

Lexington KY Lender Lunch

Hosted by SouthState Bank

Ed Kofman

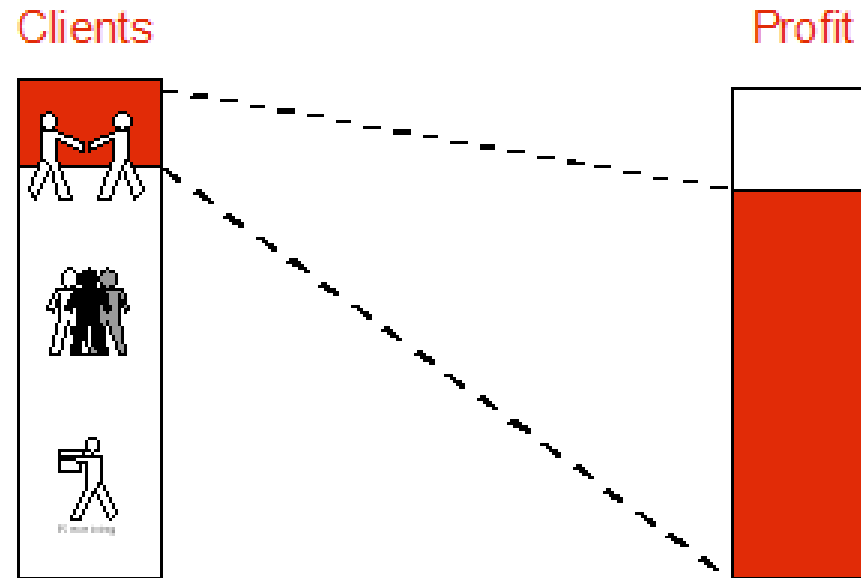
Director of Loan Hedging

Steve Olson

Managing Director ARC
Program



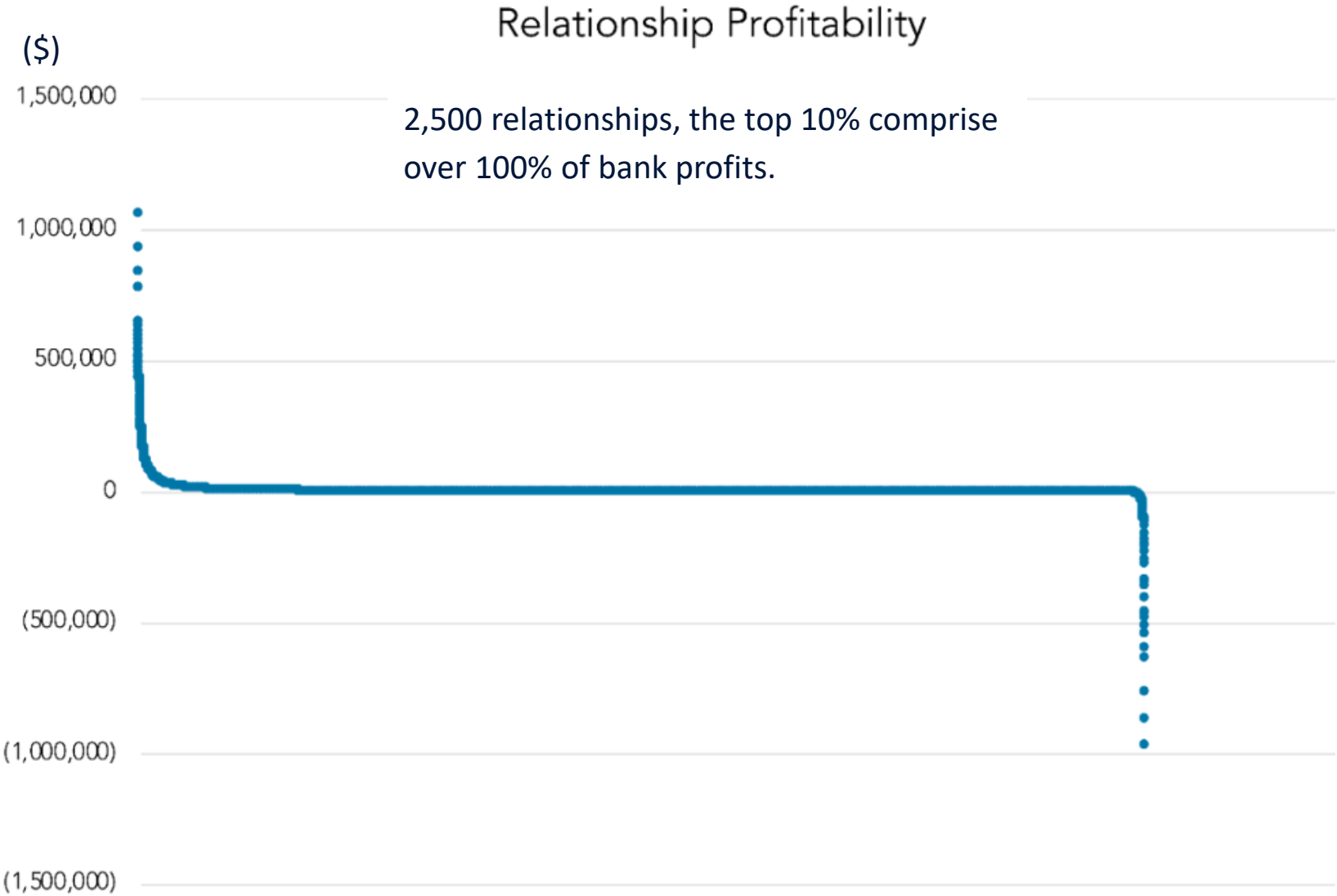
Dissecting Relationship Profitability



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

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

Dissecting Relationship Profitability



Banking Industry Challenges and Opportunities

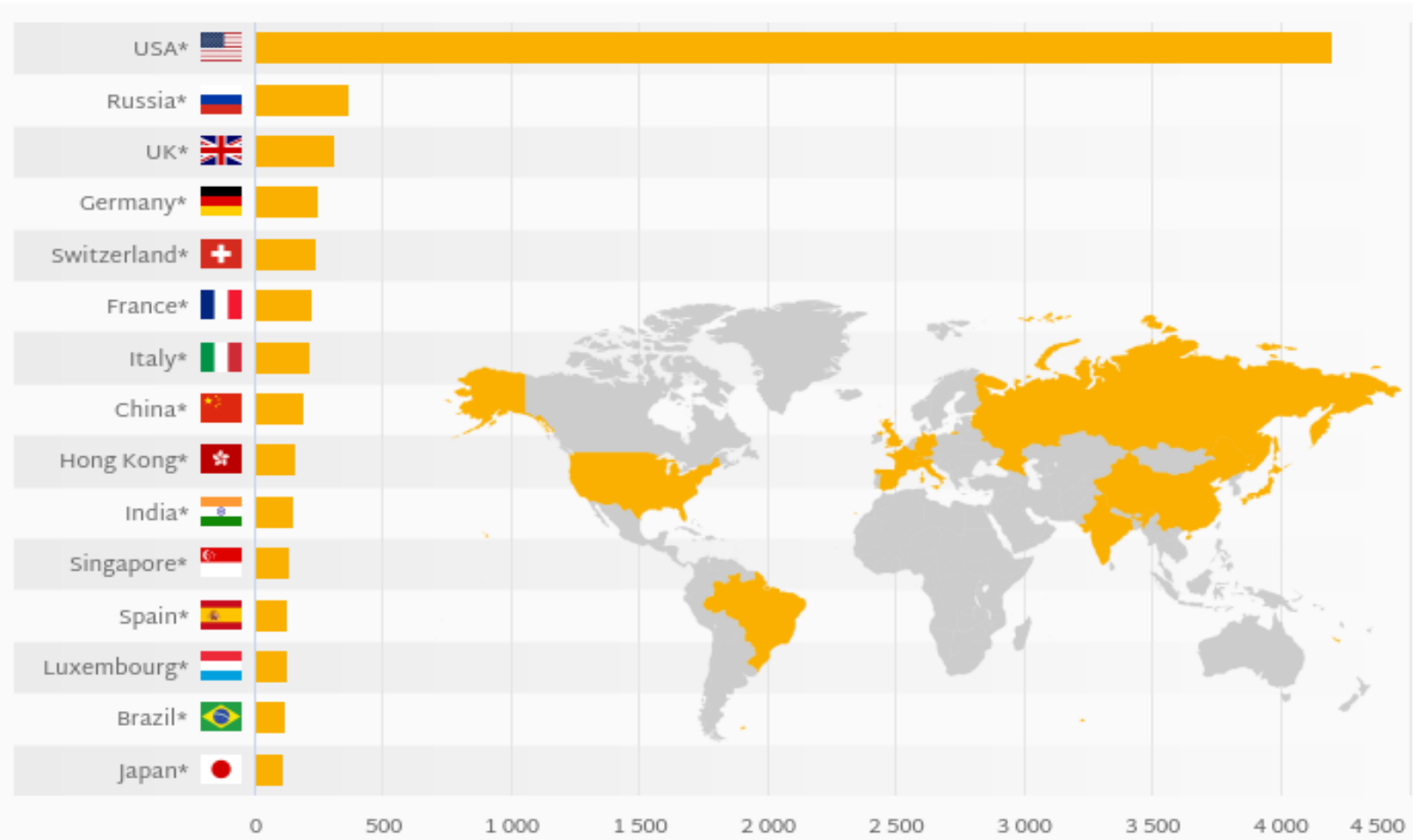


Why So Many Banks



What Country Has the Most Banks?

Number of Banks (banks), 2022 or latest

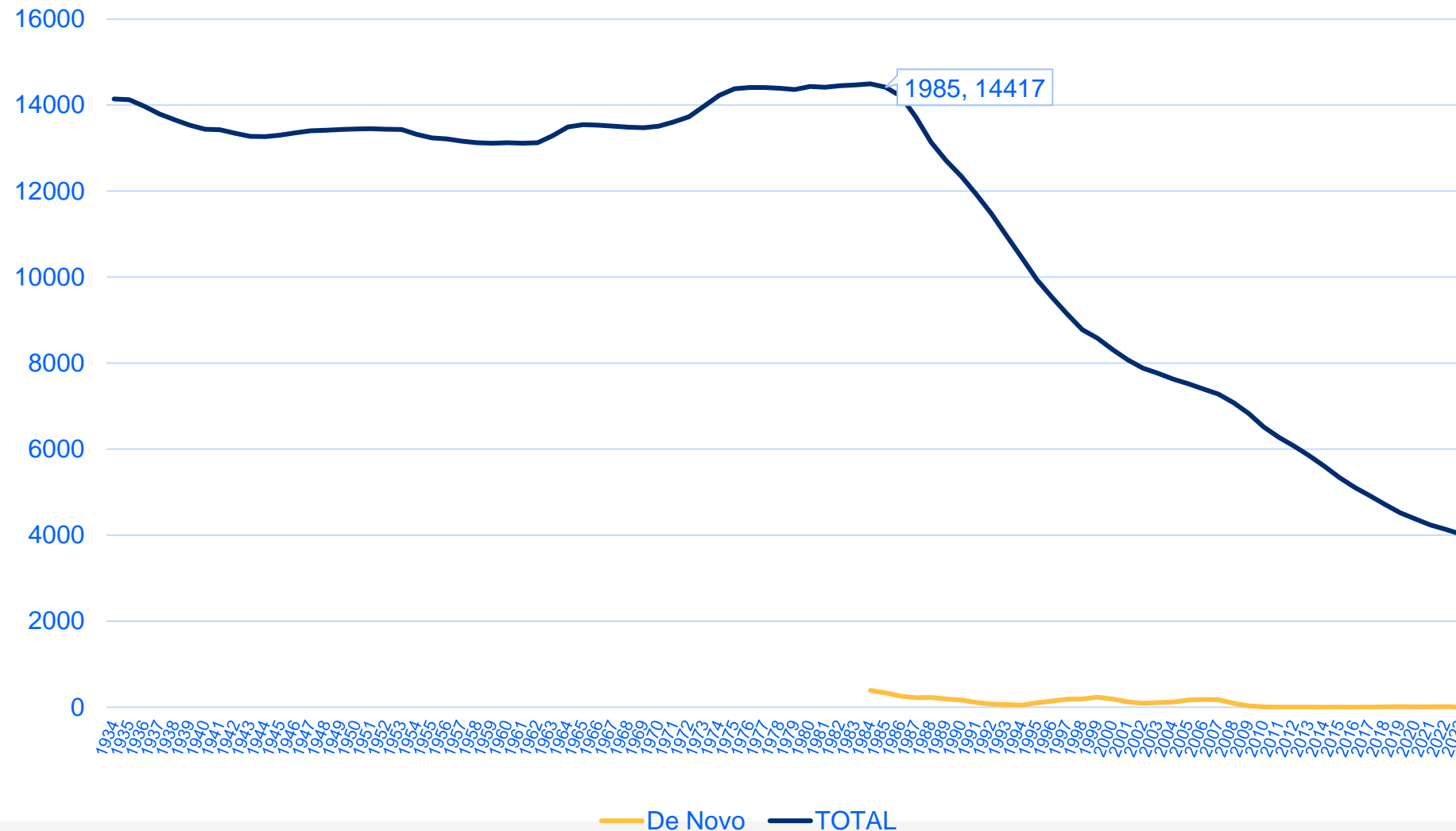


Source: National Statistical Office, * Data from 2020

Competitive Landscape



FDIC Commercial Charters

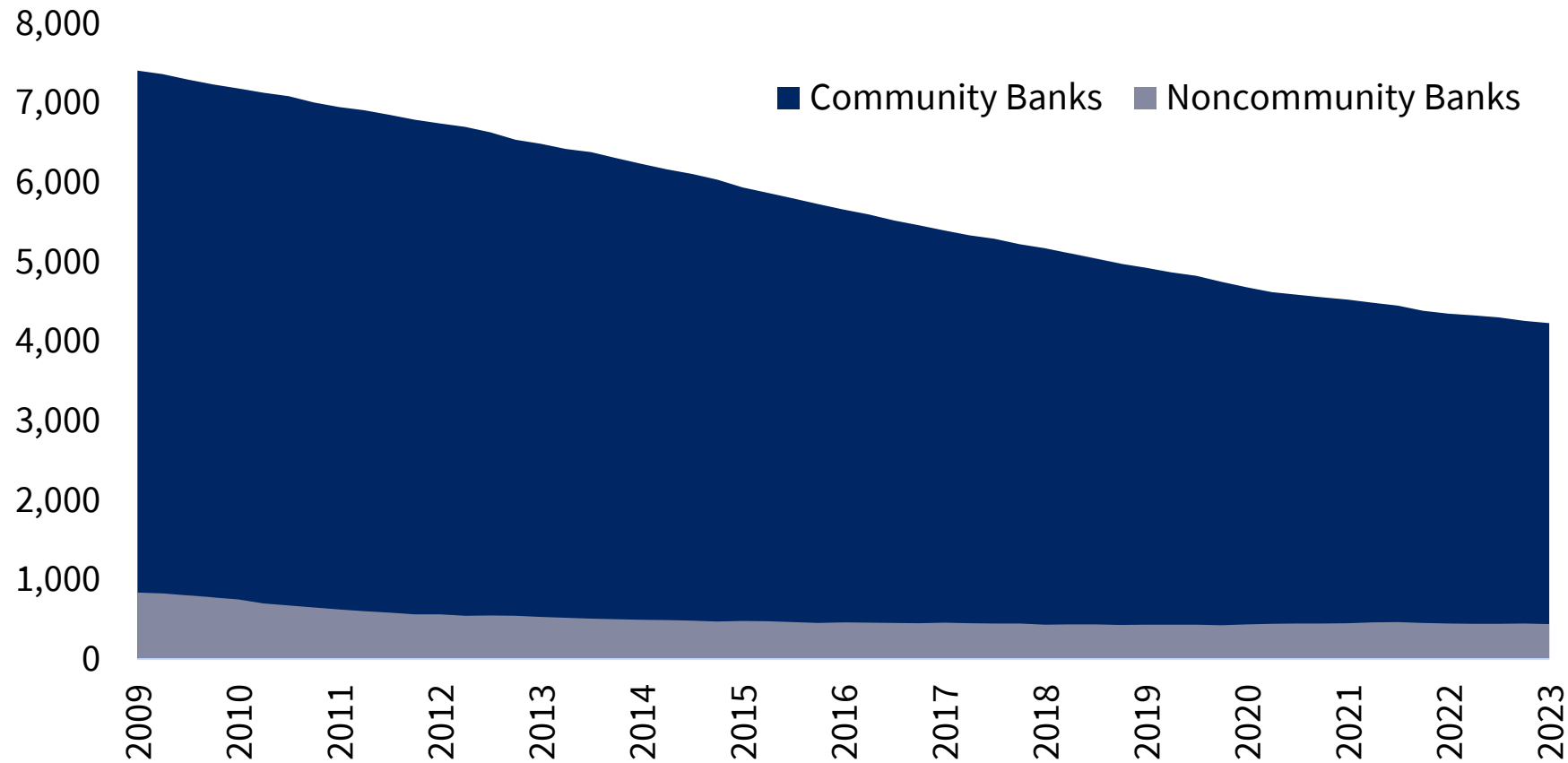


70% decline in the number of FDIC charters, 350 – 400 banks acquired per year

Competitive Landscape



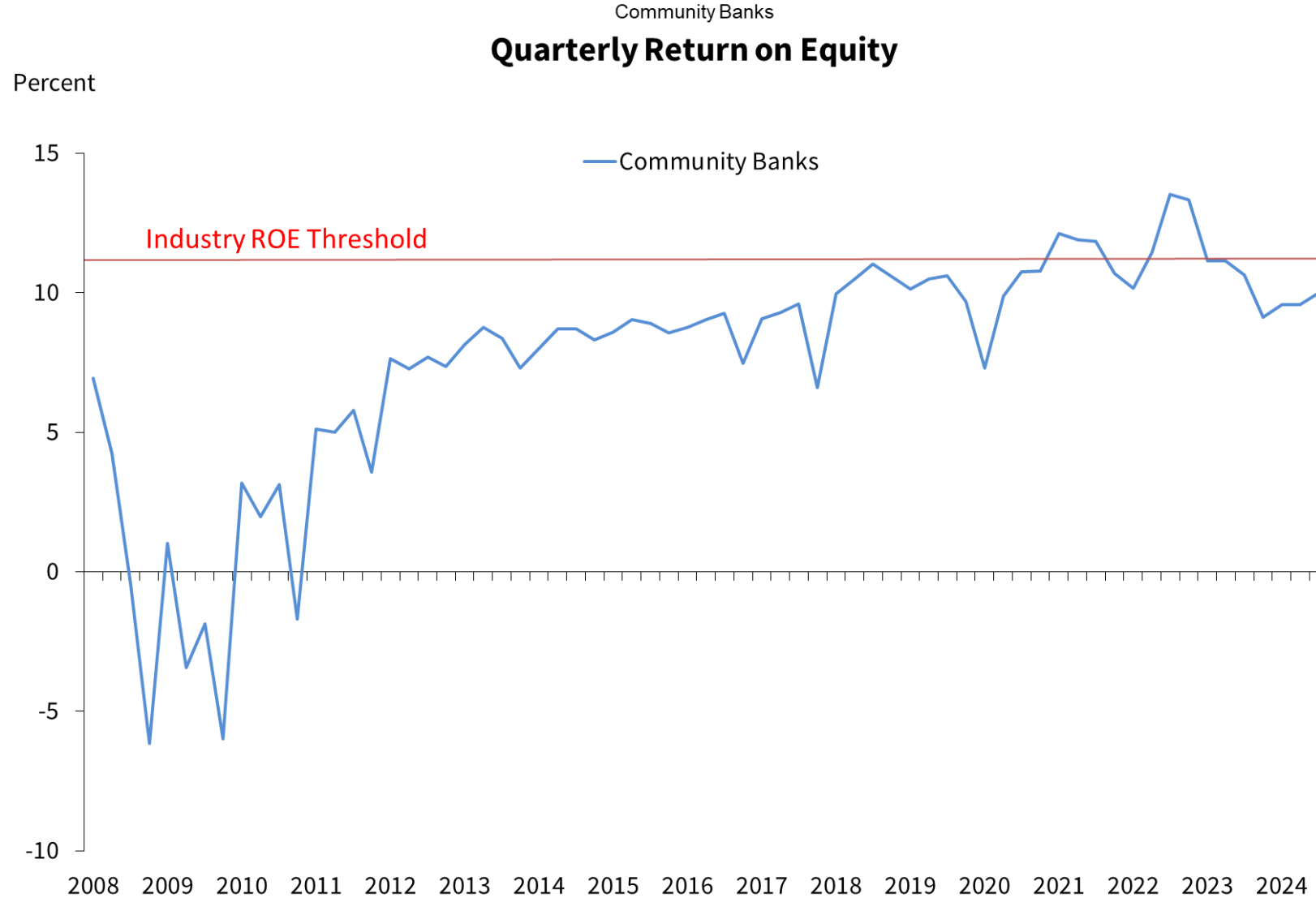
Count of Banks



Not all banks are consolidating equally

Source: FDIC. Data is as of 1Q2023.

