

Miami Lender Lunch

Hosted by SouthState Bank

Chris Nichols

Director of Capital Markets

Ed Kofman

Director of Loan Hedging

Scott Carter and Ashley Foster

Hedging Specialists

Charlie Winborne

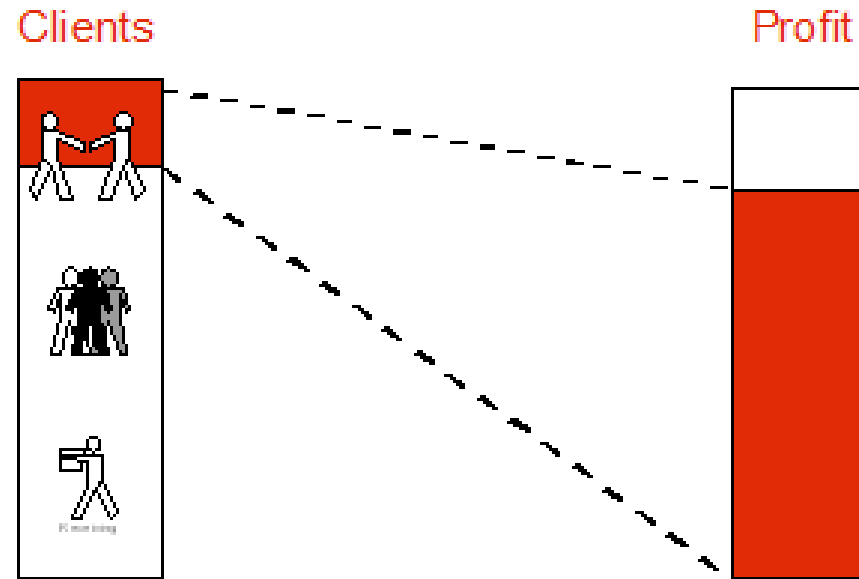
SVP Business Development



Customer Profitability



Dissecting Relationship Profitability



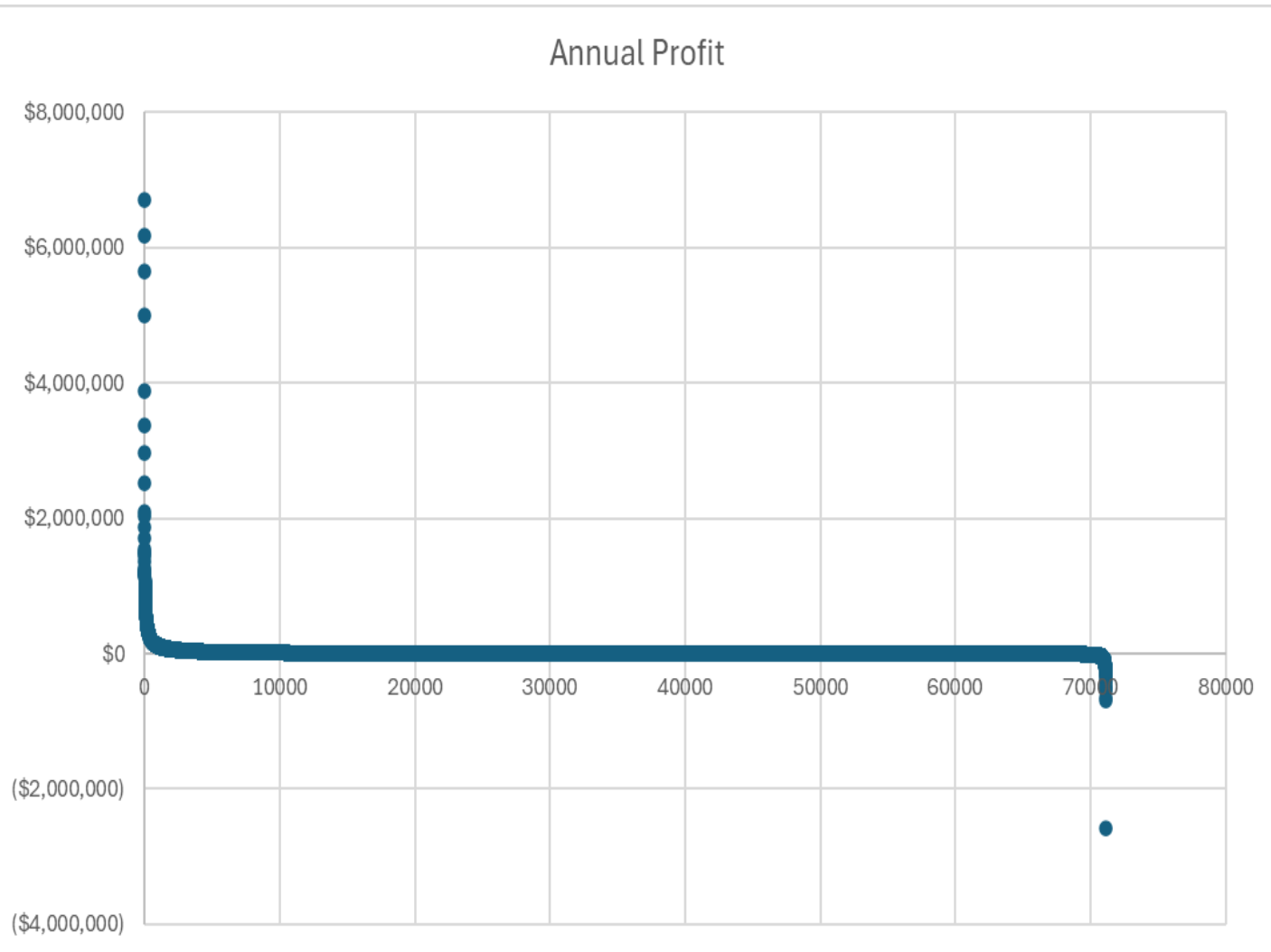
The top 20% of your clients
Generate 80% of your profit

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

Dissecting Relationship Profitability



Case Study – over \$40Bn bank, 71k commercial clients



- Top 0.04% of clients = 10% of all profits
- Top 1.56% of clients = 50% of all profits
- Top 7.56% of clients = 80% of all profits

- Bottom 48% of clients zero or negative profits
- Bottom 8.6% of clients earn substantial negative profits (subtract 10.3% of total profits)
- 30% of all loan commitments are made to bottom 10% of profitable clients

