

Harrisburg Lender Lunch

Hosted by SouthState Bank

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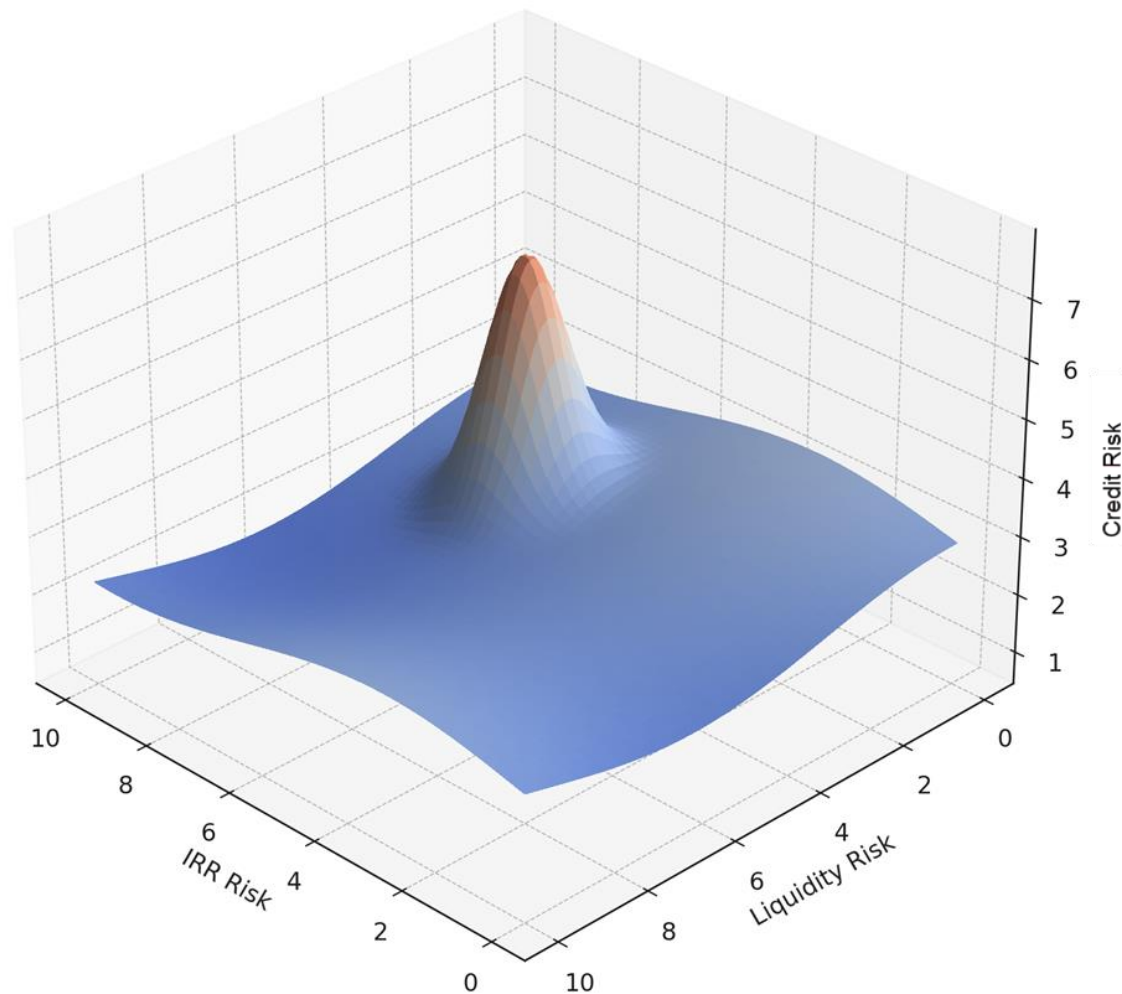
The Current Environment



