

# OKC Lender Lunch

Hosted by SouthState Bank

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# Banking Industry Challenges and Opportunities

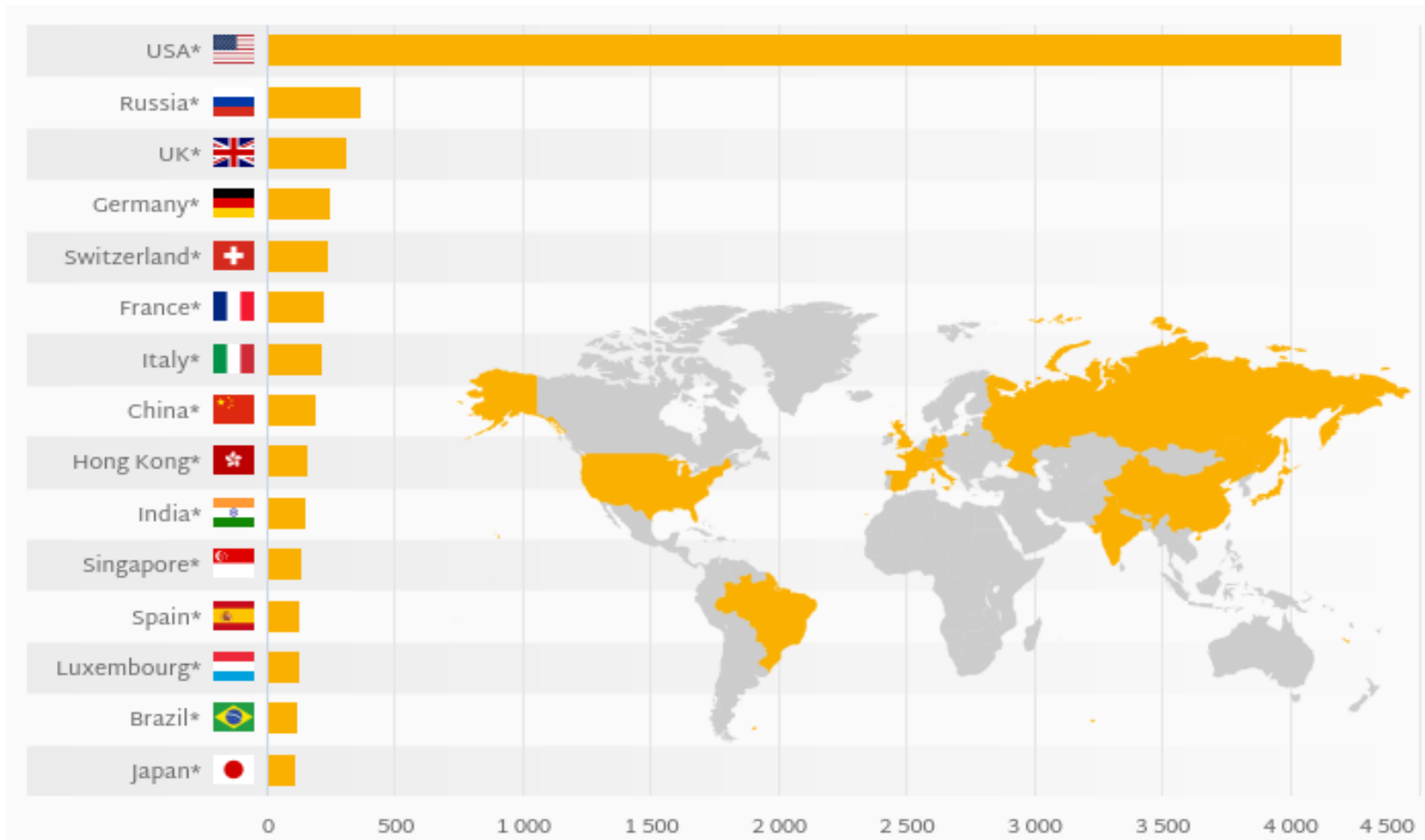


# Why So Many Banks



## What Country Has the Most Banks?

Number of Banks (banks), 2022 or latest

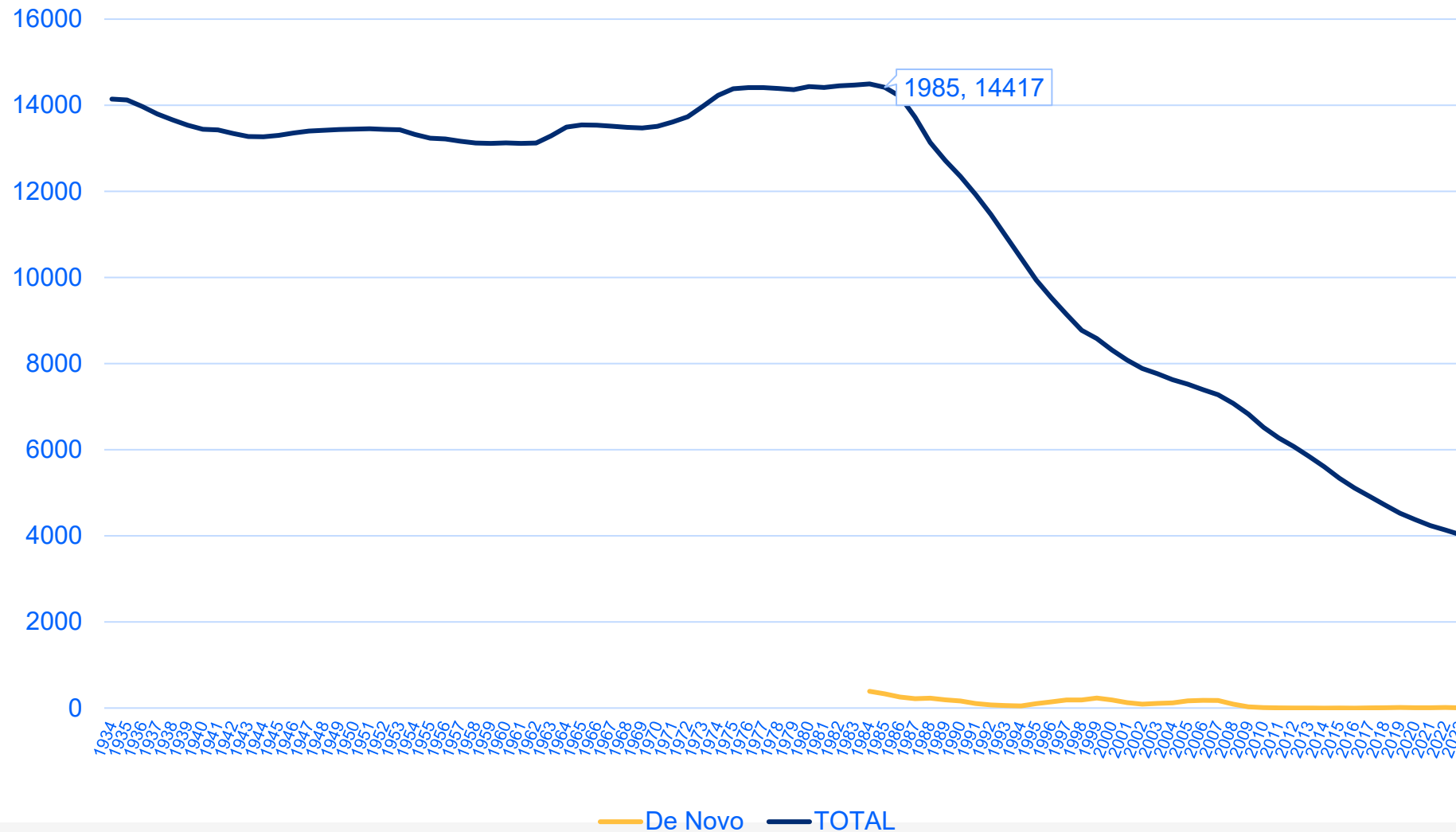


Source: National Statistical Office, \* Data from 2020

# Competitive Landscape



## FDIC Commercial Charters

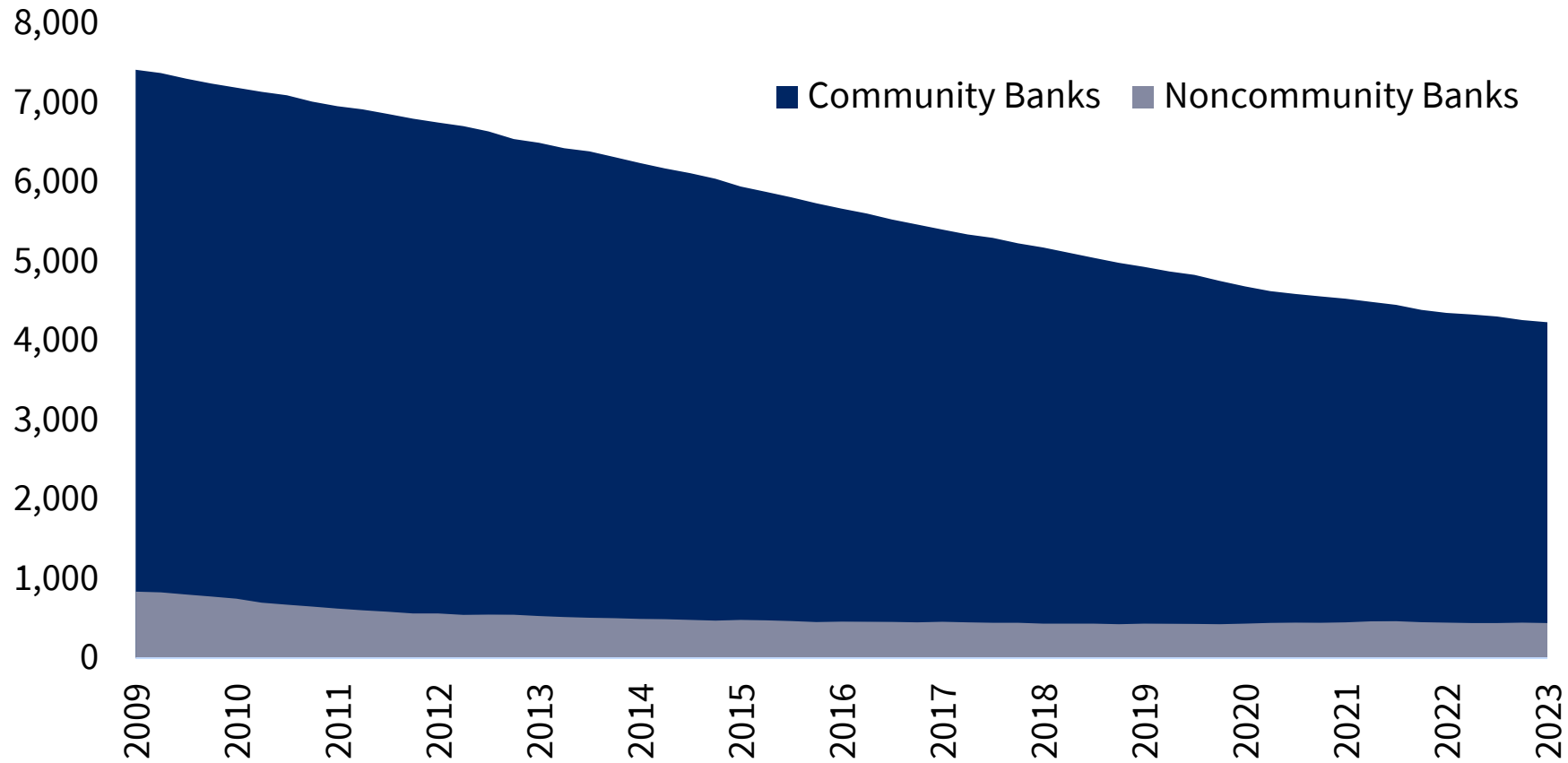


70% decline in the number of FDIC charters, 350 – 400 banks acquired per year

# Competitive Landscape



Count of Banks