- Average loan size \$320k
- Average deposit size \$230k

Dissecting Banking Profitability



Community Banking Industry Challenges and Opportunities

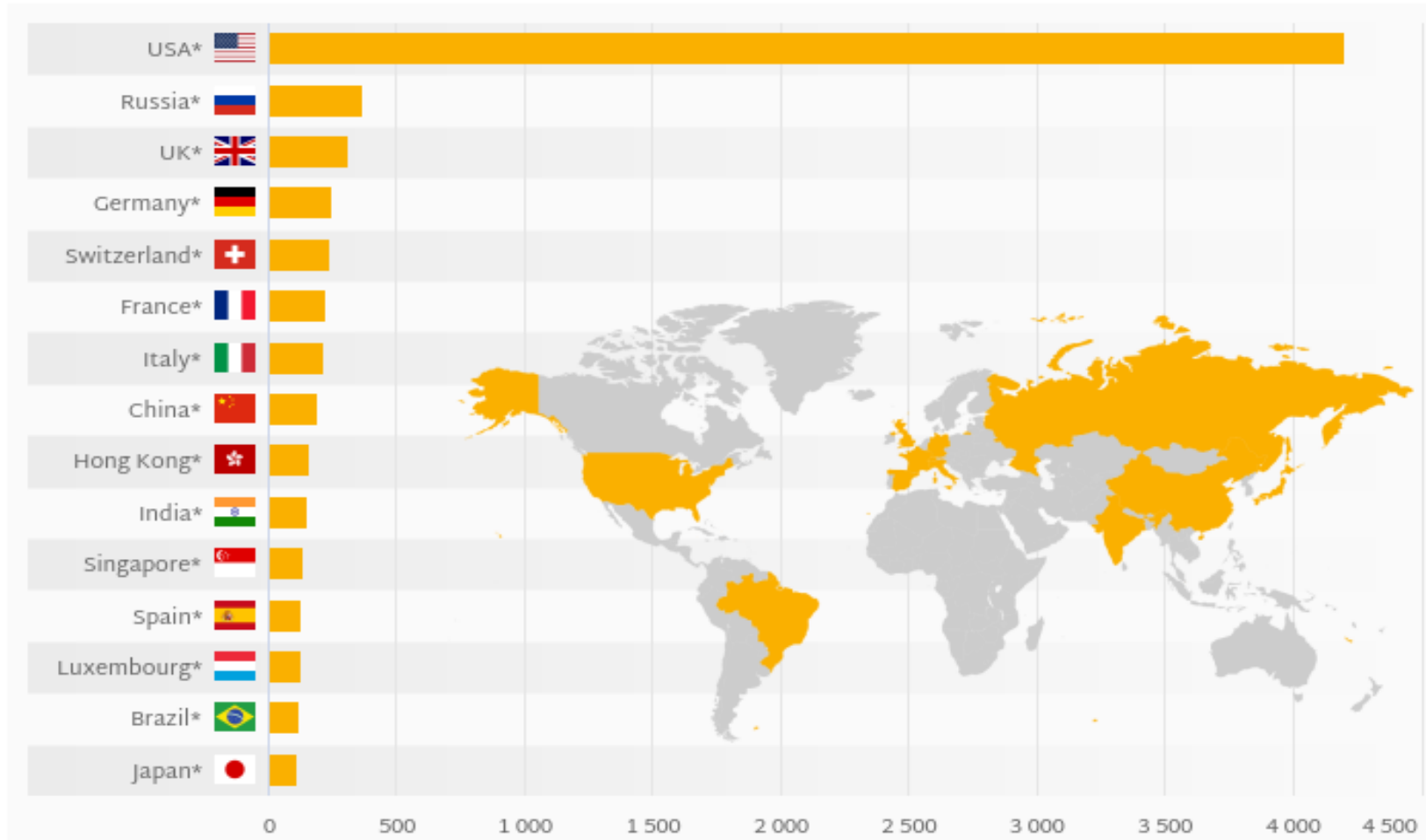


Why So Many Banks



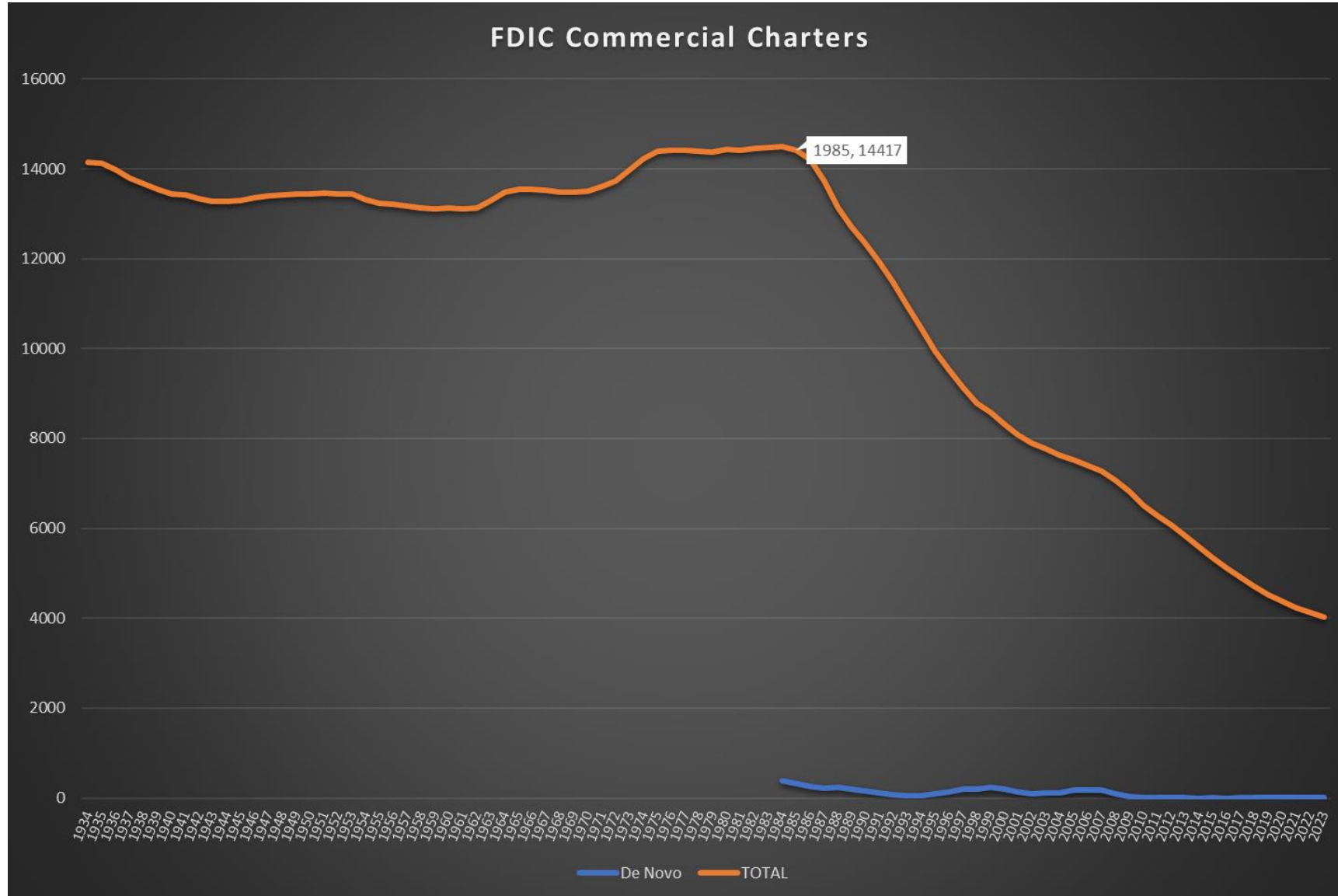
What Country Has the Most Banks?

Number of Banks (banks), 2022 or latest



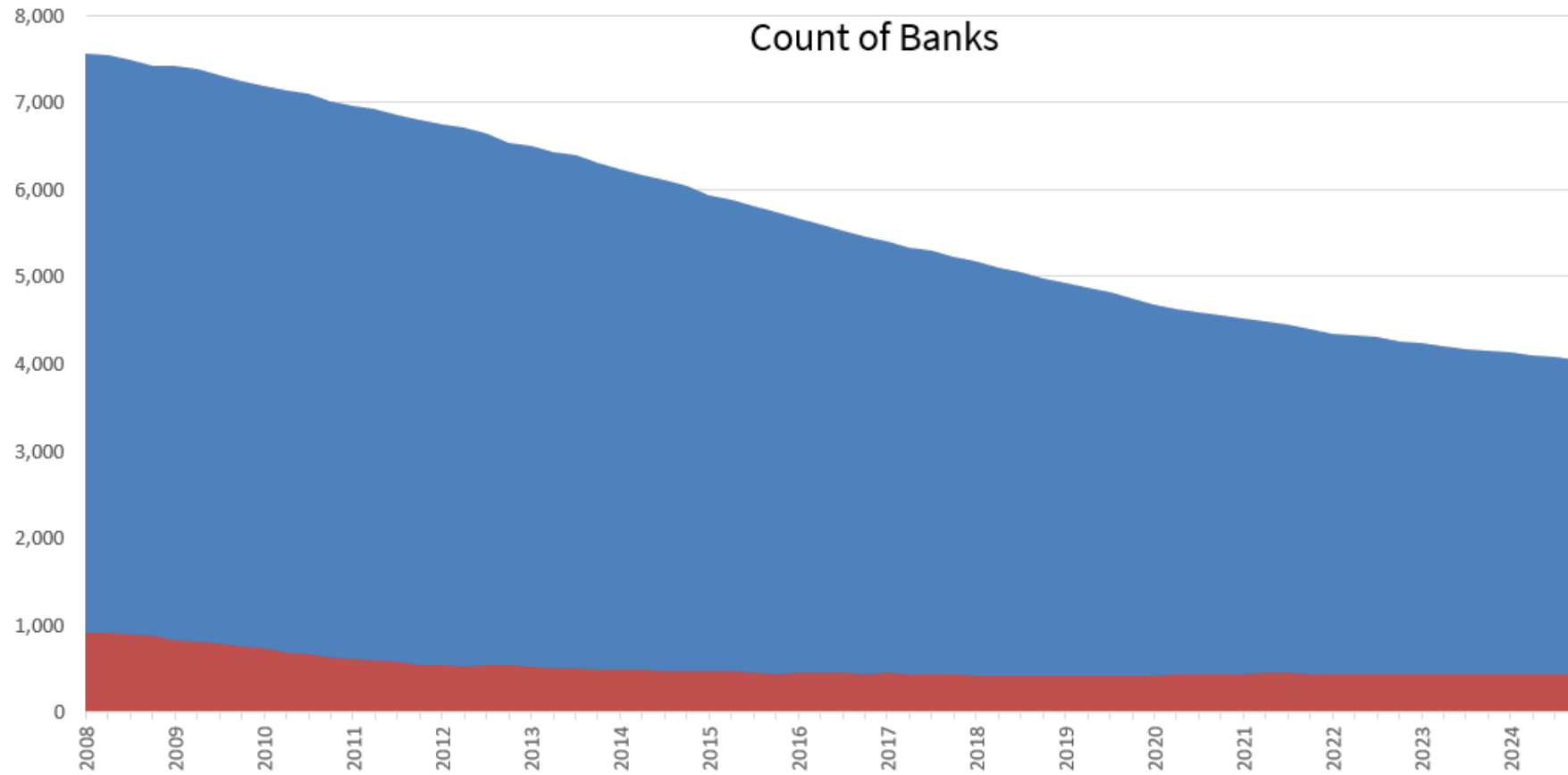
Source: National Statistical Office, * Data from 2020

Competitive Landscape



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

Competitive Landscape



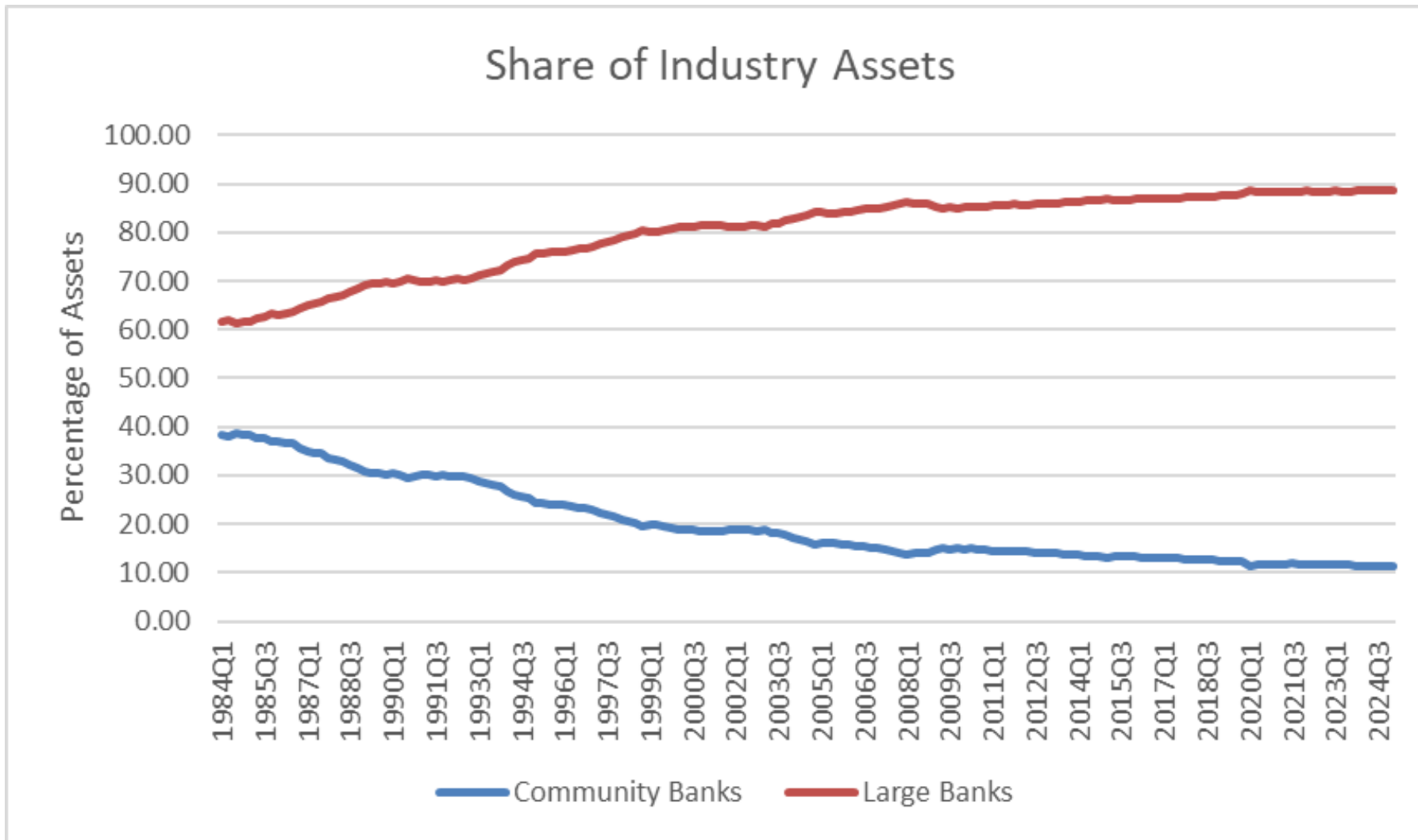
Not all banks are consolidating equally

Source: FDIC.