Competitive Landscape

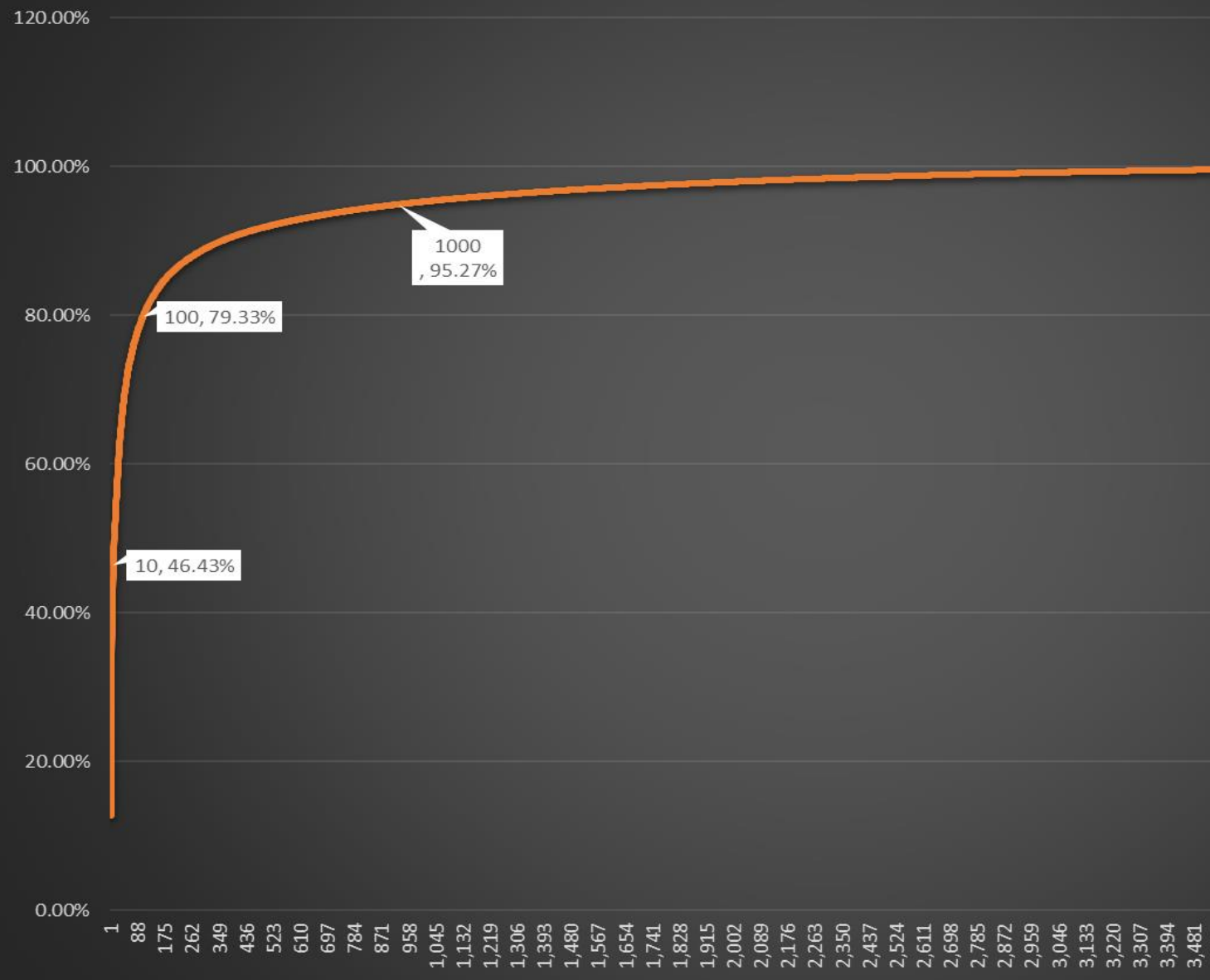


Defunct bank ROE =
1.66% (~ 12k banks,
over 40yrs)

Competitive Landscape



Cumulative % of Assets



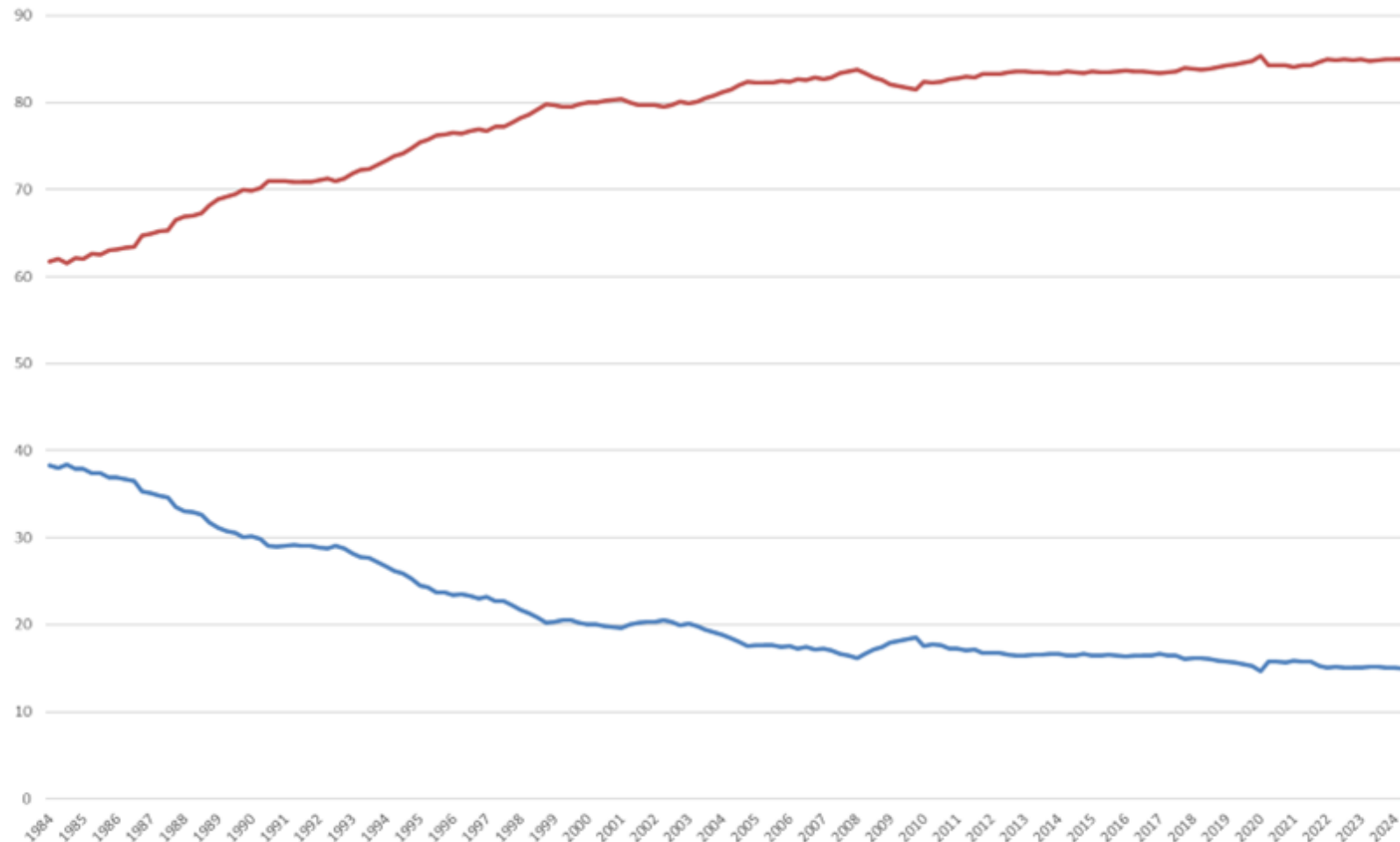
Cert	Institution Name	City	State	Class	Total Assets (Thousands USD)
258	STOCK YARDS BANK & TRUST COMPANY	Louisville	KY	NM	8,435,083
23627	REPUBLIC BANK & TRUST COMPANY	Louisville	KY	NM	6,685,567
2720	COMMUNITY TRUST BANK, INC.	Pikeville	KY	SM	5,924,665
8136	INDEPENDENCE BANK OF KENTUCKY	Owensboro	KY	SM	3,730,155
15815	CENTRAL BANK & TRUST COMPANY	Lexington	KY	NM	3,583,805
2711	TRADITIONAL BANK, INC.	Mount Sterling	KY	NM	2,341,540
5854	SOUTH CENTRAL BANK, INC.	Glasgow	KY	NM	1,912,348
32912	WHITAKER BANK	Lexington	KY	SM	1,897,150
34254	PLANTERS BANK, INC.	Hopkinsville	KY	NM	1,848,083
33119	HERITAGE BANK, INC.	Erlanger	KY	NM	1,755,374
57415	FORCHT BANK, NATIONAL ASSOCIATION	Lexington	KY	N	1,567,798
8774	THE CECILIAN BANK	Cecilia	KY	NM	1,496,562
287	COMMUNITY FINANCIAL SERVICES BANK	Benton	KY	SM	1,403,098
2700	FIRST SOUTHERN NATIONAL BANK	Lancaster	KY	N	1,198,390
292	THE MONTICELLO BANKING COMPANY	Monticello	KY	SM	1,171,778
9678	EDMONTON STATE BANK	Glasgow	KY	NM	1,054,058
16664	THE PADUCAH BANK AND TRUST COMPANY	Paducah	KY	SM	976,808
2740	THE FARMERS NATIONAL BANK OF DANVILLE	Danville	KY	N	970,568
35568	AMERICAN BANK & TRUST COMPANY, INC.	Bowling Green	KY	NM	835,233
17040	WILSON & MUIR BANK & TRUST COMPANY	Bardstown	KY	NM	787,006
13838	FIELD & MAIN BANK	Henderson	KY	SM	747,218

Competitive Landscape



Share of Total Loans and Leases

Percent



Source: FDIC.

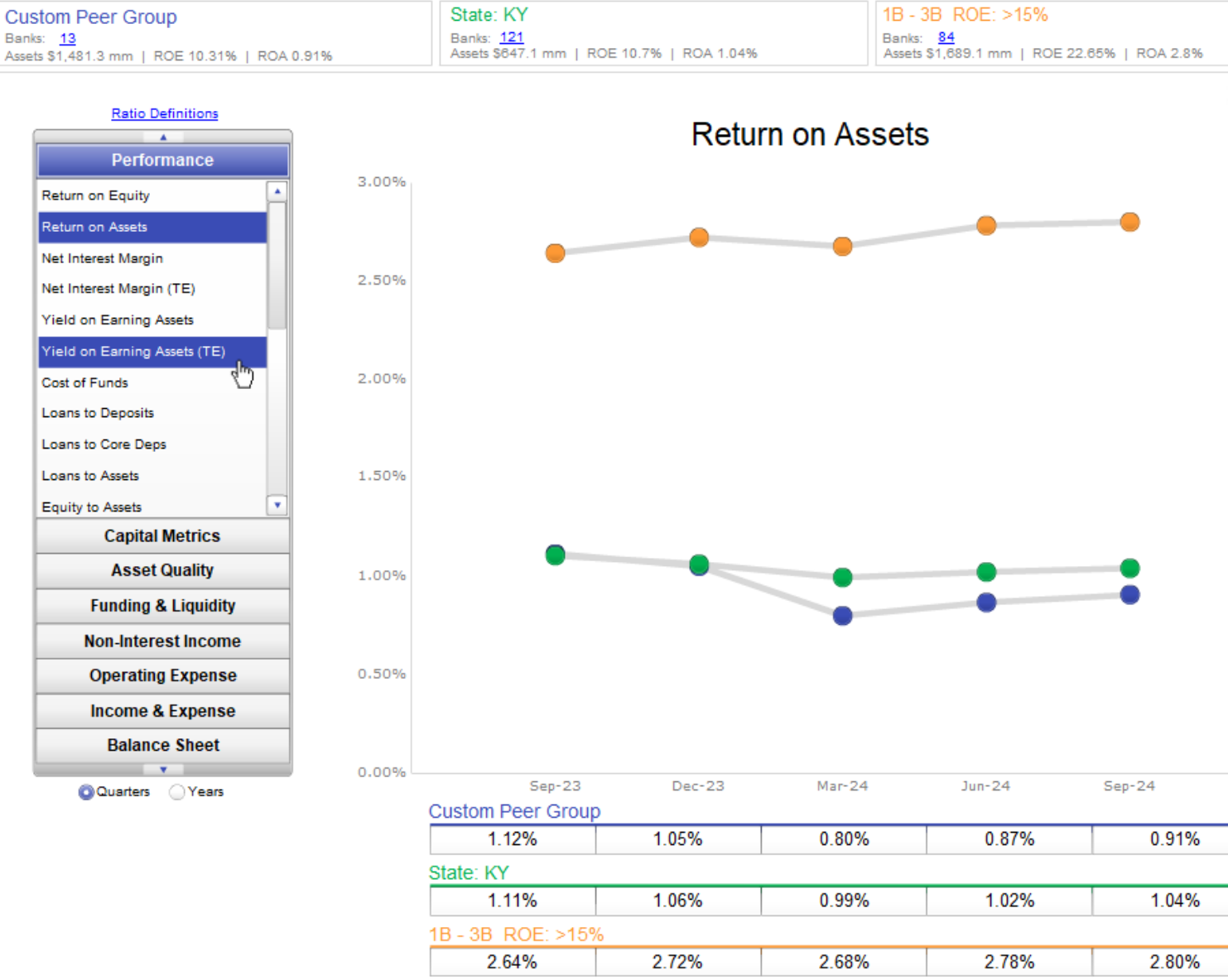
— Community Banks — All Other Banks

- Geographic barriers to entry
- Product differentiation
- Strong relationship

Challenge for Community Banks



Challenges – ROA

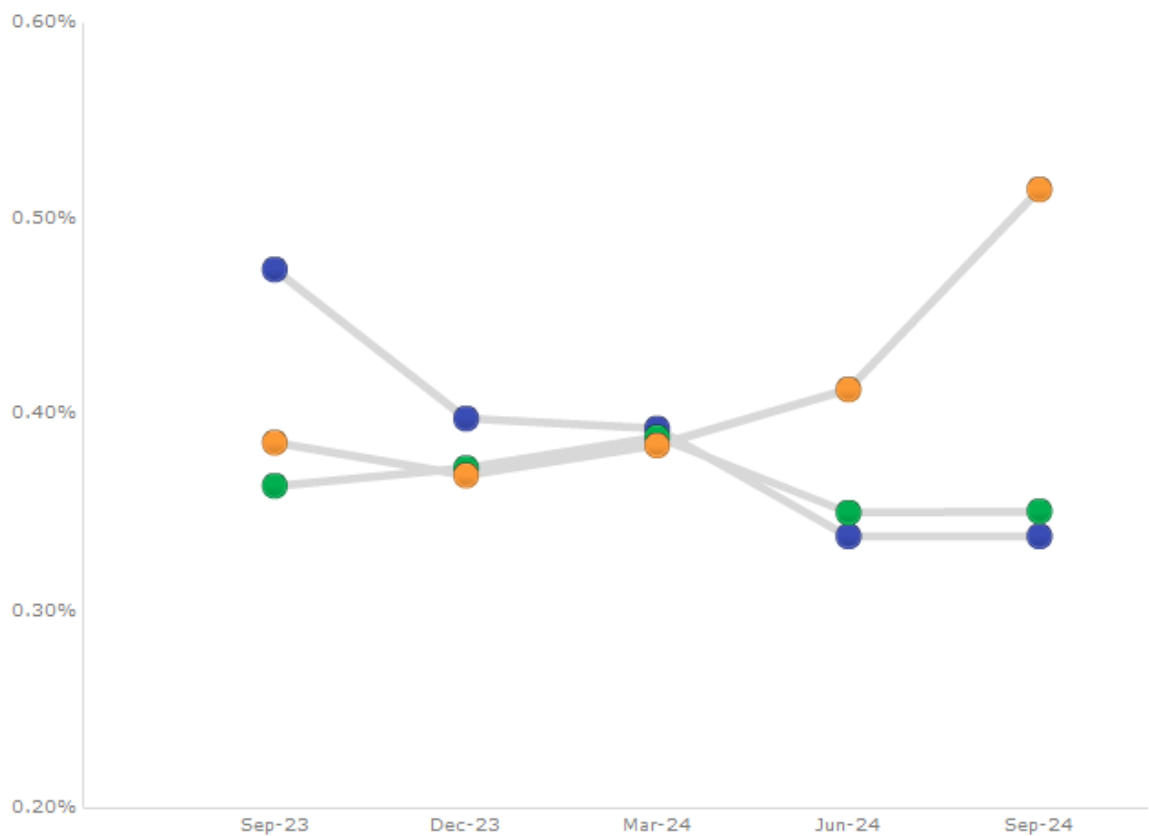


Attending Banks (min 0.38%, max1.98%)
All KY Banks
Top Performing Banks

Challenges – Credit Quality Issues?



Nonaccrual Loans to Loans



Custom Peer Group

0.47%	0.40%	0.39%	0.34%	0.34%
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State: KY

0.36%	0.37%	0.39%	0.35%	0.35%
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1B - 3B ROE: >15%

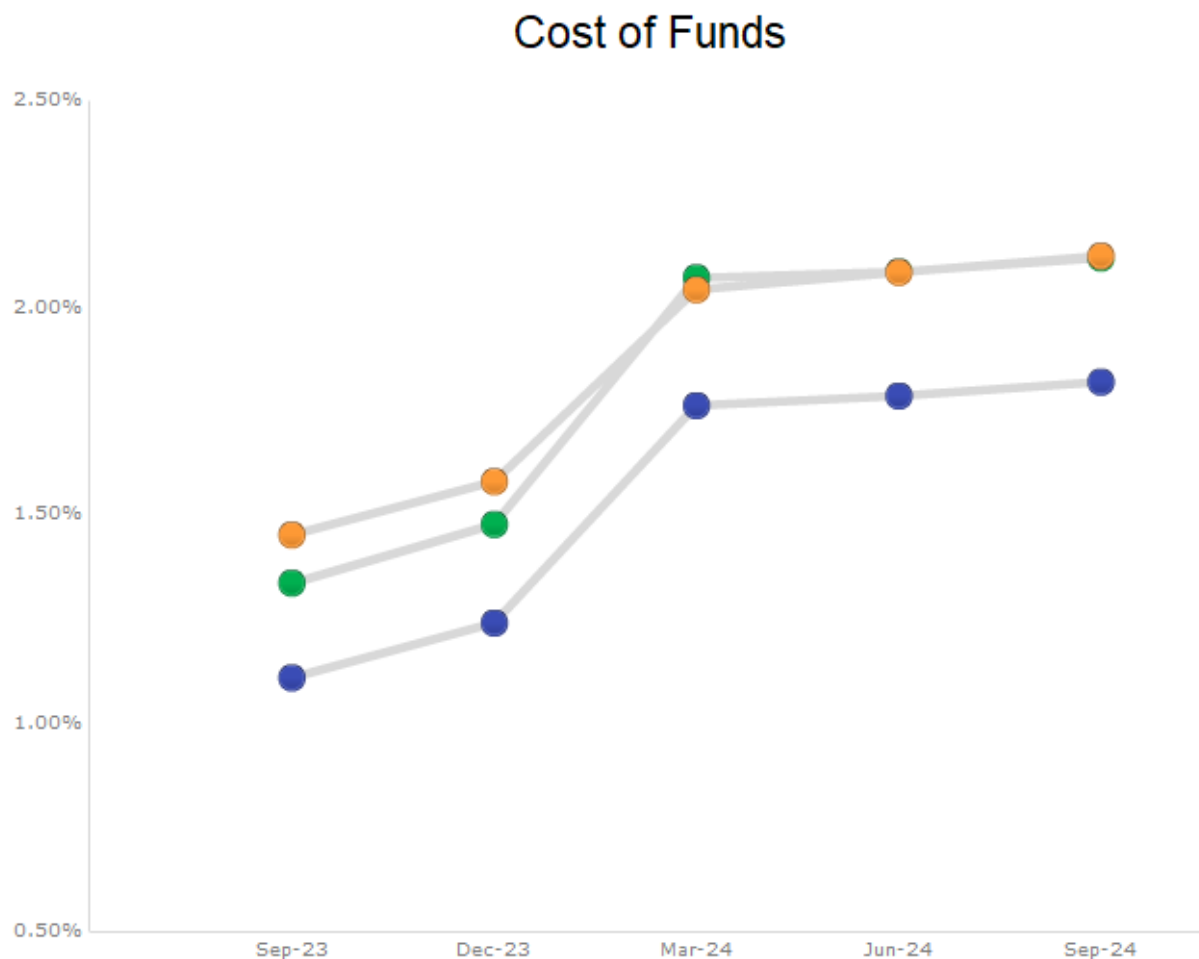
0.39%	0.37%	0.38%	0.41%	0.52%
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Attending Banks

All KY Banks

Top Performing Banks

Challenges – COF still rising?