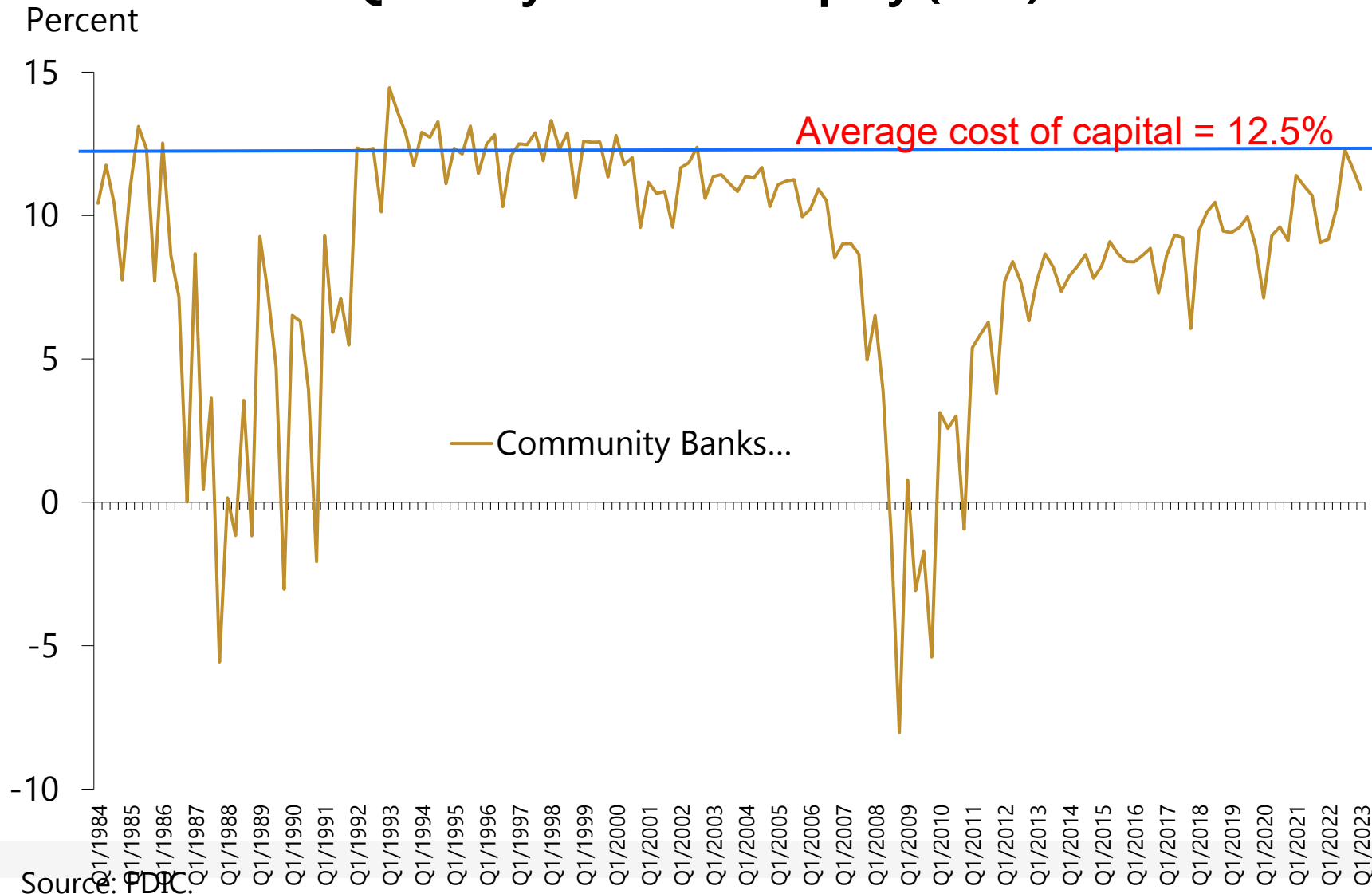
Not all banks are consolidating equally

Source: FDIC. Data is as of 1Q2023.

# Competitive Landscape

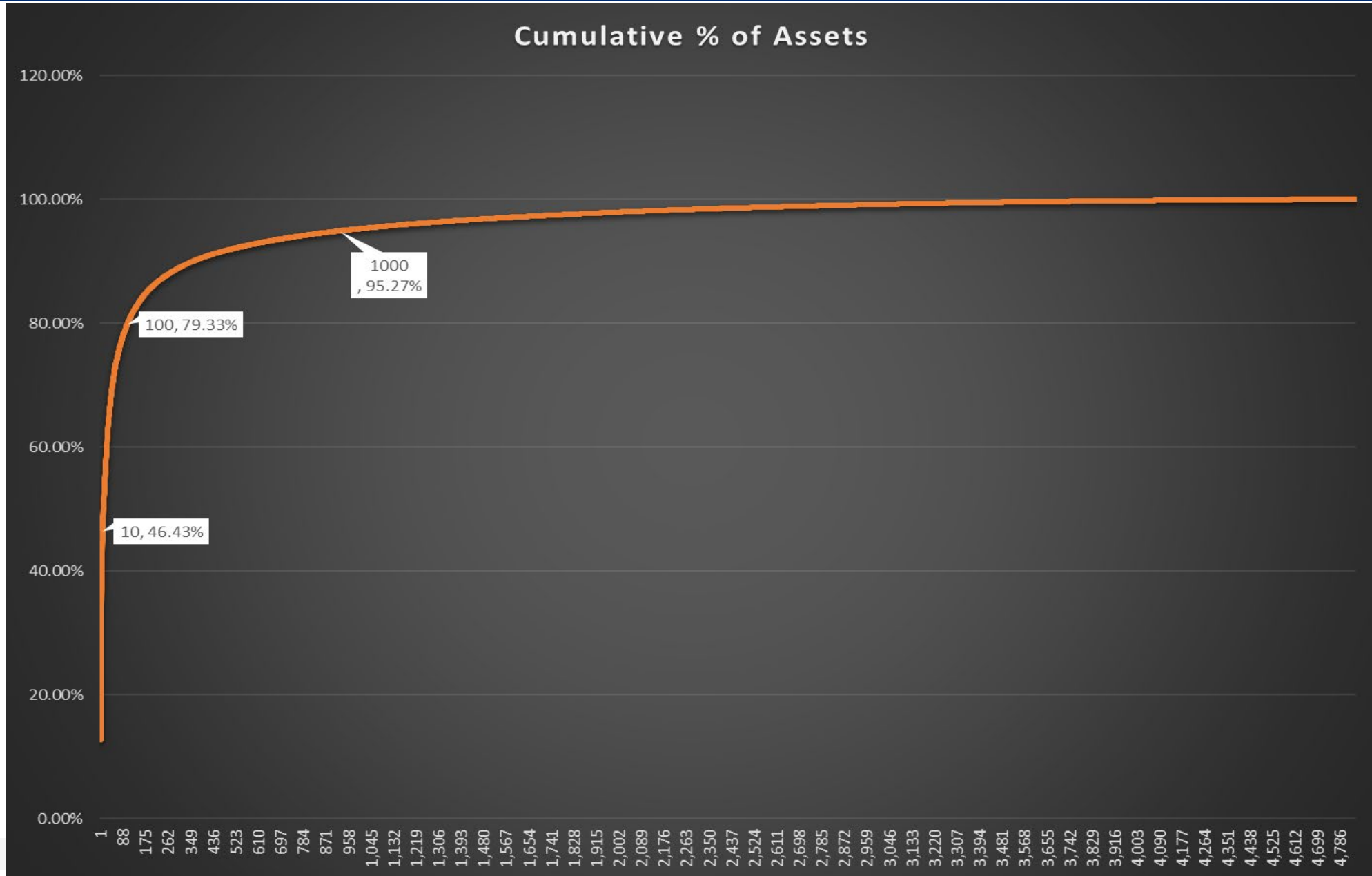


## Community Banks (<\$10Bn assets) Quarterly Return on Equity (ROE)



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

# Competitive Landscape



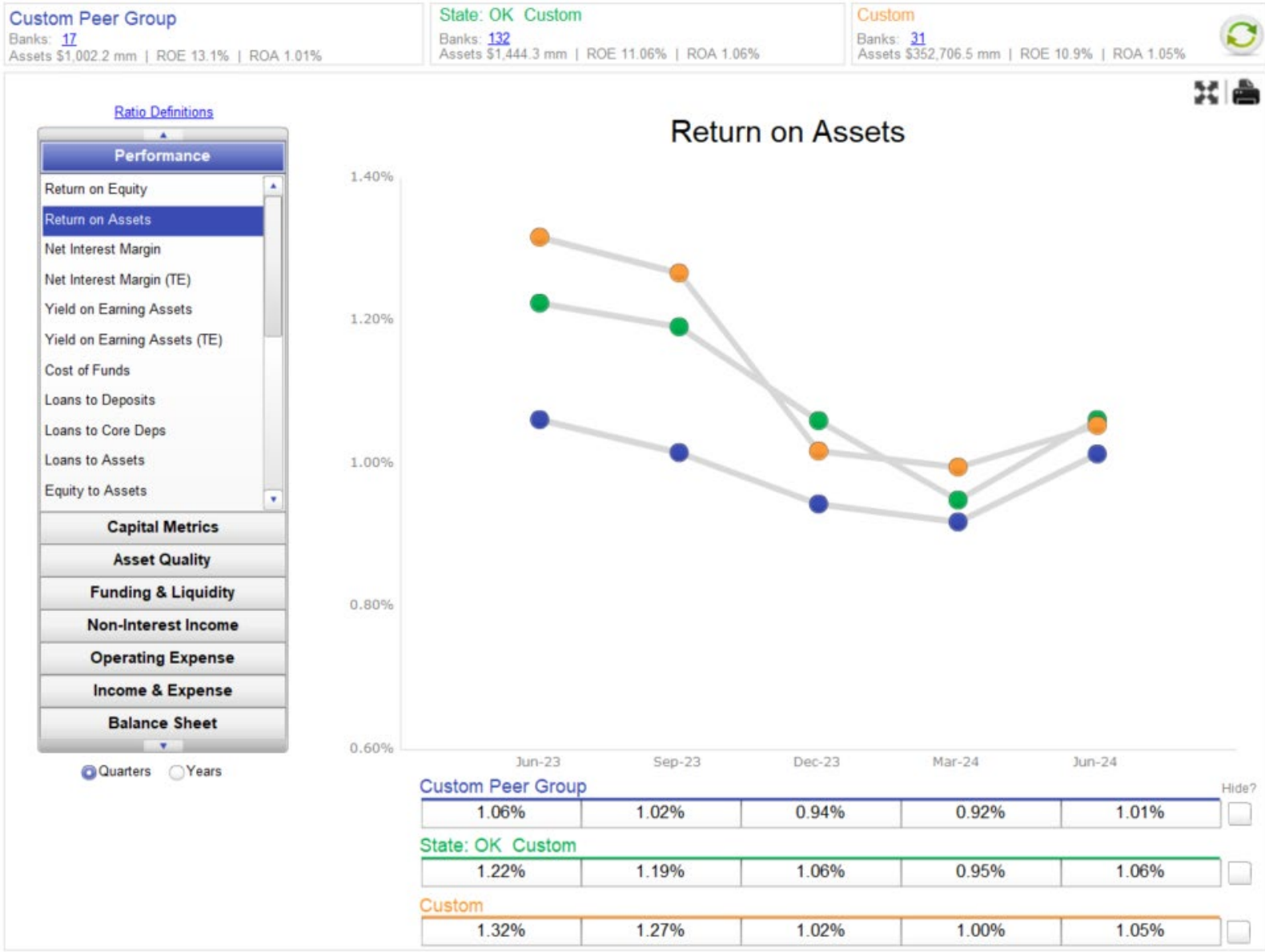
# Challenge for Community Banks

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# Challenges – ROA

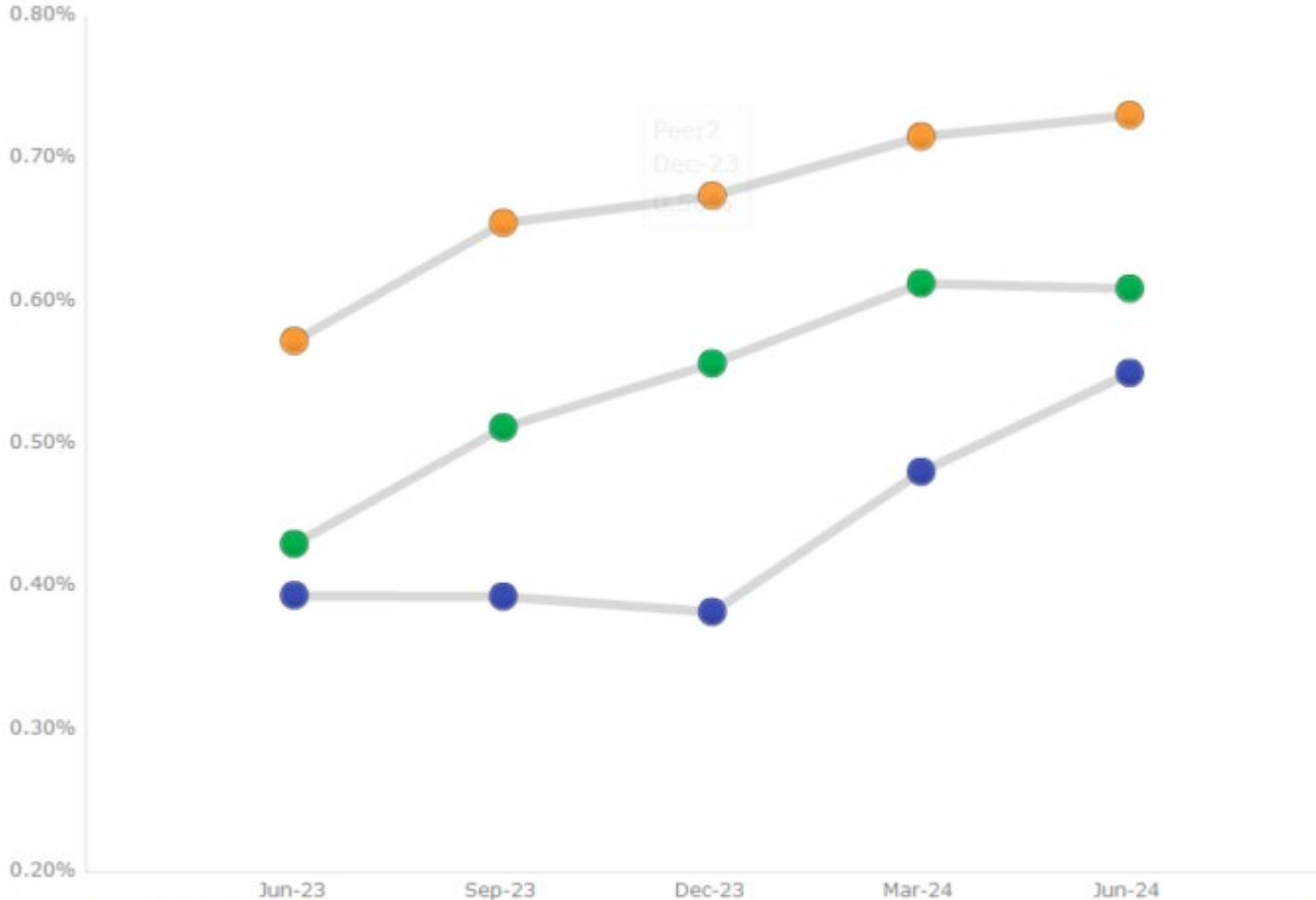


Attending Banks  
OK banks over \$100mm assets  
National banks over \$100Bn assets