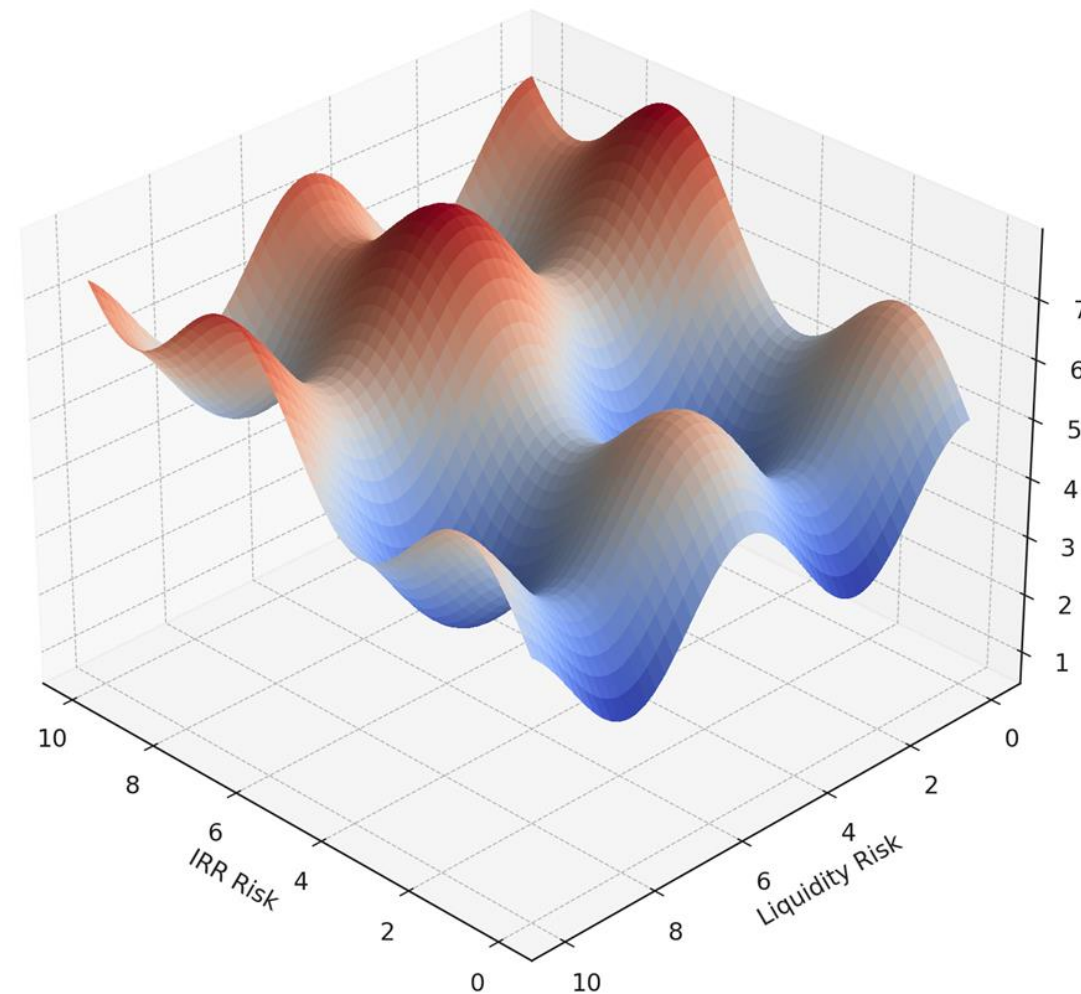
What Loan Risk Surface Looks Like



Low Risk Surface
\$5M, 7-Year Commercial Loan



High Risk Surface
\$5M, 7-Year Commercial Loan

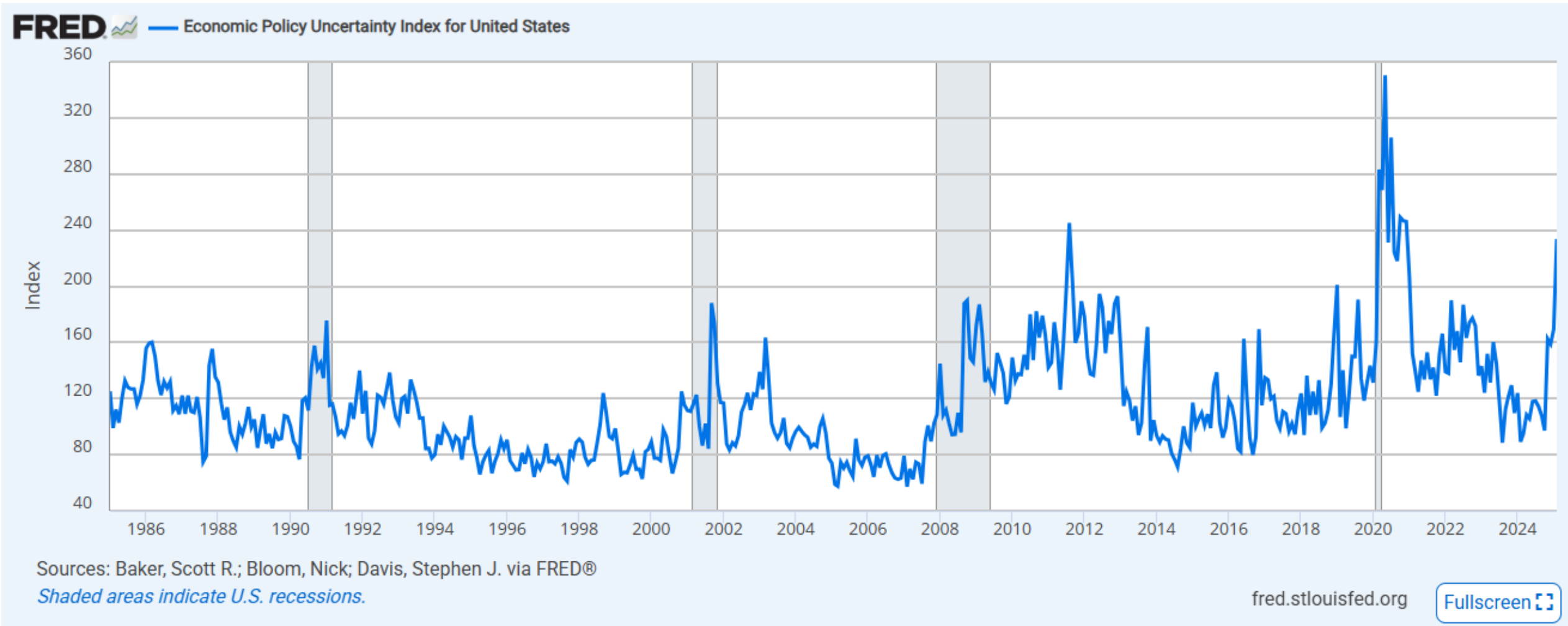


Directional 2Y Horizon Impact of Selected Policy



	Consumer Spending	GDP Impact	U.S. Budget Deficit Impact	Inflation Impact	Credit Risk	Bank Profitability
Tariffs / Trade War	↓	↓	Non-Material	↑	↑	↓
DOGE Spending Cuts	↓	↓	↑	↓	↑	↓
Immigration Policy Changes	↓	↓	Non-Material	↑	↑	↓

