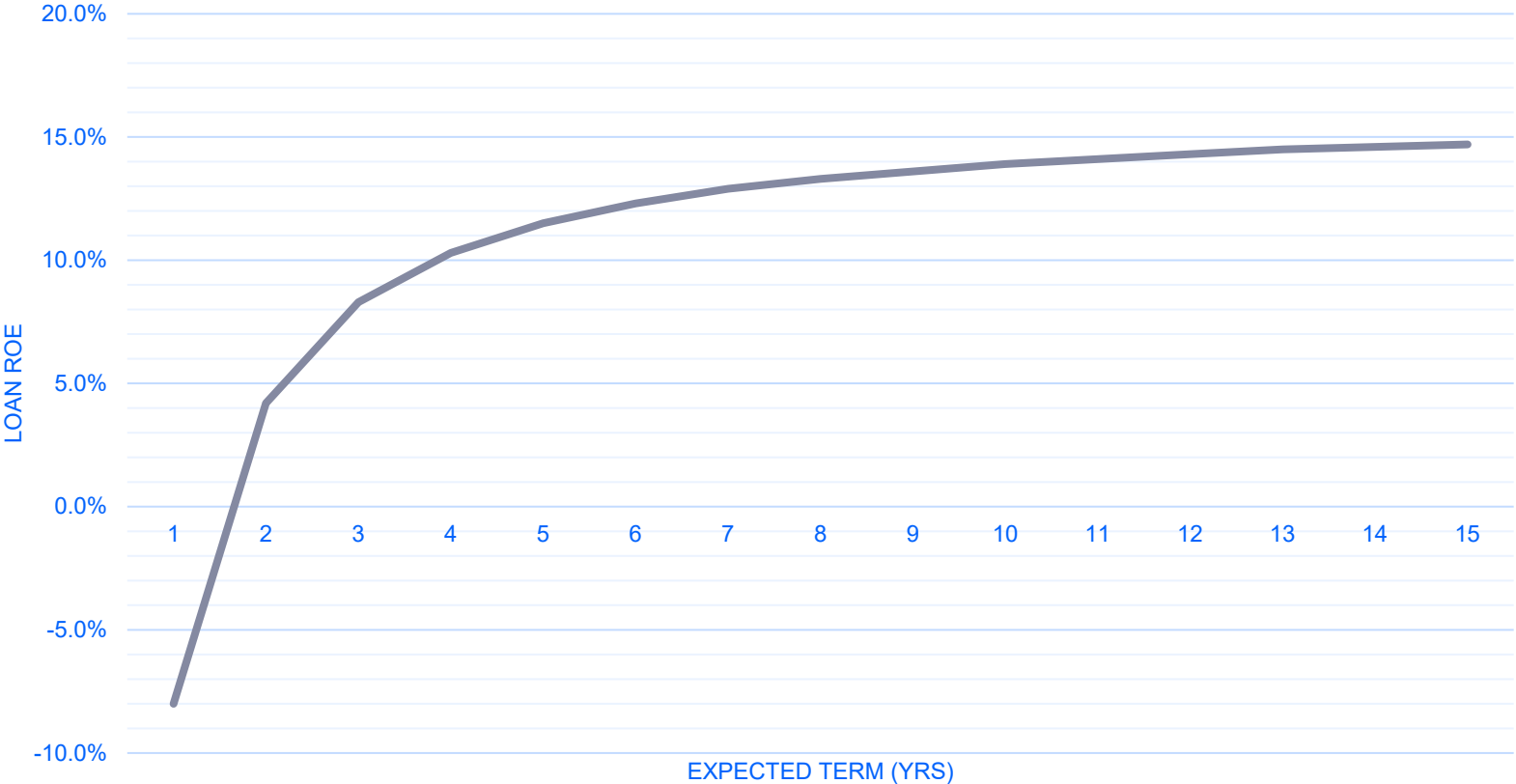
Loan Size – scale matters

	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