# Challenges – Credit Quality Issues?



Nonaccrual Loans to Loans



Custom Peer Group

0.39%	0.39%	0.38%	0.48%	0.55%
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State: OK Custom

0.43%	0.51%	0.56%	0.61%	0.61%
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Custom

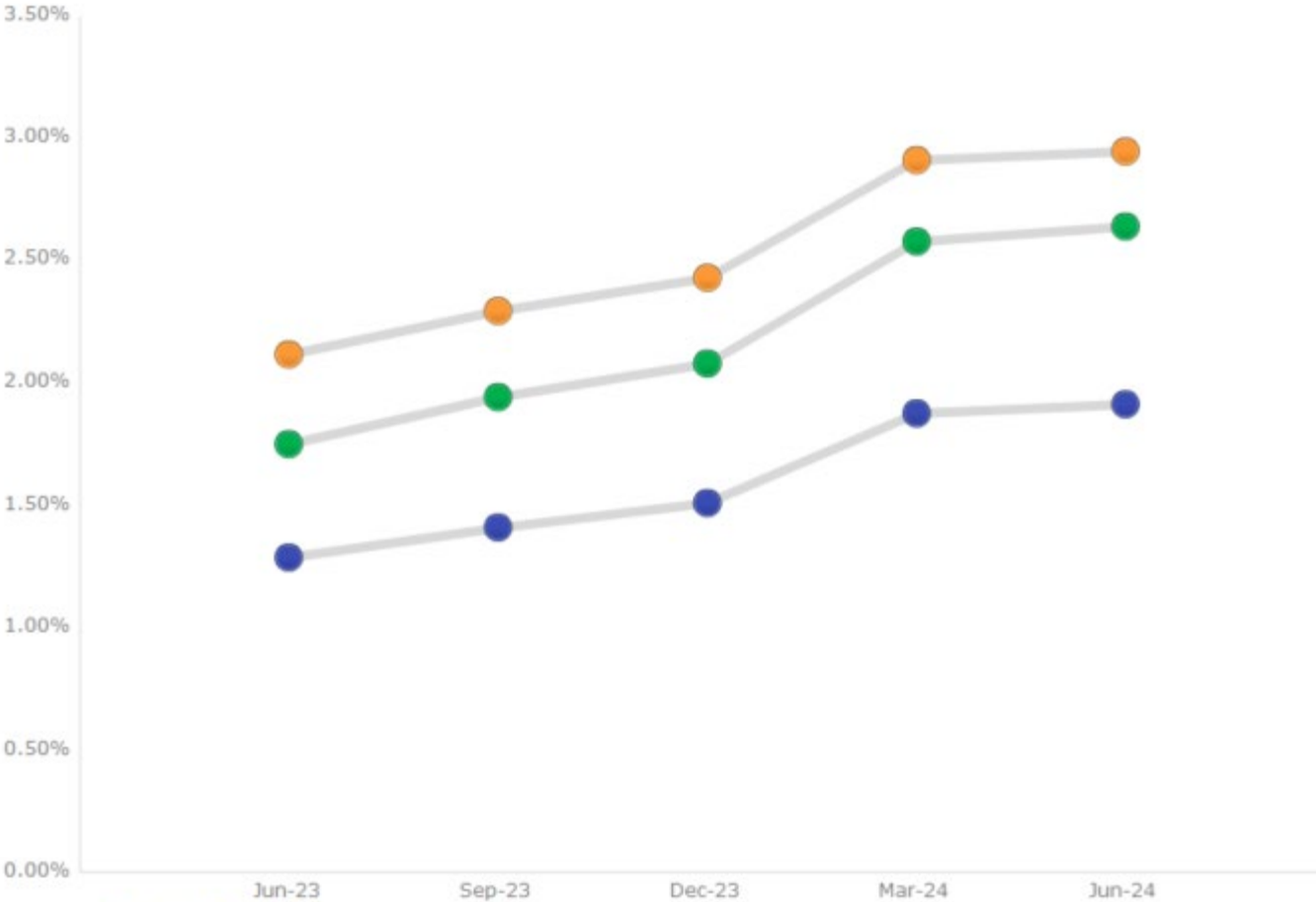
0.57%	0.65%	0.67%	0.72%	0.73%
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Attending Banks  
OK banks over \$100mm assets  
National banks over \$100Bn assets

# Challenges – COF rising



Cost of Funds



Custom Peer Group

1.29%	1.41%	1.51%	1.88%	1.91%
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State: OK Custom

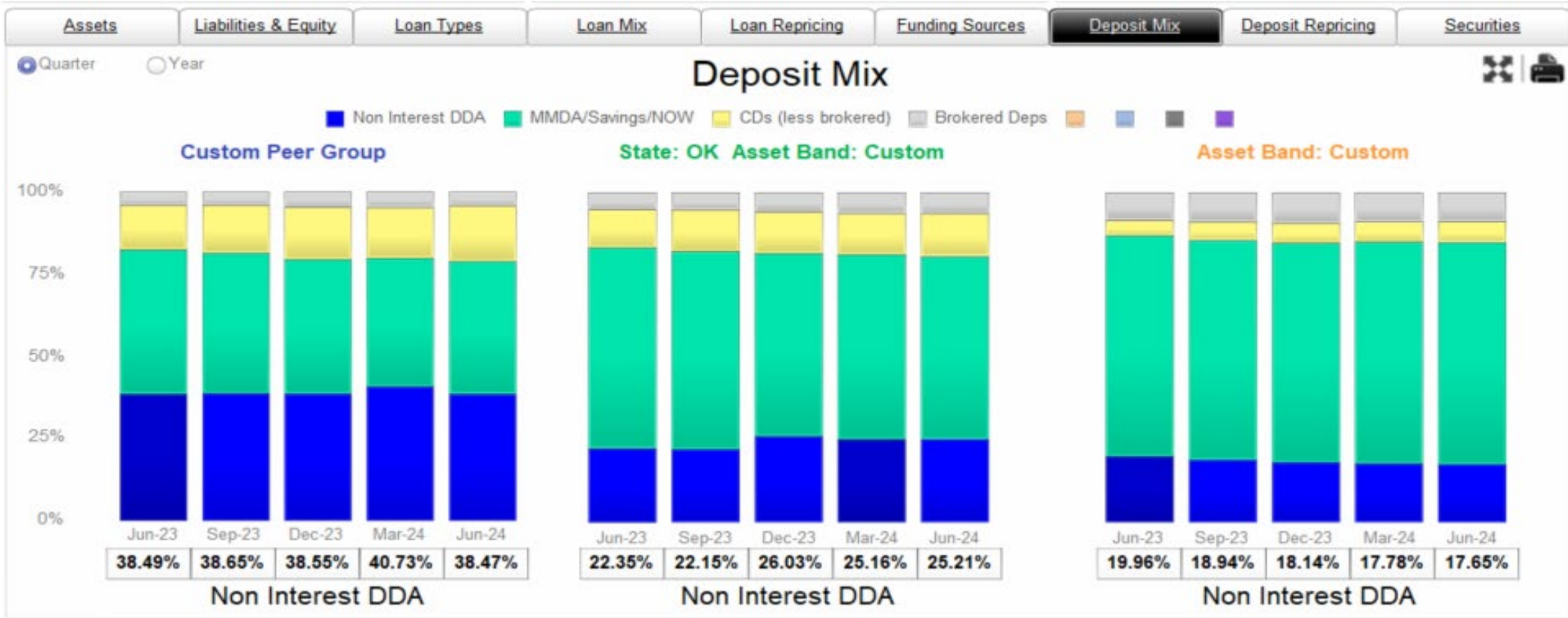
1.75%	1.94%	2.08%	2.58%	2.64%
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Custom

2.12%	2.29%	2.43%	2.91%	2.95%
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Attending Banks  
OK banks over \$100mm assets  
National banks over \$100Bn assets

# Challenges – deposit mix



Attending Banks

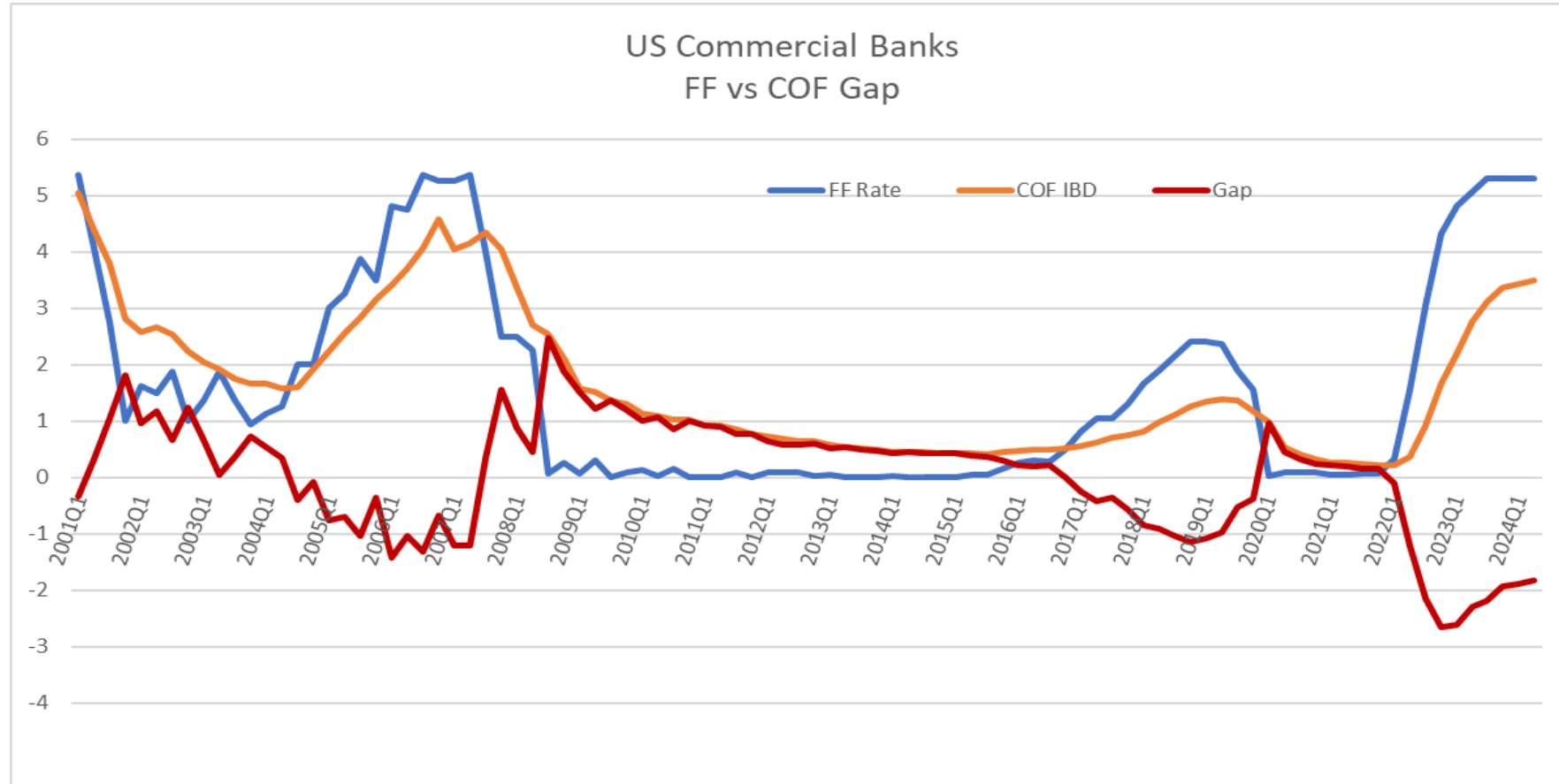
OK banks over \$100mm assets

National banks over \$100Bn assets

# Community Bank Challenges



## COF – future costs



Period	IBD Betas
2003Q4 to 2007Q2	0.56
2007Q3 to 2019Q2	0.41
2022Q1 to 2024Q1	0.66