Custom Peer Group

1.11%	1.24%	1.77%	1.79%	1.82%
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State: KY

1.34%	1.48%	2.07%	2.09%	2.12%
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1B - 3B ROE: >15%

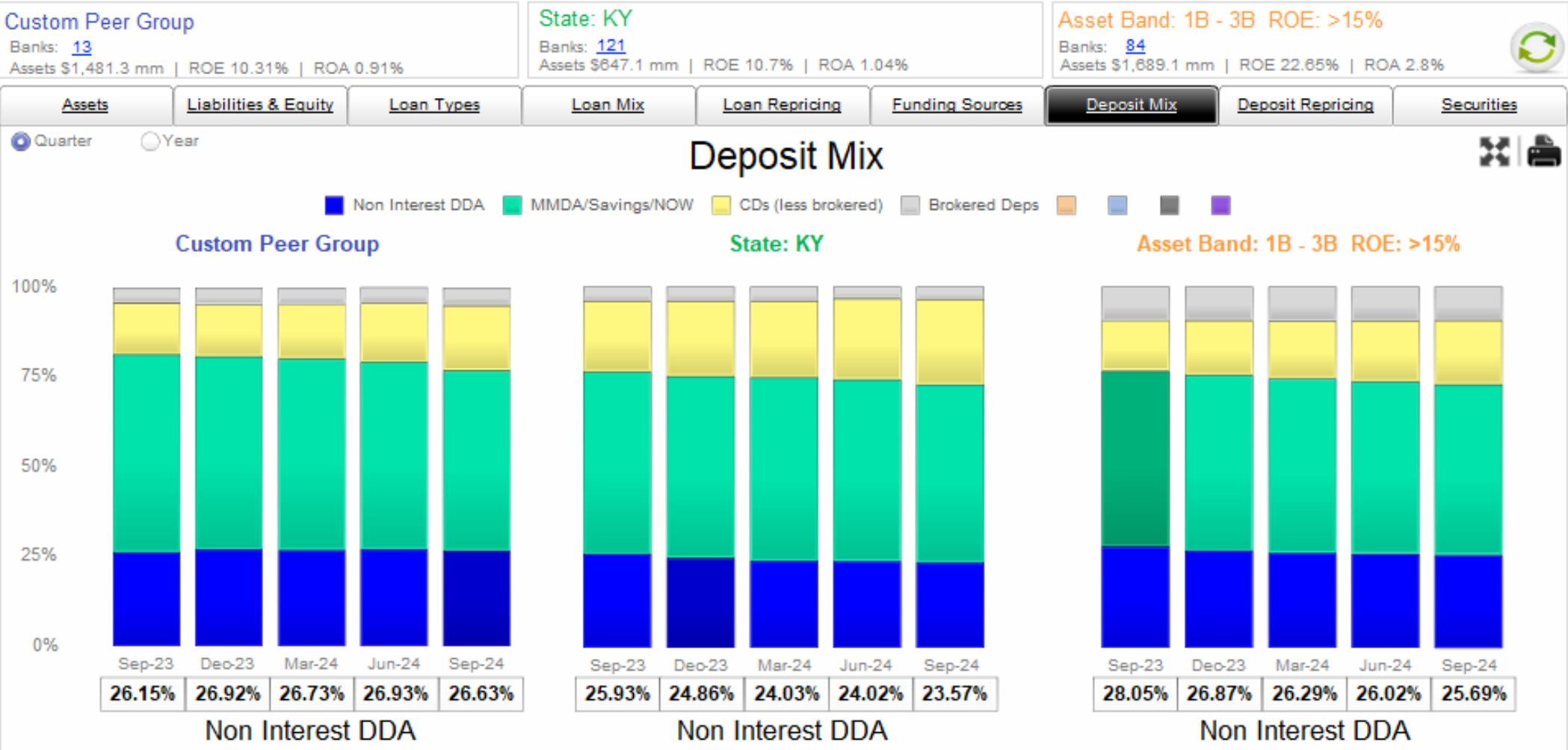
1.45%	1.58%	2.05%	2.09%	2.13%
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Attending Banks

All KY Banks

Top Performing Banks

Challenges – deposit mix

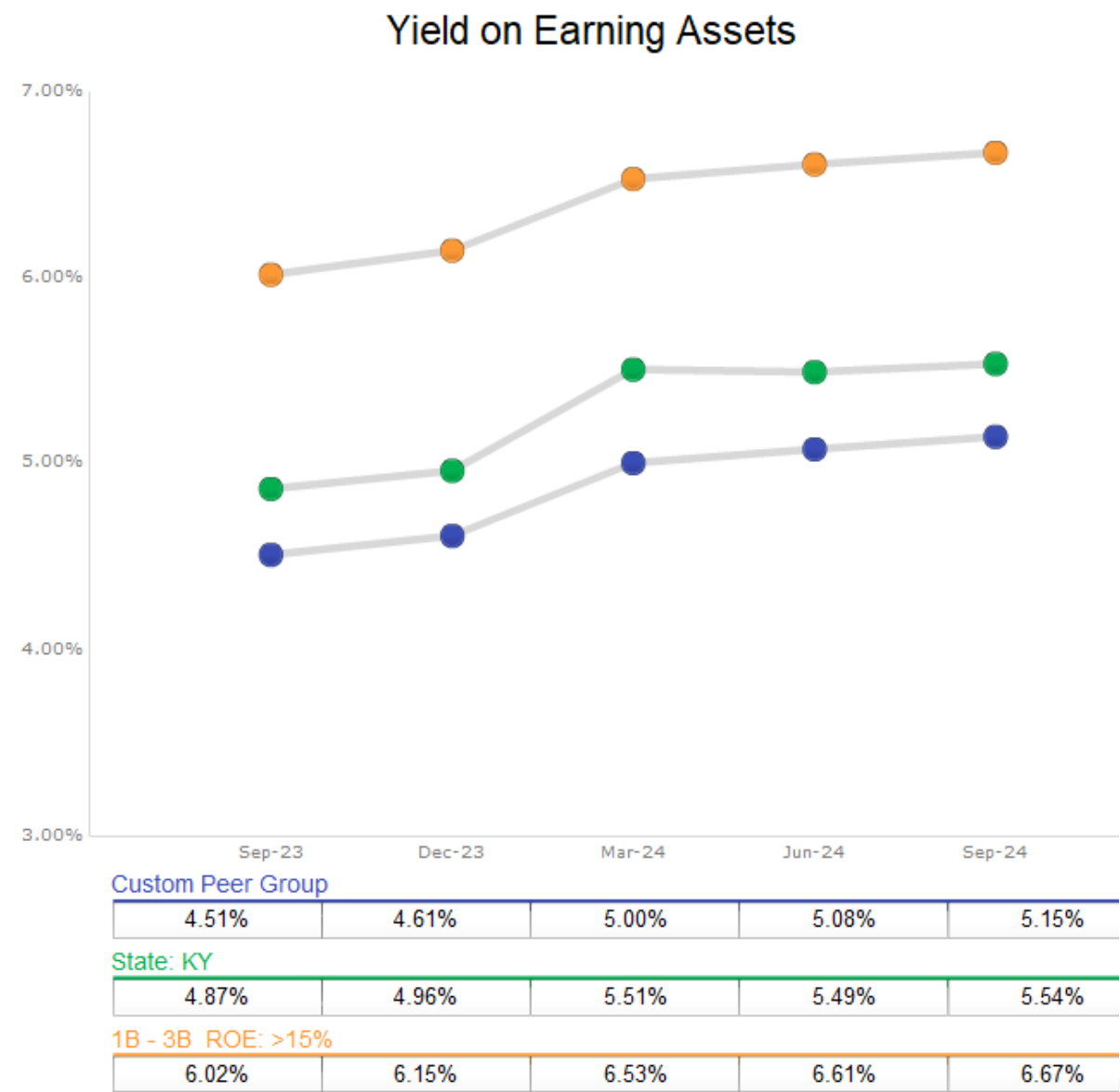


Attending Banks

All KY banks

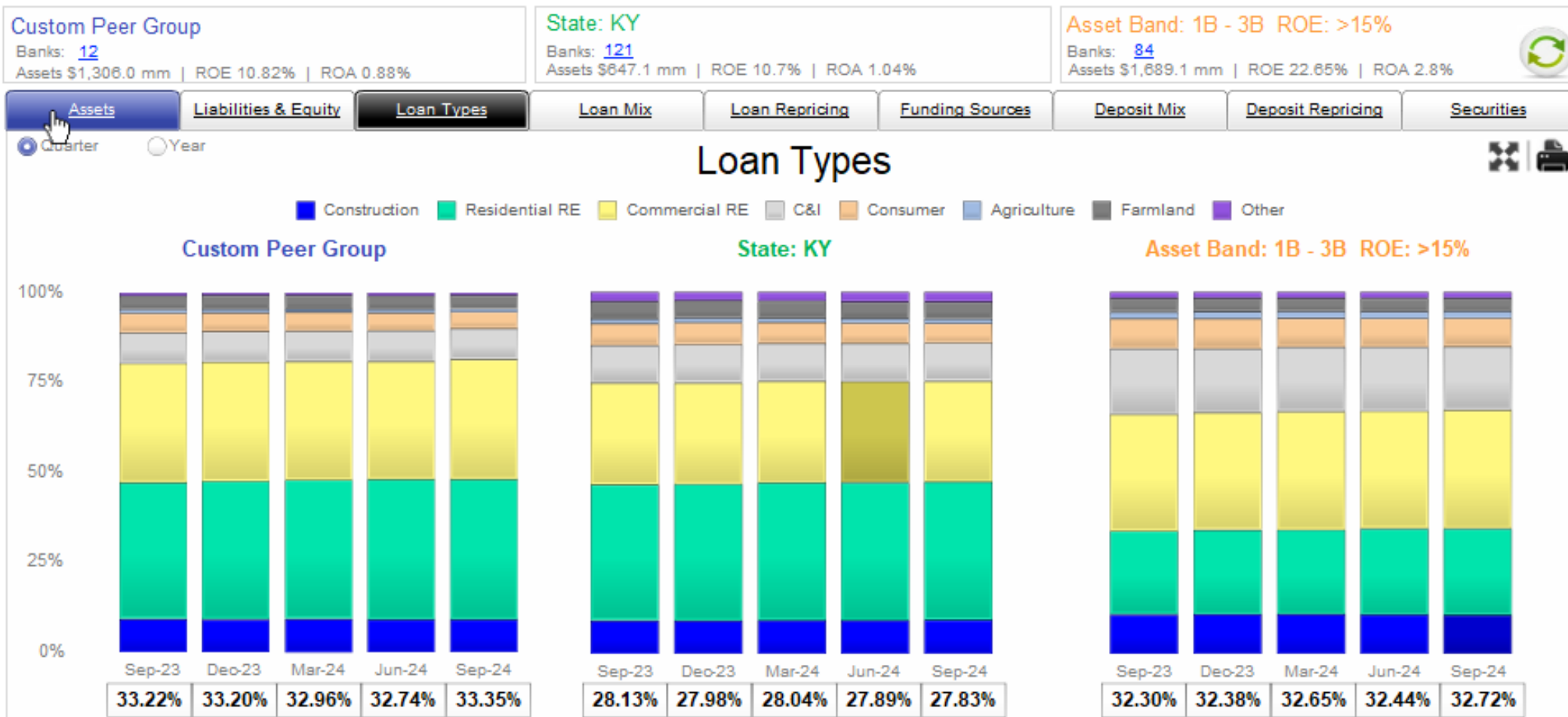
Top Performing Banks

Challenges – Yield



Attending Banks
All KY Banks
Top Performing Banks

Challenges – loan type

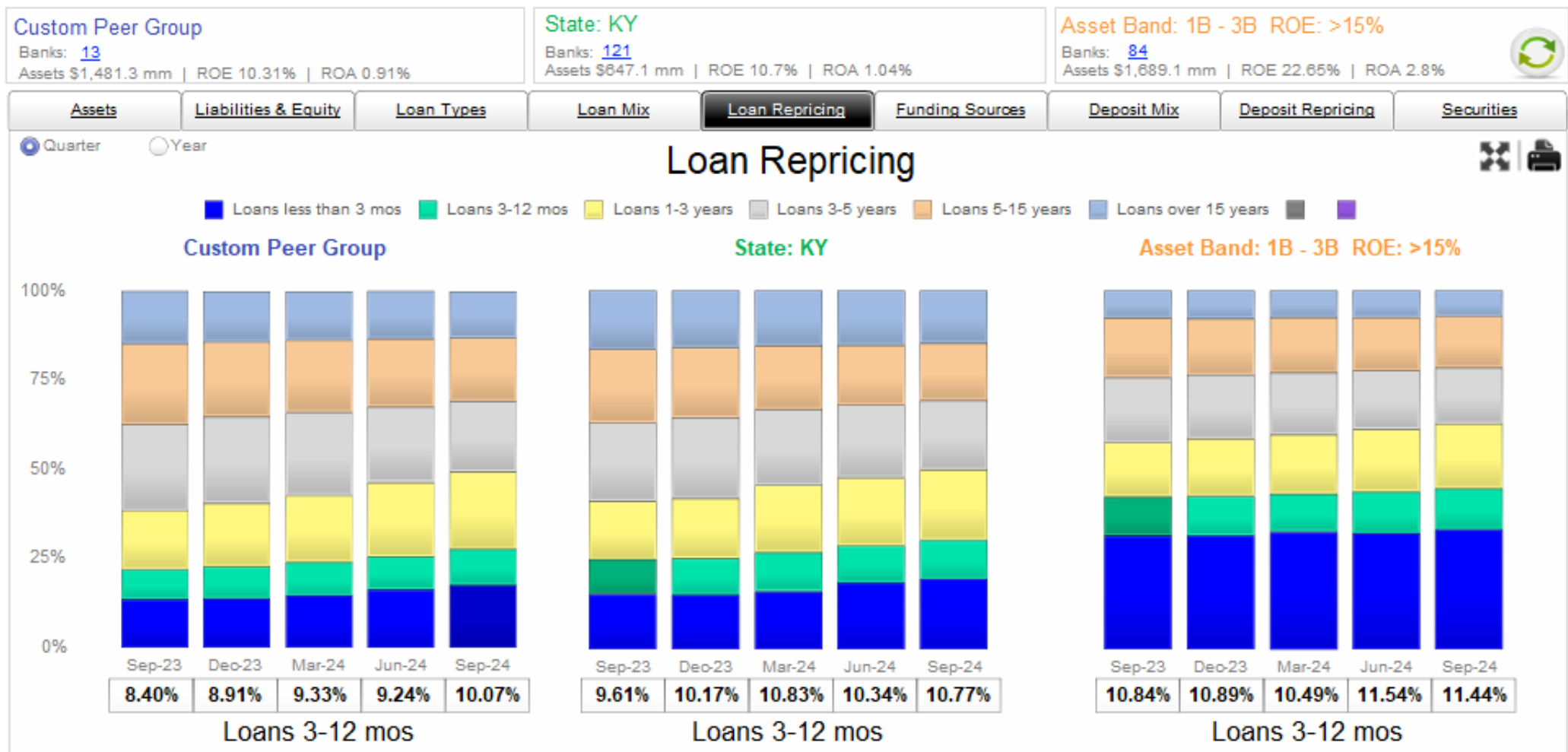


Attending Banks

All KY banks

Top Performing Banks

Challenges – loan repricing



Attending Banks

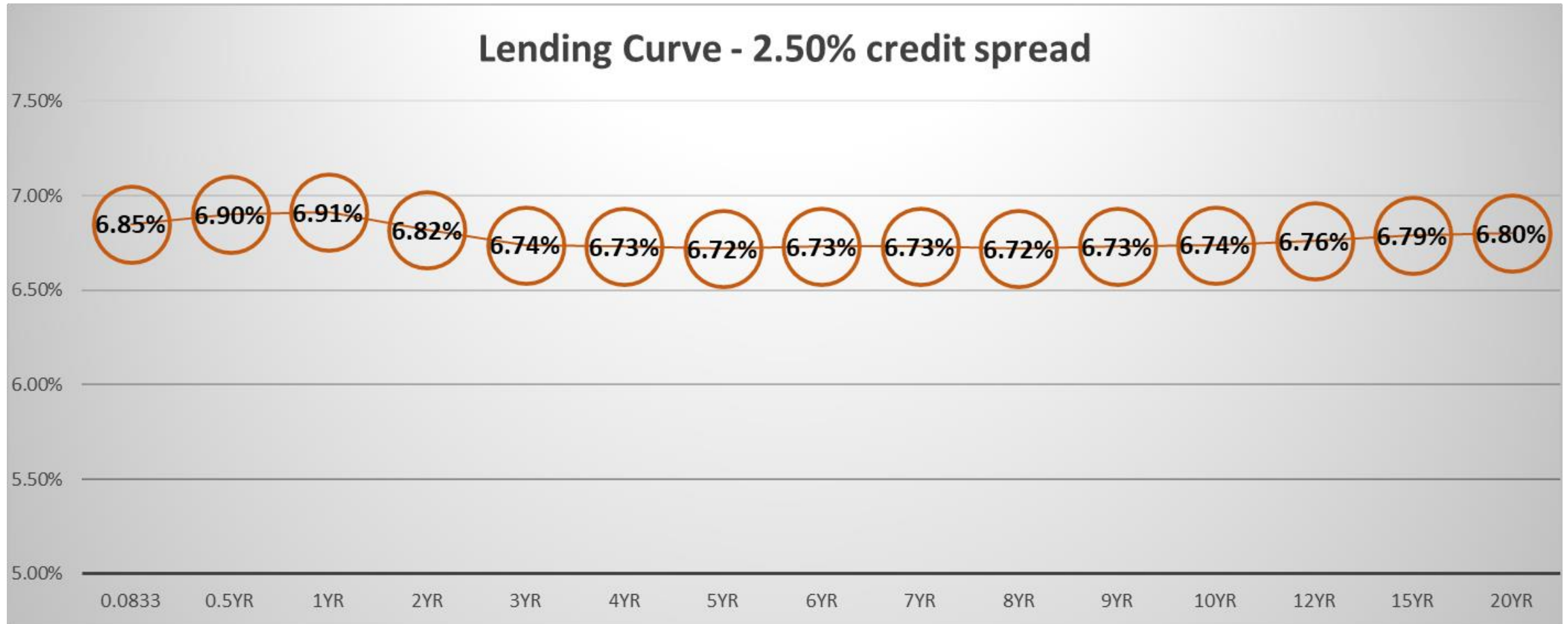
All KY banks

Top Performing Banks

Community Bank Challenges - Lending Curve



Flat curve creating a lending anomaly



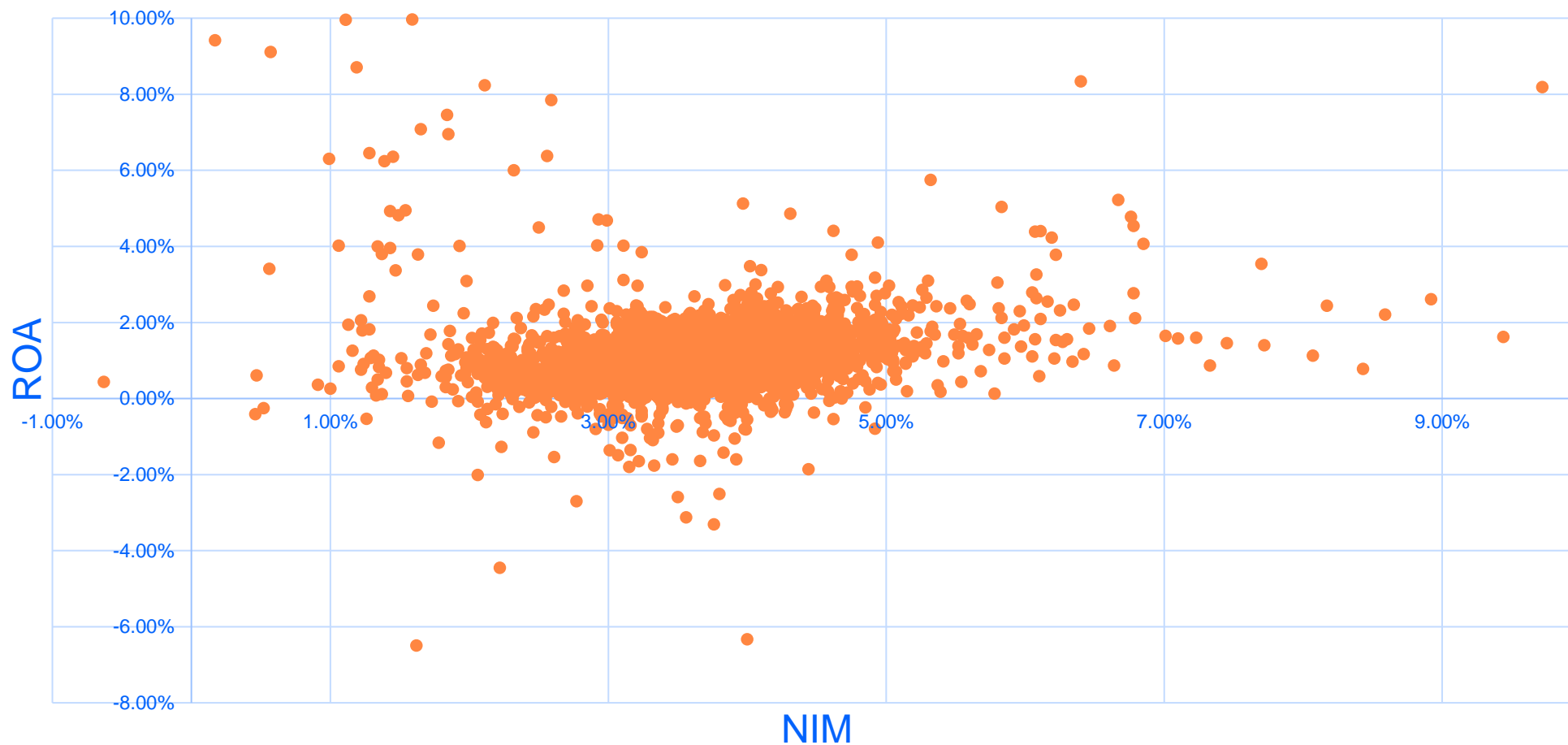
Point of indifference assuming no interest rate risk

NIM – ROA/ROE relationship to NIM

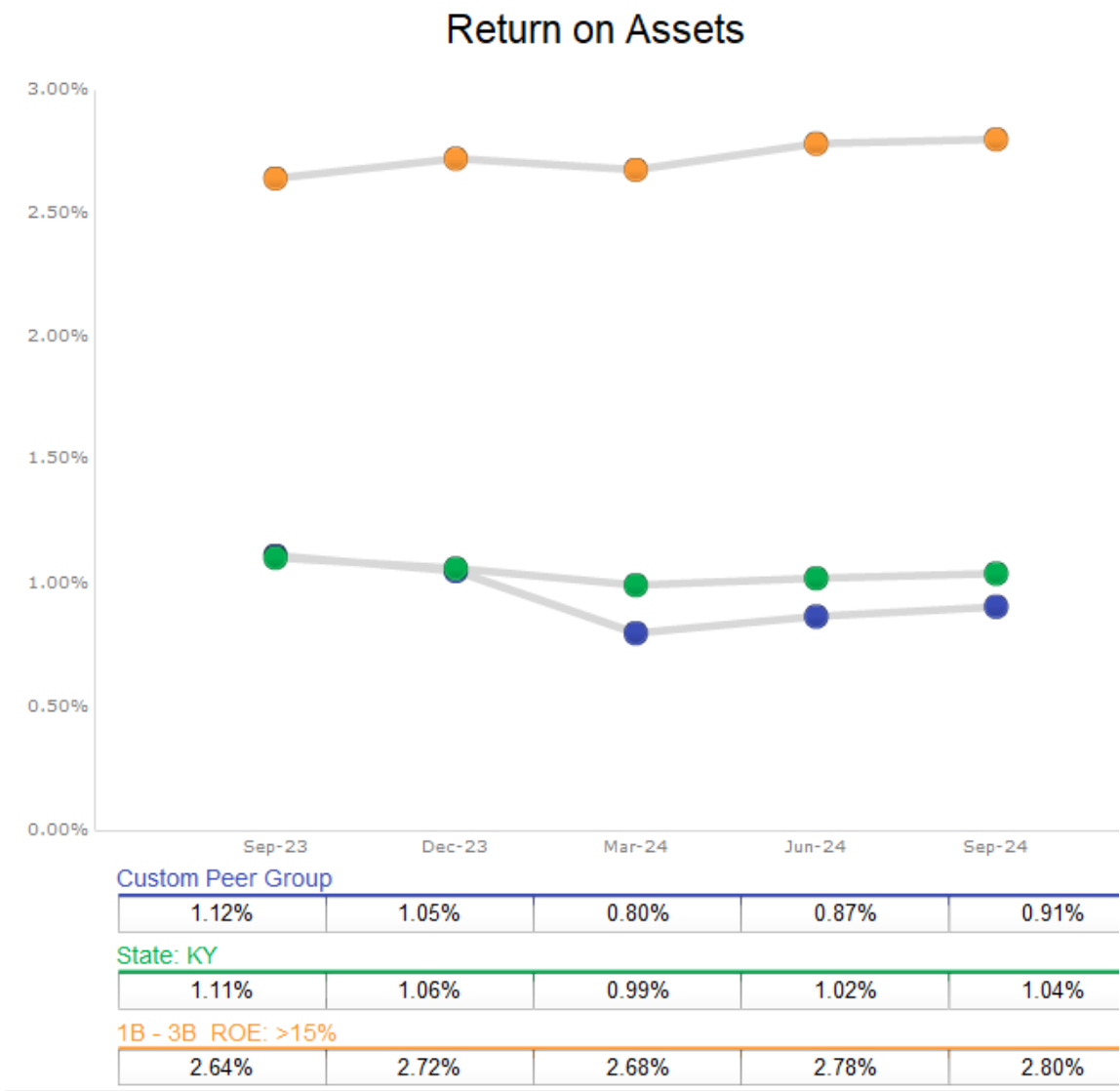


All Banks - 5YR AVG Net Interest Margin vs. 5YR AVG ROA

Correlation (R2) = - 0.02



Drivers of ROA



Attending Banks
All KY Banks
Top Performing Banks

Efficiency Ratios



Efficiency Ratio



Custom Peer Group

67.16%	67.48%	71.93%	70.36%	69.47%
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State: KY

