

Breakout III: Go Digital, Win Commercial: Navigating an Uncertain Market in 2023

#AOBA23

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Go Digital, Win Commercial: Navigating an Uncertain Market in 2023

Acquire or Be Acquired
Conference

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WE KNOW WHAT IT TAKES TO BUILD A BUSINESS FROM THE GROUND UP.

Most banks are institutional. At Texas Security Bank, we're entrepreneurial. We focus on supporting independent business owners, and we're uniquely qualified to support you.

Elevating the Champions of Free Enterprise

We invest more resources in Business Education for Owner Managed Businesses than other banks. Our focus on continuing education is truly unique and needed.

WE ARE A PRIVATELY HELD BANK



93 EMPLOYEES



4 BRANCHES

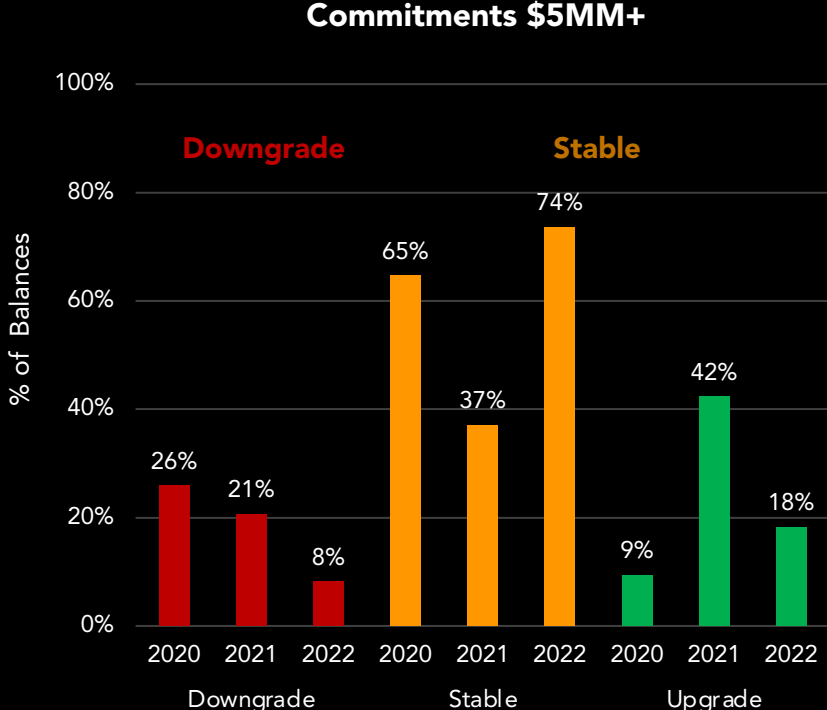
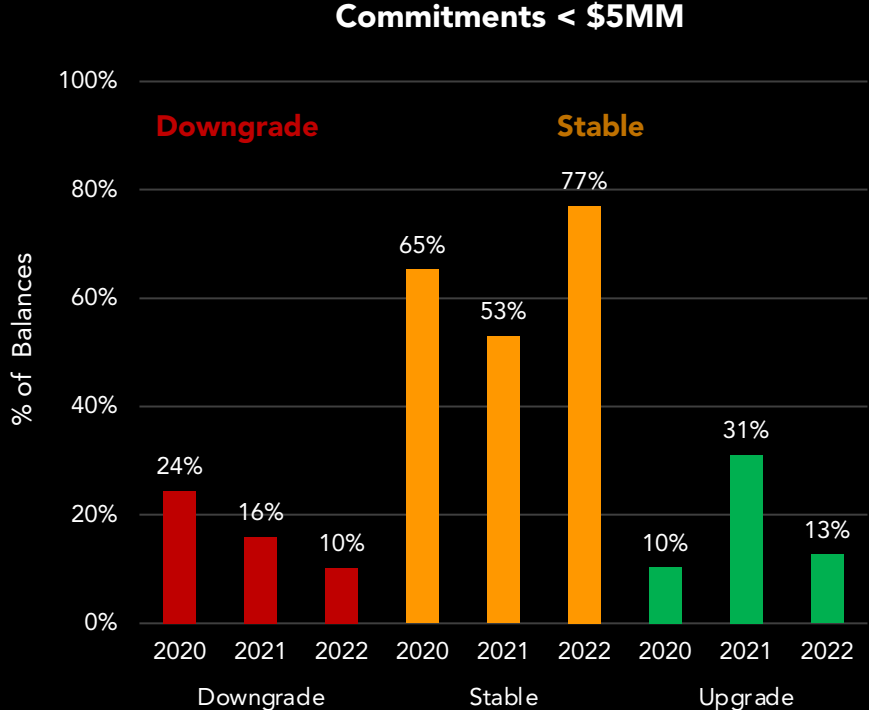


\$1.1 BILLION ASSET SIZE

Key Takeaways

- 1 Economic outlook is certainly uncertain
- 2 Downturn anticipated but credit metrics hold strong
- 3 Competition intensifies; renewed focus on deposits
- 4 Digital reaches deep into the financial institution
- 5 Payments innovation is leveling the playing field