■ Community Banks

■ Noncommunity Banks

Competitive Landscape

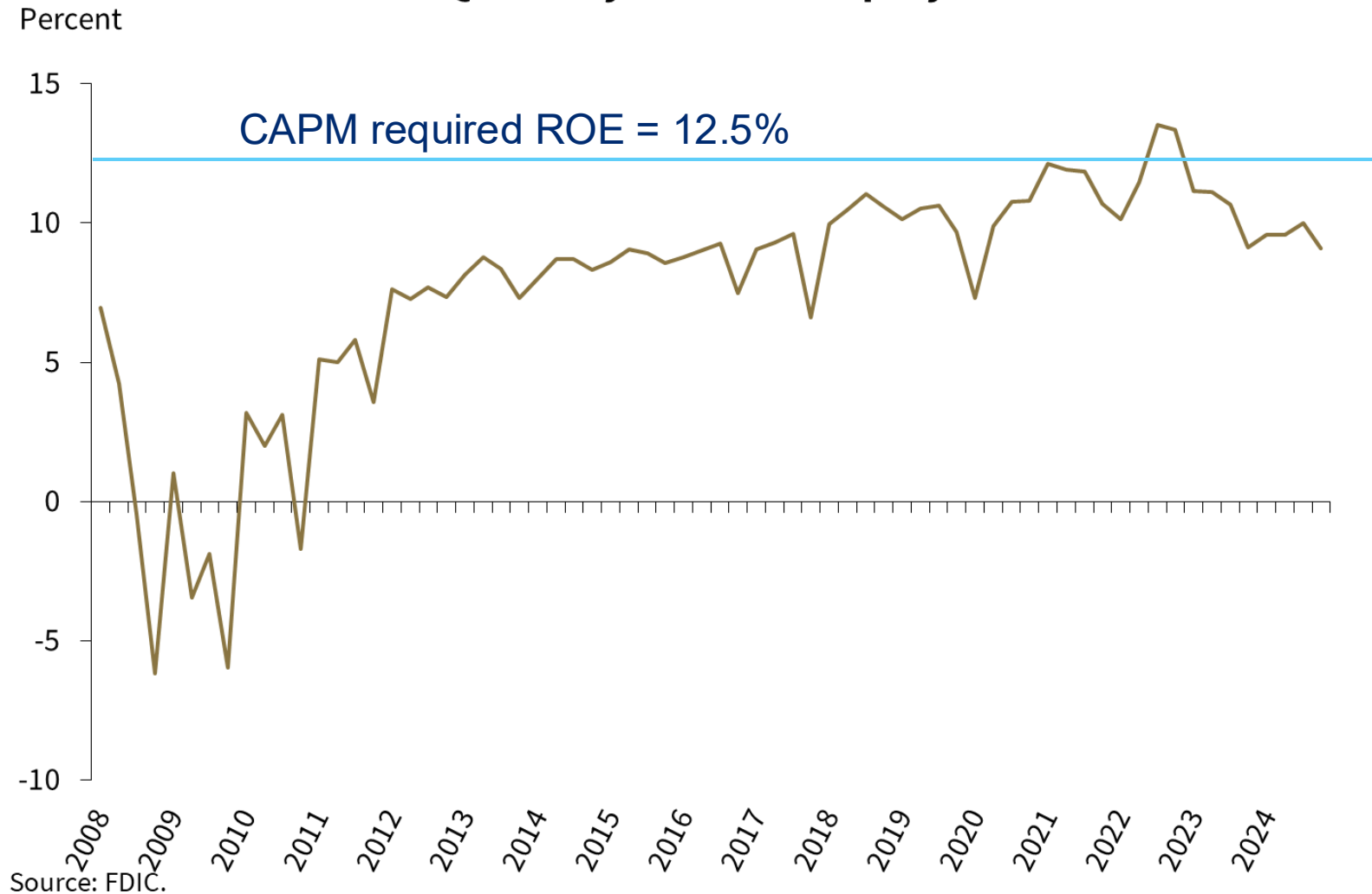


Shrinking market share for community banks (<\$10Bn assets)

Competitive Landscape



Community Banks Quarterly Return on Equity

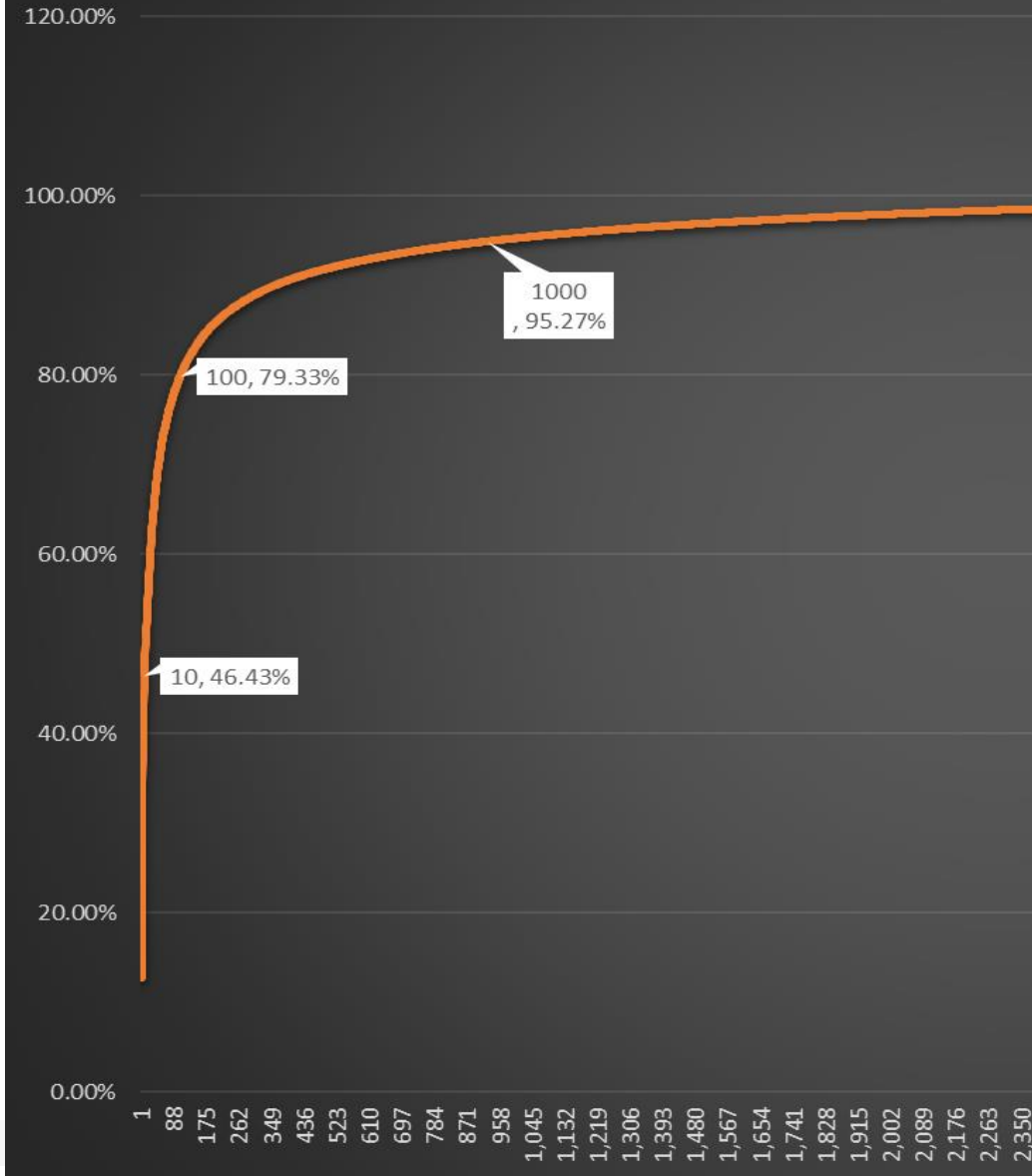


Defunct bank ROE =
1.66% (~ 12k banks,
over 40yrs)