62.38%	63.10%	62.93%	63.28%	63.21%
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1B - 3B ROE: >15%

49.84%	49.29%	50.96%	50.24%	50.12%
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Attending Banks (min 46%, max 86%)

All KY Banks

Top Performing Banks

Efficiency Ratios – not these drivers

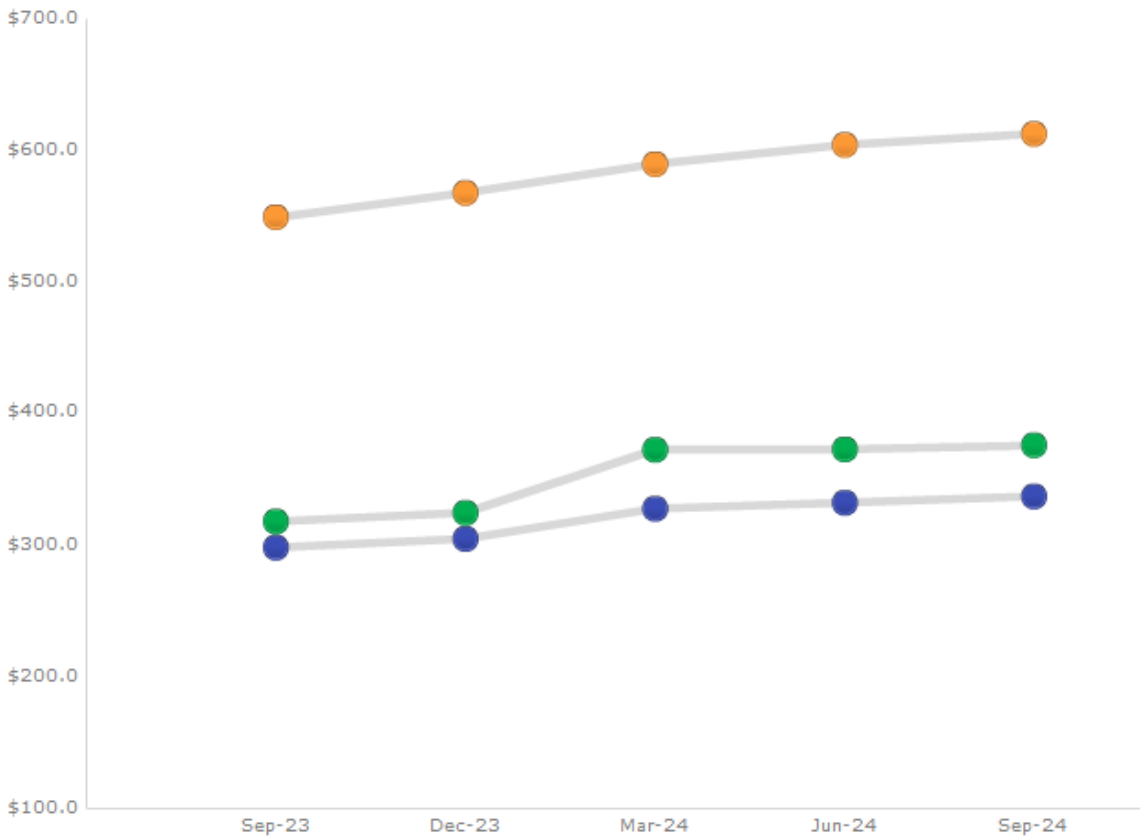


Attending Banks
All KY Banks
Top Performing Banks

Efficiency Ratios – these drivers



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



Custom Peer Group

\$298	\$305	\$328	\$332	\$337
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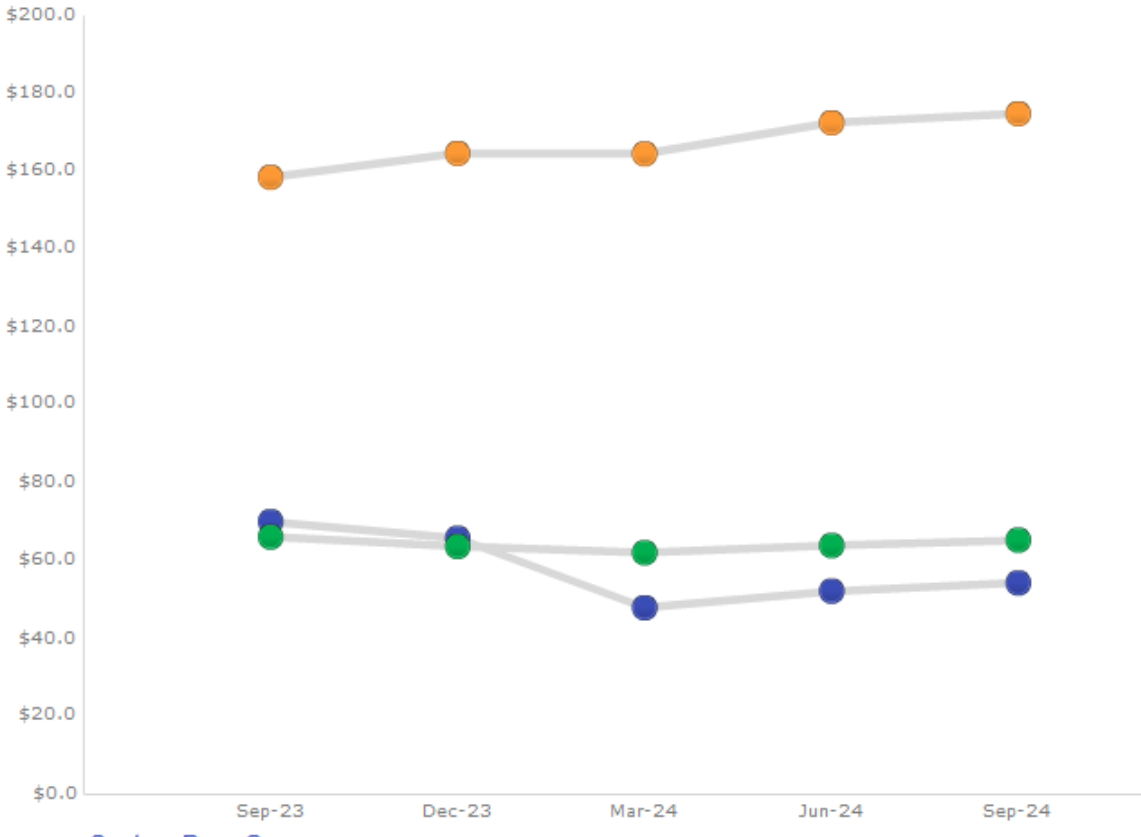
State: KY

\$318	\$325	\$372	\$373	\$376
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1B - 3B ROE: >15%

\$549	\$568	\$590	\$604	\$613
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Net Income per Employee (\$ 000s)



Custom Peer Group

\$70	\$66	\$48	\$52	\$54
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State: KY

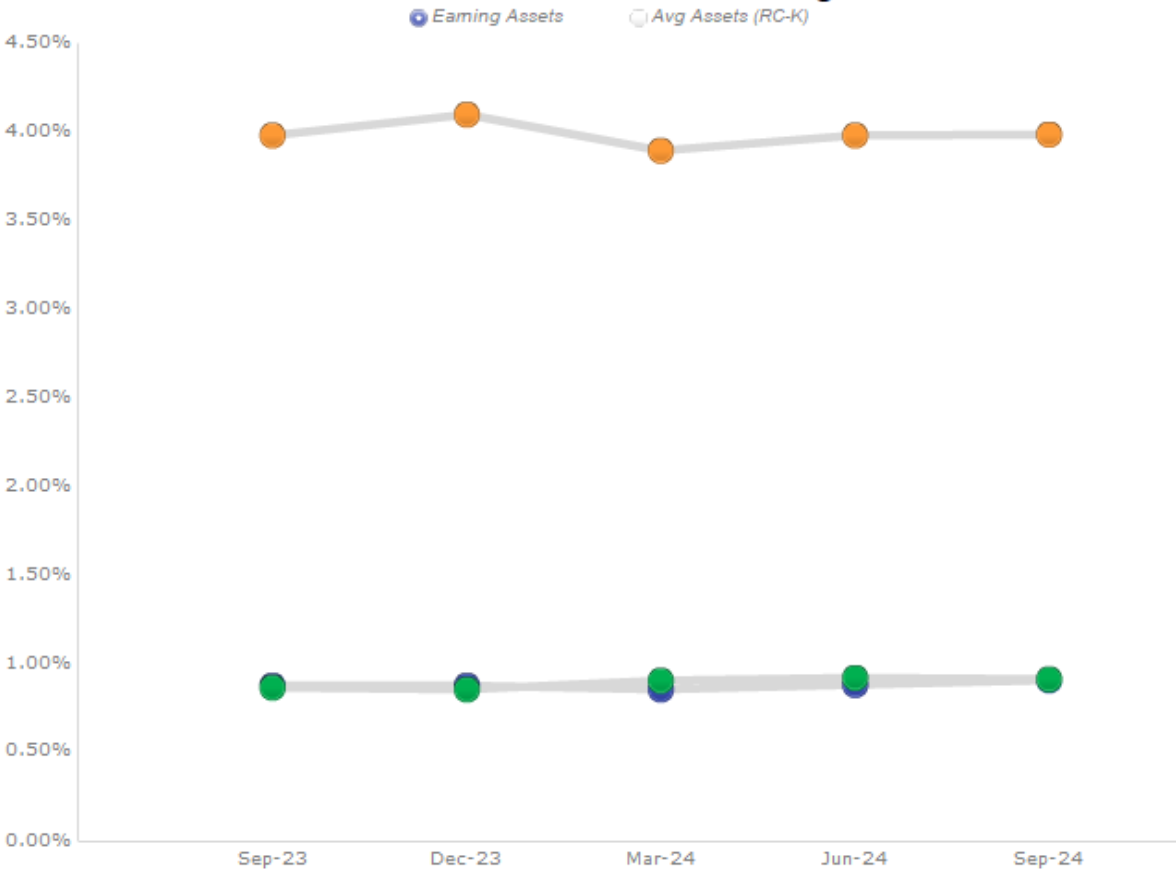
\$66	\$64	\$62	\$64	\$65
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1B - 3B ROE: >15%

\$158	\$165	\$164	\$172	\$175
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Non-Interest Income to Earning Assets



Custom Peer Group				
0.88%	0.88%	0.86%	0.88%	0.91%
State: KY				
0.87%	0.86%	0.91%	0.92%	0.91%
1B - 3B ROE: >15%				
3.98%	4.10%	3.89%	3.98%	3.99%

Attending Banks (min 0.48%, max 6.58%)

All KY Banks

Top Performing Banks

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

Opportunities for Community Banks

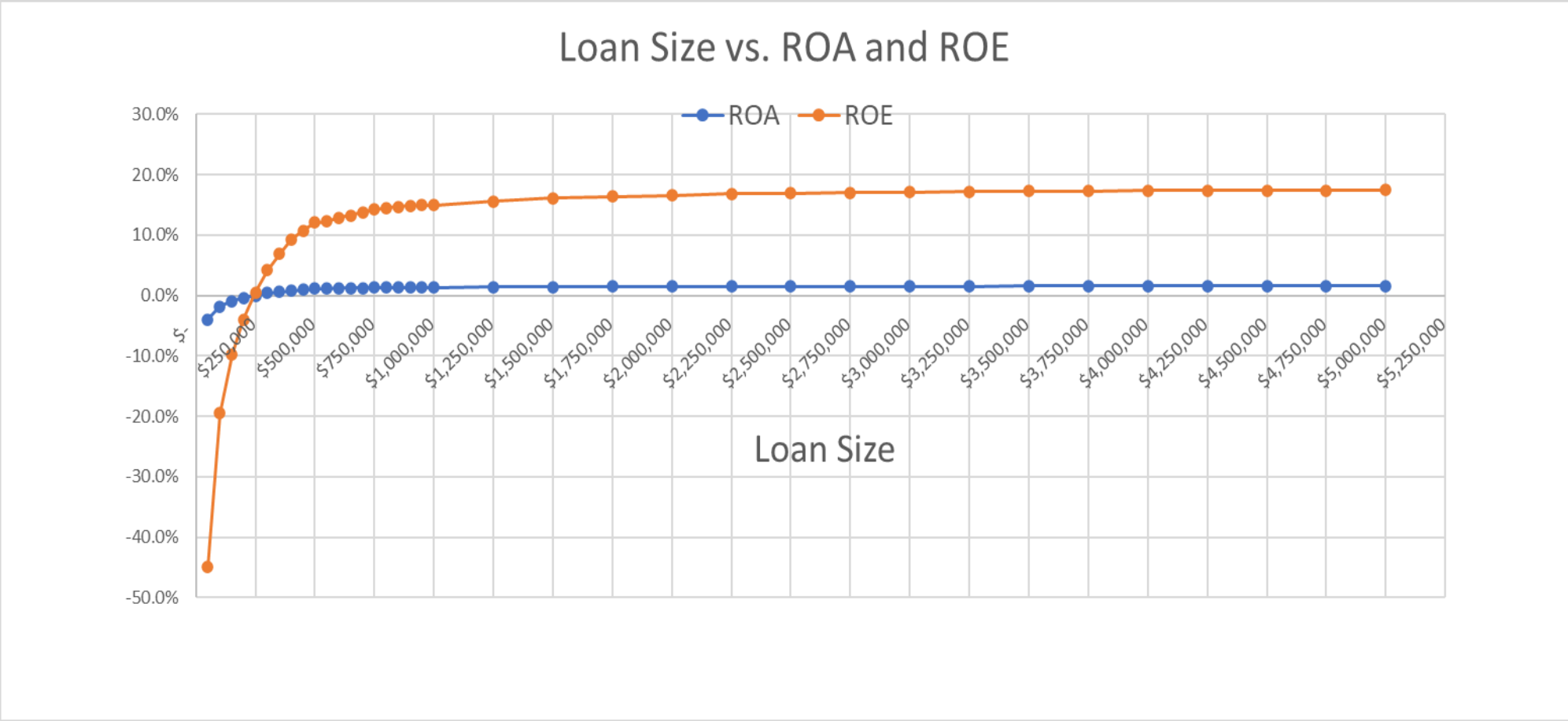
Size, Term, Credit Quality, Non-interest Income, Long-term Relationships



Loan Size – scale matters



5yr CRE loan, S + 2.50%



Loan Size – scale matters

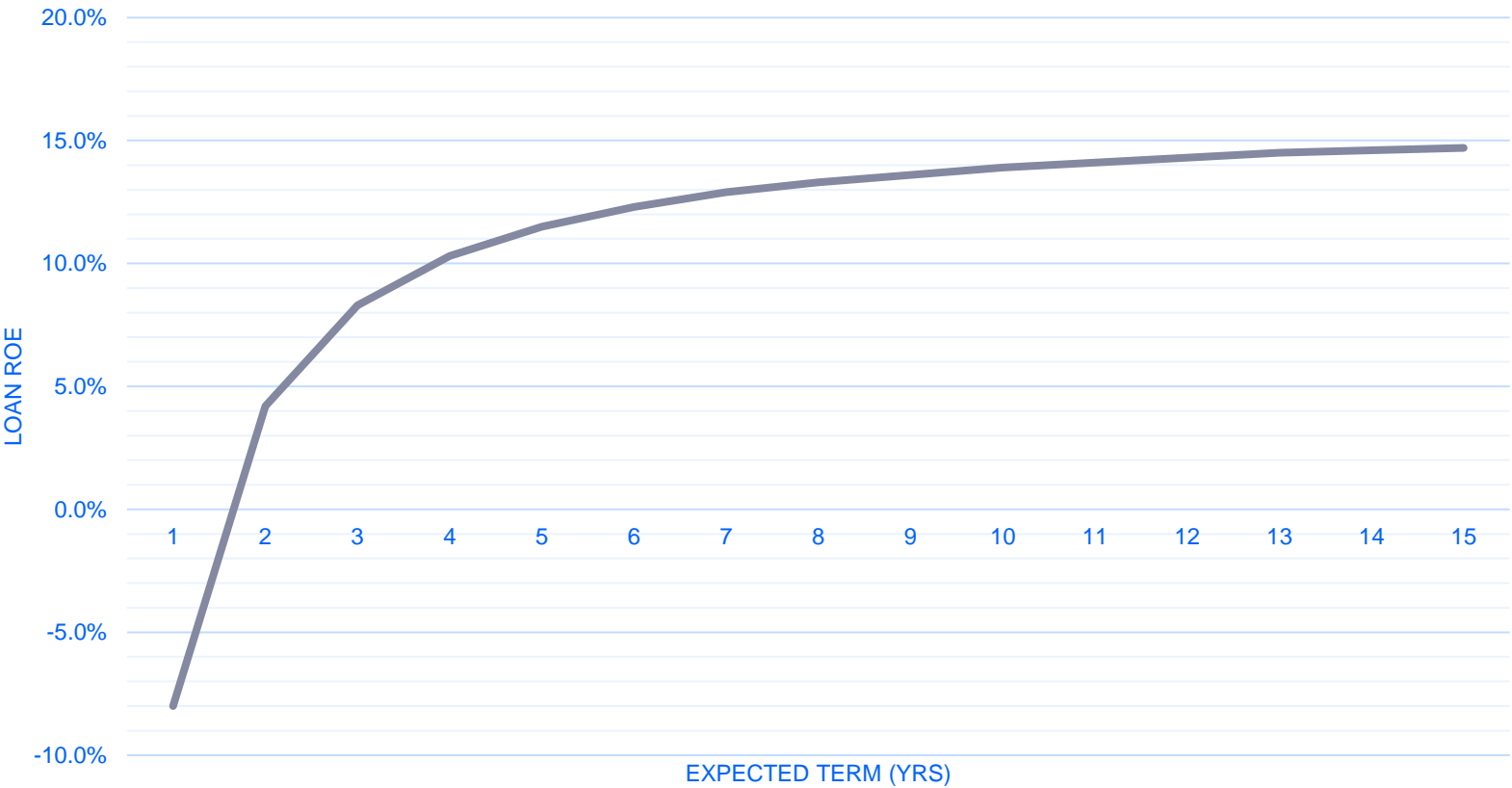


Average Loan Size	
Wells Fargo Bank	\$3,826,157
JPMorgan Chase	\$2,419,298
Bank of America	\$4,616,192
US Bank	\$2,356,782
PNC Financial	\$5,521,871
Regions Bank	\$6,248,154
Key Bank	\$6,982,759
Citi Bank	\$2,705,570
M&T Bank	\$2,713,273
Average	\$4,154,451