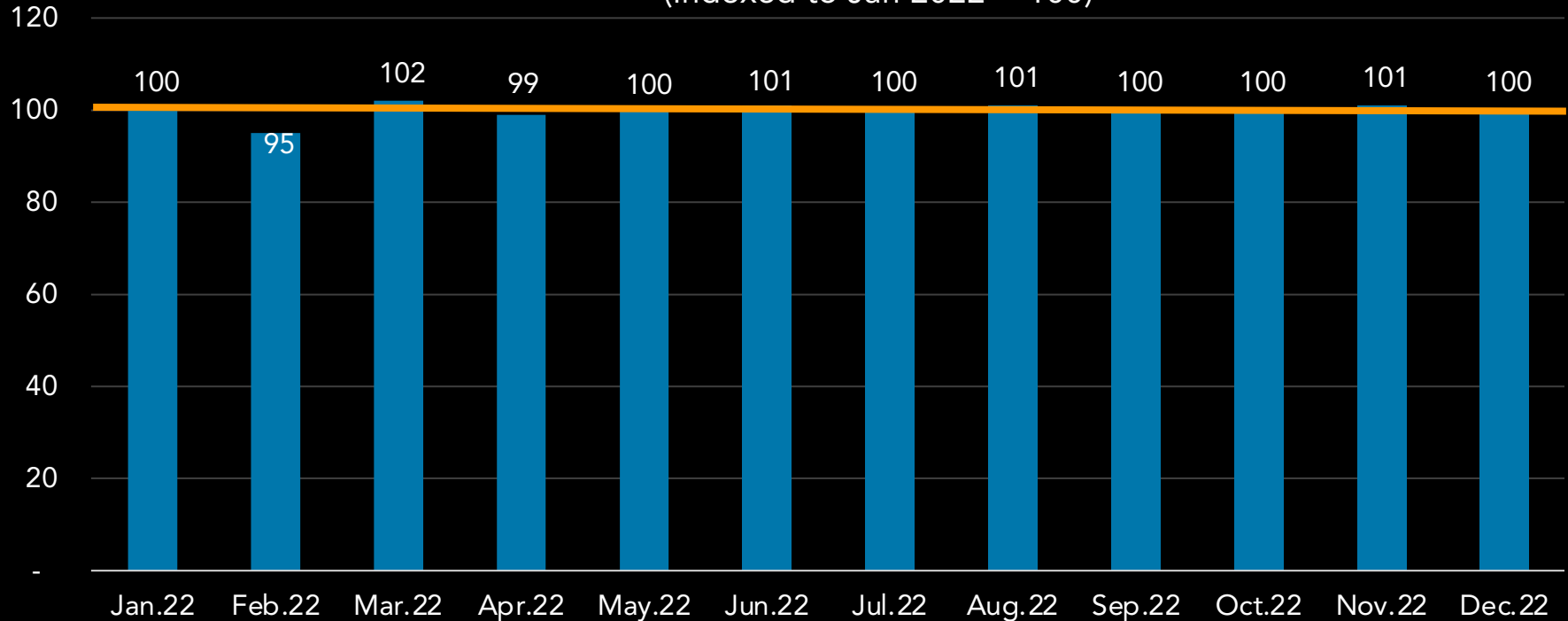
Credit quality holds strong



*Source: Q2 | PrecisionLender

Commercial deposits plateau

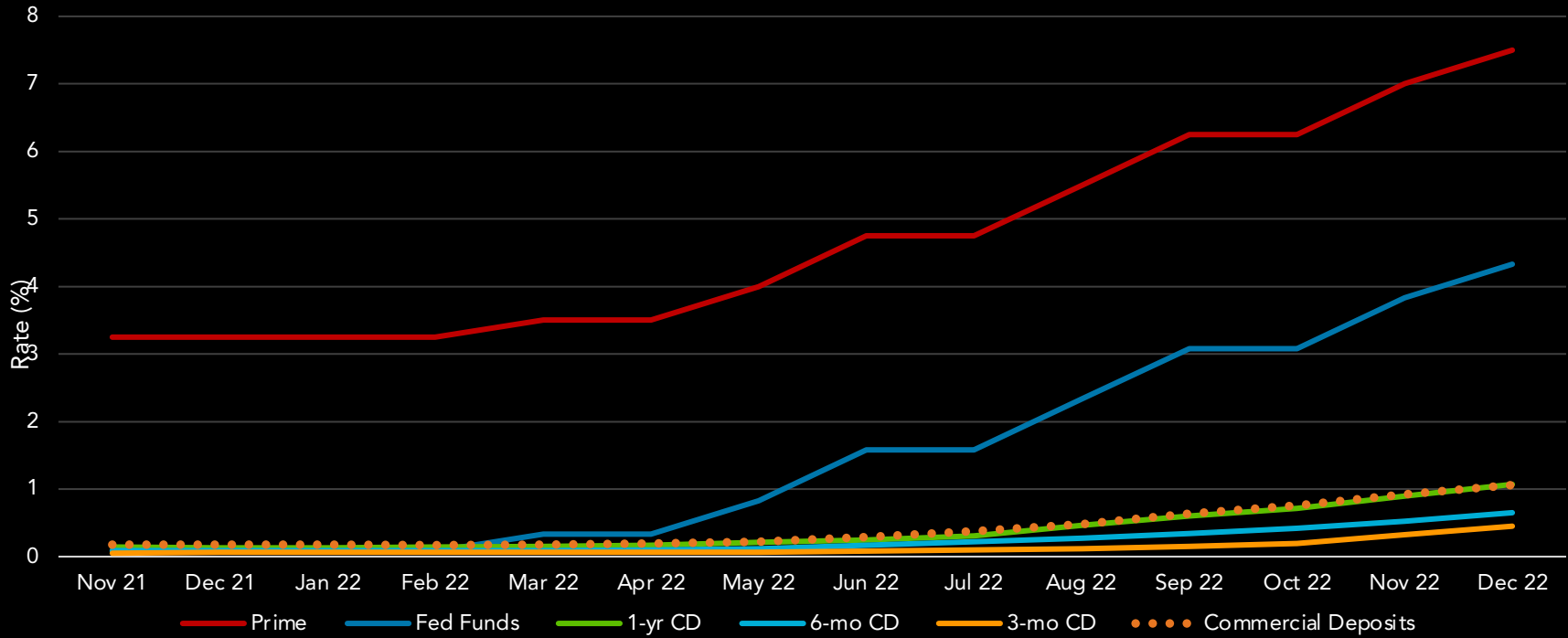
Commercial deposit balances, by month
(Indexed to Jan 2022 = 100)