Competitive Landscape



Cumulative % of Assets

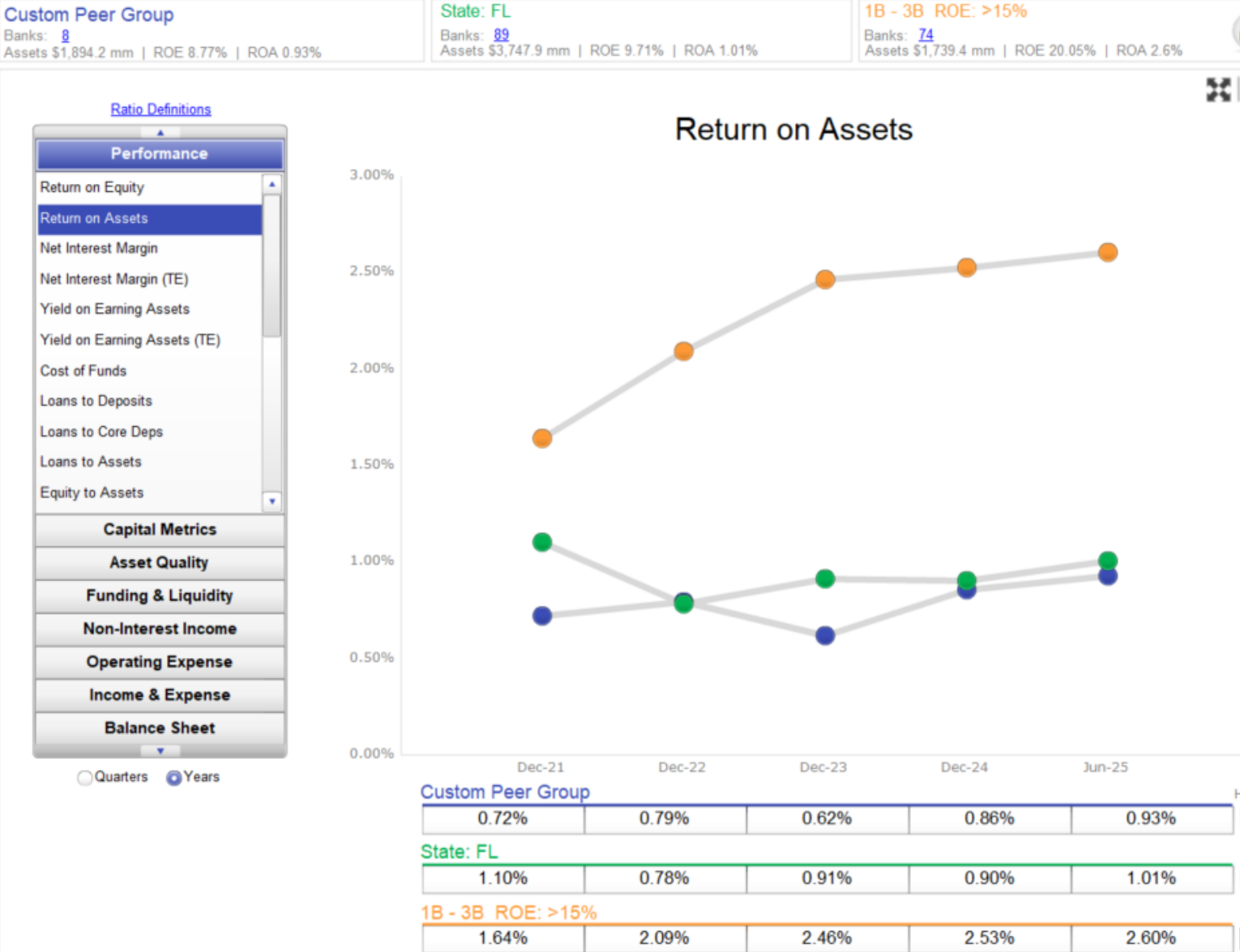


Cert	Institution Name	City	State	Class	Values in Thousands USD	
					Total Assets	Total Deposits
33555	SOUTHSTATE BANK, NATIONAL ASSOCIATION	Winter Haven	FL	N	65,865,505	54,199,181
34775	EVERBANK, NATIONAL ASSOCIATION	Jacksonville	FL	N	44,446,323	34,815,654
33893	RAYMOND JAMES BANK	Saint Petersburg	FL	SM	42,320,219	38,355,667
58979	BANKUNITED, NATIONAL ASSOCIATION	Miami Lakes	FL	N	35,441,030	29,240,951
20234	CITY NATIONAL BANK OF FLORIDA	Miami	FL	N	27,059,543	21,529,120
131	SEACOAST NATIONAL BANK	Stuart	FL	N	15,935,315	12,504,088
22953	AMERANT BANK, NATIONAL ASSOCIATION	Coral Gables	FL	N	10,312,330	8,318,138
24156	OCEAN BANK	Miami	FL	NM	7,249,115	6,127,945
57083	EMIGRANT BANK	Miami	FL	NM	5,777,481	4,418,486
57815	BANESCO USA	Miami	FL	NM	5,214,894	3,268,313
21265	BRADESCO BANK	Coral Gables	FL	NM	5,116,928	4,234,280
9622	CAPITAL CITY BANK	Tallahassee	FL	SM	4,392,241	3,790,804
31313	FIRST FEDERAL BANK	Lake City	FL	SB	4,194,869	3,210,374
33440	CITIZENS FIRST BANK	The Villages	FL	NM	4,093,971	3,454,398
58486	FINEMARK NATIONAL BANK & TRUST	Fort Myers	FL	N	3,887,061	3,070,929
26725	BANCO DO BRASIL AMERICAS	Miami	FL	NM	3,123,278	2,783,936
21031	THE BANK OF TAMPA	Tampa	FL	NM	3,006,206	2,725,386
57369	U. S. CENTURY BANK	Doral	FL	NM	2,717,656	2,358,264
8021	CREWS BANK & TRUST	Wauchula	FL	NM	2,268,996	2,017,235
34908	COGENT BANK	Orlando	FL	NM	2,257,949	2,048,073
58811	ONE FLORIDA BANK	Orlando	FL	NM	1,930,073	1,729,953

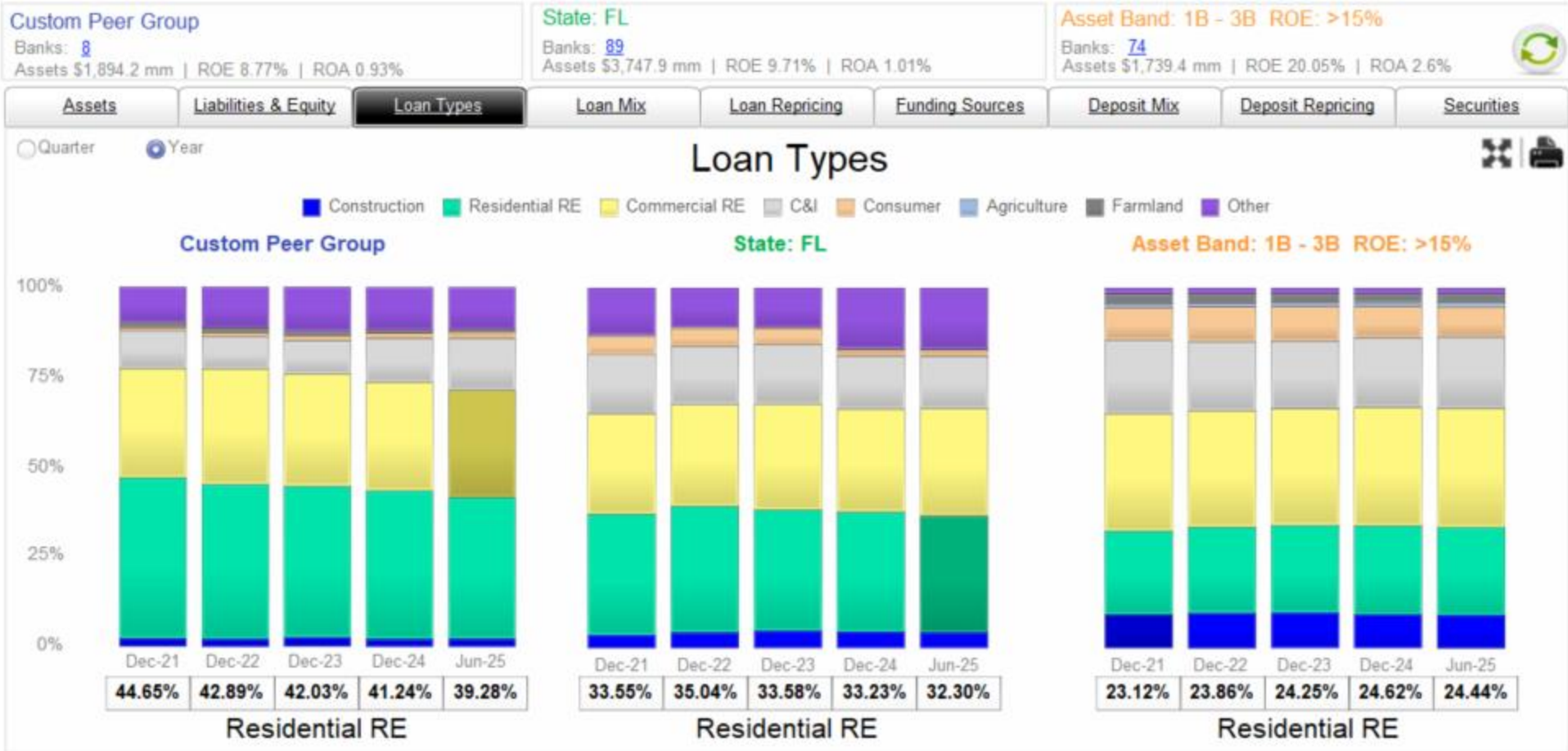
Challenges/Opportunities for Community Banks



Peer Group



Peer Group Business Model



Peer Group Business Model



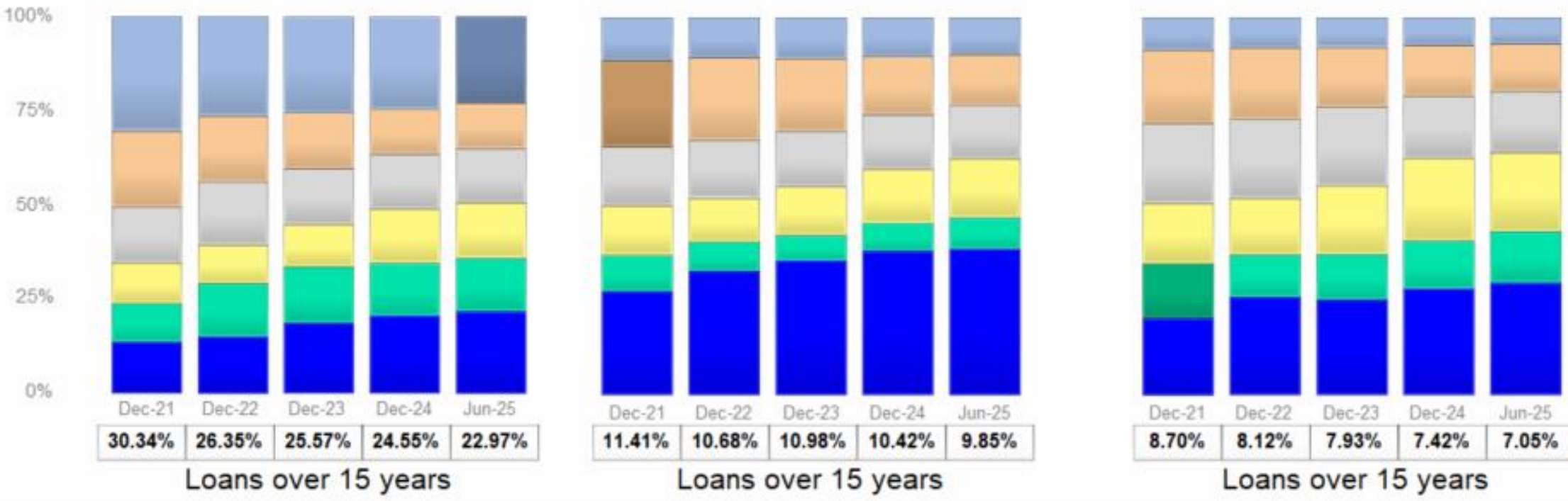
Custom Peer Group Banks: 8 Assets \$1,894.2 mm ROE 8.77% ROA 0.93%	State: FL Banks: 89 Assets \$3,747.9 mm ROE 9.71% ROA 1.01%	Asset Band: 1B - 3B ROE: >15% Banks: 74 Assets \$1,739.4 mm ROE 20.05% ROA 2.6%
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[Assets](#) | [Liabilities & Equity](#) | [Loan Types](#) | [Loan Mix](#) | **[Loan Repricing](#)** | [Funding Sources](#) | [Deposit Mix](#) | [Deposit Repricing](#) | [Securities](#)