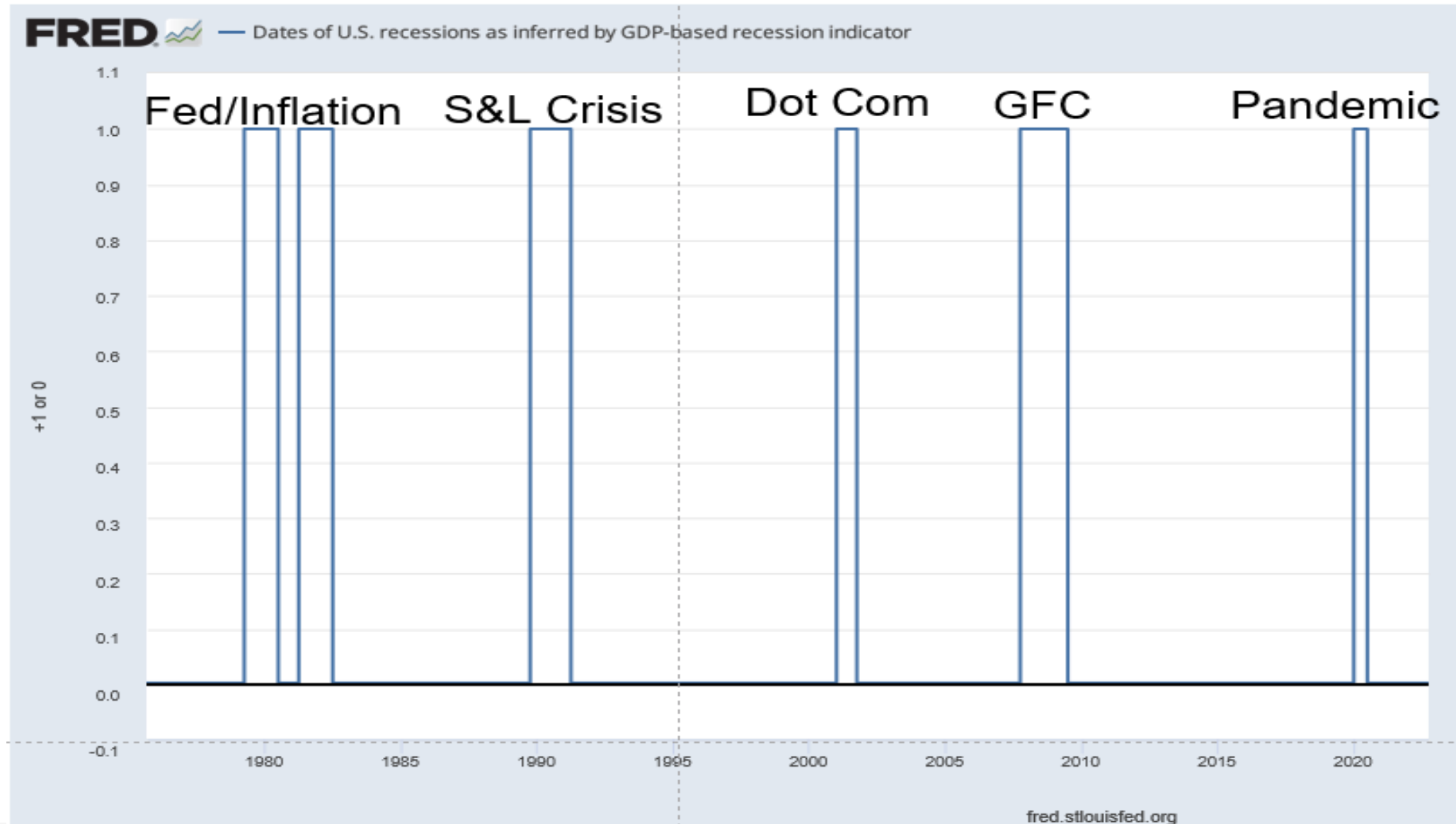


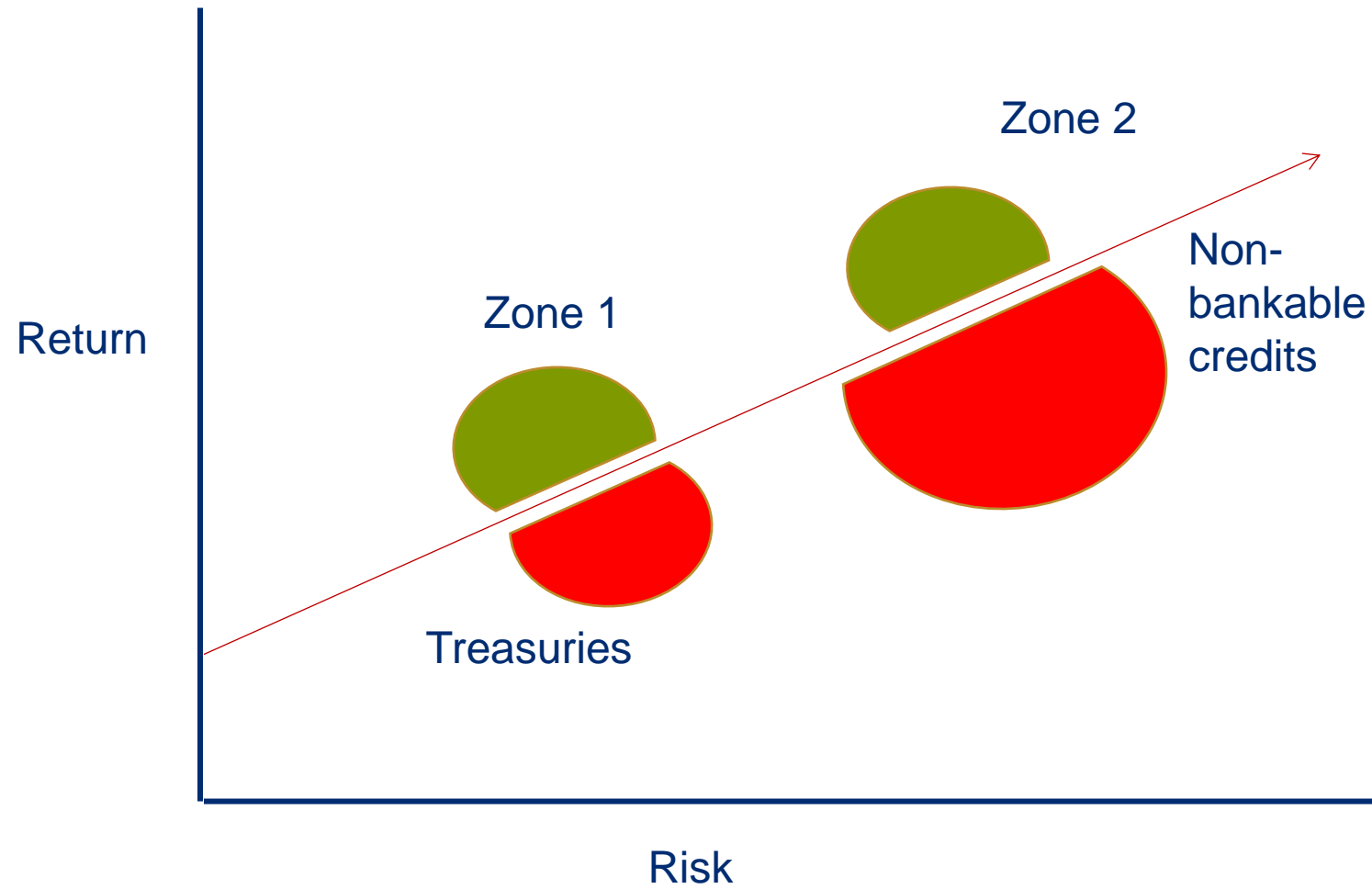
\$500k CRE loan, S + 2.50%

Loan Term vs. ROE




Credit Quality





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

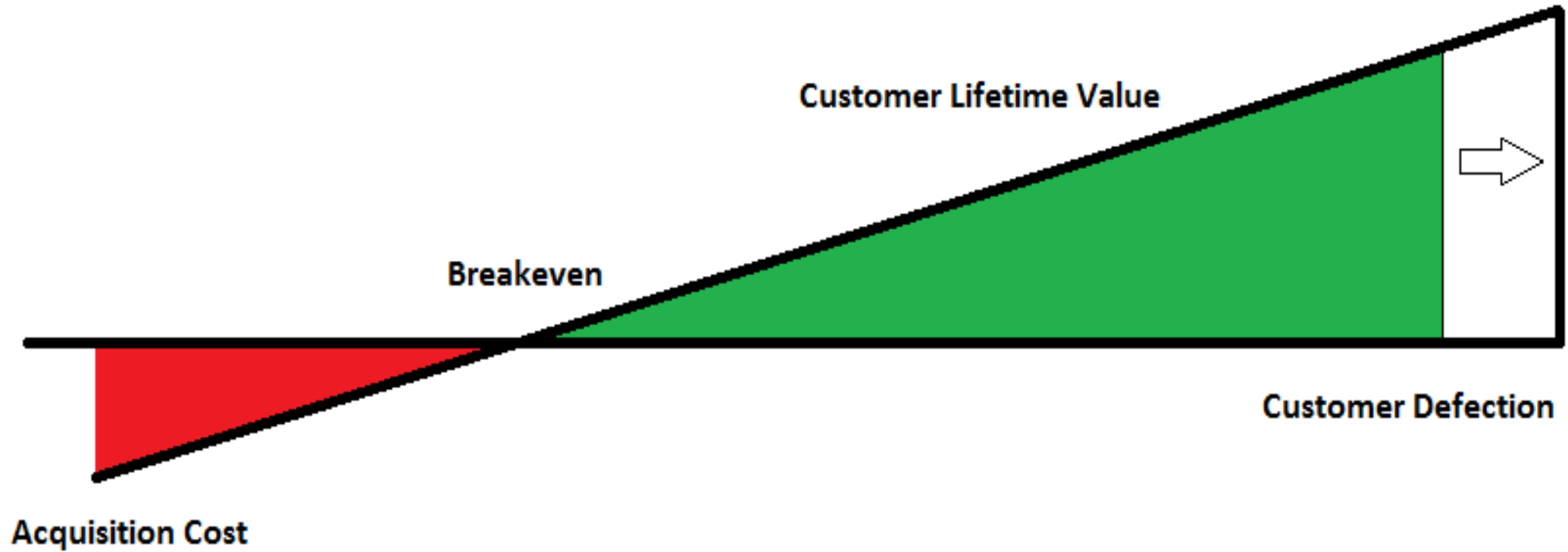
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11	Net Loan Charge-offs	0.013
12	Total Assets	-0.004

- 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

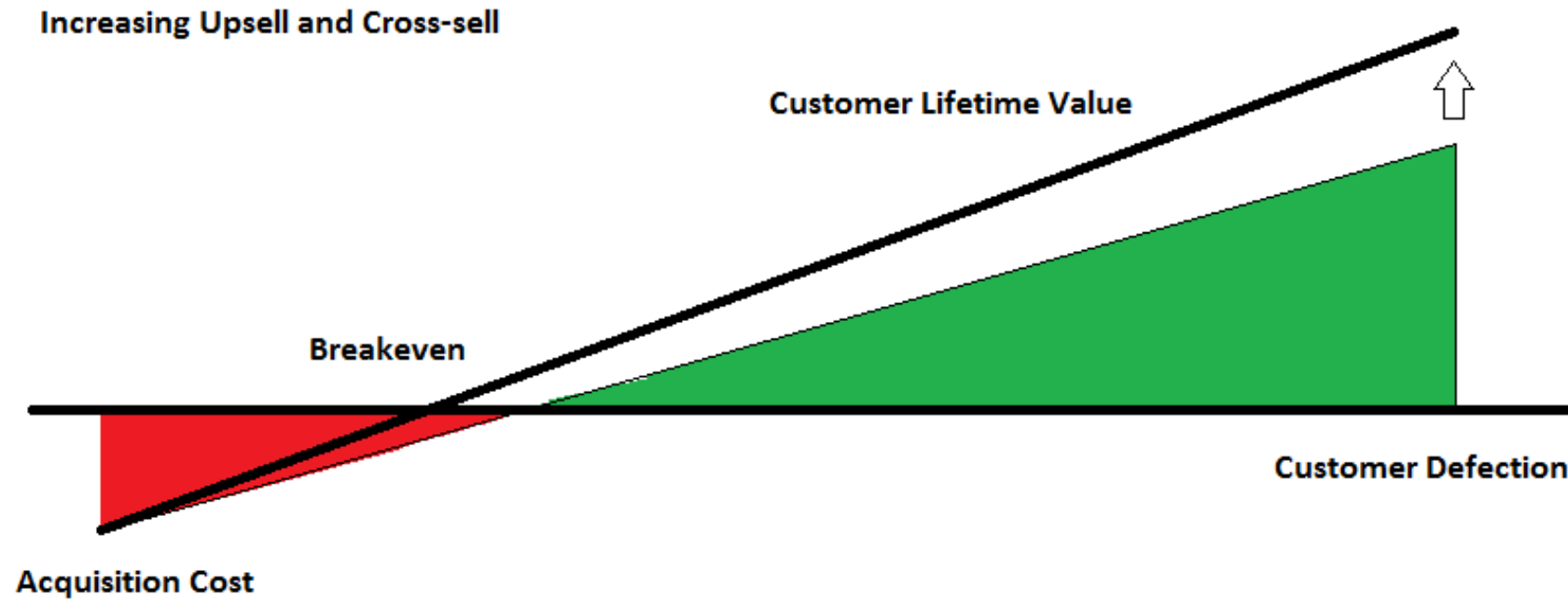
Long-term relationships



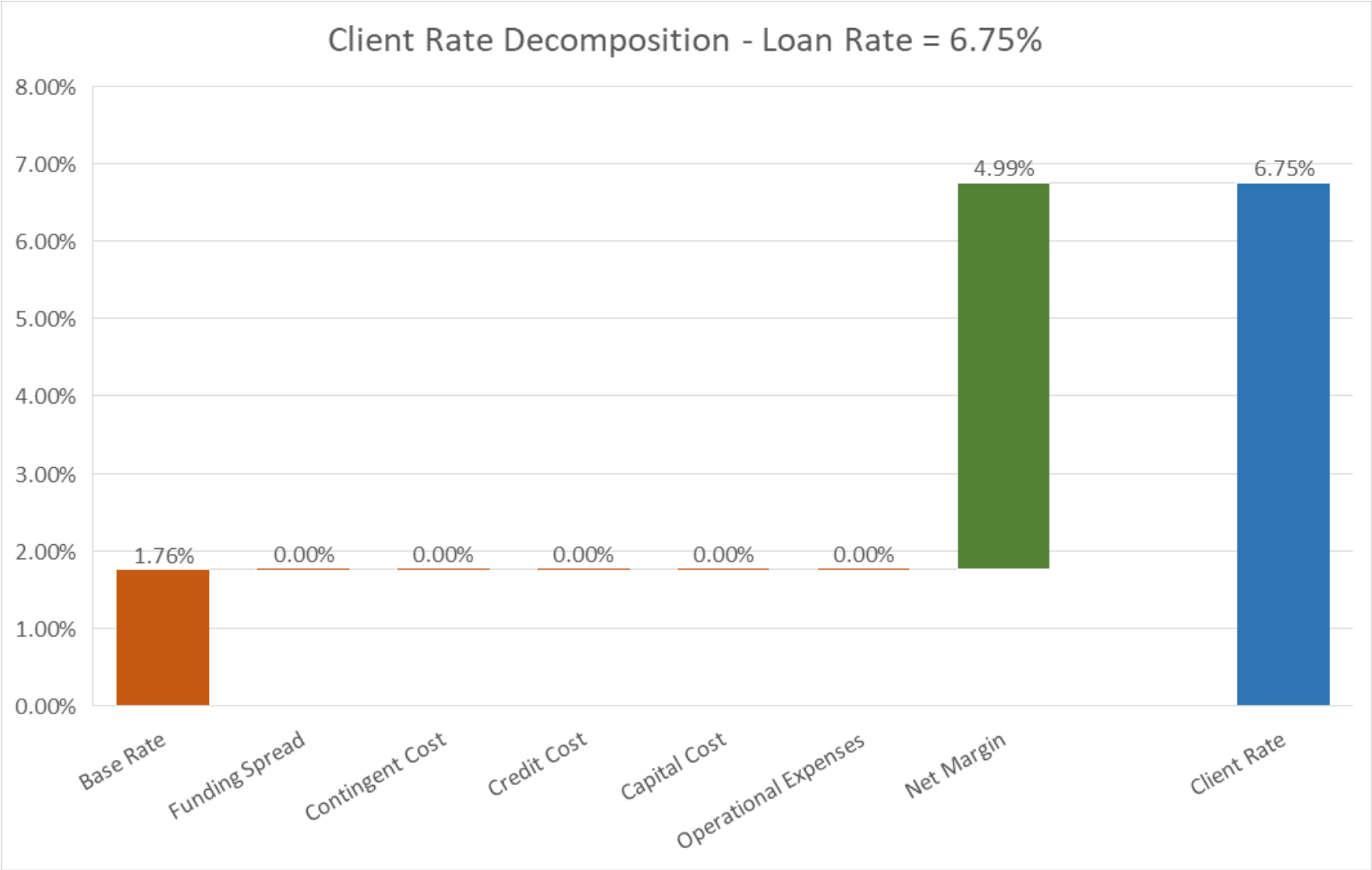
Increasing Retention / Reducing Churn



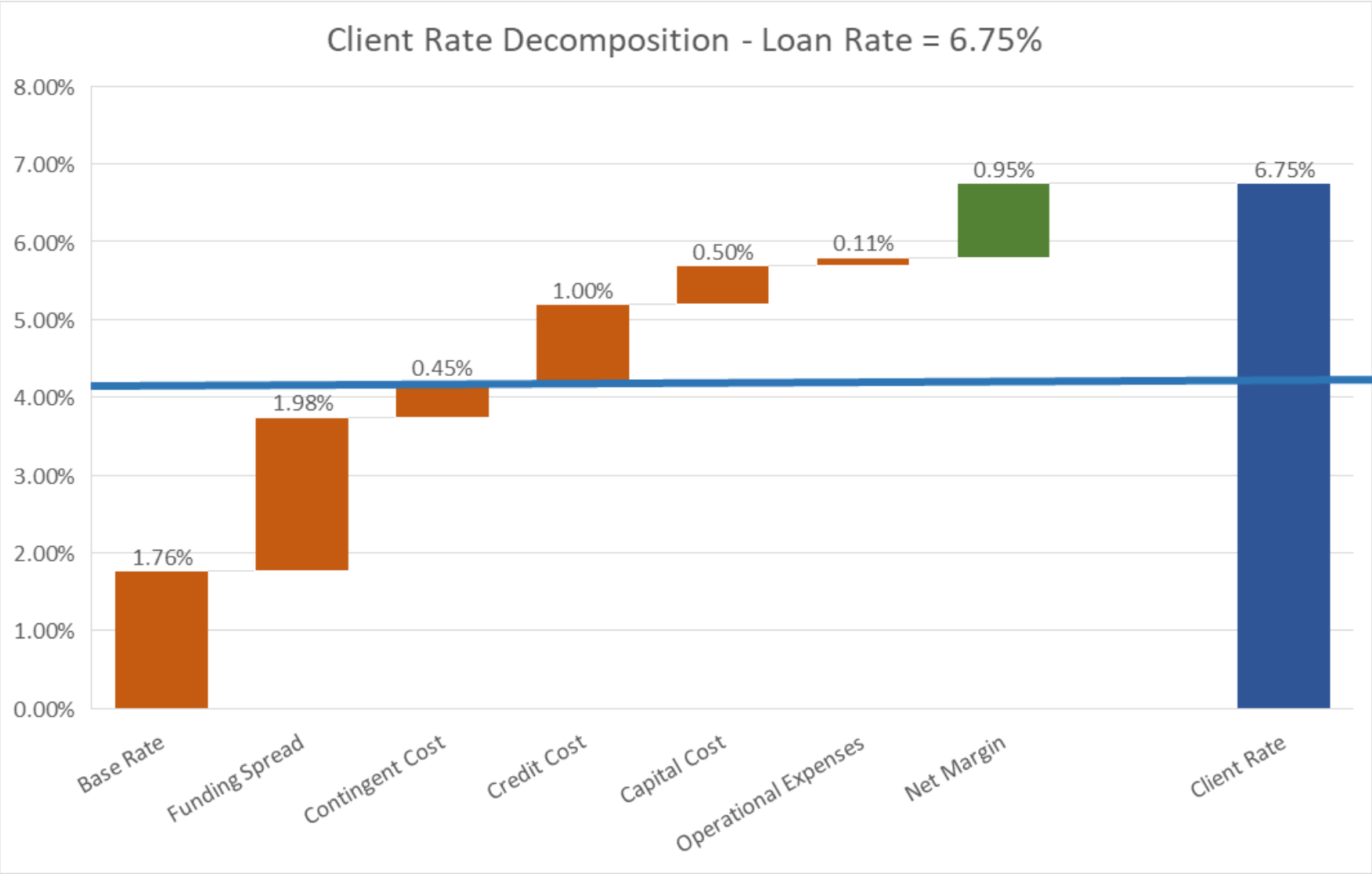
Long-term relationships




Fund Transfer Pricing – no FTP



Fund Transfer Pricing – with FTP





Commercial Loan Credit & Pricing Trends For 1Q 2025

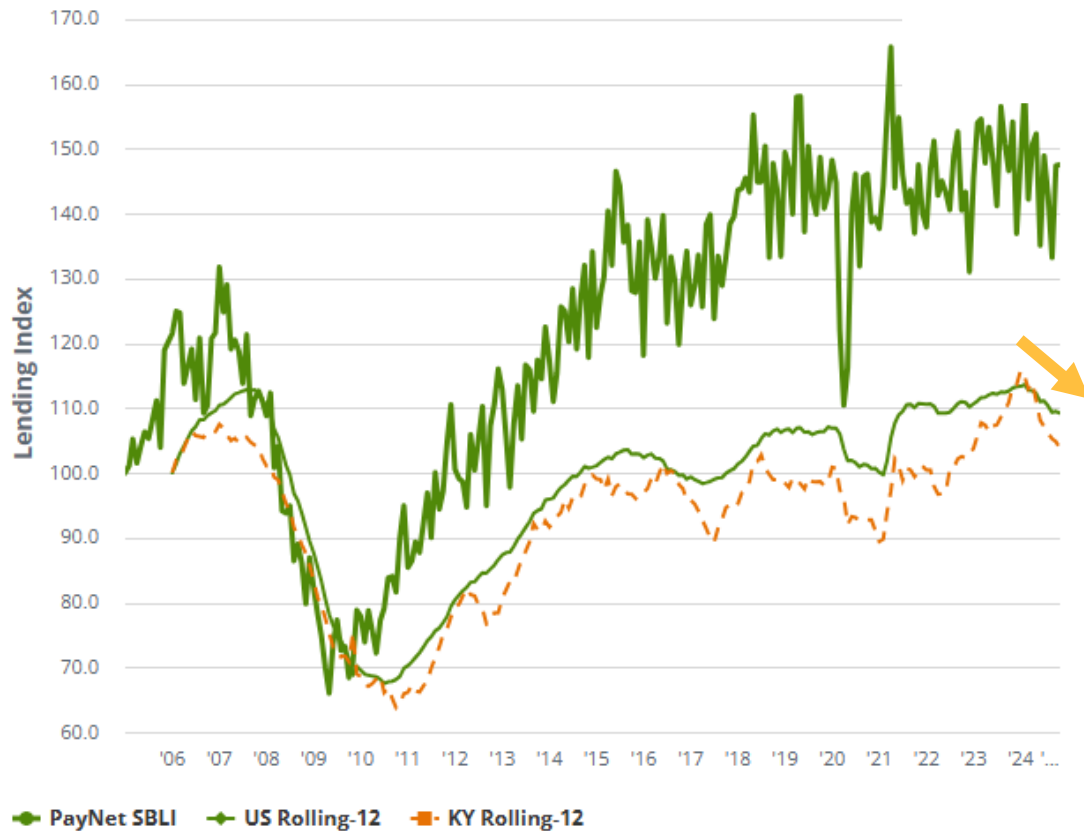
- Pricing/risk data and risk-adjusted profitability data from Loan Command aggregates for 3Q to date through 1/31/25.
- Commercial real estate sector performance data from CoStar as of 1/31/25.
- C&I /owner-occupied probabilities of default and loss given default based on PayNet (Equifax) model using 1Q 2025 data.