*Source: Q2 | PrecisionLender

Deposit betas starting to rise

Deposit rates edge higher after holding the line for months

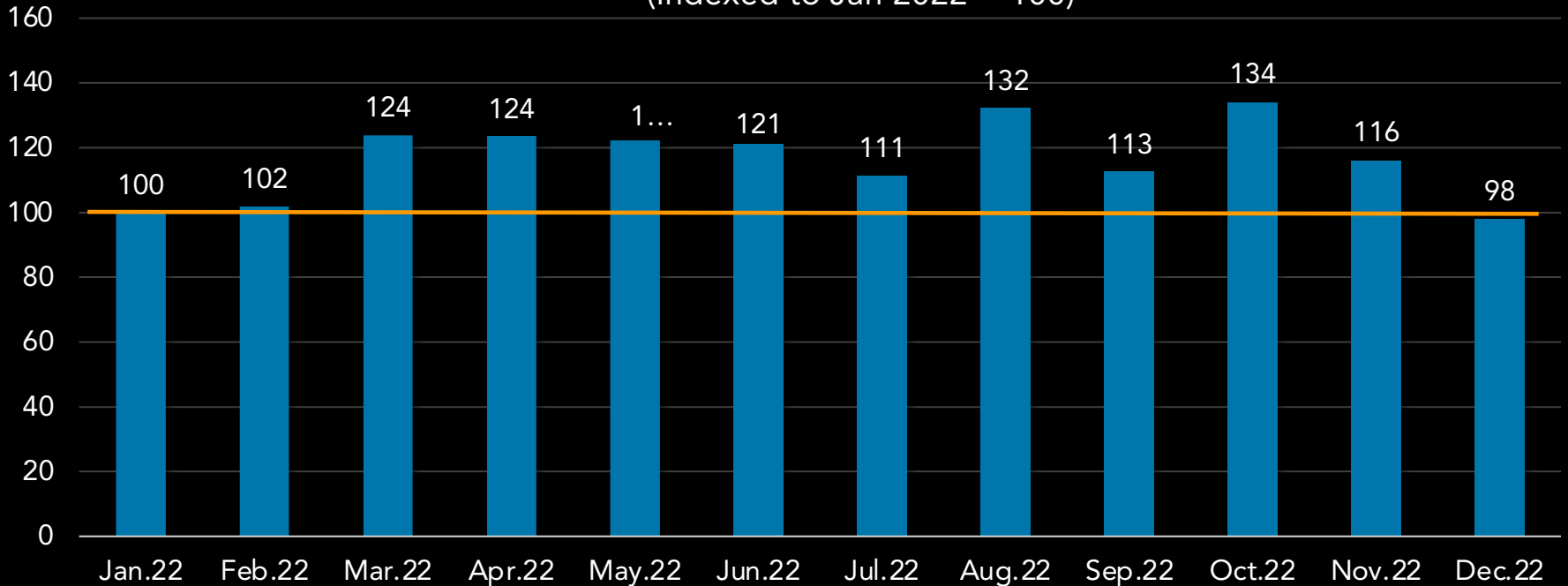


*Source: Fed H15 Release, FDIC and Q2 | PrecisionLender

Mixed signals on the outlook for loan demand

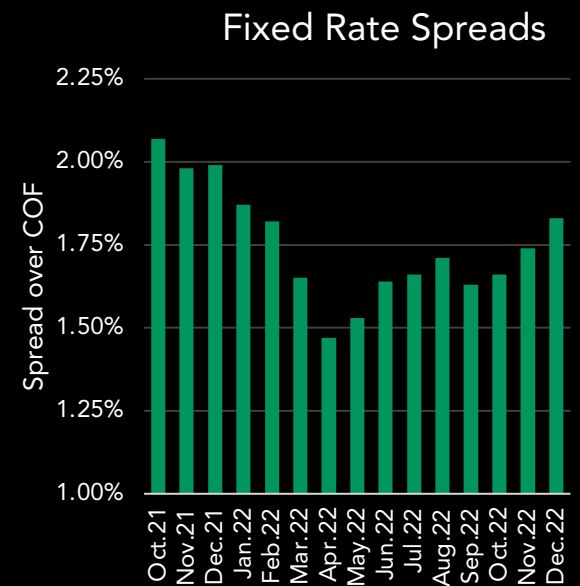
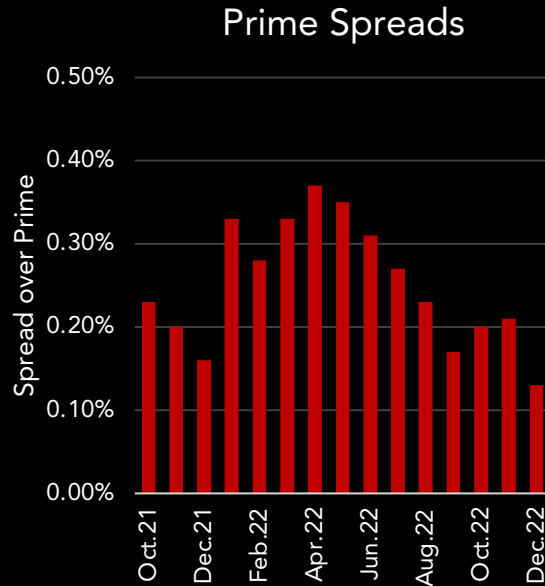
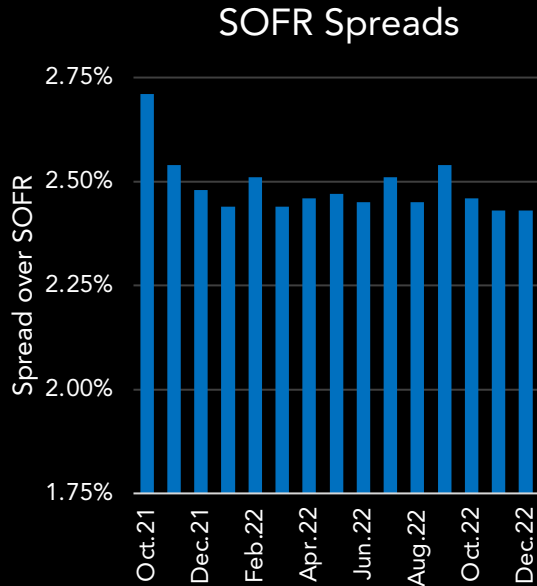
Early indicator of loan demand shows signs of a slowdown