All-Time High in Uncertainty



Inflation Expectations Have Spiked



University of Michigan inflation expectations
Monthly medians



Source: University of Michigan, RSM US

Lower Consumer Sentiment

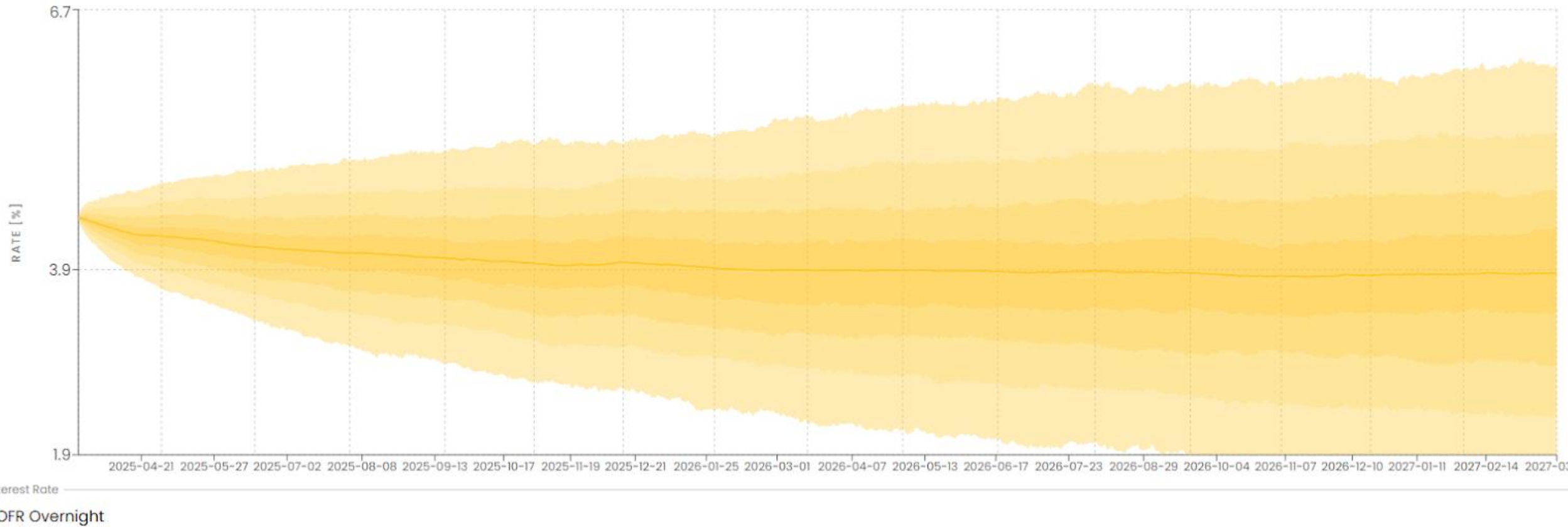


University of Michigan consumer sentiment
Monthly index



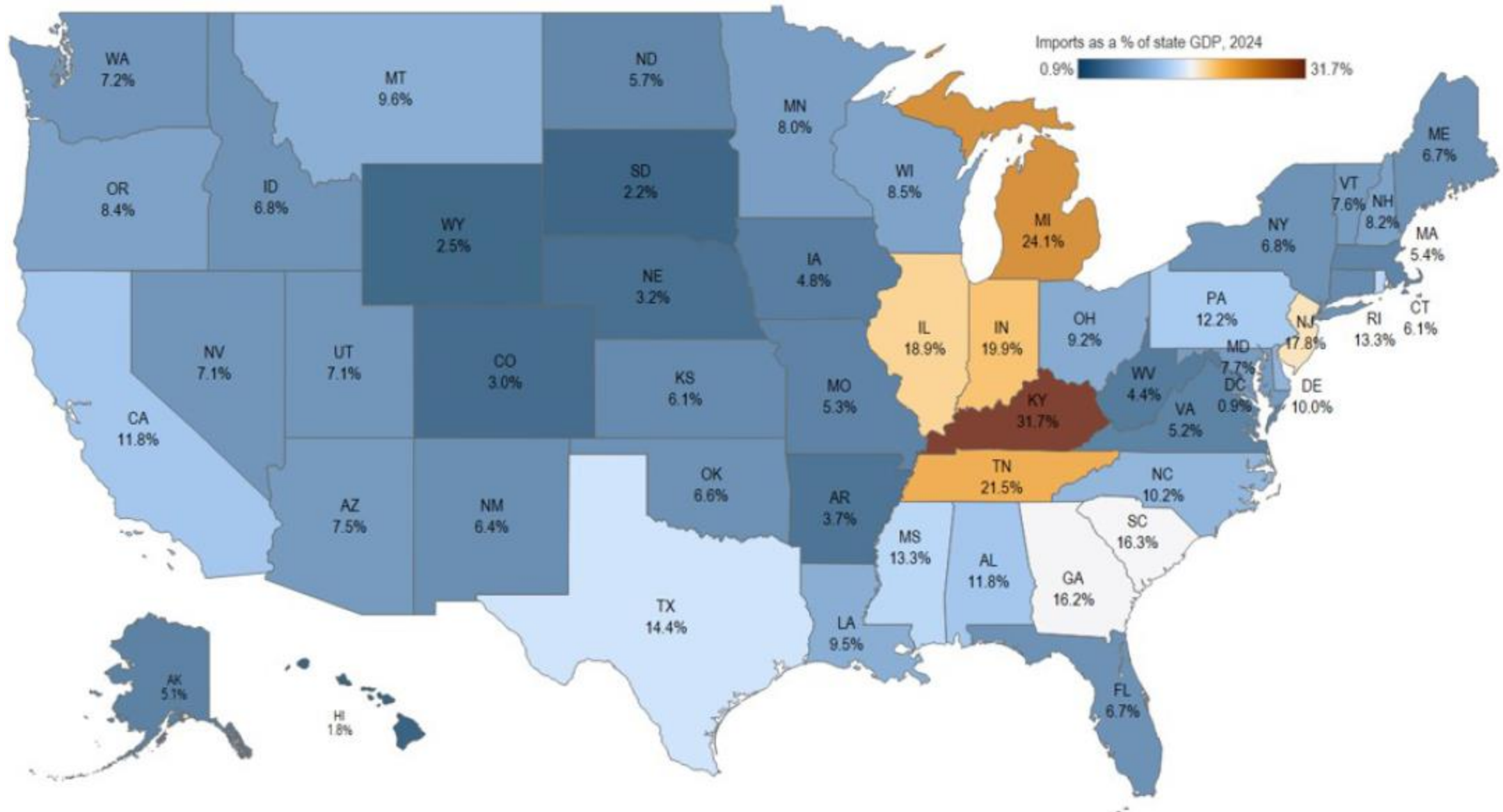