# Challenges – Yield



Yield on Earning Assets



Custom Peer Group

4.77%	4.89%	4.98%	5.22%	5.34%
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State: OK Custom

5.20%	5.35%	5.46%	5.80%	5.88%
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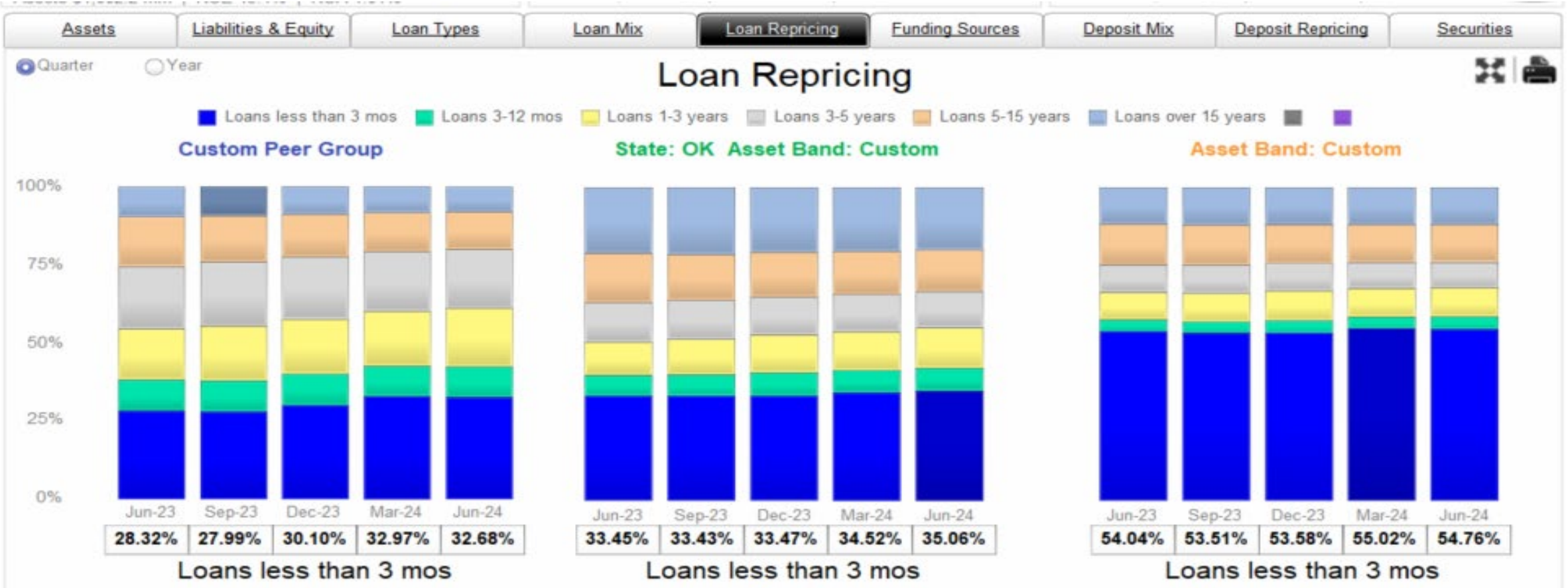
Custom

5.45%	5.63%	5.75%	6.11%	6.15%
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Attending Banks  
OK banks over \$100mm assets  
National banks over \$100Bn assets



# Challenges – Loan Repricing



Attending Banks

OK banks over \$100mm assets

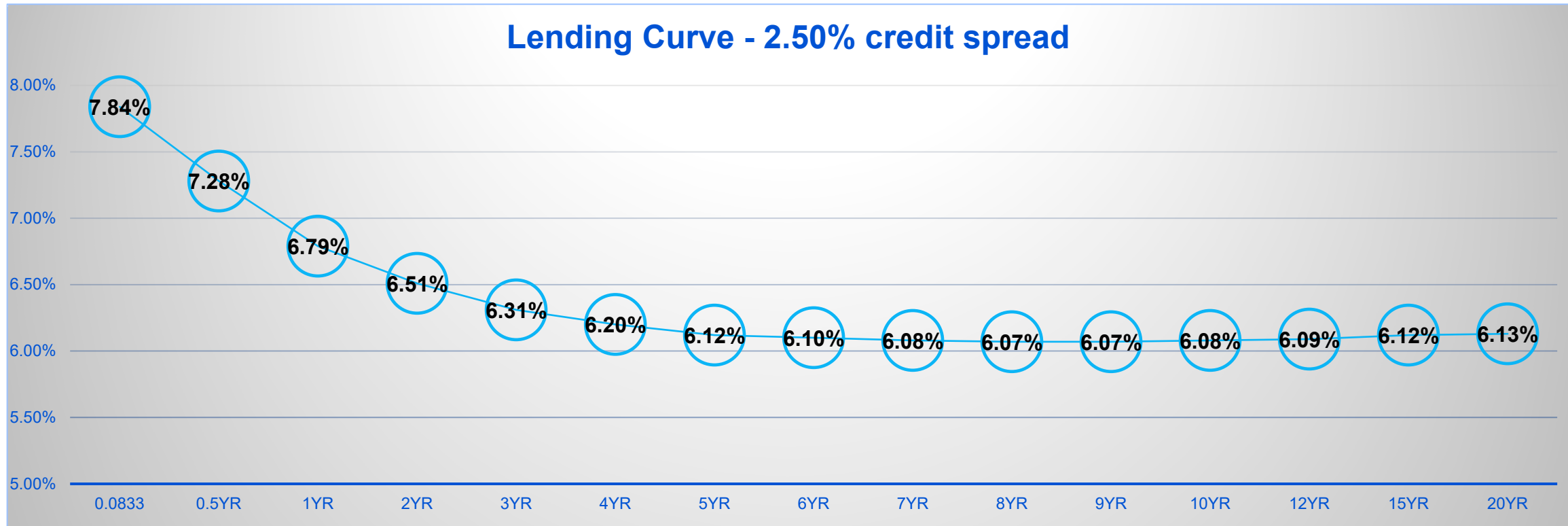
National banks over \$100Bn assets



# Community Bank Challenges - Lending Curve



An inverted yield curve creating a lending anomaly



Point of indifference assuming no interest rate risk

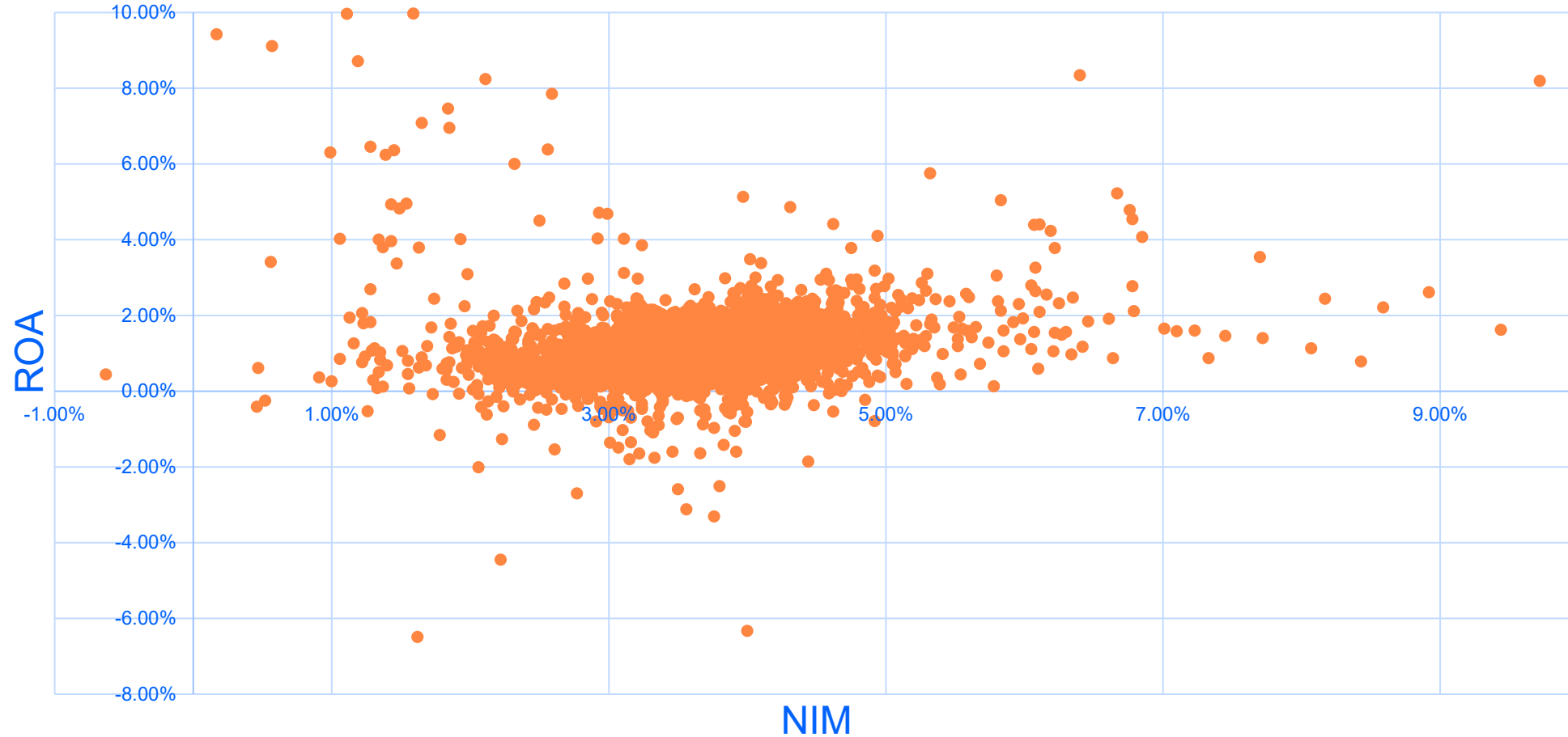


# NIM – ROA/ROE relationship to NIM



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

Correlation (R2) = - 0.02





# NIM – ROE relationship to NIM

### Net Interest Margin



Custom Peer Group

3.49%	3.49%	3.47%	3.34%	3.43%
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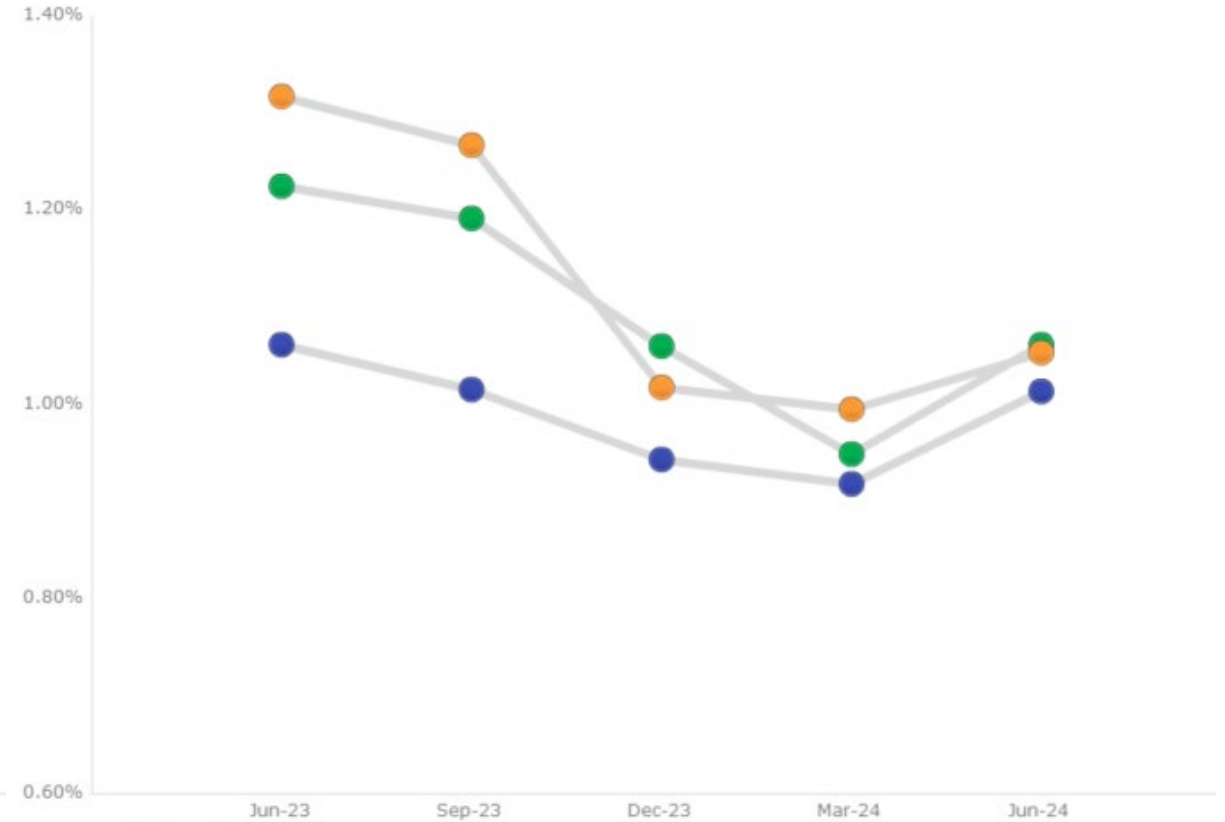
State: OK Custom