Priced commercial loan volume, by month
(Indexed to Jan 2022 = 100)



*Source: Q2 | PrecisionLender

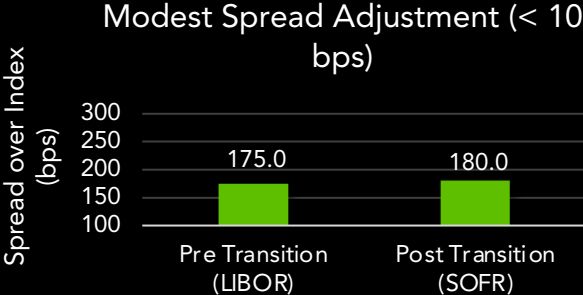
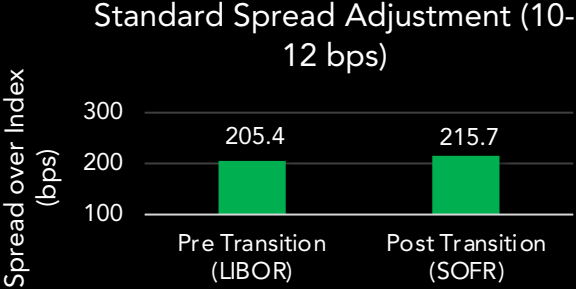
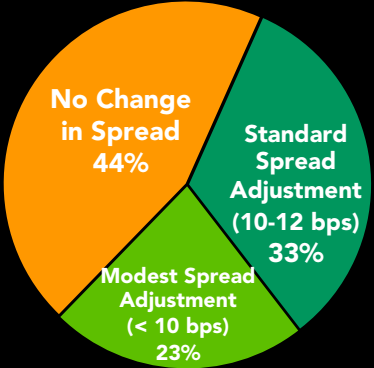
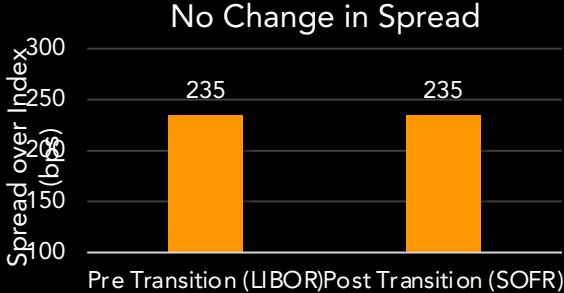
Margins under pressure



*Source: Q2 | PrecisionLender

Minimal adjustments on LIBOR to SOFR conversions

SOFR spread adjustments



Key Trends in Commercial Banking

Digitize the bank

90%

of financial institutions are executing on a digital transformation initiative

Digital Experience

88%

of SMBs consider a seamless experience as important

Fintech Partnerships

72%

of SMBs are interested in their bank partnering more with fintechs

Faster Payments

62%

of financial professionals surveyed believe B2B payments will benefit most

Automation

91%

of organizations are looking for new capabilities to better integrate their ERP systems