Quarter | Year

Loan Repricing

■ Loans less than 3 mos |
 ■ Loans 3-12 mos |
 ■ Loans 1-3 years |
 ■ Loans 3-5 years |
 ■ Loans 5-15 years |
 ■ Loans over 15 years



Custom Peer Group

Banks: 8
Assets \$1,894.2 mm | ROE 8.77% | ROA 0.93%

State: FL

Banks: 89
Assets \$3,747.9 mm | ROE 9.71% | ROA 1.01%

1B - 3B ROE: >15%

Banks: 74
Assets \$1,739.4 mm | ROE 20.05% | ROA 2.6%

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

Capital Metrics

Asset Quality

Funding & Liquidity

Non-Interest Income

Operating Expense

Income & Expense

Balance Sheet

Quarters Years

Cost of Funds



Custom Peer Group

0.29%	0.54%	2.17%	2.78%	2.52%
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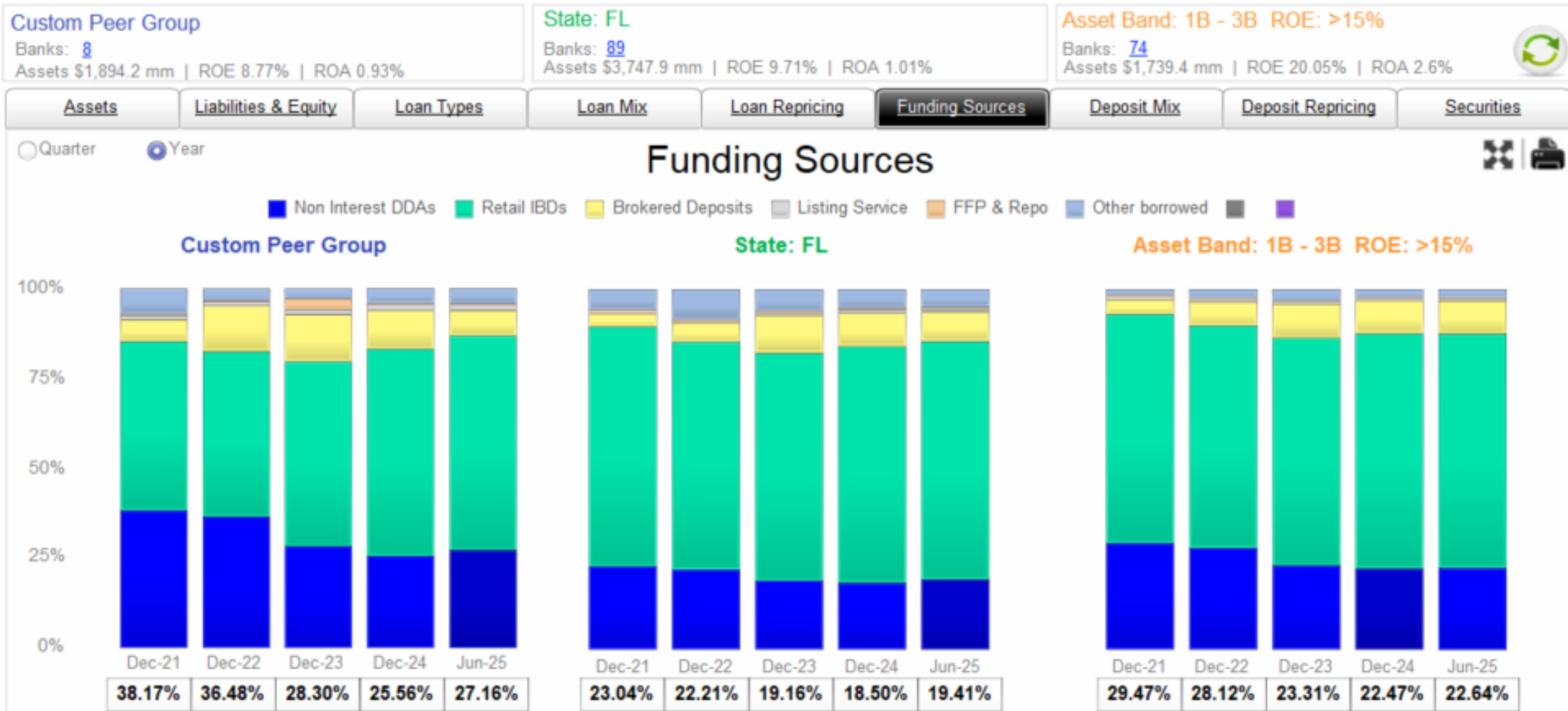
State: FL

0.31%	0.53%	2.10%	2.56%	2.26%
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1B - 3B ROE: >15%

0.29%	0.43%	1.71%	2.24%	2.05%
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Funding Sources



Asset Yield



Custom Peer Group

Banks: 8
Assets \$1,894.2 mm | ROE 8.77% | ROA 0.93%

State: FL

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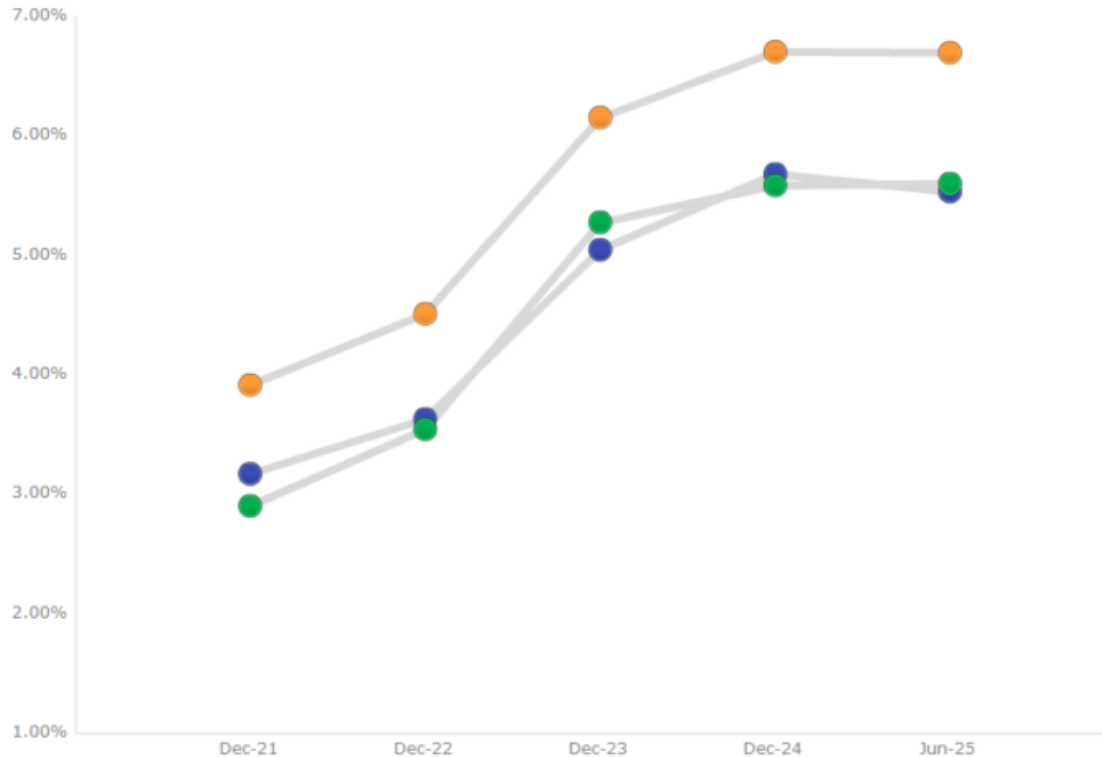
Operating Expense

Income & Expense

Balance Sheet

Quarters Years

Yield on Earning Assets



Custom Peer Group

3.17%	3.63%	5.05%	5.68%	5.54%
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State: FL

2.90%	3.55%	5.28%	5.59%	5.60%
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1B - 3B ROE: >15%

3.92%	4.51%	6.15%	6.71%	6.70%
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Efficiency Ratio