Source: University of Michigan, RSM US

The Path of Rates For Banks



Source: Delfi

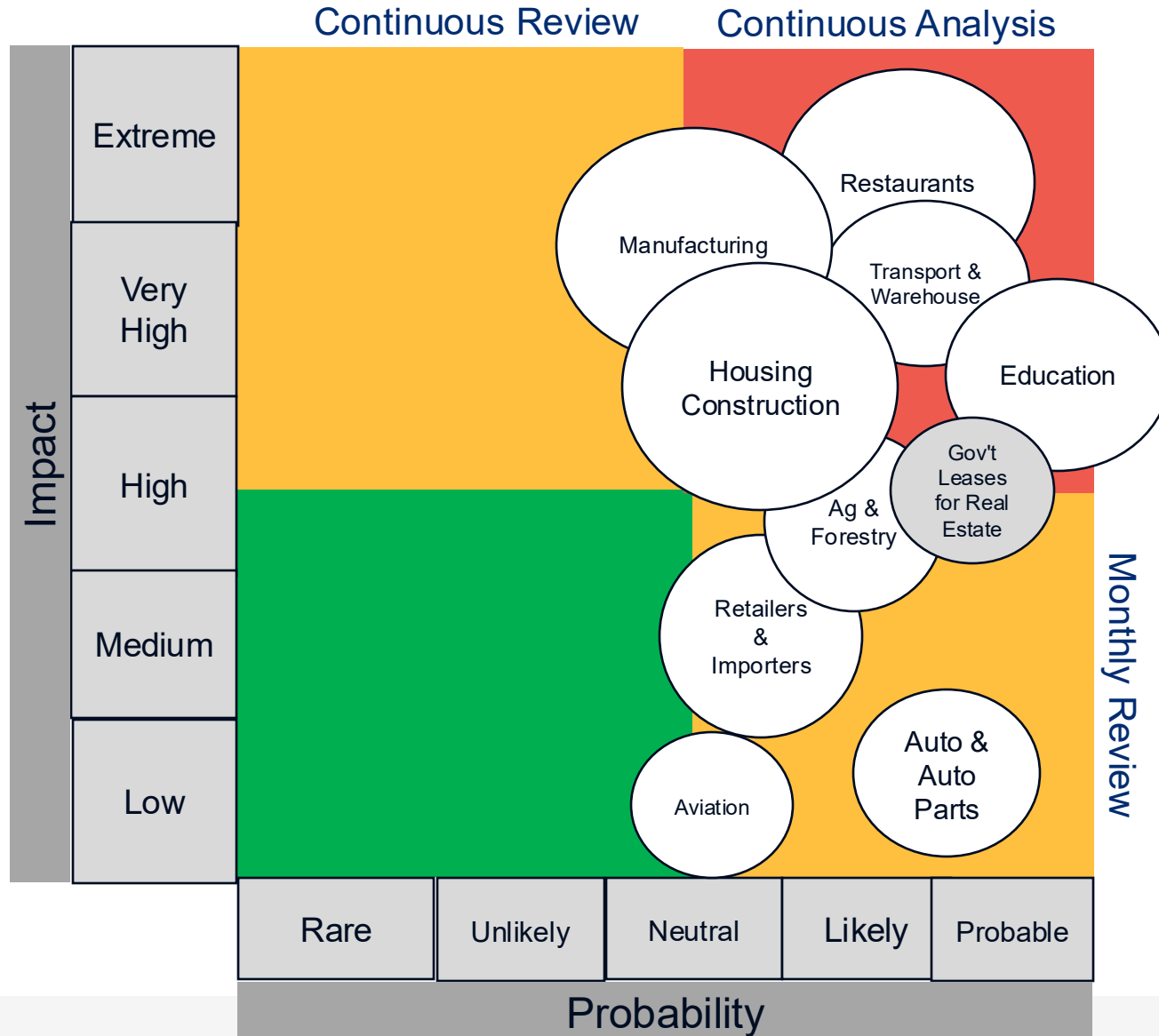
Total Imports By % of GDP By State