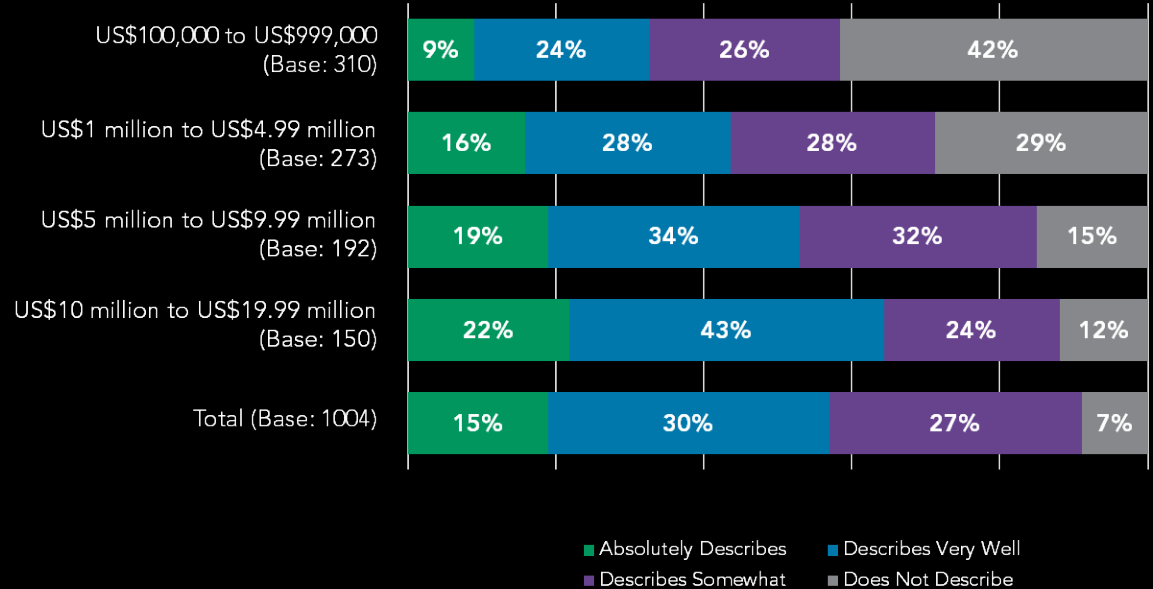
Sources: AFP Digital Payments Survey 2022; Q2-sponsored market research: Aite-Novarica Group, survey of 1,000 U.S. small business financial decision makers , Q3 2021.

Fintech partnerships are a top priority

50%

of large and midsize banks plan to build out their fintech ecosystem this year; 33% consider it a top priority.

Percentage of businesses wishing their primary financial institution would work with more emerging fintech providers



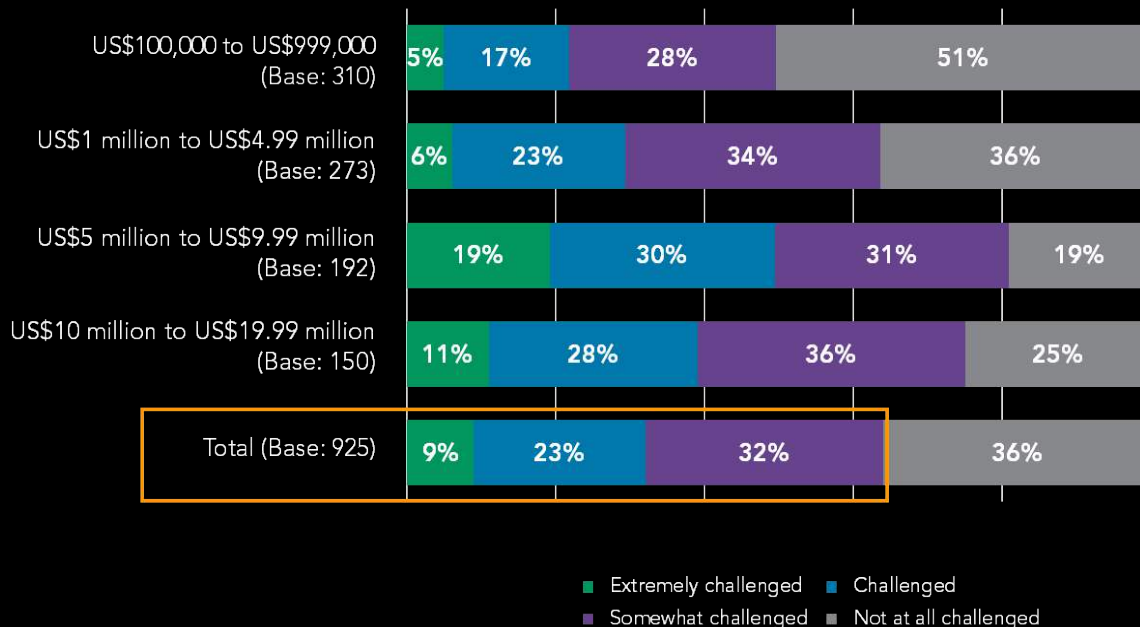
Q2-sponsored market research: Aite-Novarica Group, survey of 1,000 U.S. small business financial decision makers, Q3 2021.

End of one size fits all

62%

of SMBs are challenged in varying degrees by their bank not having the capabilities they need.

Q: How challenged is your business by your financial institution not having the capabilities in its online banking offering that your business needs?