Custom Peer Group

Banks: 8
Assets \$1,894.2 mm | ROE 8.77% | ROA 0.93%

State: FL

Banks: 89
Assets \$3,747.9 mm | ROE 9.71% | ROA 1.01%

1B - 3B ROE: >15%

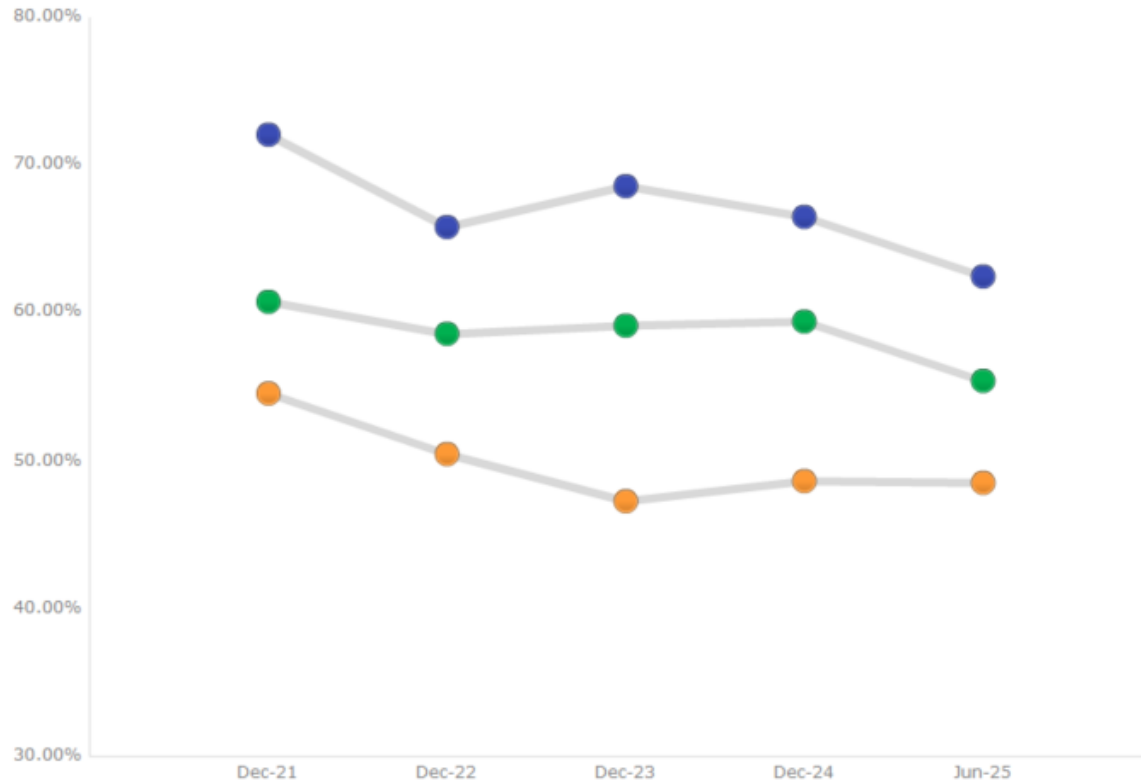
Banks: 74
Assets \$1,739.4 mm | ROE 20.05% | ROA 2.6%

Ratio Definitions

- Non-Interest Income
 - Operating Expense
 - Non-Interest Expense to Earning Assets
 - 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 (\$ 000s)
 - Pretax Net Income per Employee (\$ 000s)
 - 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

Efficiency Ratio



Custom Peer Group

72.05%	65.81%	68.58%	66.50%	62.46%
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State: FL

60.75%	58.58%	59.15%	59.42%	55.39%
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1B - 3B ROE: >15%

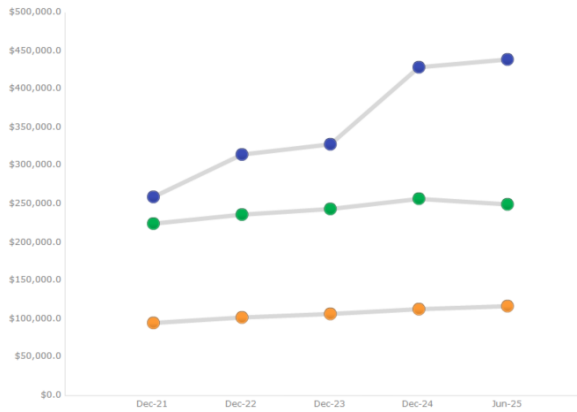
54.55%	50.46%	47.28%	48.62%	48.52%
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Efficiency Ratio =
Non-Interest
Expenses / Total
Revenue

Challenges – Efficiency Ratio Drivers?

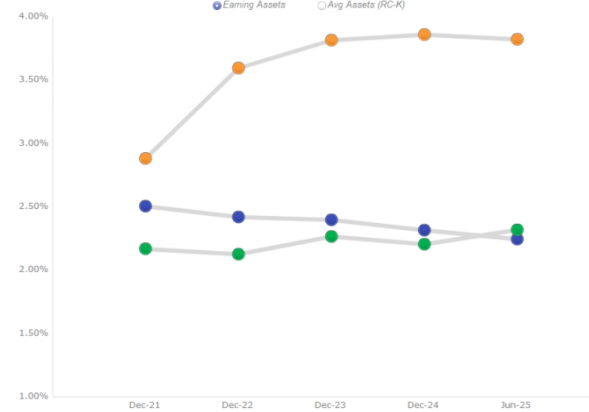


Deposits per Branch (\$ 000s)



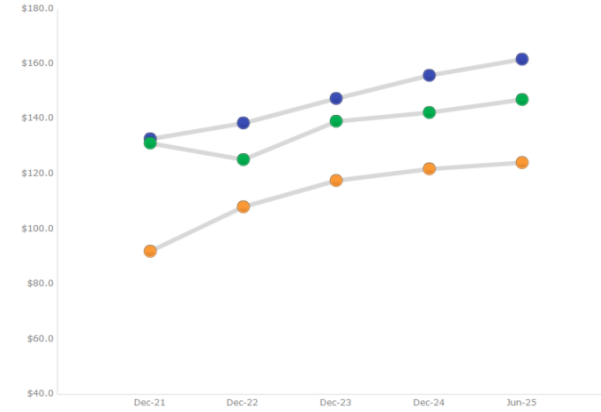
Custom Peer Group	Dec-21	Dec-22	Dec-23	Dec-24	Jun-25
	\$259,315	\$314,816	\$328,183	\$428,695	\$438,819
State: FL	\$224,639	\$236,266	\$243,605	\$256,960	\$249,790
1B - 3B ROE: >15%	\$95,111	\$102,098	\$106,756	\$112,978	\$116,918

Non-Interest Expense to Earning Assets



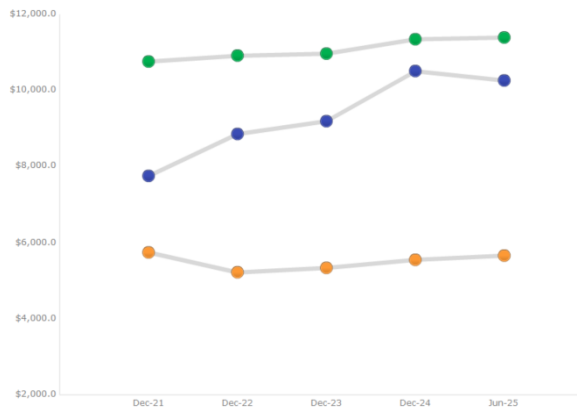
Custom Peer Group	Dec-21	Dec-22	Dec-23	Dec-24	Jun-25
	2.51%	2.42%	2.40%	2.32%	2.25%
State: FL	2.17%	2.13%	2.27%	2.21%	2.32%
1B - 3B ROE: >15%	2.88%	3.60%	3.82%	3.86%	3.82%

Salaries to Full-Time Employees



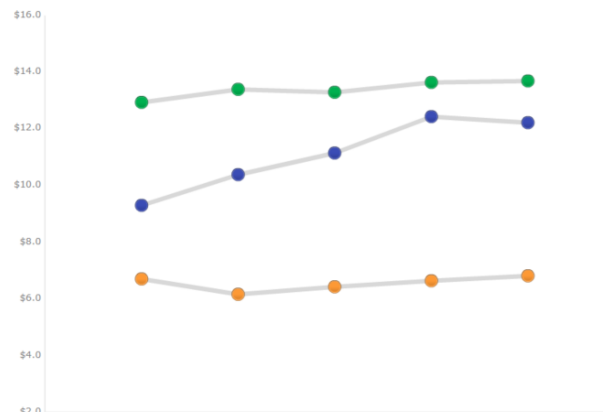
Custom Peer Group	Dec-21	Dec-22	Dec-23	Dec-24	Jun-25
	\$133	\$139	\$148	\$156	\$162
State: FL	\$131	\$125	\$139	\$142	\$147
1B - 3B ROE: >15%	\$92	\$108	\$118	\$122	\$124

Deposits per Employee (\$ 000s)



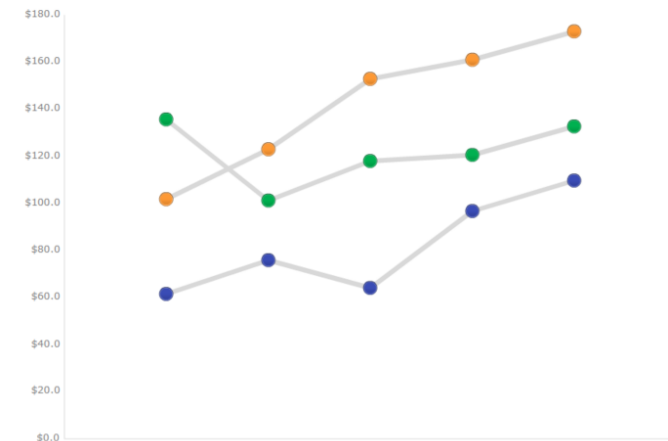
Custom Peer Group	Dec-21	Dec-22	Dec-23	Dec-24	Jun-25
	\$7,757	\$8,859	\$9,193	\$10,511	\$10,263
State: FL	\$10,760	\$10,917	\$10,970	\$11,346	\$11,392
1B - 3B ROE: >15%	\$5,746	\$5,221	\$5,340	\$5,550	\$5,661

Assets per Employee (\$ millions)



Custom Peer Group	Dec-21	Dec-22	Dec-23	Dec-24	Jun-25
	\$9.3	\$10.4	\$11.1	\$12.4	\$12.2
State: FL	\$12.9	\$13.4	\$13.3	\$13.6	\$13.7
1B - 3B ROE: >15%	\$6.7	\$6.2	\$6.4	\$6.6	\$6.8

Net Income per Employee (\$ 000s)