Tariff/Doge/Immigration Bank Credit Heat Map



Bank Credit Risk Heat Map of Select Industries

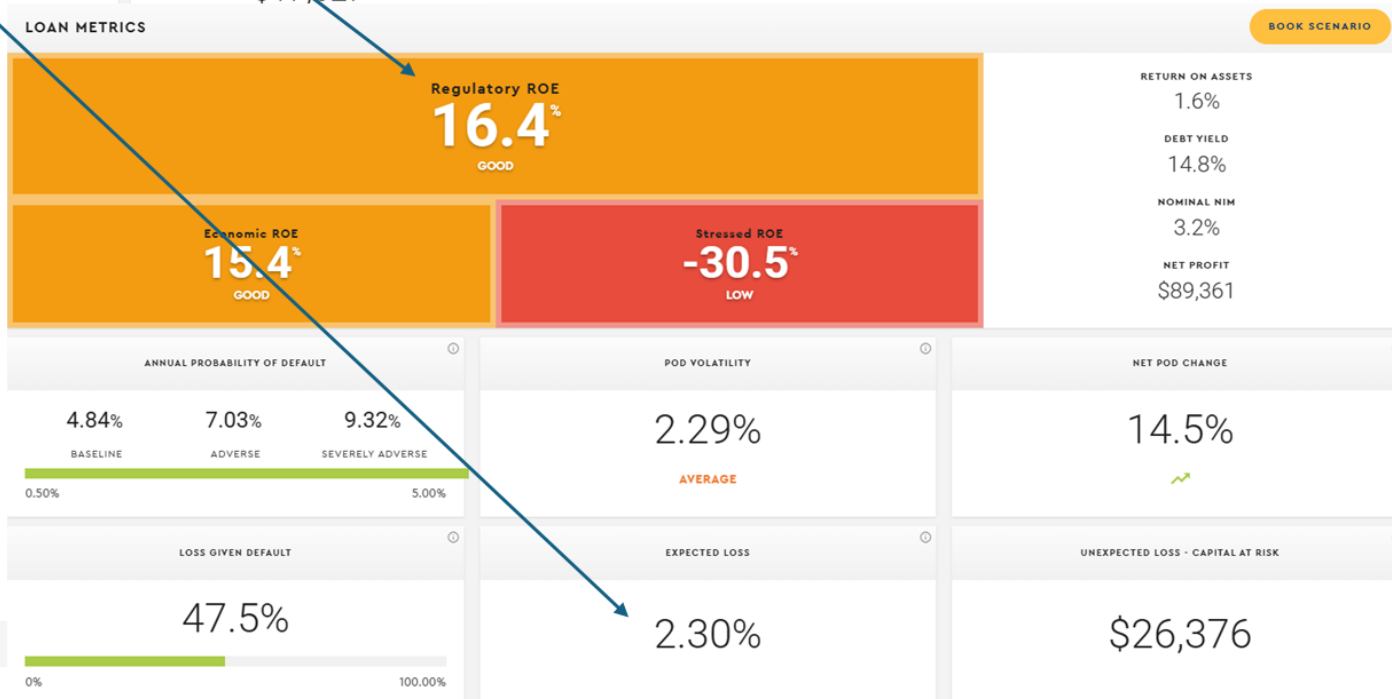
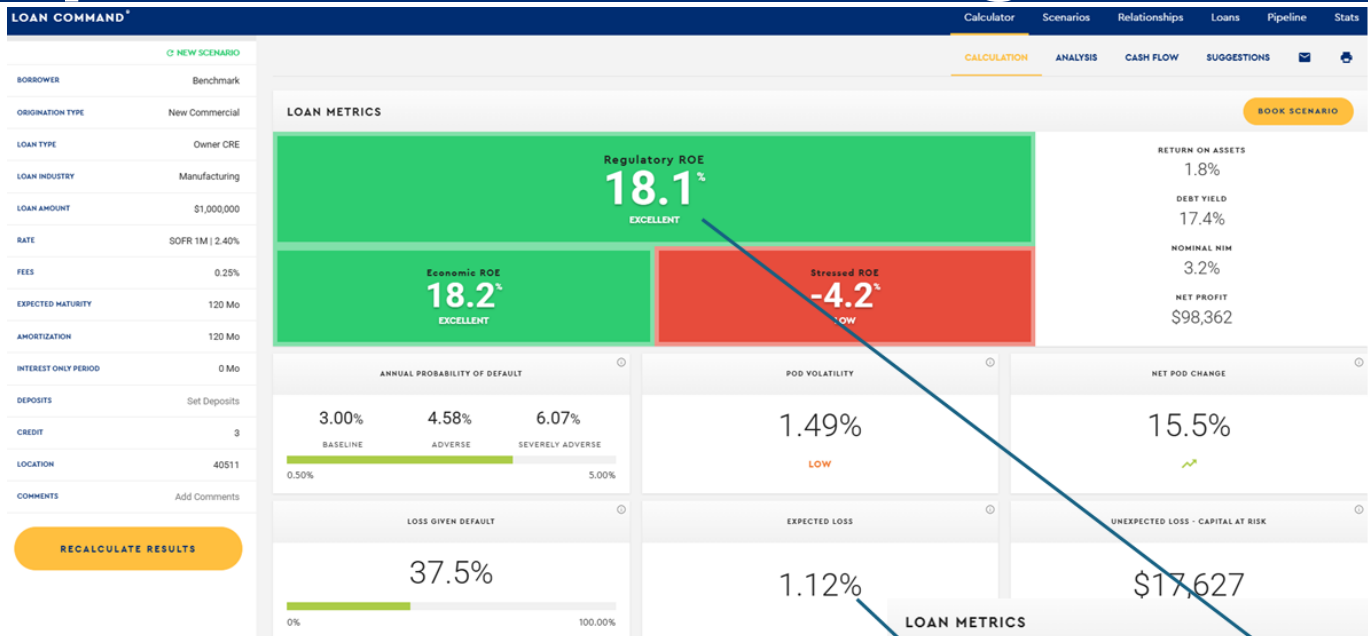