3.45%	3.41%	3.38%	3.22%	3.24%
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Custom

3.33%	3.34%	3.33%	3.20%	3.20%
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### Return on Assets



Custom Peer Group

1.06%	1.02%	0.94%	0.92%	1.01%
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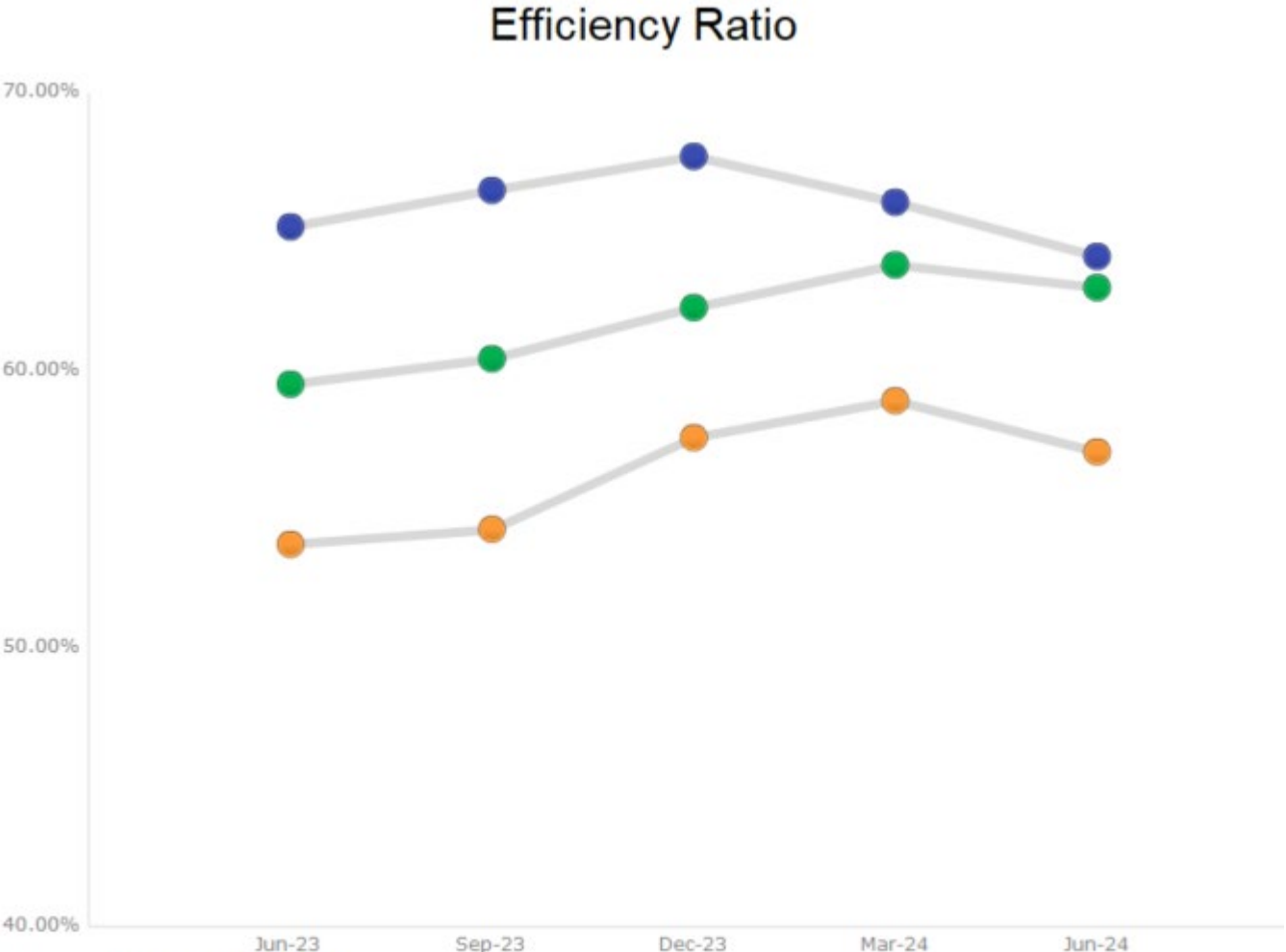
State: OK Custom

1.22%	1.19%	1.06%	0.95%	1.06%
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Custom

1.32%	1.27%	1.02%	1.00%	1.05%
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# Efficiency Ratios



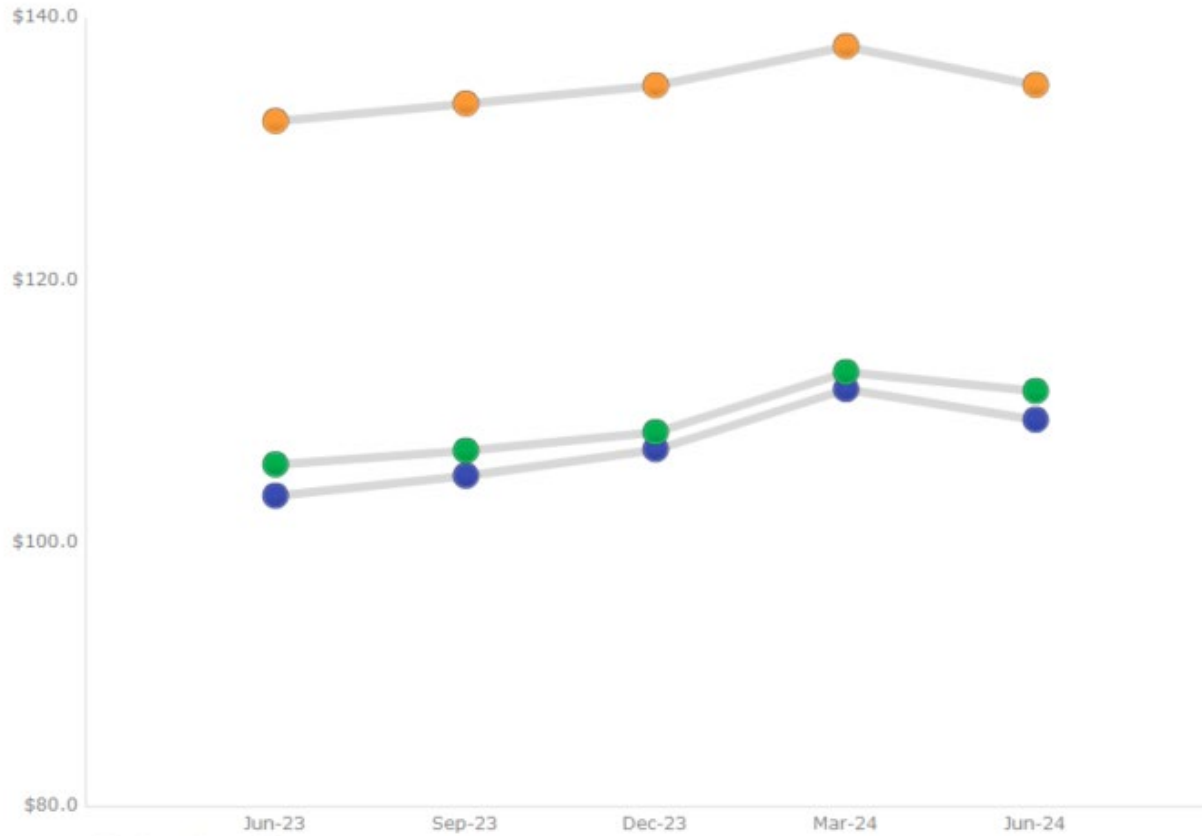
Custom Peer Group				
65.16%	66.48%	67.70%	66.05%	64.10%
State: OK Custom				
59.50%	60.41%	62.26%	63.80%	62.98%
Custom				
53.75%	54.28%	57.59%	58.91%	57.07%

Attending Banks  
OK banks over \$100mm assets  
National banks over \$100Bn assets

# Efficiency Ratios – not these drivers

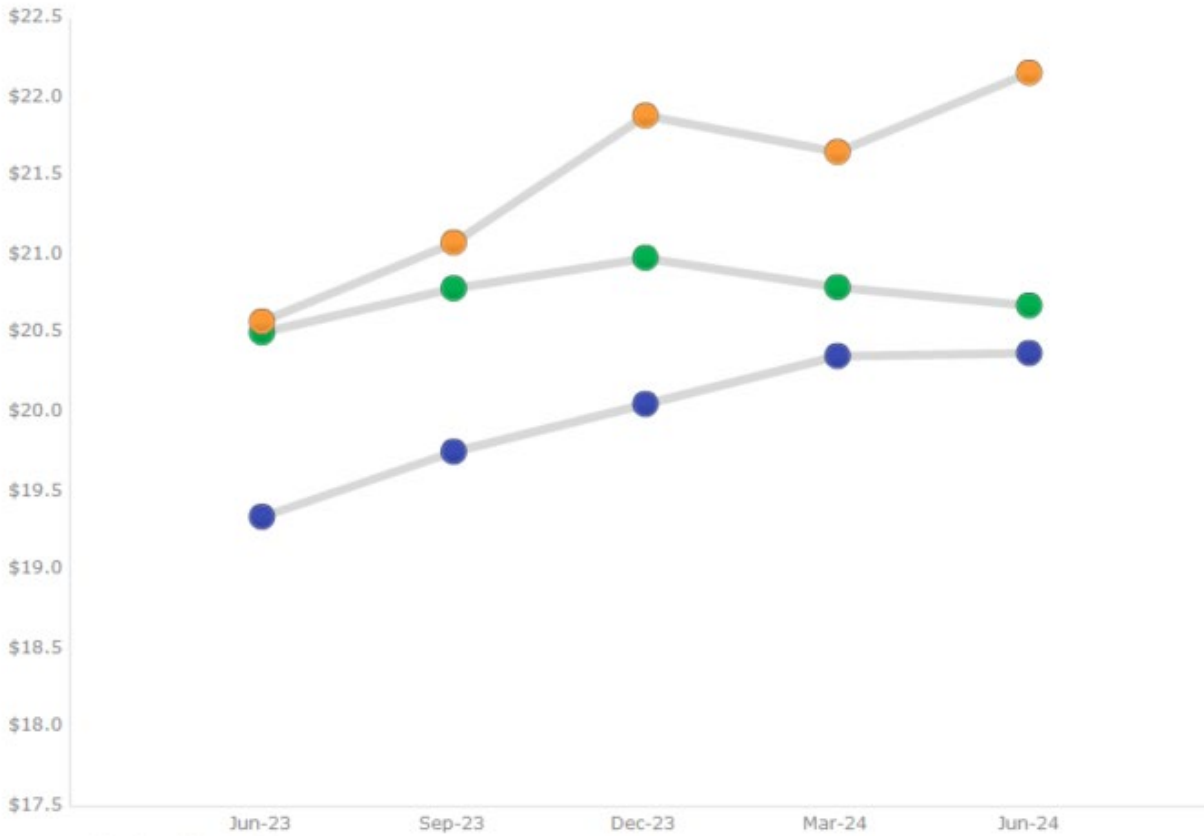


Salaries to Full-Time Employees



Custom Peer Group				
\$104	\$105	\$107	\$112	\$109
State: OK Custom				
\$106	\$107	\$108	\$113	\$112
Custom				
\$132	\$133	\$135	\$138	\$135

Premises and Equipment to FTE



Custom Peer Group				
\$19	\$20	\$20	\$20	\$20
State: OK Custom				
\$21	\$21	\$21	\$21	\$21
Custom				
\$21	\$21	\$22	\$22	\$22