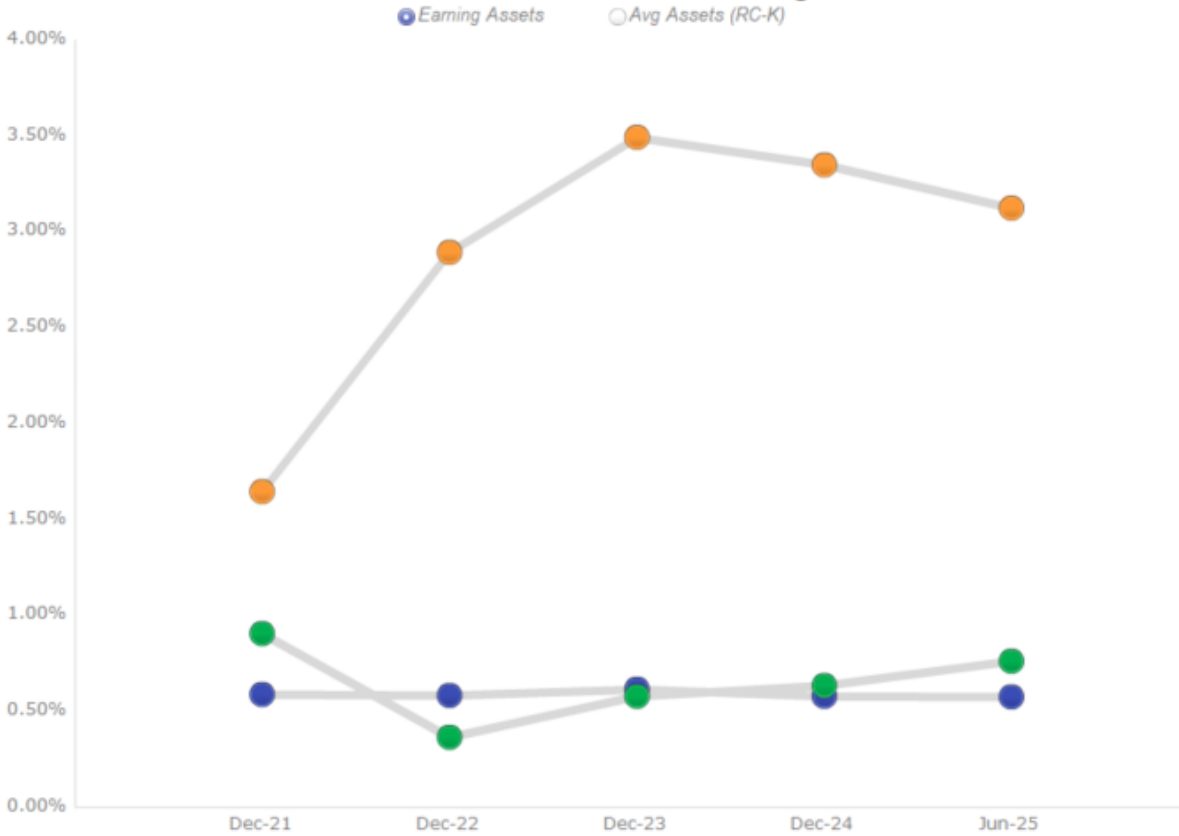


Custom Peer Group	Dec-21	Dec-22	Dec-23	Dec-24	Jun-25
	\$62	\$76	\$64	\$97	\$110
State: FL	\$136	\$101	\$118	\$121	\$133
1B - 3B ROE: >15%	\$102	\$123	\$153	\$161	\$173

Challenges – Efficiency Ratio Big Driver



Non-Interest Income to Earning Assets



Custom Peer Group				
0.59%	0.58%	0.61%	0.58%	0.58%
State: FL				
0.91%	0.37%	0.58%	0.63%	0.76%
1B - 3B ROE: >15%				
1.65%	2.89%	3.49%	3.35%	3.12%



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



Why Fee Income Matters?

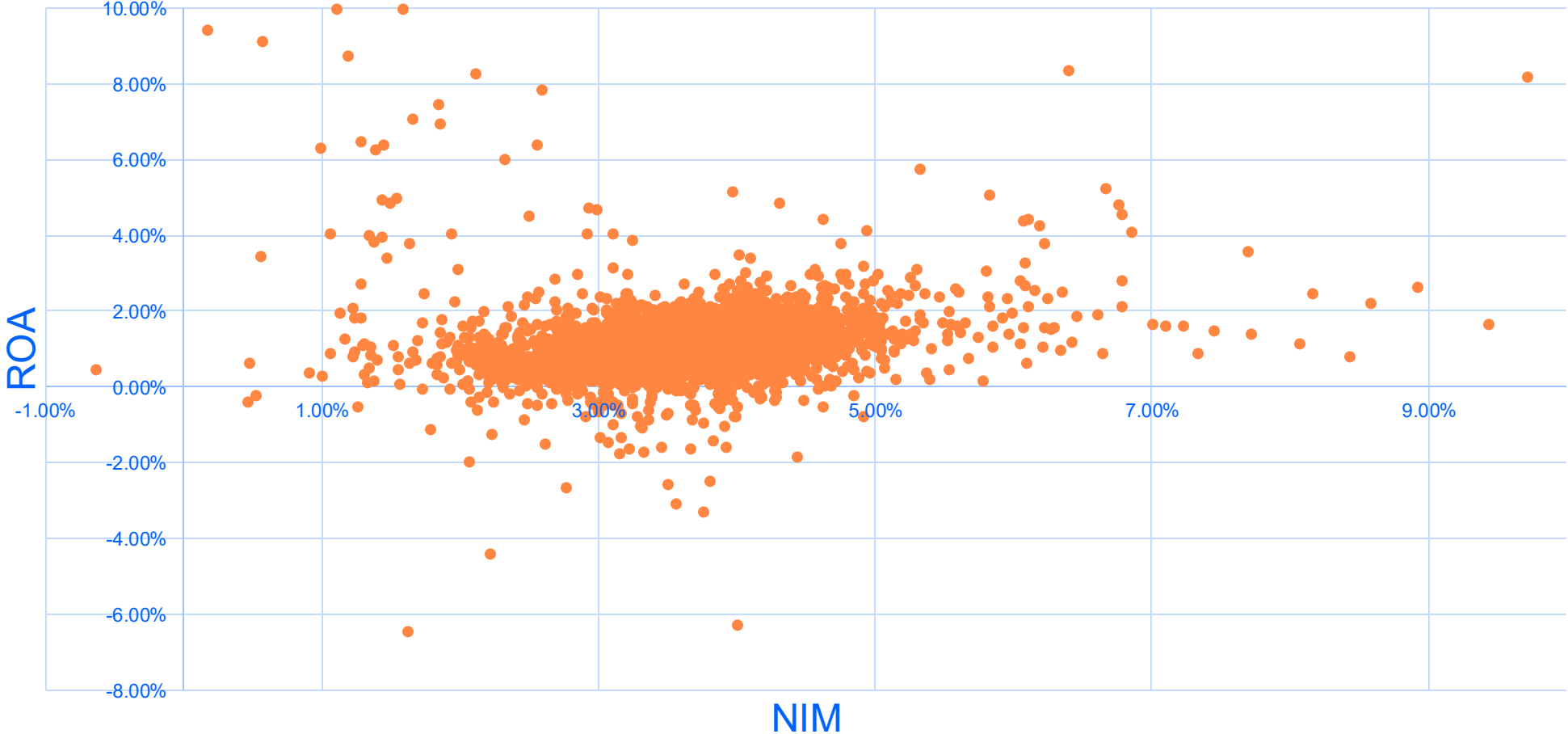
- Direct contribution to income
- Reflects value added
- Self-selecting profitable clients
- Less transparency is key

NIM – ROA/ROE relationship



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

Correlation (R2) = - 0.02



Banking is the Business of Keeping not Making Loans



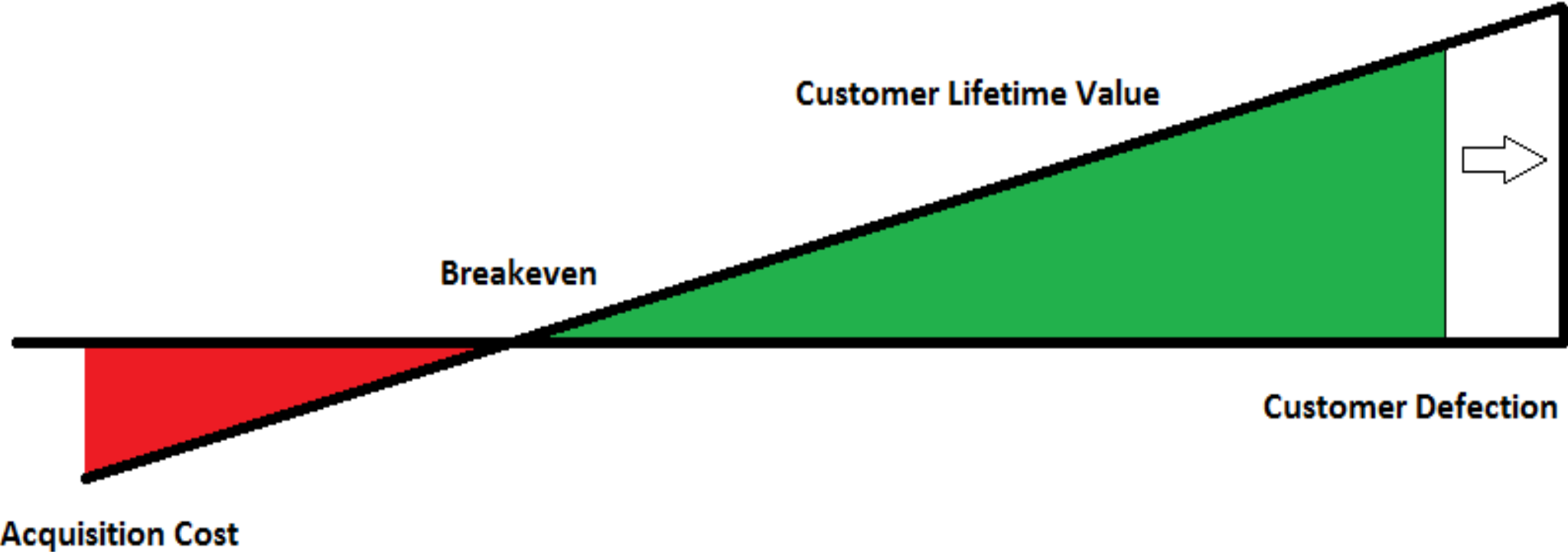
Long-term Relationships, Size, Term, Credit Quality, **Non-interest Income**