Impact By Industry (Manufacturing Example)

Industry Information		Risk				Import Exposure						Export Exposure					
NAICS Code	Industry	Structure	Growth	Sensitivity	Total	Mexico	Canada	China	Australia	UK	EU	Mexico	Canada	China	Australia	UK	EU
31-33	Manufacturing	Medium	High	Medium	High	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
311	Food Manufacturing	Medium	Very High	High	High	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
3111	Animal Food Manufacturing	Medium	High	Medium	High	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
31111	Animal Food Manufacturing	Low	High	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
3112	Grain And Oilseed Milling	Medium	Very High	Very High	High	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
31121	Flour Milling And Malt Manufacturing	Low	Very High	Low	Low	Low	High	Low	Low	Low	Low	Medium	Medium	Low	Low	Low	Low
31122	Starch And Vegetable Fats And Oils Manufacturing	Low	Very High	Very High	High	Low	High	Low	Low	Low	Medium	Medium	Medium	Low	Low	Low	Low
31123	Breakfast Cereal Manufacturing	Low	Low	Low	Low	Medium	High	Low	Low	Low	Low	Low	Very High	Low	Low	Low	Low
3113	Sugar And Confectionery Product Manufacturing	Medium	Very High	Medium	High	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
31131	Sugar Manufacturing	Low	High	Low	Low	Medium	Low	Low	Low	Low	Low	Very High	Medium	Low	Low	Low	Low
31134	Nonchocolate Confectionery Manufacturing	Low	High	Low	Low	High	Medium	Low	Low	Low	Medium	Medium	Very High	Low	Low	Low	Low
31135	Chocolate And Confectionery Manufacturing	Low	Very High	Low	Low	Low	High	Low	Low	Low	Medium	Medium	Very High	Low	Low	Low	Low
3114	Fruit And Vegetable Preserving And Specialty Food Manufa	Medium	High	High	High	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
31141	Frozen Food Manufacturing	Low	Low	Low	Low	Medium	High	Low	Low	Low	Medium	Medium	Medium	Low	Low	Low	Low
31142	Fruit And Vegetable Canning, Pickling, And Drying	Low	Very High	Very High	Very High	Medium	Low	Low	Low	Low	Medium	Medium	High	Low	Low	Low	Low
3115	Dairy Product Manufacturing	Medium	Very High	High	High	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
31151	Dairy Product (Except Frozen) Manufacturing	Low	Very High	High	High	Low	Medium	Low	Low	Low	High	Low	Medium	Low	Low	Low	High
31152	Ice Cream And Frozen Dessert Manufacturing	Low	Low	Low	Low	Low	Low	Low	Low	Low	High	High	Low	Low	Low	Low	Low
3116	Animal Slaughtering And Processing	Medium	Very High	High	High	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
31161	Animal Slaughtering And Processing	Low	Very High	Low	Low	Medium	High	Low	Medium	Low	Low	Medium	Low	Medium	Low	Low	Low
3117	Seafood Product Preparation And Packaging	High	High	Medium	High	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
31171	Seafood Product Preparation And Packaging	Low	High	Low	Low	Low	Low	Low	Low	Low	Low	Low	High	Low	Low	Low	Medium
3118	Bakeries And Ortilia Manufacturing	Medium	Medium	Medium	Medium	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
31181	Bread And Bakery Product Manufacturing	Low	Low	Low	Low	Medium	Very High	Low	Low	Low	Medium	Low	Very High	Low	Low	Low	Low
31182	Cookie, Cracker, And Pasta Manufacturing	Low	Low	Low	Low	Low	High	Low	Low	Low	High	Medium	High	Low	Low	Low	Low
31183	Tortilla Manufacturing	Low	Low	Low	Low	-	-	-	-	-	-	-	-	-	-	-	-
3119	Other Food Manufacturing	Medium	High	Low	Medium	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
31191	Snack Food Manufacturing	Low	High	Low	Low	High	Medium	Low	Low	Low	Low	Medium	High	Medium	Low	Low	Low
31192	Coffee And Tea Manufacturing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31193	Flavoring Syrup And Concentrate Manufacturing	Low	Very High	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low