# Efficiency Ratios – these drivers

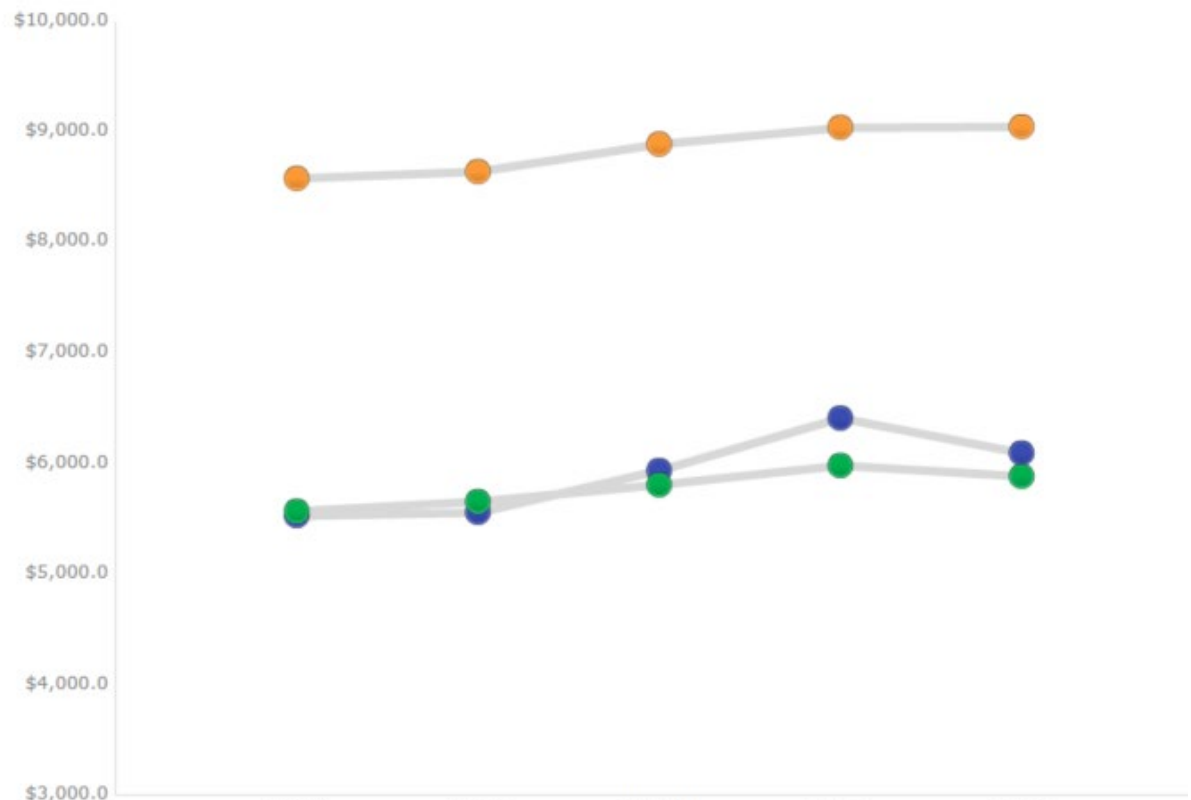


Assets per Employee (\$ millions)



Month	Custom Peer Group	State: OK Custom	Custom
Jun-23	\$6.2	\$7.4	\$10.8
Sep-23	\$6.3	\$7.4	\$10.9
Dec-23	\$6.6	\$7.6	\$11.1
Mar-24	\$7.1	\$7.7	\$11.3
Jun-24	\$6.8	\$7.7	\$11.4

Deposits per Employee (\$ 000s)



Month	Custom Peer Group	State: OK Custom	Custom
Jun-23	\$5,529	\$5,570	\$8,583
Sep-23	\$5,558	\$5,656	\$8,643
Dec-23	\$5,938	\$5,809	\$8,891
Mar-24	\$6,412	\$5,982	\$9,041
Jun-24	\$6,096	\$5,887	\$9,048

# Efficiency Ratios – these drivers



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



Custom Peer Group

\$333	\$341	\$353	\$402	\$407
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State: OK Custom

\$416	\$429	\$440	\$477	\$485
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Custom

\$707	\$731	\$749	\$793	\$812
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### Net Income per Employee (\$ 000s)



Custom Peer Group

\$65	\$62	\$59	\$63	\$69
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State: OK Custom

\$89	\$87	\$78	\$72	\$81
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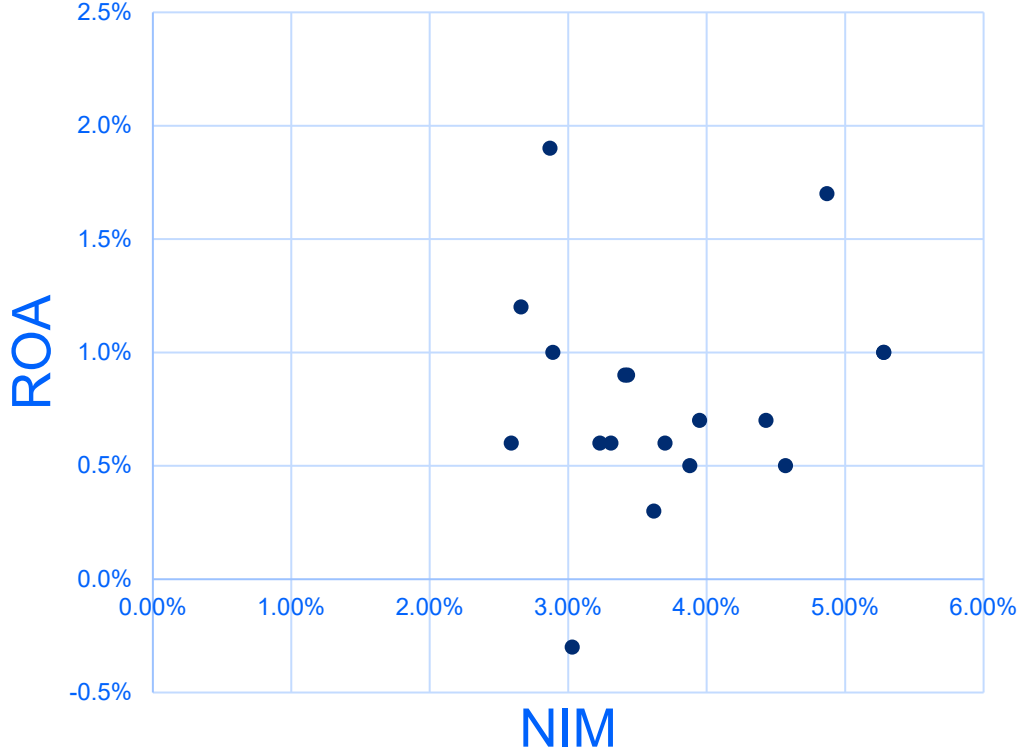
Custom

\$141	\$138	\$112	\$112	\$121
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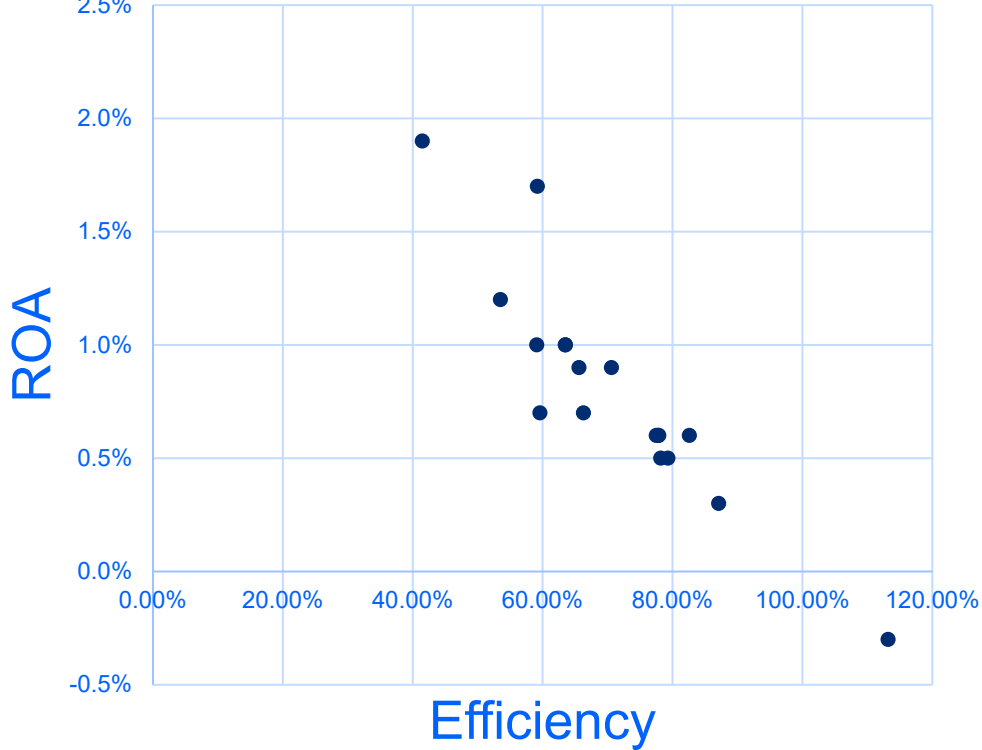
# Banks in the Room



NIM/ROA relationship -  $R^2 = 0.125$   
OK Banks at LL



Efficiency/ROA relationship -  $R^2 = -0.911$   
OK Banks at LL



# Banks in the Room



Fee Income/ROA relationship - R2  
= 0.760 OK Banks at LL





# Opportunities for Community Banks

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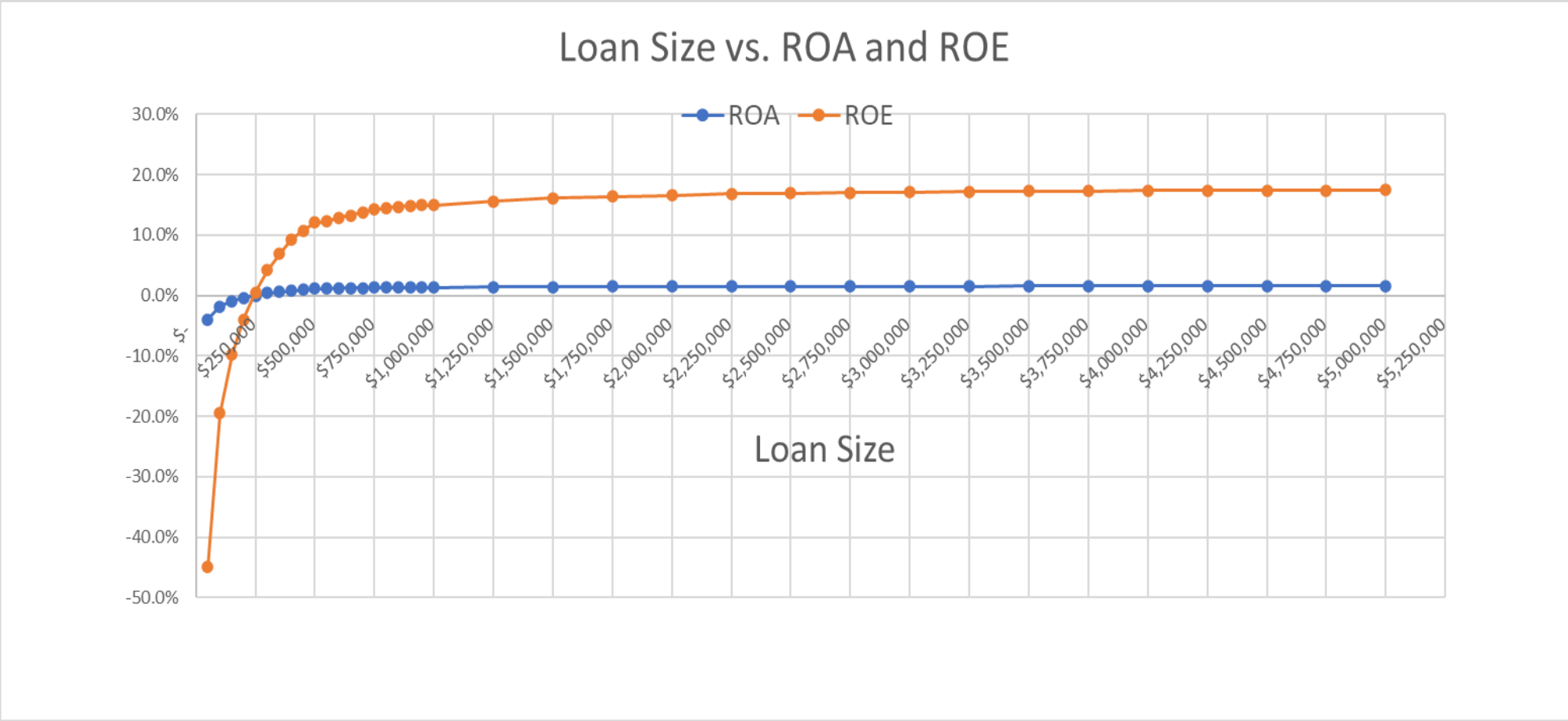
**Size, Term, Credit Quality, Non-interest Income, Long-term Relationships**