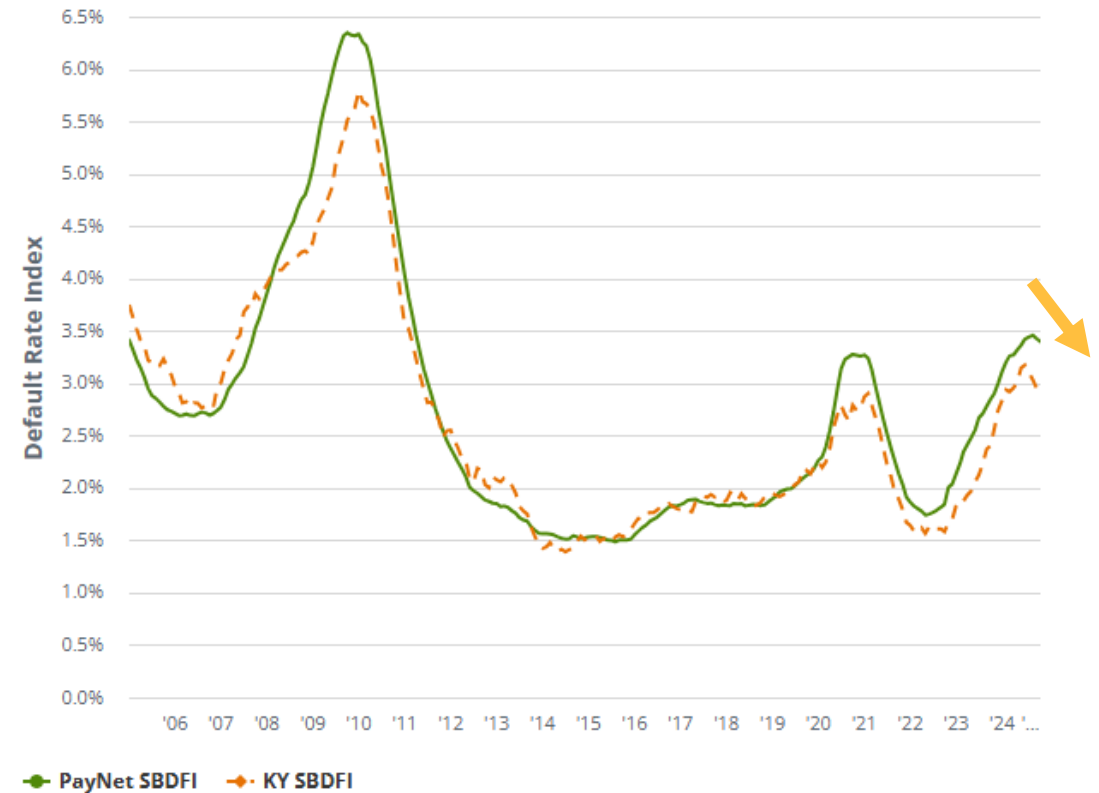
Commercial KY Loan Production & Defaults



SMB Lending Volume for KY

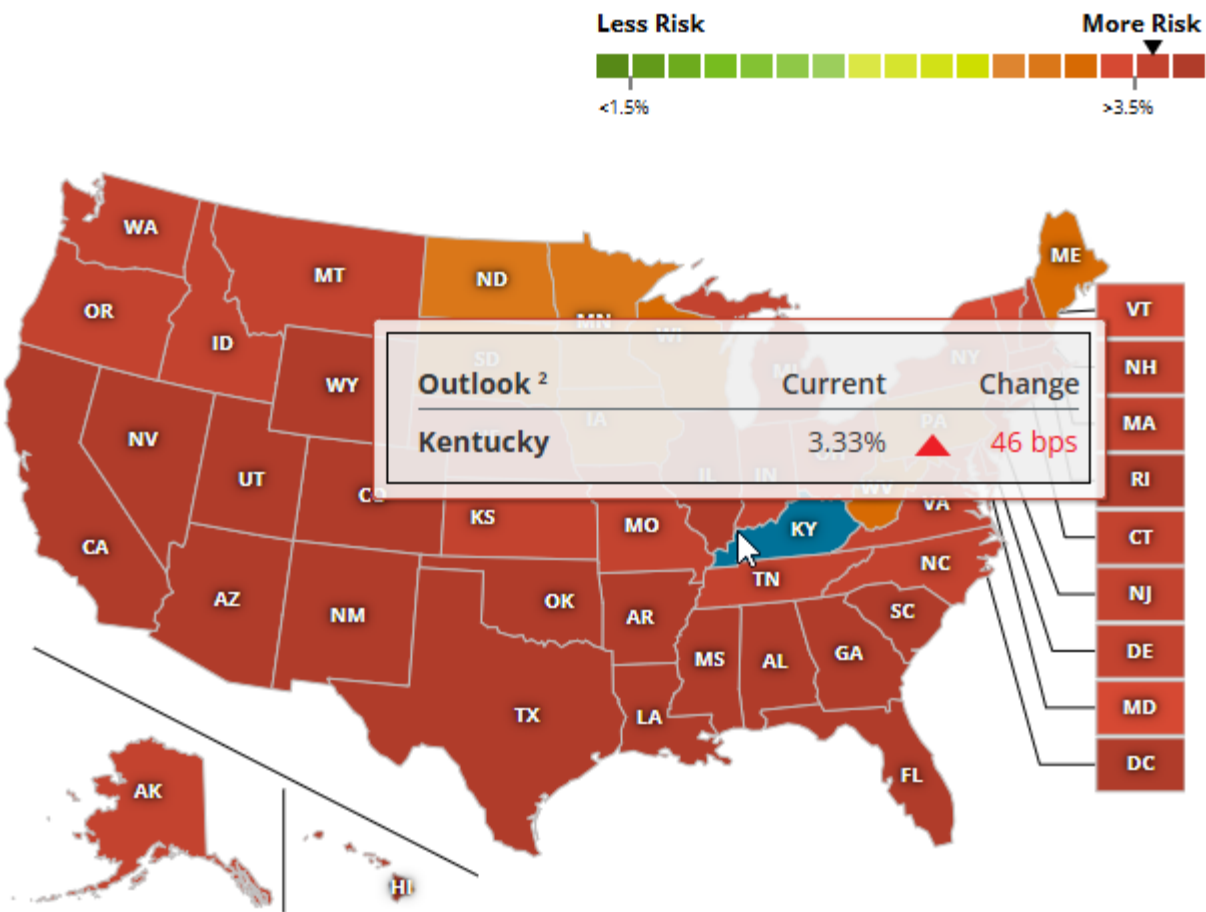


SMB Defaults in KY



Source: Paynet, Jan. 2025

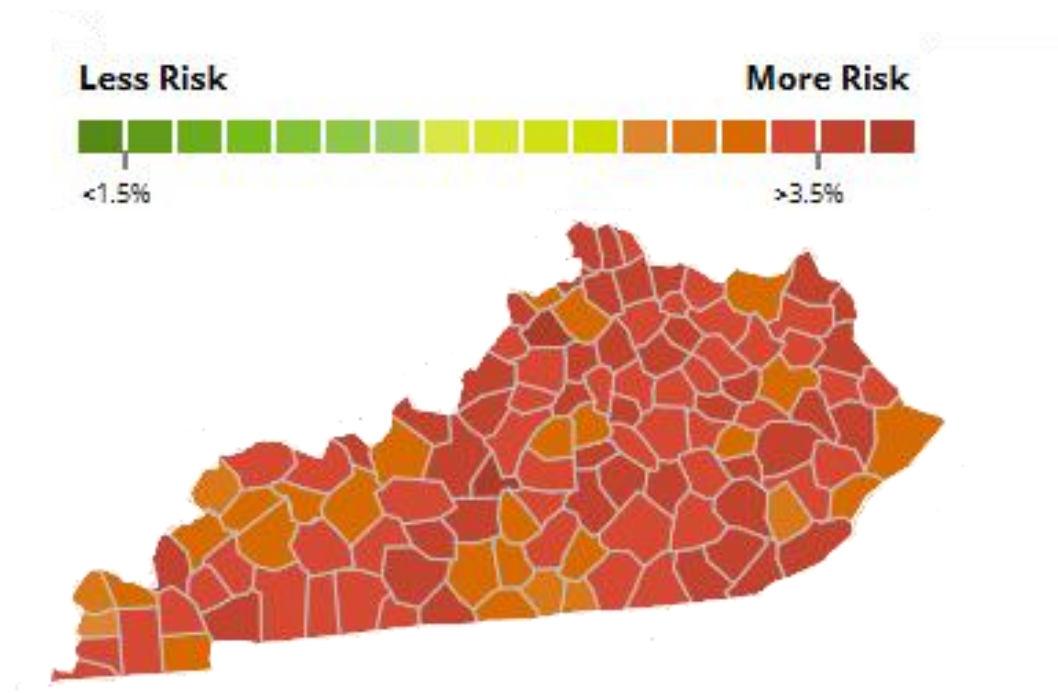
Geographical Credit Conditions Forecast



Benchmarks	Census Count ?	Average 12 mo. APD ?	Credit Quality Distribution					
			Low Qtl ?		Median ?		Hi Qtl ?	
United States	32522960	3.57%	1.39%		2.51%		4.52%	
		4647	4039	5454	6163			
Kentucky	385427	3.33%	1.35%		2.39%		4.21%	
		4649	3738	5153	6063			

KY is better than the U.S. at a 3.33% POD, but risk is up 46 bps from last quarter and 49 bps from last year.

Geographical Credit Conditions Forecast



Other Tracked KY Markets (data available)

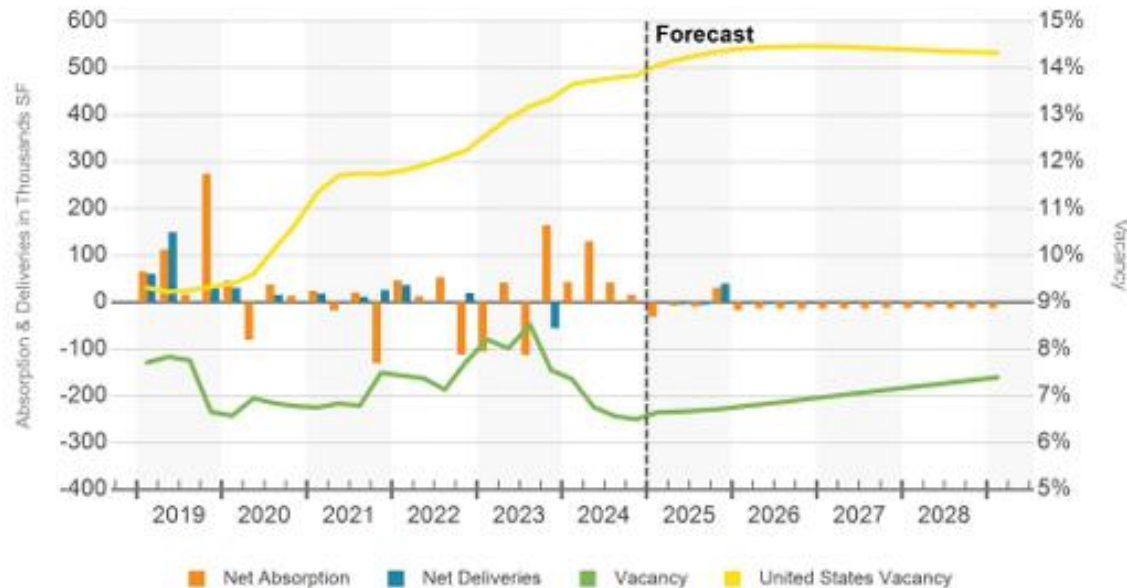


- (besides Lexington)
- Louisville
- Rocky View
- Rocky Hill
- Bowling Green
- Elizabethtown
- Rocky Mount
- Owensboro
- West Lake / Rocky River
- Lochaber/Skye

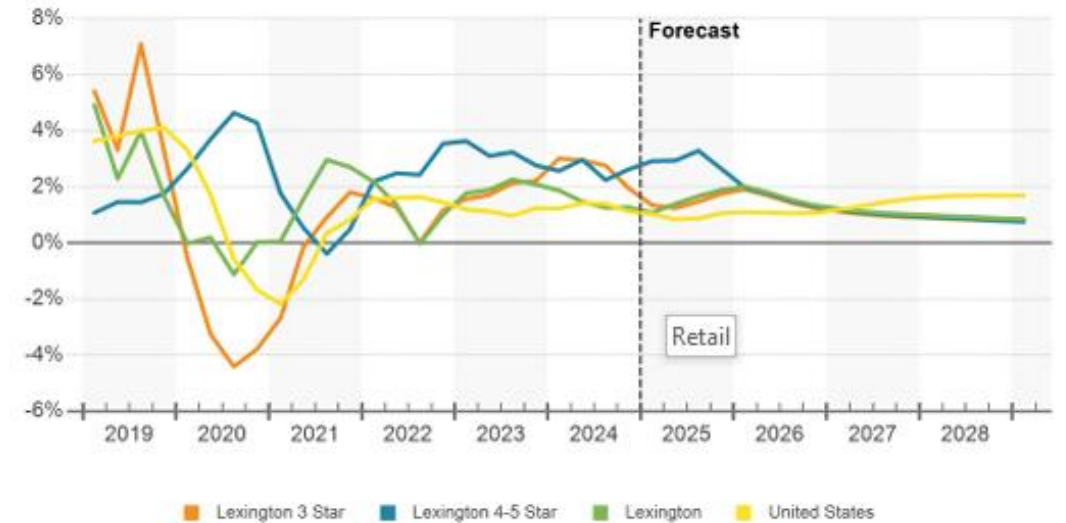
No new supply has helped office sector performance and vacancies are better than the national average (13.7%). Negative NOI driven by higher rates has hurt credit but rent growth remains positive. Look for credit spreads to remain steady.

	Historic	Current	5Y Forecast
Rent Growth	0.5%	1.1%	1.2%
Vacancy Rate	8.2%	6.7%	7.1%

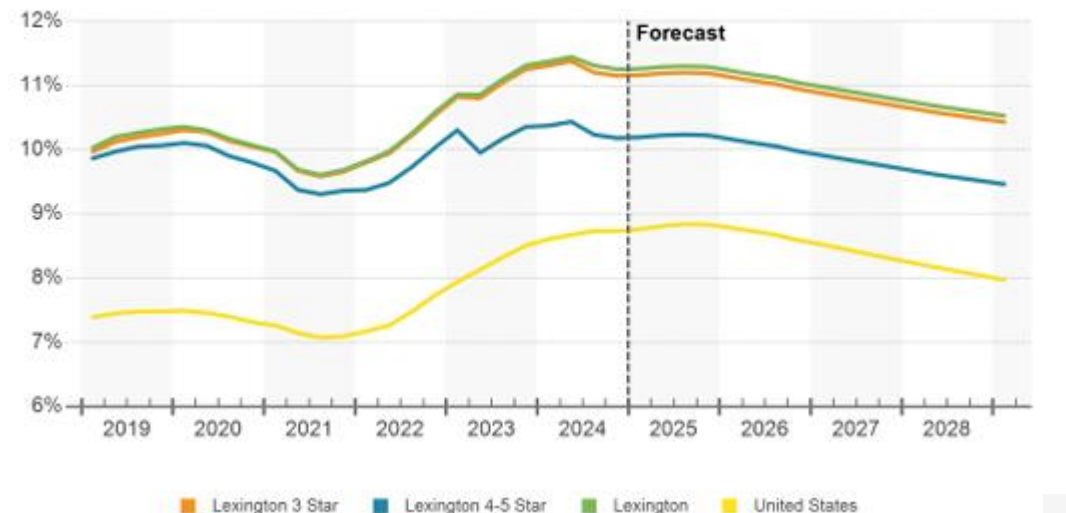
NET ABSORPTION, NET DELIVERIES & VACANCY



MARKET ASKING RENT GROWTH (YOY)



MARKET CAP RATE



- Looking at transit, cell phone and office control data, office usage has stabilized and even improved slightly over last year.
- However, usage is in the 40% to 65% range. Or about 50% of pre-pandemic levels.
- **45% of the office space has yet to come up for renewal**
- Forecasting the “peak day” syndrome
- LTV lower than last recession
- **Data shows leased space is down 11.6% from previous lease agreement. We use this in our underwriting.**

If at risk – Restructure NOW!!!



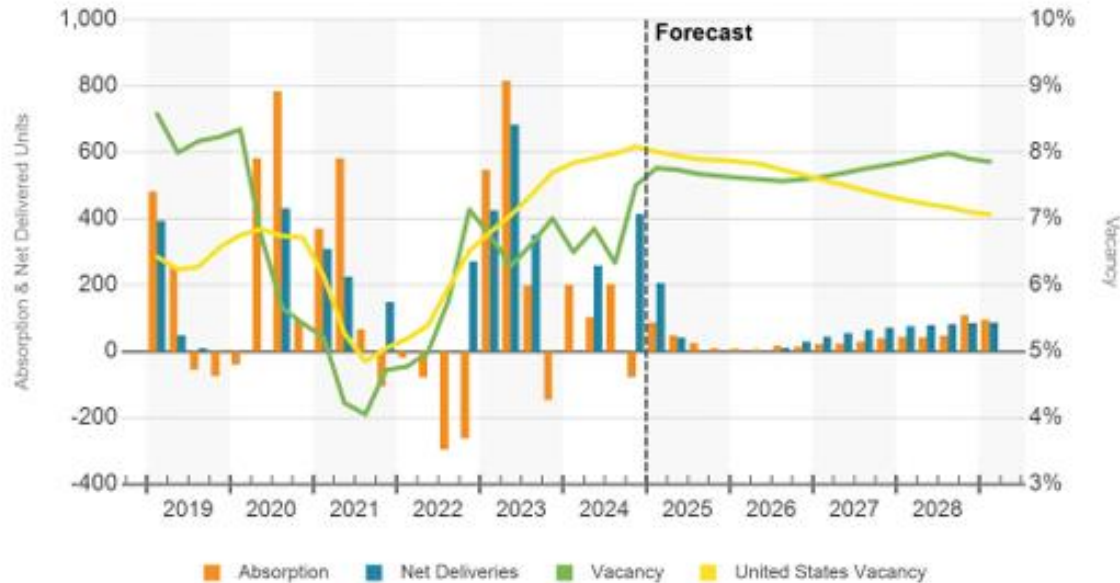
Multi-Family



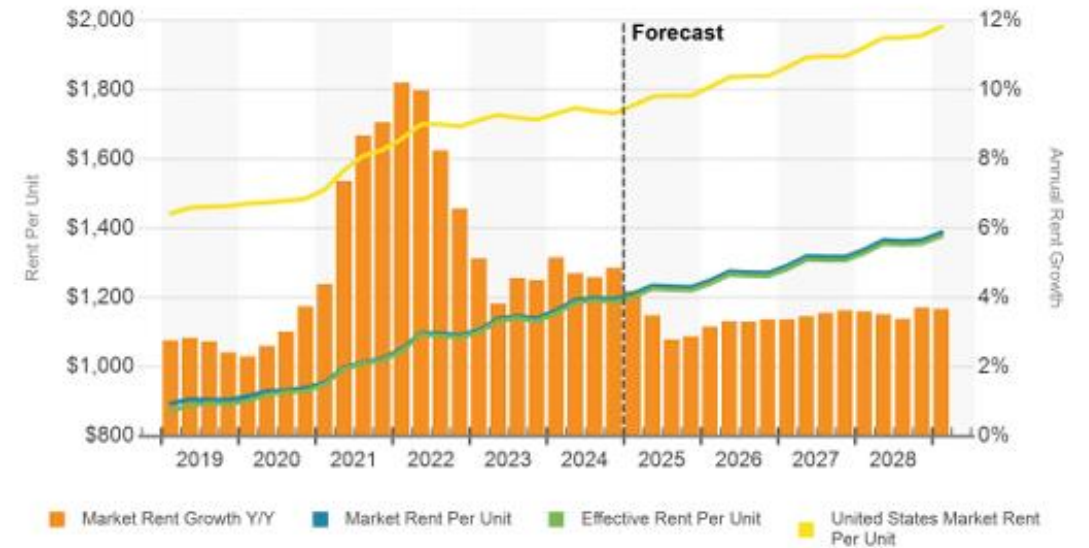
Vacancies are expected to increase and rent growth will slow in the next year. However, higher interest rates are expected to slow new construction which is projected to create positive credit trends past 2026.