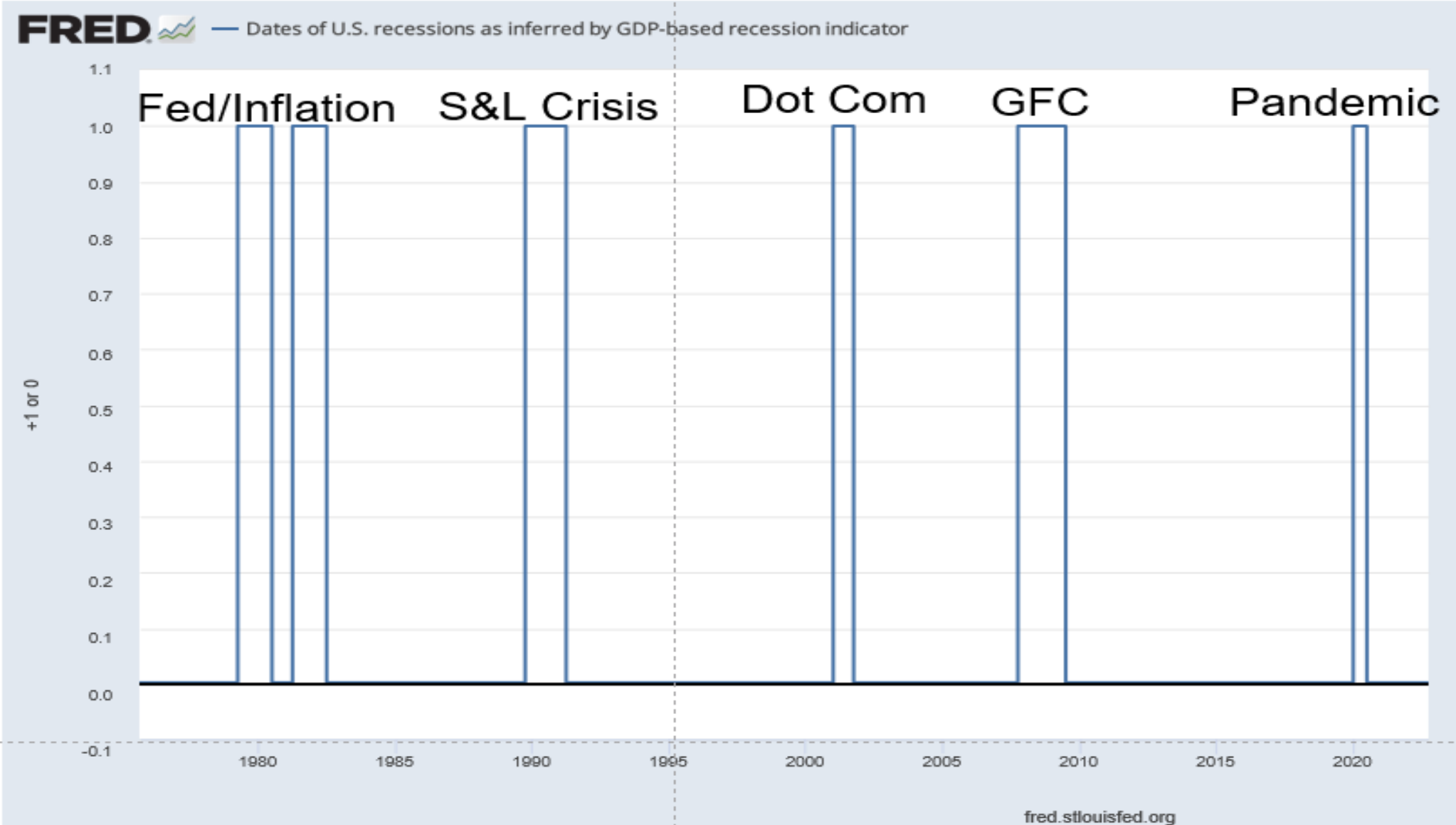


\$500k CRE loan, S + 2.50%

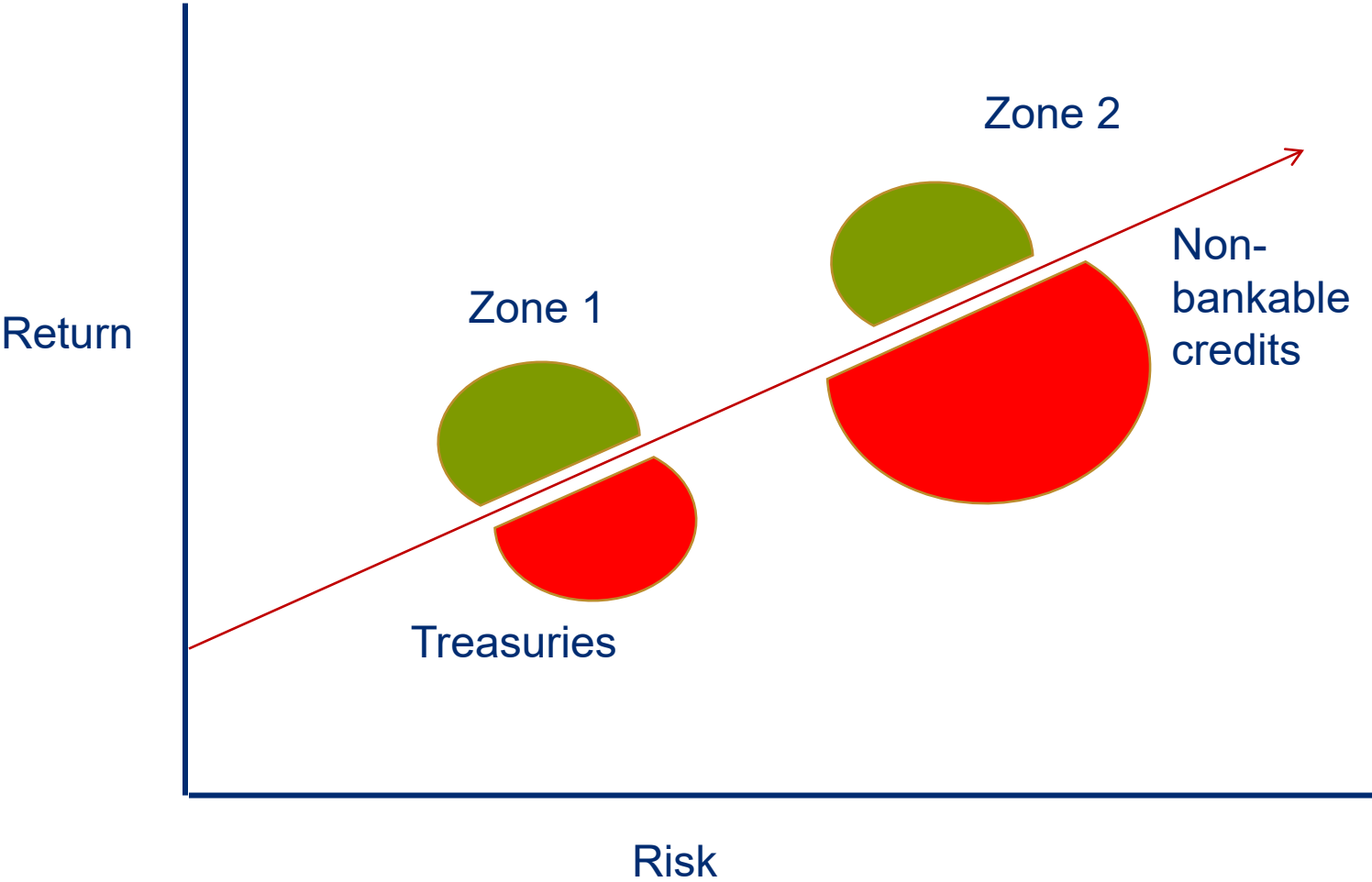
Loan Term vs. ROE



Credit Quality