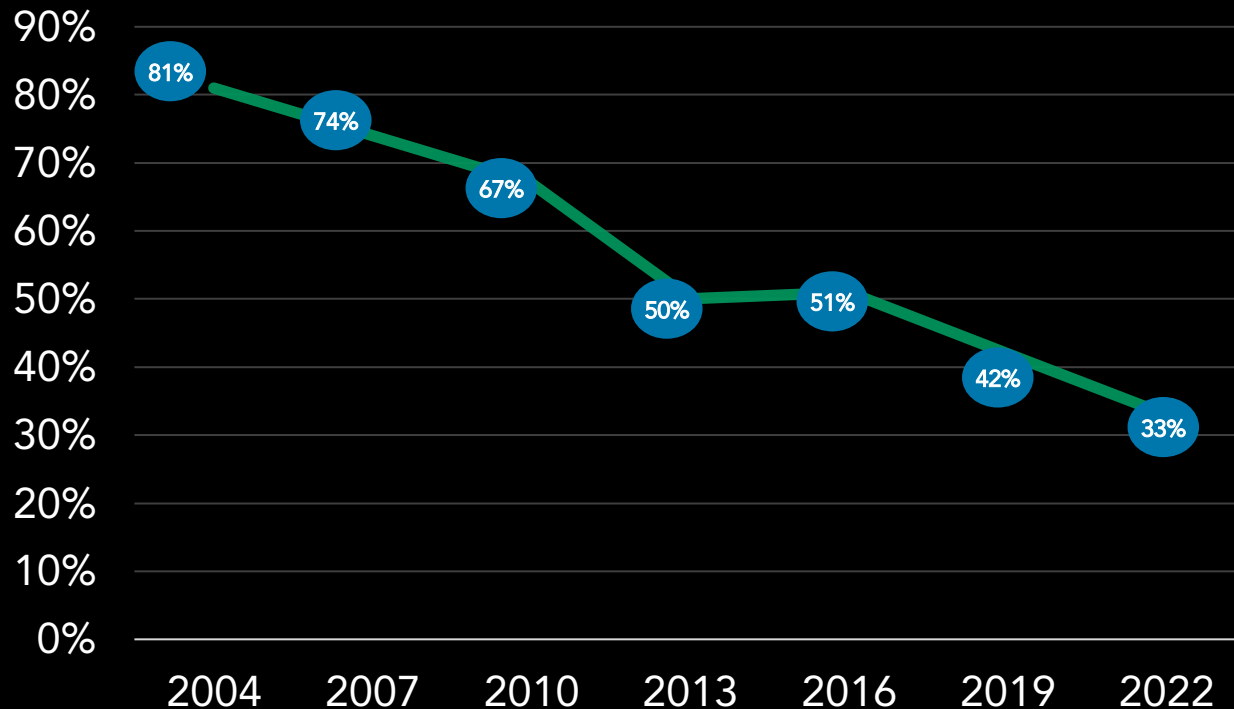


Q2-sponsored market research: Aite-Novarica Group, survey of 1,000 U.S. small business financial decision makers, Q3 2021.

Check payments continue to decline

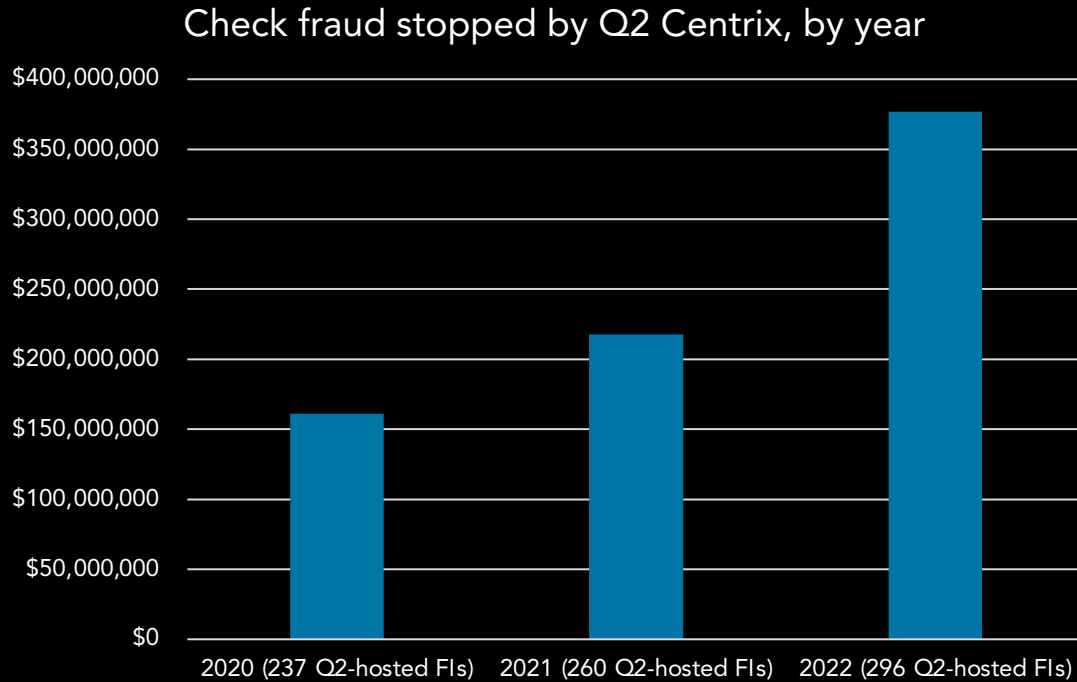
B2B payments made by check have significantly declined since 2016

Percentage of organizations' B2B payments made by checks: U.S. and Canada



Source: AFP Digital Payments Survey 2022

Check fraud is on the rise again



Source: Q2 Centrix

Email is the primary method for remittance

Organizations' method of sending and receiving ACH remittance information
(Percentage distribution of organization)