	Historic	Current	5Y Forecast
Rent Growth	1.9%	2.0%	3.4%
Vacancy Rate	2.3%	4.6%	7.7%

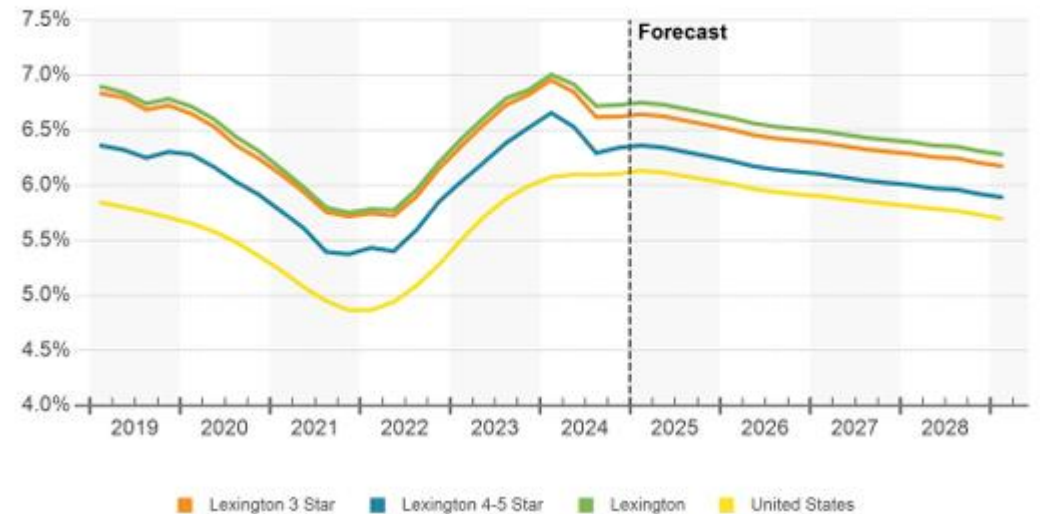
ABSORPTION, NET DELIVERIES & VACANCY



MARKET RENT PER UNIT & RENT GROWTH



MARKET CAP RATE



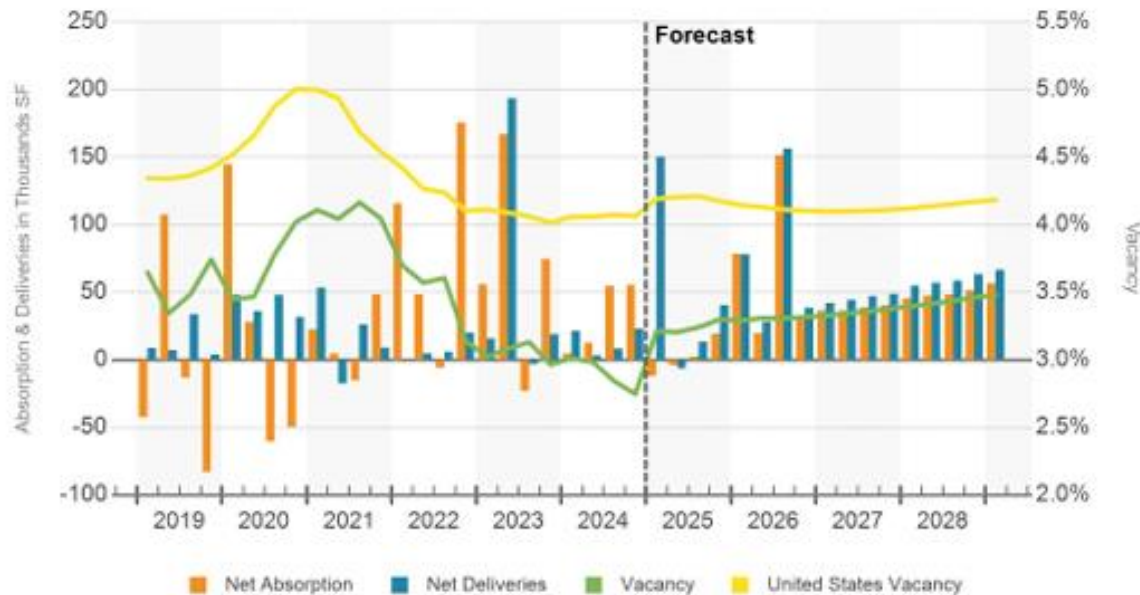
Retail



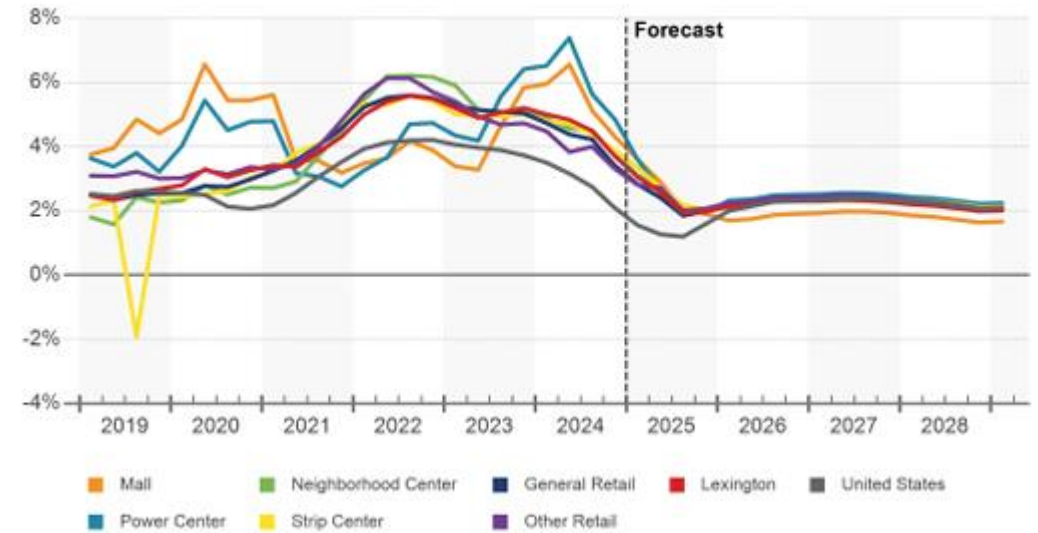
Positive population growth a healthy local economy and limited supply provides and improving outlook for retail credit. Consumption continues strong and rent growth has been above the national average as a result.

	Historic	Current	5Y Forecast
Rent Growth	1.8%	3.5%	2.2%
Vacancy Rate	4.1%	3.1%	3.4%

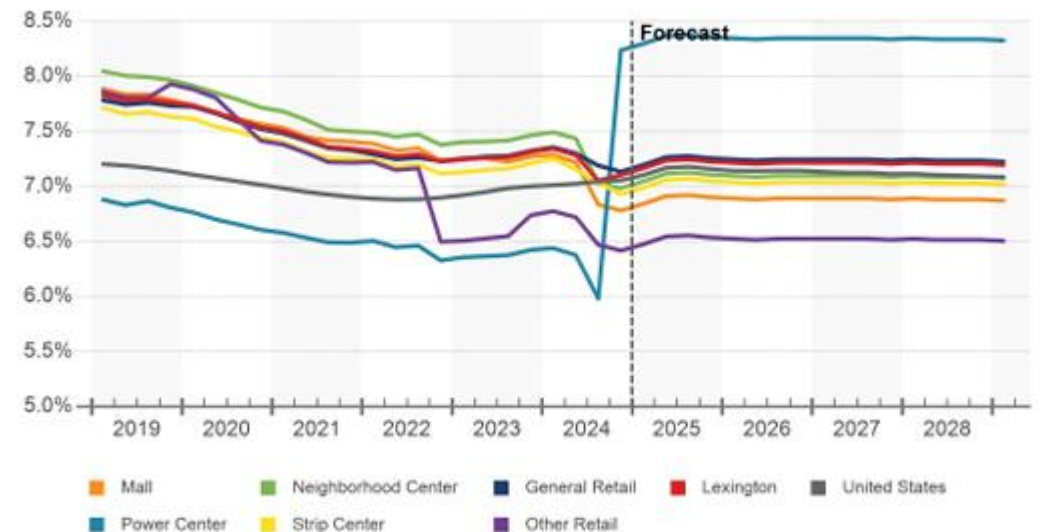
NET ABSORPTION, NET DELIVERIES & VACANCY



MARKET ASKING RENT GROWTH (YOY)



MARKET CAP RATE



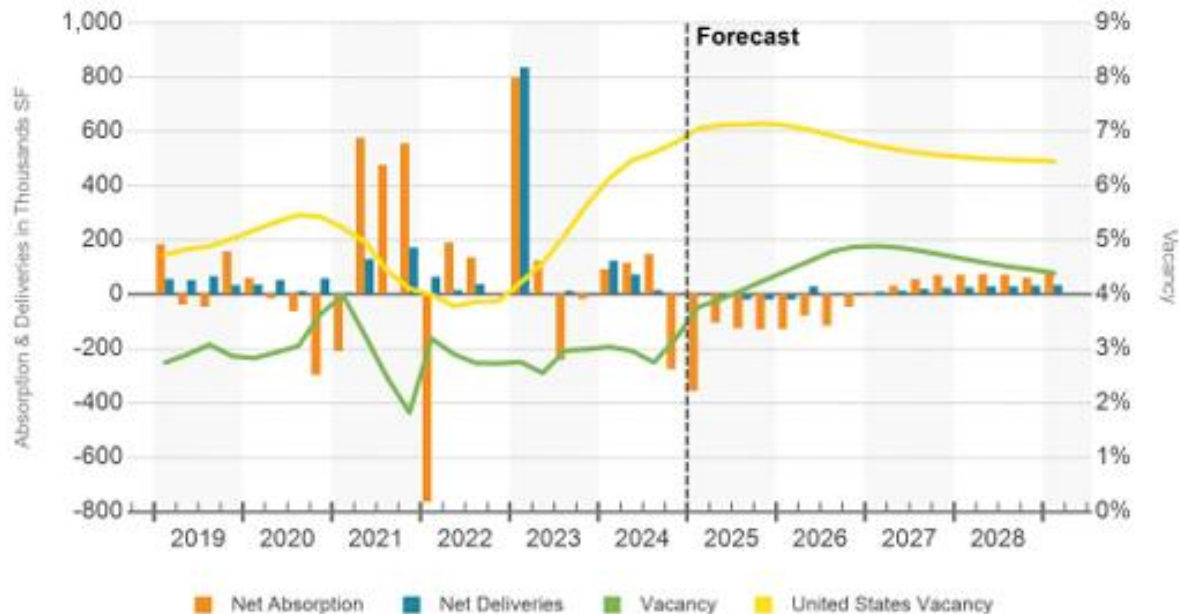
Industrial



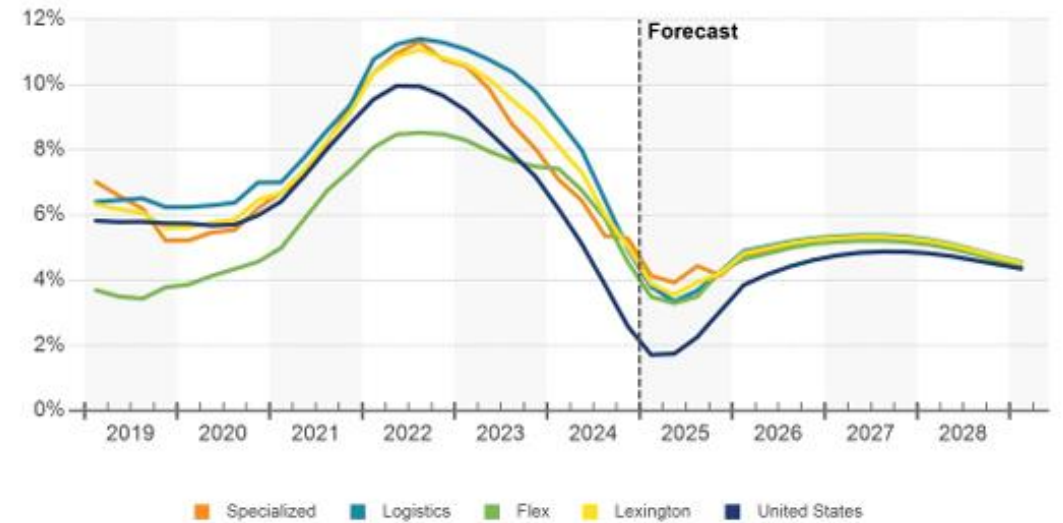
Limited new supply has kept credit improving and market conditions tight. There has been no new projects in the past 15 months due to higher interest rates. Rent growth remains strong and vacancies moderate. Look for credit spreads to tighten.

	Historic	Current	5Y Forecast
Rent Growth	3.3%	4.9%	4.8%
Vacancy Rate	3.8%	3.4%	4.7%

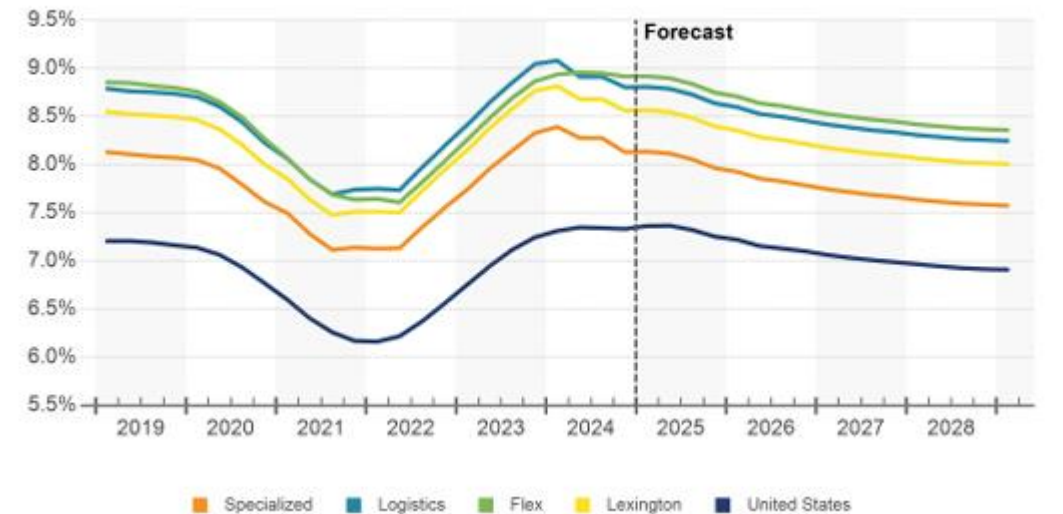
NET ABSORPTION, NET DELIVERIES & VACANCY



MARKET ASKING RENT GROWTH (YOY)



MARKET CAP RATE



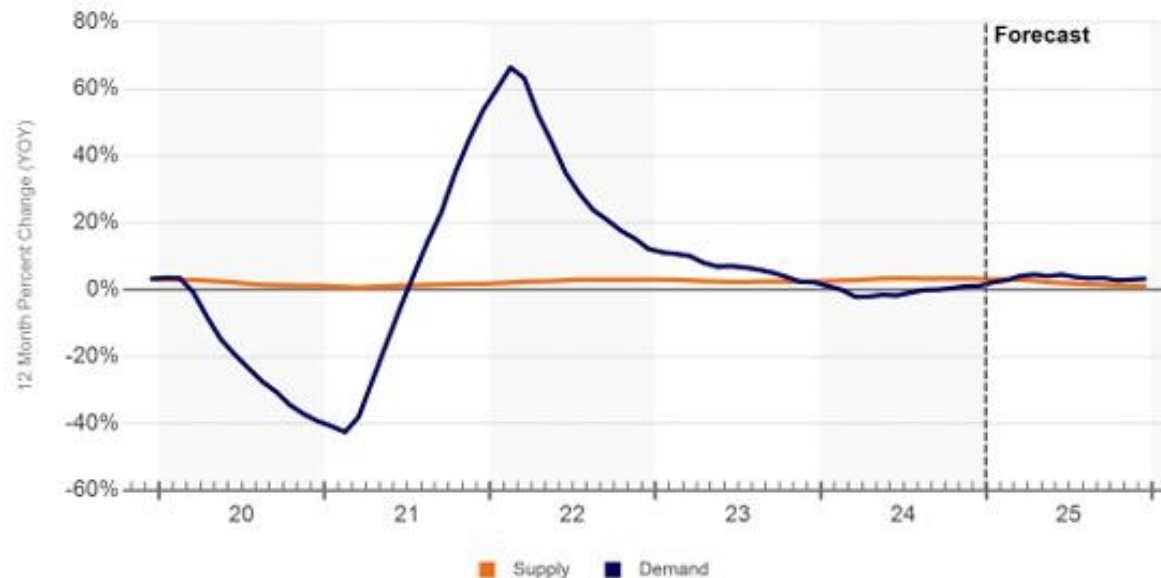
Hospitality



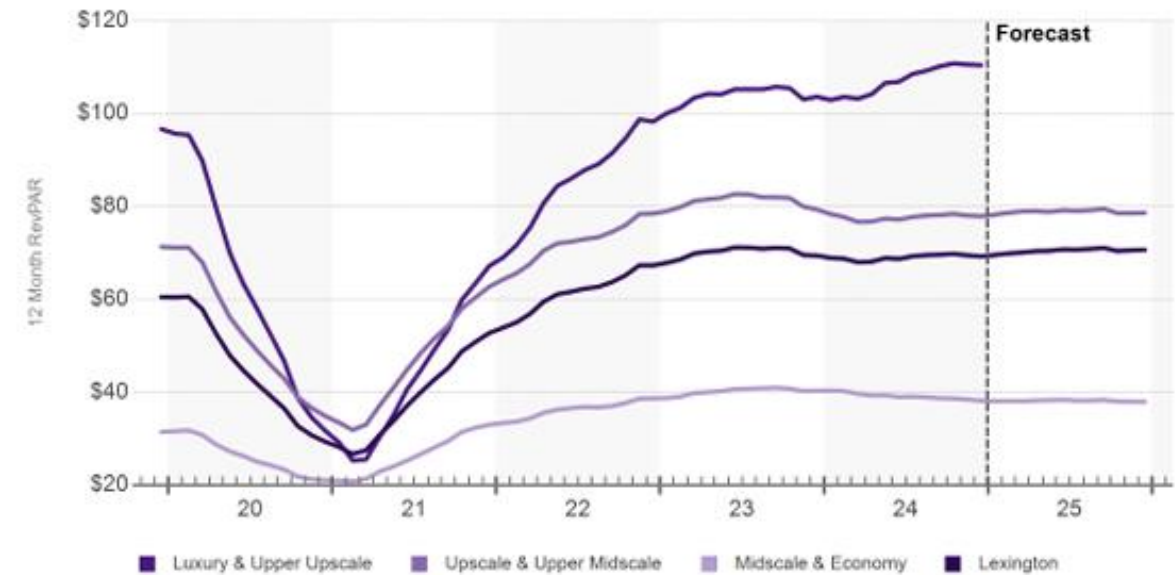
An increase in inventory has hurt hospitality credits in the past, but a limited 93 rooms are under construction going forward. As such, credit should improve with slight increases in occupancy and average daily room rate. Look for credit spreads to remain wide.

	Historic	Current	5Y Forecast
Occupancy	54.4%	58.8%	60.2%
RevPar Chg.	2.7%	-5.0%	1.8%

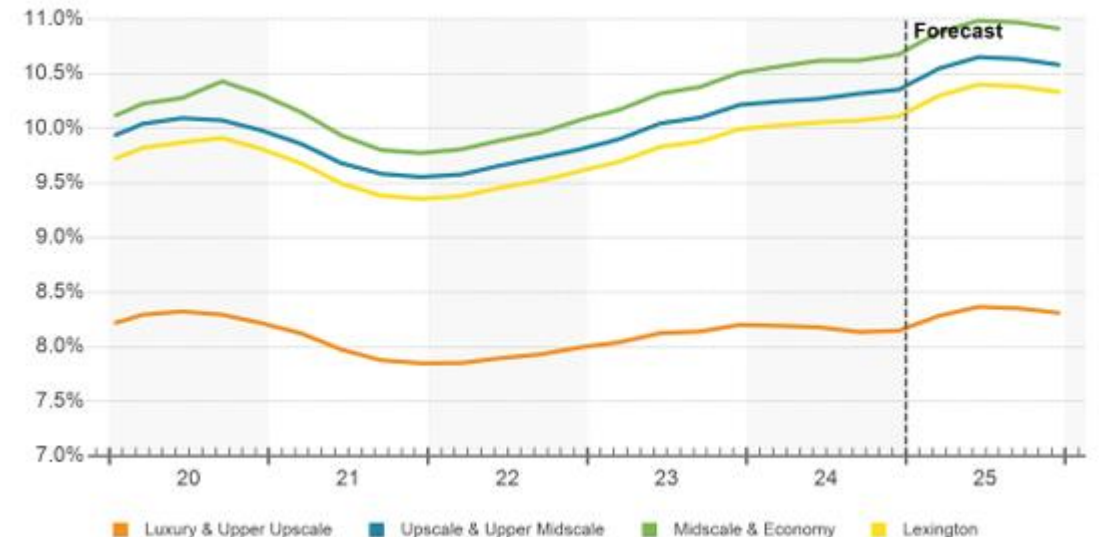
SUPPLY & DEMAND CHANGE



REVPAR BY CLASS



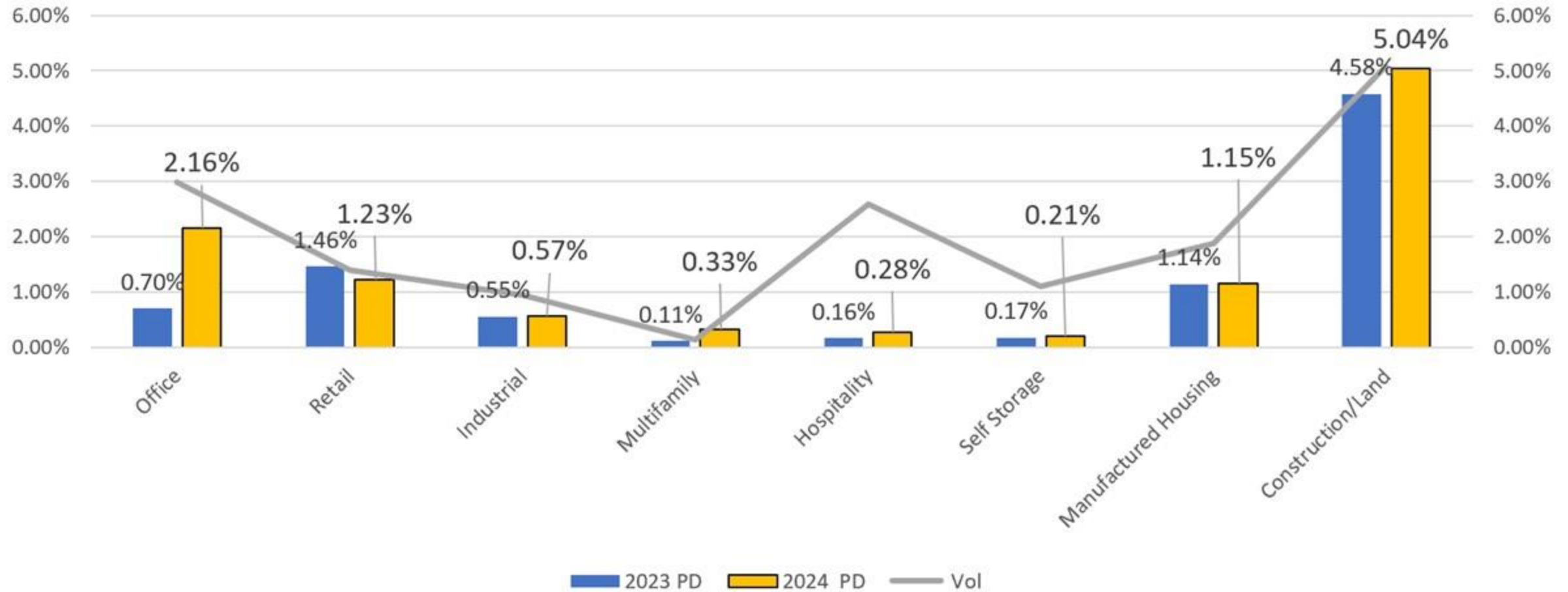
MARKET CAP RATE



Industries That Are Decreasing in Credit Risk (1Q 2025)