Credit Quality

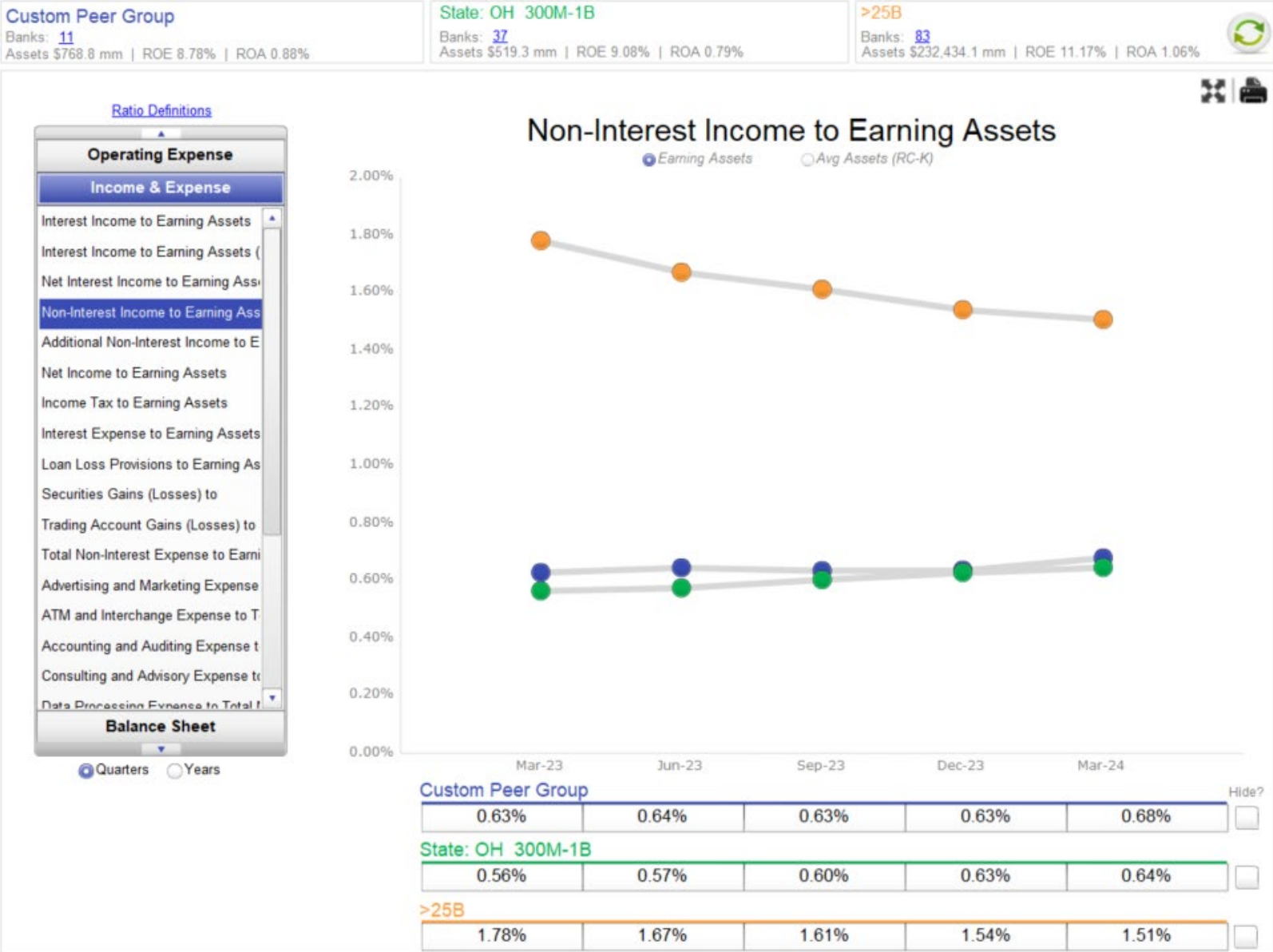





5yr Avg - Correlation to ROA - all banks \$100mm to \$10Bn assets