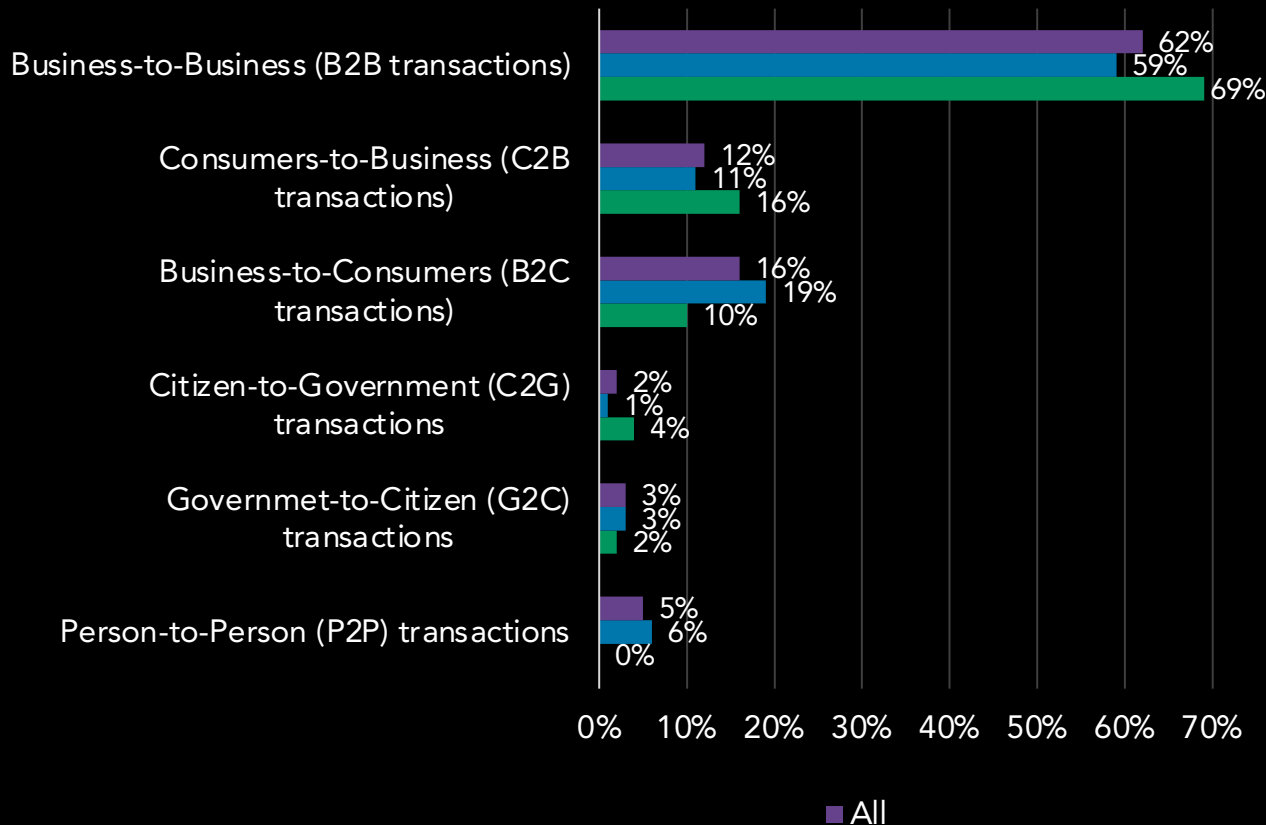
	2022 (Global)		2022 (U.S. and Canada)	
	Sending Remittances	Receiving Remittances	Sending Remittances	Receiving Remittances
Email	61%	56%	68%	62%
EDI/CTX or EDI/CCD	26%	24%	31%	35%
Mail	17%	18%	14%	23%
Customer's website	12%	13%	12%	21%
Third-party website	12%	17%	11%	21%
ISO20022	10%	11%	7%	9%
My organization's website	10%	8%	7%	6%
Fax	5%	7%	5%	14%
Other	4%	3%	2%	2%

Impact of faster / real-time payments

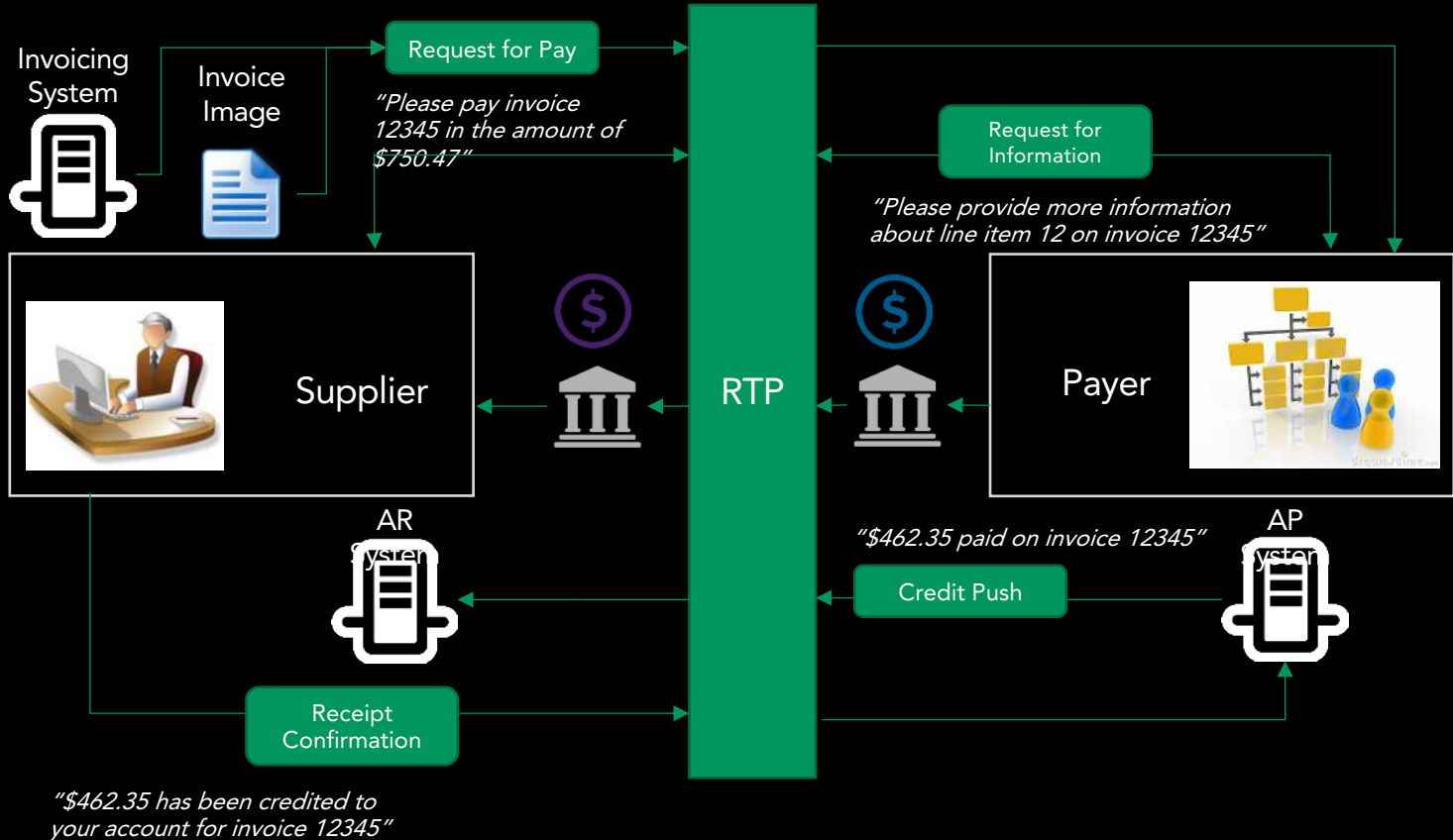
What is the value of faster / real-time payments — immediacy or data?