Investor Owned CRE Probabilities of Default by Sector



Highest KY Credit Risk (1Q 2025)



Available on
Loan Command

Rank	NAICS	Industry	POD	BP Change YOY	% POD Change YOY	Volatility
370	4884	Support Activities for Road Transportation	4.35%	50	11%	3.33%
371	6114	Business Schools and Computer and Management Training	4.37%	26	6%	1.73%
374	4854	School and Employee Bus Transportation	4.41%	19	4%	1.10%
375	4871	Scenic and Sightseeing Transportation, Land	4.45%	-61	-14%	1.36%
378	7224	Drinking Places (Alcoholic Beverages)	4.61%	5	1%	1.68%
379	4811	Scheduled Air Transportation	4.66%	107	23%	1.59%
380	7113	Promoters of Performing Arts, Sports, and Similar Events	4.70%	101	21%	1.59%
381	4853	Taxi and Limousine Service	4.76%	9	2%	1.53%
384	4931	Warehousing and Storage	4.87%	62	13%	1.27%
385	5621	Waste Collection	4.98%	64	13%	2.03%
386	5321	Automotive Equipment Rental and Leasing	5.05%	49	10%	1.54%
388	4821	Rail Transportation	5.08%	129	25%	2.76%
389	4869	Other Pipeline Transportation	5.17%	70	14%	1.80%
390	7223	Special Food Services	5.28%	-26	-5%	2.18%
391	4852	Interurban and Rural Bus Transportation	5.29%	54	10%	2.07%
395	4882	Support Activities for Rail Transportation	5.73%	-86	-15%	1.35%
394	4832	Inland Water Transportation	5.73%	69	12%	3.41%
396	4859	Other Transit and Ground Passenger Transportation	6.01%	148	25%	1.98%
397	4889	Other Support Activities for Transportation	6.07%	14	2%	0.00%
399	4921	Couriers and Express Delivery Services	6.62%	47	7%	3.93%
400	4885	Freight Transportation Arrangement	7.22%	-14	-2%	2.75%
402	4842	Specialized Freight Trucking	7.46%	31	4%	2.08%
404	4841	General Freight Trucking	7.48%	-5	-1%	3.42%
405	4851	Urban Transit Systems	7.84%	-70	-9%	2.36%
406	4922	Local Messengers and Local Delivery	8.62%	285	33%	1.98%

Lowest KY Credit Risk (1Q 2025)



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Loan Command

Rank	NAICS	Industry	POD	BP Change YOY	% POD Change YOY	Volatility
1	1111	Oilseed and Grain Farming	1.90%	47	25%	0.86%
2	111	Crop Production	1.94%	52	27%	0.84%
3	1112	Vegetable and Melon Farming	2.01%	70	35%	0.89%
4	11	Agriculture, Forestry, Fishing and Hunting	2.05%	54	26%	0.86%
5	1114	Greenhouse, Nursery, and Floriculture Production	1.94%	54	28%	0.87%
6	1121	Cattle Ranching and Farming	1.94%	42	22%	0.83%
7	1122	Hog and Pig Farming	1.94%	54	28%	0.87%
8	1119	Other Crop Farming	1.97%	53	27%	0.87%
9	112	Animal Production and Aquaculture	1.97%	52	26%	0.86%
10	1123	Poultry and Egg Production	1.98%	61	31%	0.00%
11	1125	Aquaculture	1.98%	54	27%	0.92%
12	1113	Fruit and Tree Nut Farming	2.01%	41	20%	0.86%
13	1129	Other Animal Production	2.06%	40	19%	1.53%
14	3262	Rubber Product Manufacturing	2.16%	4	2%	0.93%
15	3211	Sawmills and Wood Preservation	2.17%	26	12%	0.72%
16	3141	Textile Furnishings Mills	2.25%	27	12%	0.92%
17	3212	Veneer, Plywood, and Engineered Wood Product Manufacturing	2.27%	46	20%	0.88%
18	1131	Timber Tract Operations	2.33%	31	13%	1.23%
19	321	Wood Product Manufacturing	2.33%	23	10%	0.65%
20	326	Plastics and Rubber Products Manufacturing	2.34%	34	15%	0.76%
21	4237	Hardware, and Plumbing and Heating Equipment and Supplies Merchant Wholesalers	2.35%	37	16%	0.98%
22	1151	Support Activities for Crop Production	2.36%	8	3%	1.09%
23	3261	Plastics Product Manufacturing	2.36%	38	16%	0.63%
24	3336	Engine, Turbine, and Power Transmission Equipment Manufacturing	2.36%	44	19%	1.39%
25	6212	Offices of Dentists	2.38%	45	19%	1.02%

Pricing Trends - Summary



- Nominal spreads increased 2 bps due to lower credit supply, increased demand and deposit pressure. Average SOFR-equivalent credit spread for community banks is currently 2.63%.
- KY upfront loan fees remained stable at 23 bps. Loans <\$1mm were 45 bps and loans >\$25mm were 42 bps. Loans in the \$1mm to \$25mm range were 18 bps.
- Target risk-adjusted ROE moved from 16.3% to 20.0% due to improving expected credit quality.
- Actual risk-adjusted ROE is 17.0% so far for the quarter brought down by lower line of credit usage.
- The average through-cycle probability of default (POD) is 3.33%, up 49 bps. from 2024. POD volatility increased to 15 bps to 1.33% compared to 2024.
- Expected loss given default decreased 12% percentage points to 34.5% (due to lower expected cap rates).
- Average community bank portfolio expected loss increased 7bps to 0.28%, or well within bank reserve levels.

Pricing by Grade, DSCR, Rate Type and Size



	Credit Rating	Suggested Target Spread	Actual Spread (@ Booking)	Difference (Bps)	Difference %	Target ROE	Actual ROE (@ Pricing)	Difference	Difference %	Comments
	1	1.91%	1.85%	-0.06%	-3%	20%	15%	▬ -5%	-26%	Spreads decreased 49 bps from last qtr. Due to higher mix of credit tenants and improving credit.
	2	2.25%	2.40%	0.15%	7%	20%	19%	▴ -1%	-7%	Spreads decreased 1bps QoQ.
	3	2.55%	2.46%	-0.09%	-4%	20%	19%	▴ -1%	-5%	Spreads decreased 9 bps QoQ but volume decreased.
	4+	2.65%	2.62%	-0.03%	-1%	20%	19%	▴ -2%	-8%	Spreads decreased 9 bps due to greater supply and riskier credit mix.

	DSCR	Target Spread	Actual Spread (@ Booking)	Difference (Bps)	Difference %	Target ROE	Actual ROE (@ Pricing)	Difference	Difference %	Comments
	1.2	2.60%	2.14%	-0.46%	-18%	20%	16%	▬ -4%	-20%	Under priced
	1.4	2.50%	1.87%	-0.63%	-25%	20%	24%	▴ 4%	21%	
	1.6	2.35%	1.89%	-0.46%	-20%	20%	15%	▬ -5%	-25%	Underpriced due to competition.
	1.8	2.30%	2.71%	0.41%	18%	20%	21%	▴ 1%	4%	Overpriced but results in the sweetspot for profitable loans.
	2.5+	1.82%	2.40%	0.58%	32%	20%	21%	▴ 1%	3%	

	Rate Type	Suggested Target Spread	Actual Spread (@ Booking)	Difference (Bps)	Difference %	Target ROE	Actual ROE (@ Pricing)	Difference	Difference %	Comments
	Fixed	2.20%	2.00%	-0.20%	-9%	20%	16%	▴ -4%	-20%	This category suffered from pre-close margin and spread compression
	Adjustable	2.20%	2.23%	0.03%	1%	20%	18%	▬ -2%	-10%	This category suffered from pre-close margin and spread compression
	Floating	2.60%	2.64%	0.04%	2%	20%	20%	▬ 0%	2%	Floating rate loan spreads decreased 22 bps due to a higher quality mix.

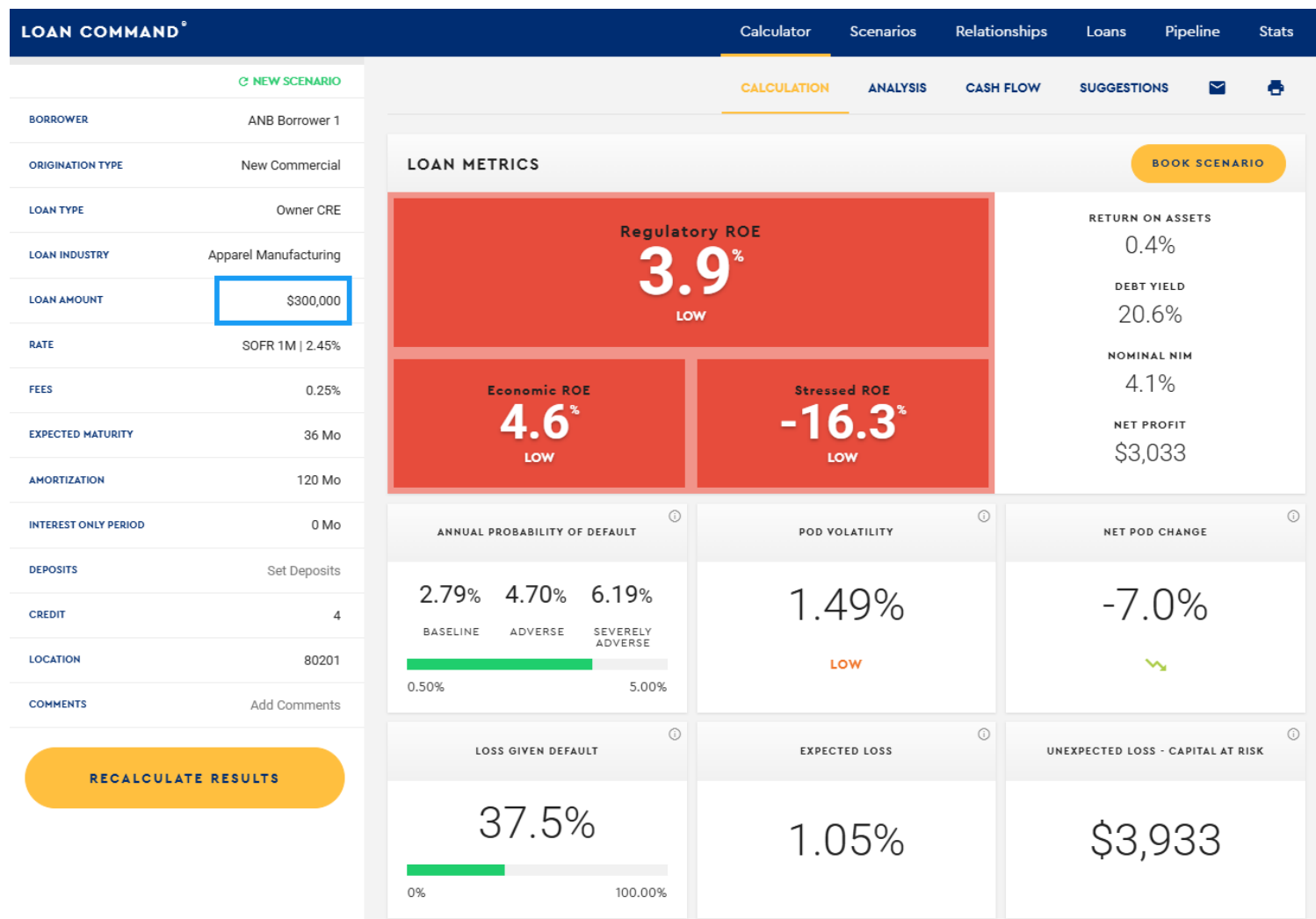
	Loan Size	Suggested Target Spread	Actual Spread (@ Booking)	Difference (Bps)	Difference %	Target ROE	Actual ROE (@ Pricing)	Difference	Difference %	Comments
	\$50k to \$500,000	3.65%	2.72%	-0.93%	-25%	20%	0%	▴ -20%	-100%	Industry greatly underpricing small loans
	\$500,000	2.75%	2.69%	-0.06%	-2%	20%	17%	▴ -3%	-13%	Slightly underpriced
	\$1,000,000	2.63%	2.67%	0.04%	2%	20%	21%	▴ 1%	3%	Increase of 4 bps QoQ
	\$2,000,000	2.50%	2.51%	0.01%	0%	20%	20%	▴ 0%	2%	This remains the most competitive area but banks are showing dicipline. Down 5bp QoQ.
	\$3,000,000	2.32%	2.40%	0.08%	3%	20%	20%	▴ 0%	-1%	This area is down 10 bps from last quarter.
	\$4,000,000	2.40%	2.29%	-0.11%	-5%	20%	19%	▴ -1%	-3%	Down 2 bps from last quarter.
	\$5,000,000	2.38%	2.25%	-0.13%	-5%	20%	19%	▴ -1%	-4%	Decrease of 10 bps.
	\$10,000,000	2.25%	2.48%	0.23%	10%	20%	21%	▬ 1%	6%	This area overpriced and up 5 bps from last quarter. Look to grind tighter due to competition.

Pricing By Loan Type



		Target Spread	Actual Spread (@ Booking)	Difference (Bps)	Difference %	Target ROE	Actual ROE (@ Pricing)	Difference	Difference %	Comments
NOOCRE										
	Office	2.78%	2.75%	-0.03%	-1%	20%	19%	▲ -1%	-4%	Mostly all refinance volume. Spreads decreased 11 bps due to limited supply and improving rents
	Retail	2.80%	2.78%	-0.02%	-1%	20%	19%	▲ -1%	-4%	Spreads decreased by 23 bps due to better credit outlook and firmer rents.
	Hospitality	3.15%	3.22%	0.07%	2%	20%	23%	▲ 3%	13%	Spreads increased 4 bps driven by lower occupancy and lower to flat ADRs.
	Industrial	2.38%	2.24%	-0.14%	-6%	20%	16%	▬ -4%	-22%	Spreads increased 8 bps from 3Q due to higher credit risk in most markets.
	Multifamily	2.44%	2.32%	-0.12%	-5%	20%	17%	▬ -3%	-13%	Spreads increased 14 bps from 3Q due to greater supply and slower rent growth.
	Other	2.50%	2.49%	-0.01%	0%	20%	19%	▲ -1%	-6%	Spreads dropped 24 bps due to increased mix in self-storage and manuf. housing.
C&I										
	General	2.45%	2.06%	-0.39%	-16%	20%	15%	▬ -5%	-27%	Pricing decreased 4 bps from 3Q on general credit improvement
	Line of Credit	3.40%	2.85%	-0.55%	-16%	20%	8%	▼ -12%	-59%	Pricing increased 5 bps due to lower usage/profitability
	Municipal	1.80%	1.75%	-0.05%	-3%	20%	15%	▬ -5%	-24%	Spreads tightened 2 bp on decreased demand and greater supply.
	Other	2.45%	1.65%	-0.62%	-25%	20%	13%	▬ -7%	-35%	Project based deals increased 27 bps due to riskier mix
OOCRE										
	Industrial	2.30%	2.18%	-0.12%	-5%	20%	15%	▬ -6%	-28%	Loans to manufacturing and distribution companies decreased 10 bps
	Office/Retail	2.58%	2.54%	-0.04%	-2%	20%	18%	▬ -2%	-11%	Spreads decreased by 10 bps
	Medical	2.15%	2.06%	-0.09%	-4%	20%	15%	▬ -6%	-28%	Spreads decreased by 8 bps
	Church	2.65%	2.52%	-0.13%	-5%	20%	18%	▬ -2%	-11%	Underpriced given elevated risk. Spreads increased 12 bps due to higher PODs.
	Other	2.84%	3.08%	0.24%	8%	20%	22%	▲ 2%	8%	Restaurants, child care, etc. Spreads increased 6 bps
Other										
	Other	2.45%	2.84%	0.39%	16%	20%	21%	▲ 1%	7%	Mostly ag loans. Spreads decreased 14 bps in addition to more loan origination in 4Q.
	Construction	3.95%	3.12%	-0.83%	-21%	20%	4%	▼ -16%	-82%	Pricing increased 13 bps due to elevated takeout risk of slowing economy.

Loan Command – Dissecting Relationship Profitability



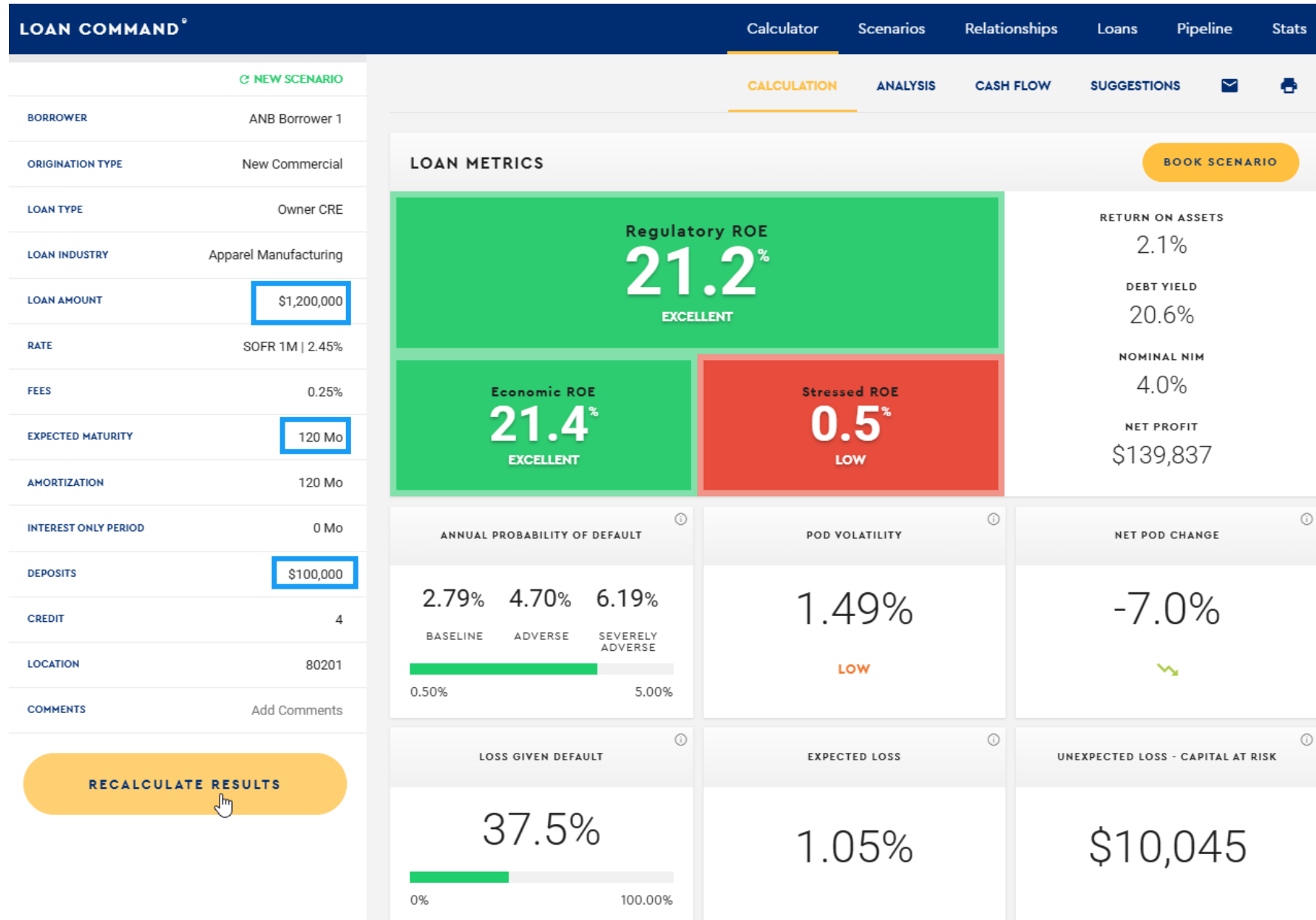
REVENUE

INTEREST EARNINGS	\$52,853	6.8%	YIELD ON LOAN
TOTAL FEE INCOME	\$750	0.1%	AMORTIZED FEE YIELD
TOTAL DEPOSITS	\$0	6.9%	EFFECTIVE YIELD
TOTAL REVENUE	\$53,603		

EXPENSES

COST OF FUNDS AMOUNT	\$19,755	2.55%	EFFECTIVE COST OF FUNDS
FAS 114 RESERVES	\$259	1.25%	RESERVE
FAS 5 RESERVES	\$3,233	0.10%	CREDIT ADJUSTMENT
COST OF ACQUISITION	\$13,320	1.7%	COST OF ACQUISITION
COST OF MAINTENANCE	\$12,640	1.6%	COST OF MAINTENANCE
TOTAL EXPENSES	\$49,207	6.3%	EXPENSE MARGIN
OPERATING PROFIT	\$4,396	0.6%	GROSS MARGIN
TAX EXPENSE	\$1,363	31.0%	EFFECTIVE TAX RATE
NET PROFIT	\$3,033	0.4%	RISK-ADJUSTED MARGIN

Loan Command – 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.

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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Fed's Goolsbee rate cut caution amid tariff uncertainty

US Federal Reserve Bank of Chicago President Austan Goolsbee has urged the central bank to be cautious in lowering interest rates because of uncertainty from US President Donald Trump's tariffs. "Now we've got to be a little more careful and more prudent of how fast rates can come down because there are risks that inflation is about to start kicking back up again," Goolsbee said.

Full Story: [Bloomberg](#) (2/3)



- San Francisco Fed President Mary Daly (FOMC Non-Voter) signaled, “we can take our time to look at what’s coming in, both on the economy and any policy changes.” Daly further noted, “we don’t need to be preemptive” regarding the Fed’s decision making