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

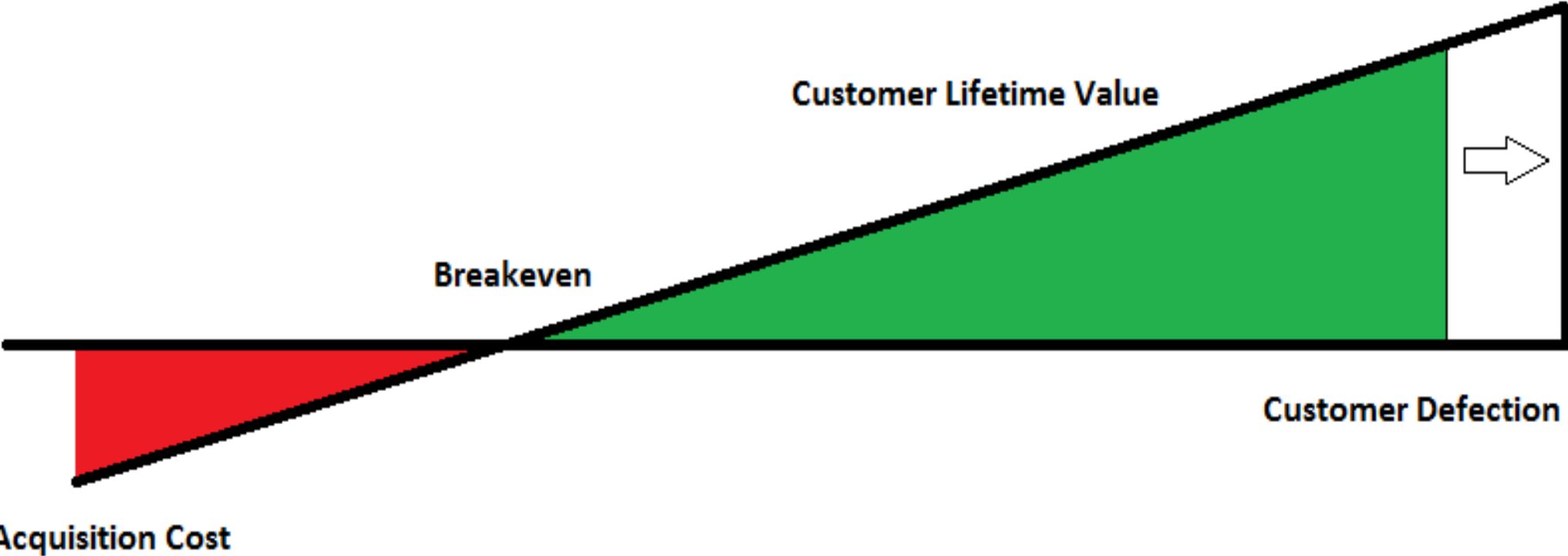


- Size of wallet
- Number of banking products
- Commitment term
 - Loan term  deposits
- Stickiness/switching costs
 - Project vs. balance sheet financing
- Trusted Advisor vs. Order Taker