Impact on Loan Pricing



Updated 2Q Loan Pricing



	Credit Rating	Suggested Target Spread	Actual Spread (@ Booking)	Difference (Bps)	Difference %	Target ROE	Actual ROE (@ Pricing)	Difference	Difference %	Comments
	1	2.01%	1.85%	-0.16%	-8%	18%	15%	▬ -3%	-17%	Spreads increased 8bps.
	2	2.44%	2.40%	-0.04%	-2%	18%	19%	▲ 1%	3%	Spreads increased 18bps.
	3	2.86%	2.46%	-0.40%	-14%	18%	19%	▲ 1%	6%	Spreads increased 31 bps.
	4+	3.00%	2.62%	-0.38%	-13%	18%	19%	▲ 1%	3%	Spreads increased 45 bps.

		Target Spread	Actual Spread (@ Booking)	Difference (Bps)	Difference %	Target ROE	Actual ROE (@ Pricing)	Difference	Difference %	Comments
NOOCRE	Office	3.22%	2.75%	-0.47%	-15%	18%	17%	▲ -1%	-6%	Spreads increased 44 bps and became very location dependent.
	Retail	3.38%	2.78%	-0.60%	-18%	18%	16%	▬ -2%	-11%	Spreads increased 58 basis points.
	Hospitality	4.15%	3.22%	-0.93%	-22%	18%	15%	▬ -3%	-17%	Spreads increased 100 bps and liquidity is currently at near zero.
	Industrial	2.61%	2.24%	-0.37%	-14%	18%	17%	▲ -1%	-6%	Spreads increased 21 bps. driven by warehouse and logistical properties.
	Multifamily	2.54%	2.32%	-0.22%	-9%	18%	16%	▬ -2%	-11%	Spreads increased 10 bps.
	Other	2.80%	2.49%	-0.31%	-11%	18%	16%	▬ -2%	-11%	Spreads increased 30 bps on self-storage and manuf. housing.
C&I	General	2.63%	2.06%	-0.57%	-22%	18%	15%	▬ -3%	-19%	Spreads have increased 18 bps.
	Line of Credit	3.50%	2.85%	-0.65%	-19%	18%	7%	▼ -11%	-61%	Pricing increased 10 bps.
	Municipal	1.79%	1.75%	-0.04%	-2%	18%	15%	▬ -3%	-15%	Spreads tightened 1 bp on decreased demand and greater supply.
	Other	2.59%	1.65%	-0.62%	-24%	18%	13%	▬ -5%	-28%	Project based deals increased 14 bps due to riskier mix
OOCRE	Industrial	2.64%	2.18%	-0.46%	-17%	18%	15%	▬ -4%	-19%	Loans to manufacturing and distribution companies increased 34 bps
	Office/Retail	2.58%	2.54%	-0.04%	-2%	18%	18%	▲ 0%	-1%	Spreads increased by 31 bps.
	Medical	2.20%	2.06%	-0.14%	-6%	18%	16%	▬ -2%	-11%	Spreads increased 5 bps.
	Church	2.68%	2.52%	-0.16%	-6%	18%	19%	▲ 1%	6%	Underpriced given elevated risk. Spreads increased 3 bps due to higher PODs.
	Other	3.00%	3.08%	0.08%	3%	18%	15%	▬ -3%	-17%	Restaurants, child care, etc. Spreads increased 16 bps
Other	Other	2.69%	2.84%	0.15%	6%	18%	18%	▲ 0%	0%	Mostly ag loans. Spreads increased 24 bps.
	Construction	4.82%	3.12%	-1.70%	-35%	18%	5%	▼ -13%	-72%	Pricing increased 87 bps due to elevated takeout risk of slowing economy.

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.

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