# Loan Size – scale matters



5yr CRE loan, S + 2.50%





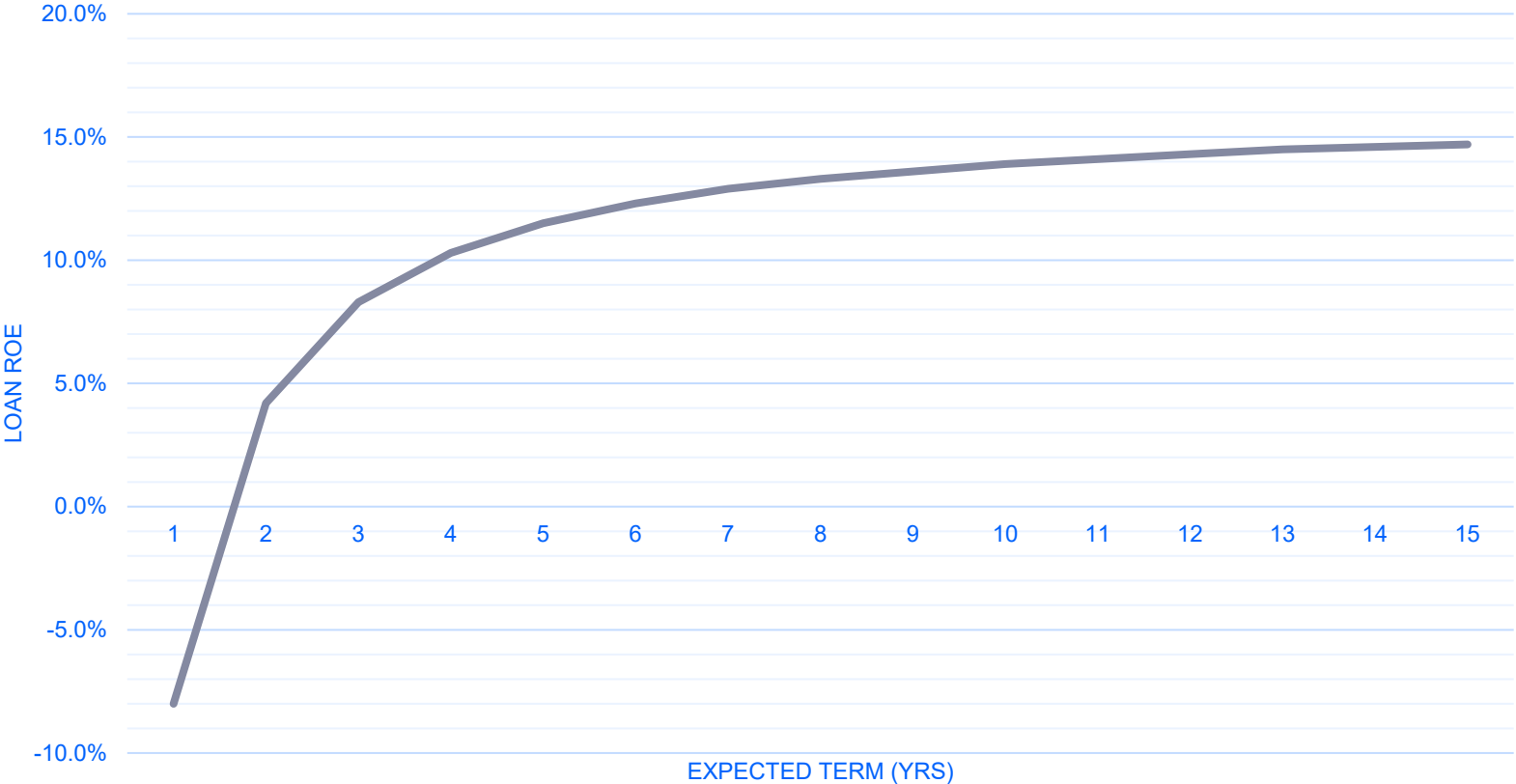
# Loan Size – scale matters

	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

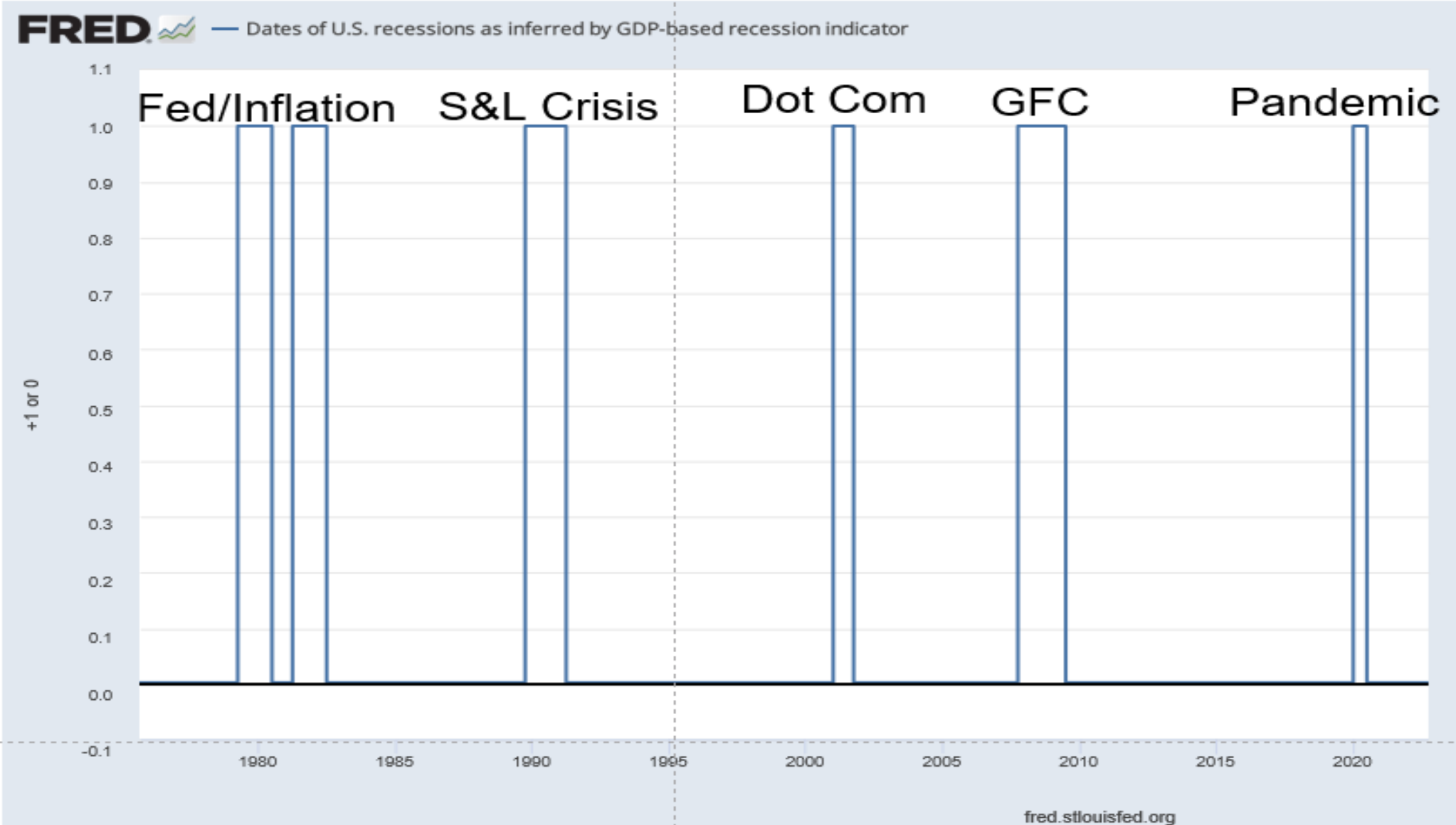


\$500k CRE loan, S + 2.50%

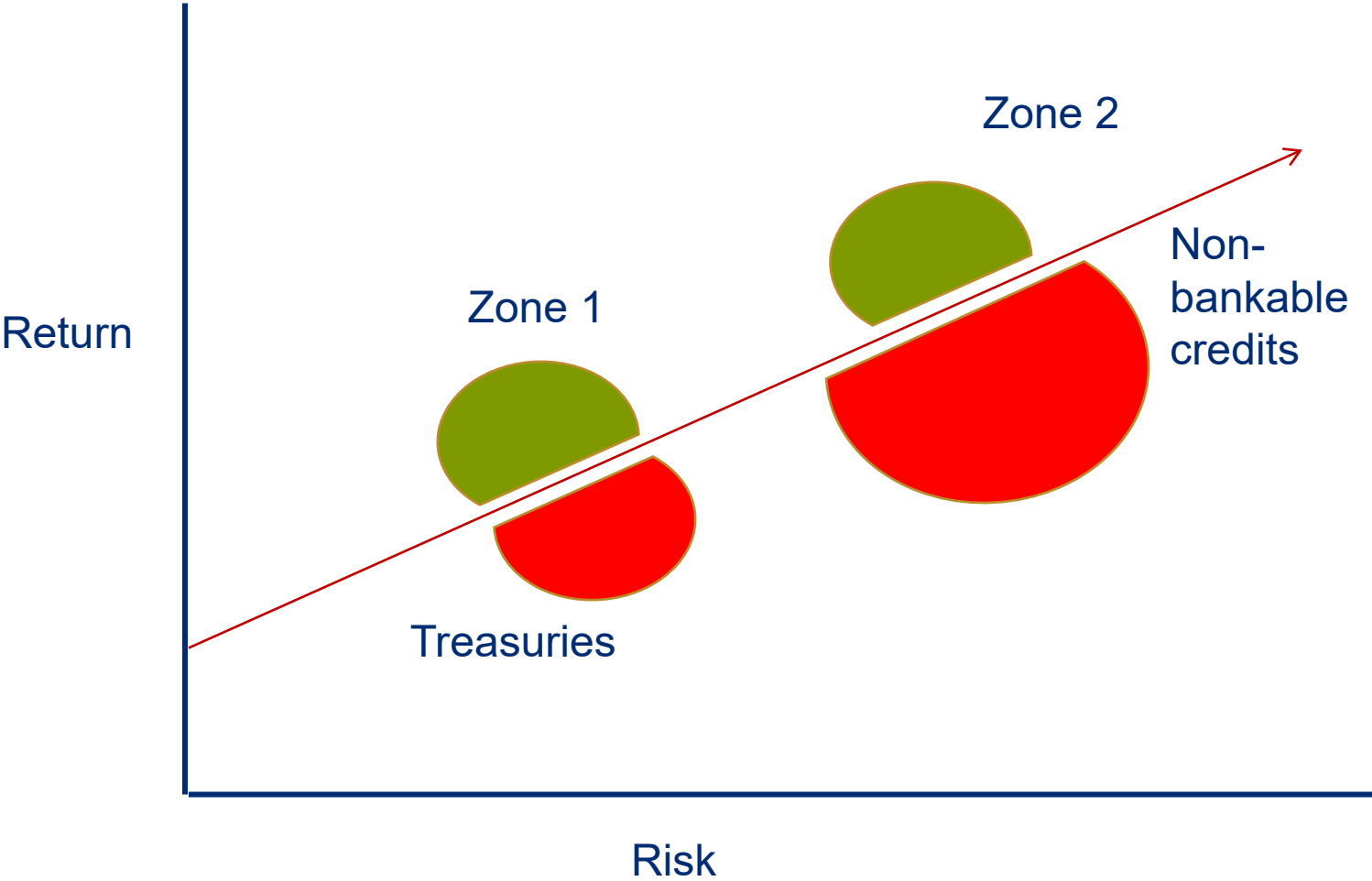
### Loan Term vs. ROE



# Credit Quality



# Credit Quality





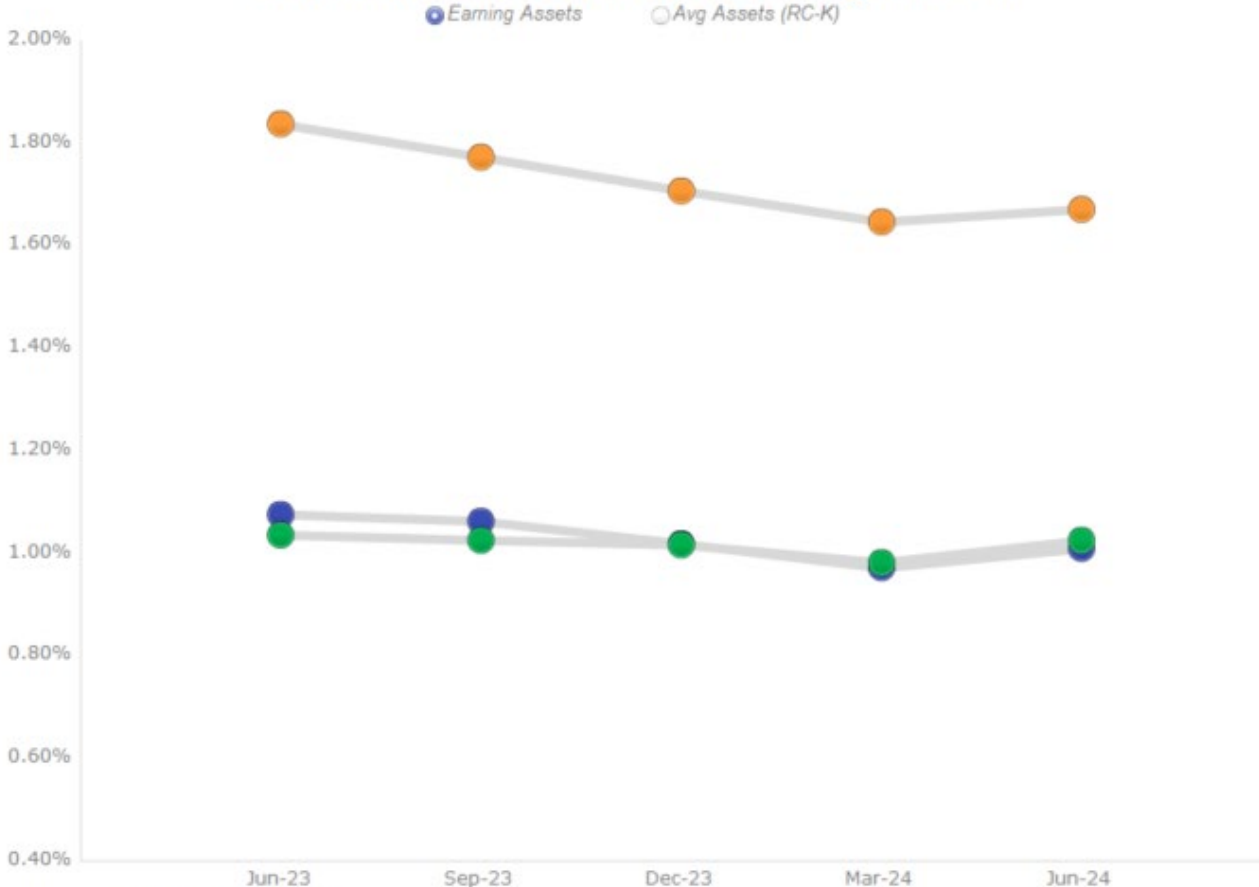
## 5yr Avg - Correlation to ROA - all banks \$100mm to \$10Bn assets