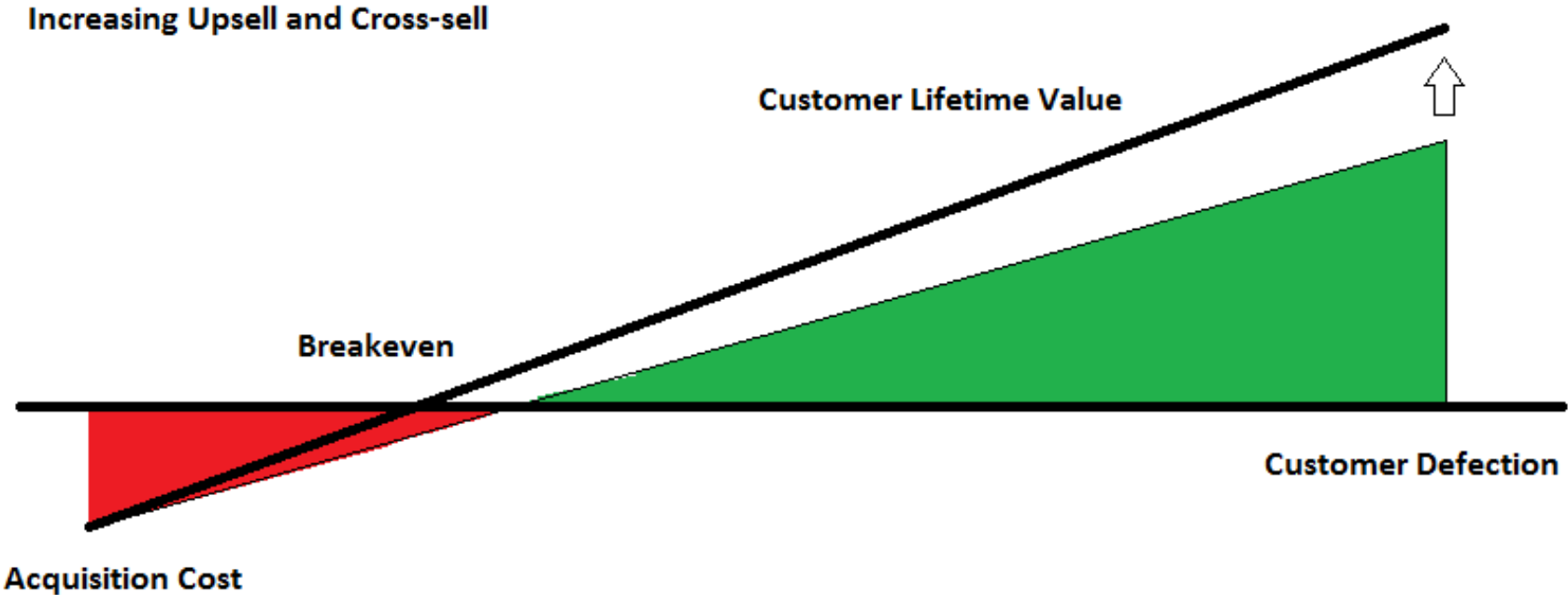
Long-term relationships



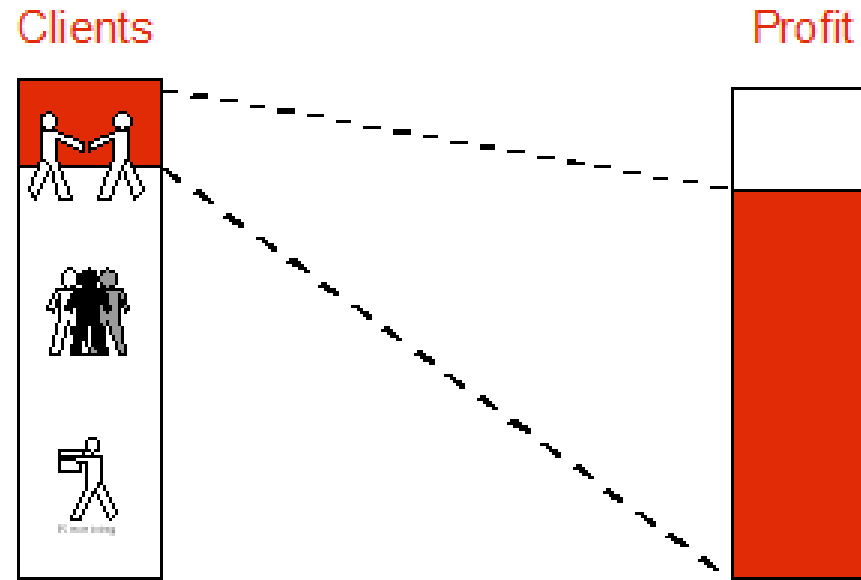
Increasing Retention / Reducing Churn



Long-term relationships



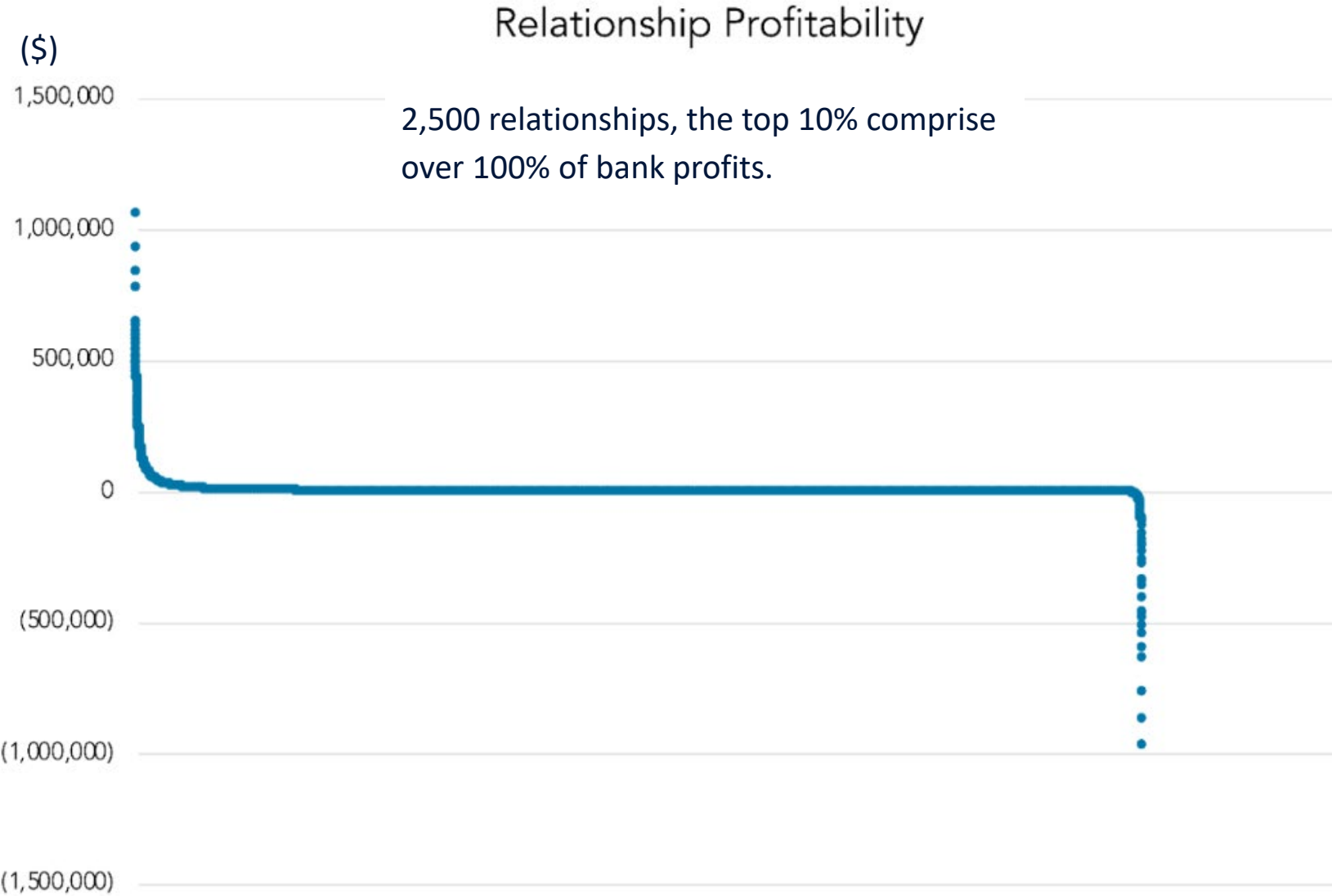
Dissecting Relationship Profitability



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

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

Dissecting Relationship Profitability



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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.

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