Source: AFP Digital Payments Survey 2022

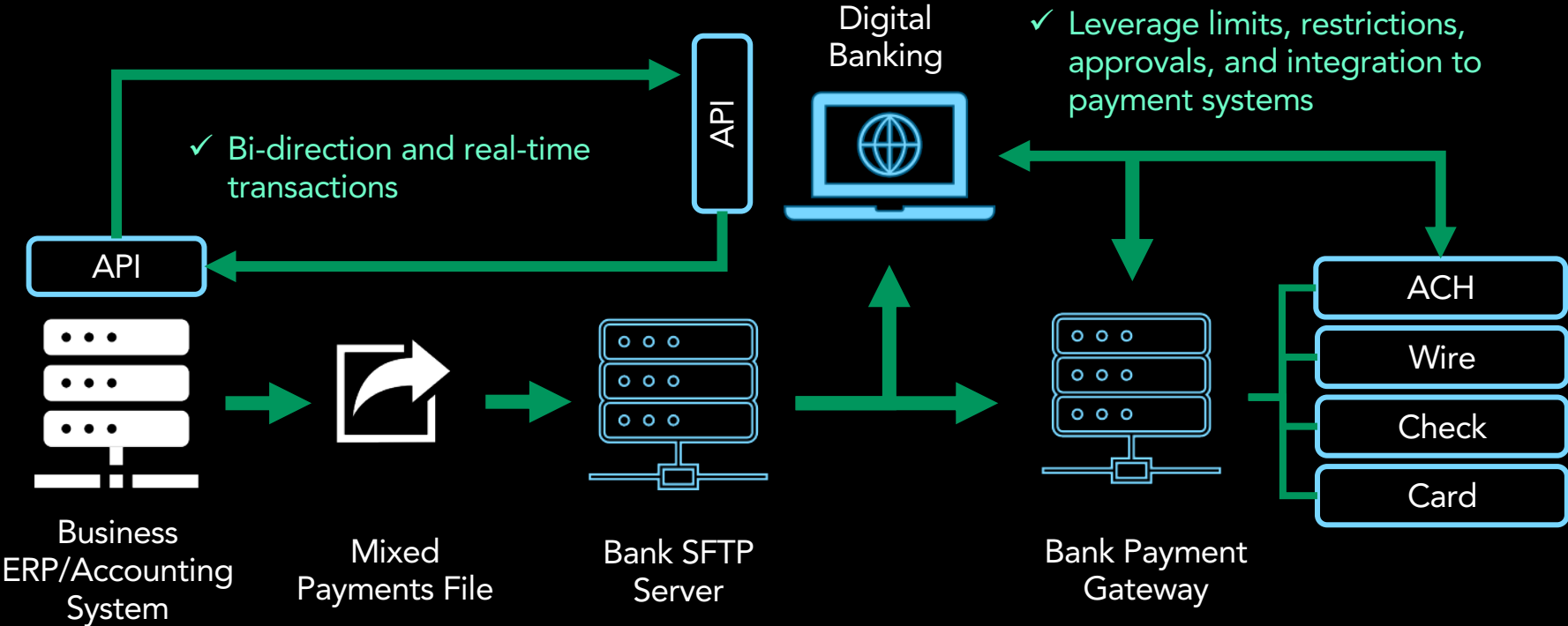
Category of payments that will benefit most from faster / real-time payments
(Percentage distribution of organizations)



Real-time payments: Payment experience for payers AND suppliers



Direct API integration



Paths for moving forward

- 1 Arm bankers with contextual, real-time coaching, reflective of your bank's current strategy
- 2 Mine your bank's data to deliver predictive analytics on potential cross-sell opportunities
- 3 Build a smart incentive plan aligned with strategic objectives; set targets at the RM portfolio level
- 4 Adjust targets as conditions change; avoid unintentional consequences of market anomalies
- 5 Take a proactive approach to managing customer attrition
- 6 Capitalize on technology to build efficiencies into internal processes
- 7 Strategically consider how to better enable business clients to take advantage of payments innovation

Download the full report



Thank you