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



Non-Interest Income to Earning Assets



Custom Peer Group

1.08%	1.06%	1.02%	0.97%	1.01%
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State: OK Custom


1.04%	1.03%	1.02%	0.98%	1.02%
-------	-------	-------	-------	-------

Custom

1.84%	1.77%	1.71%	1.65%	1.67%
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Attending Banks  
OK banks over \$100mm assets  
National banks over \$100Bn assets

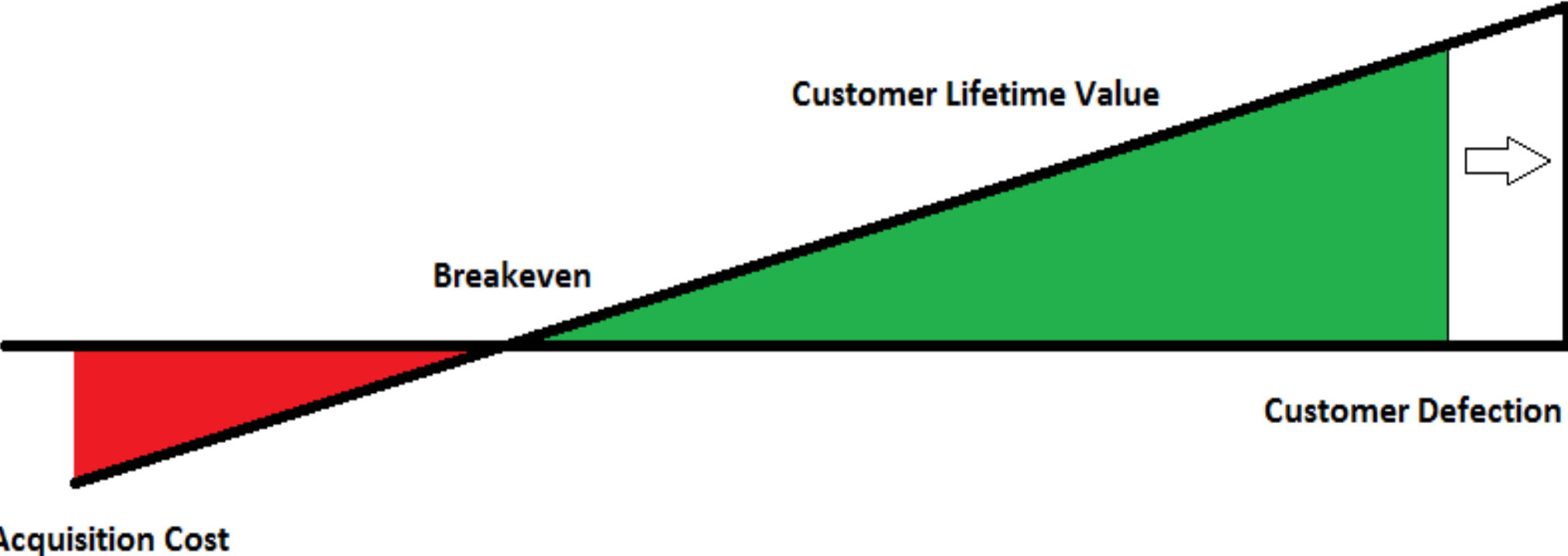


- Size of wallet
- Number of banking products
- Commitment term
  - Loan term  deposits
- Stickiness/switching costs
  - Project vs. balance sheet financing
- Trusted Advisor vs. Order Taker

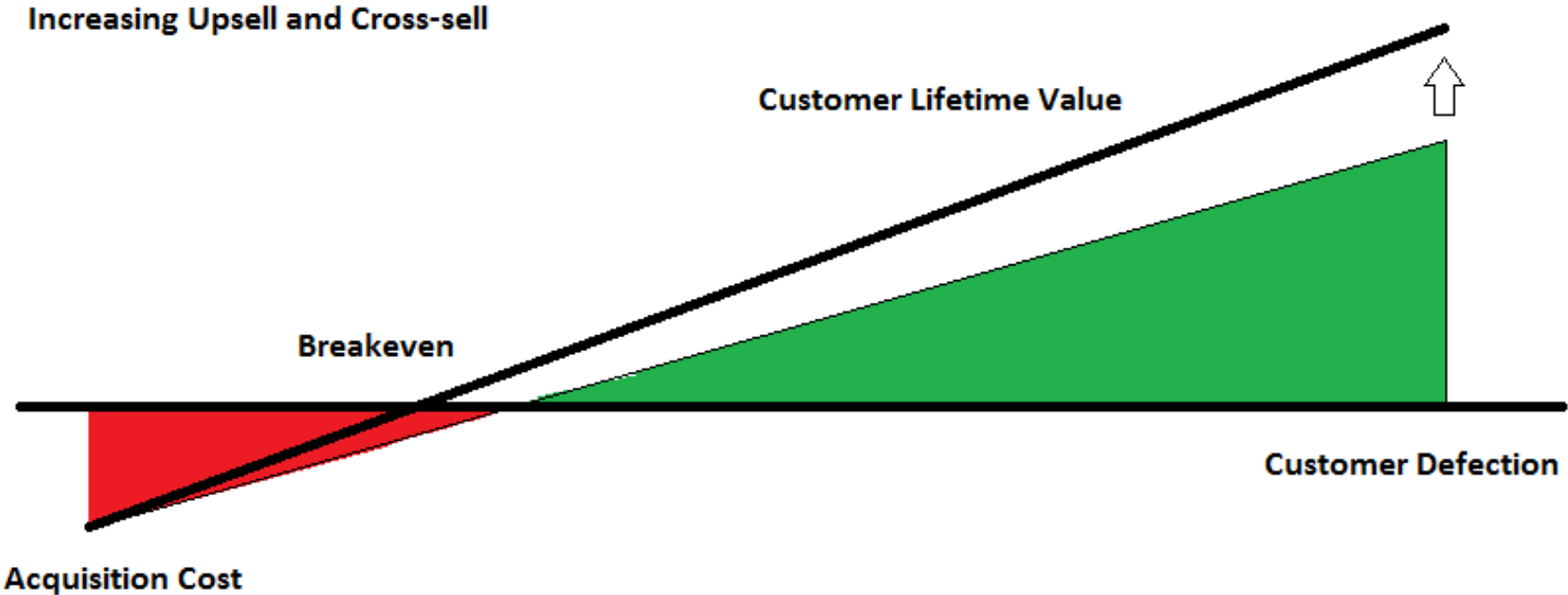
# Long-term relationships



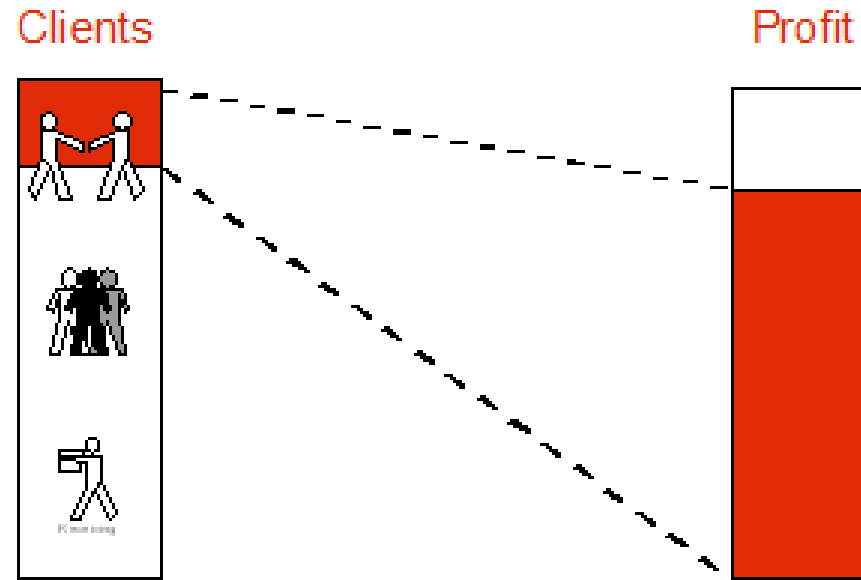
Increasing Retention / Reducing Churn



# Long-term relationships



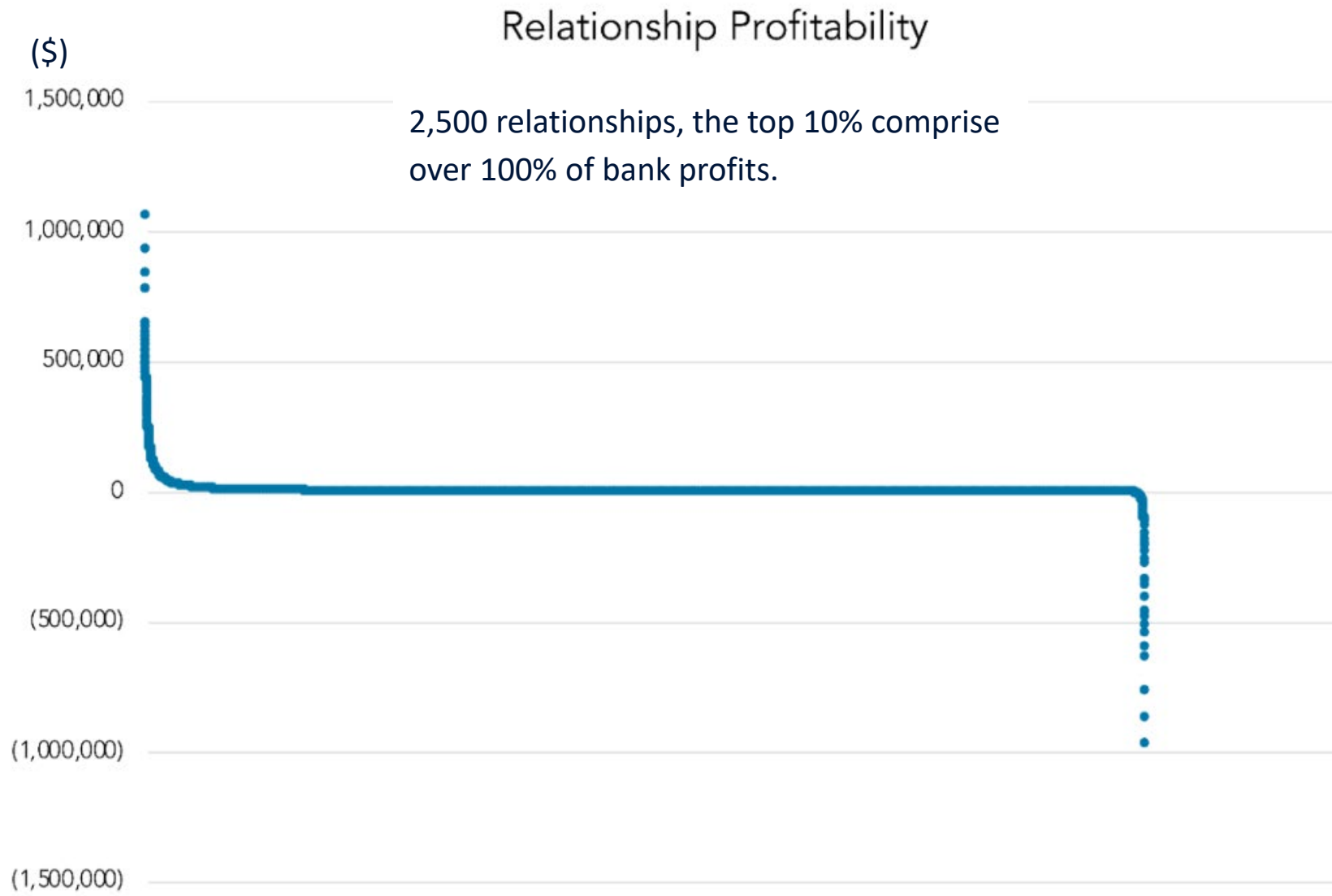
# Dissecting Relationship Profitability



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

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

# Dissecting Relationship Profitability



# Thank you!

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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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