Long-term relationships



Increasing Retention / Reducing Churn



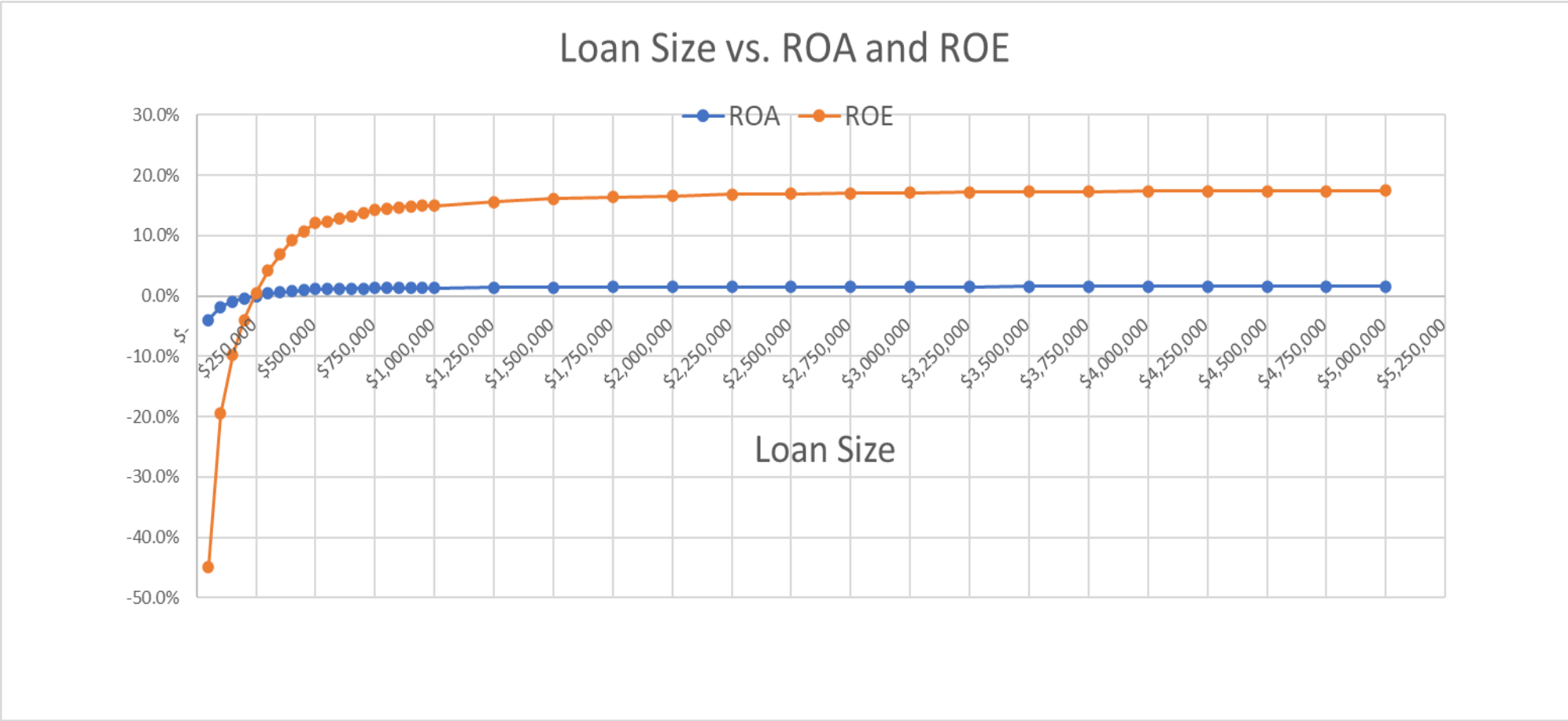
Dissecting Banking Profitability



Loan Size – scale matters



5yr CRE loan, S + 2.50%





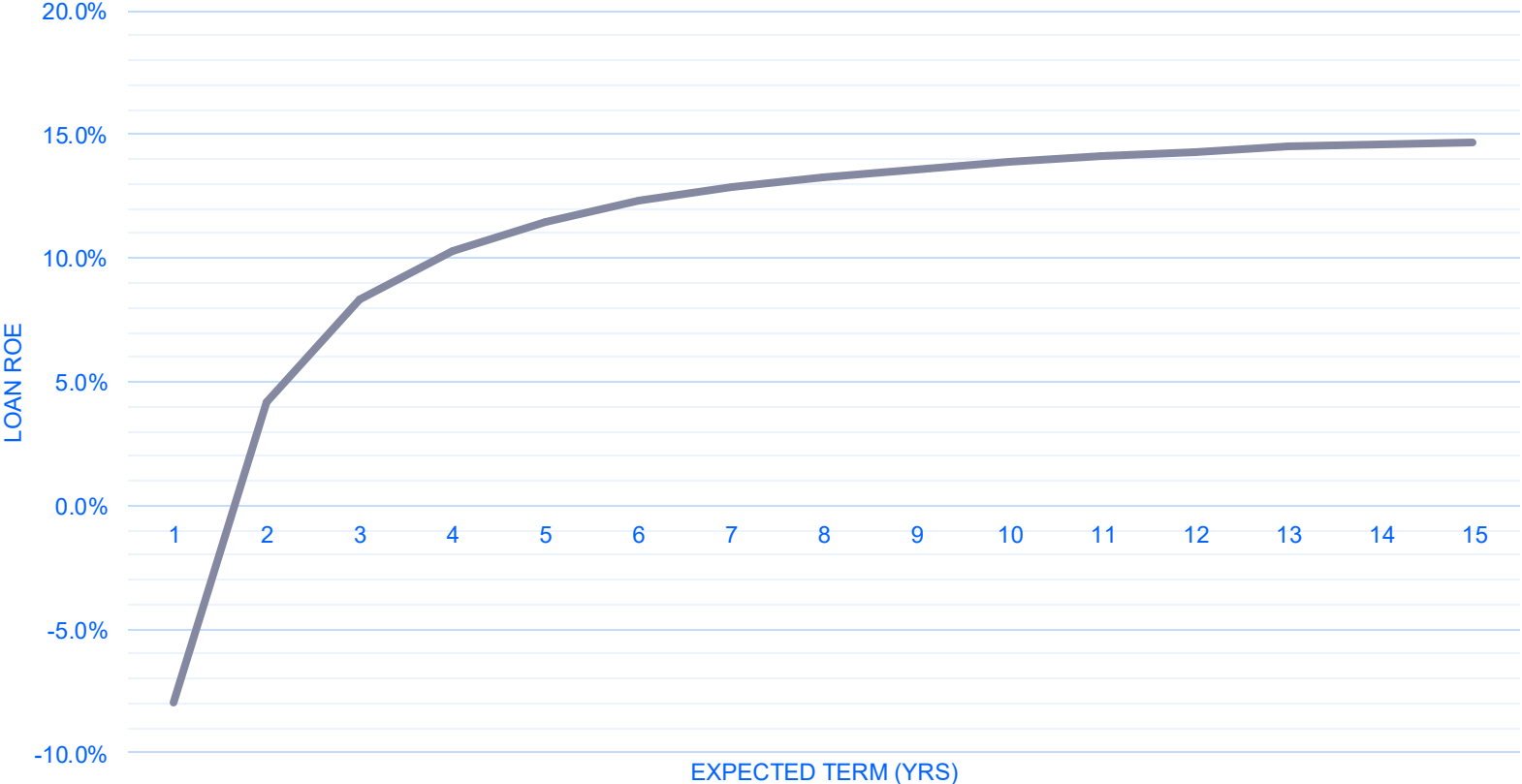
Loan Size – scale matters

	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



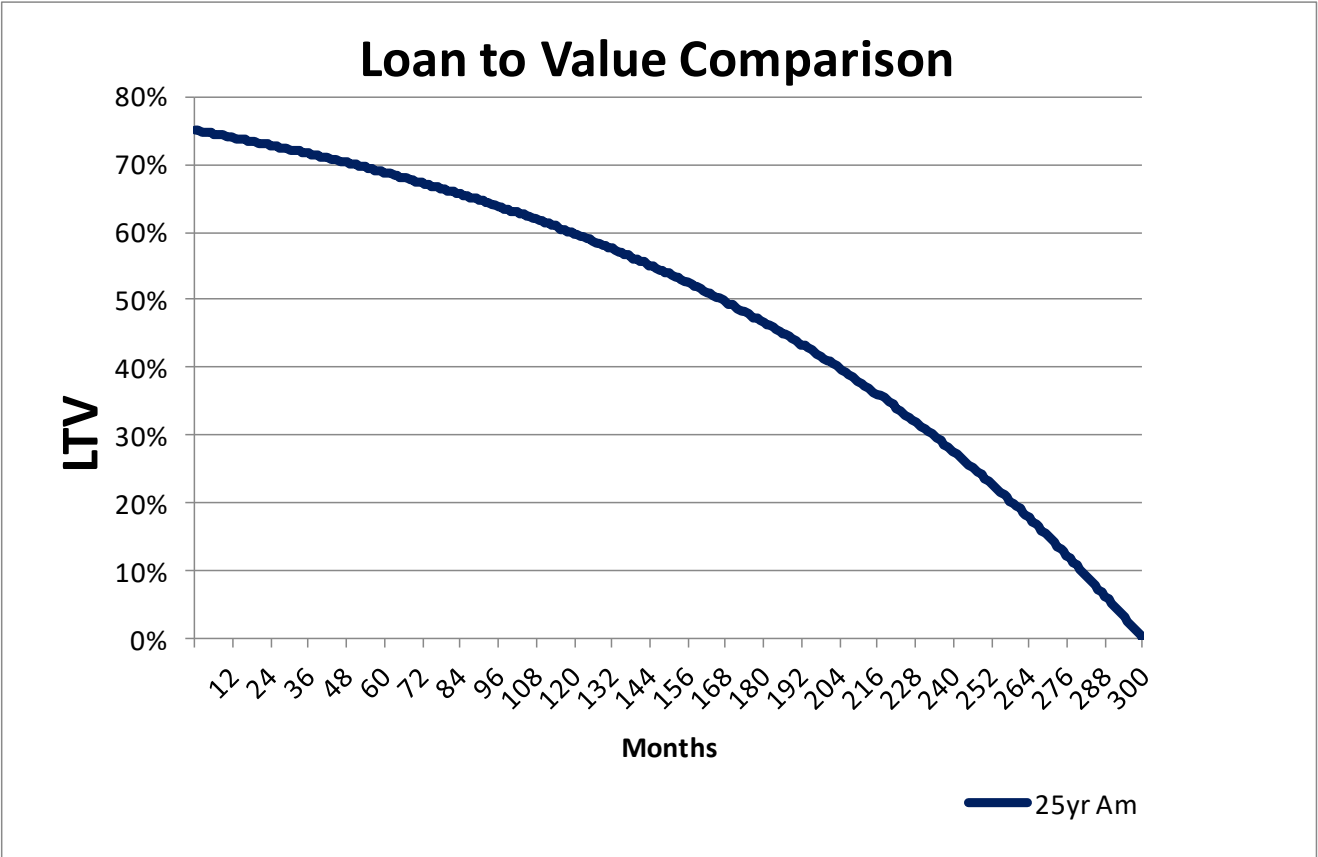
\$500k CRE loan, S + 2.50%

Loan Term vs. ROE





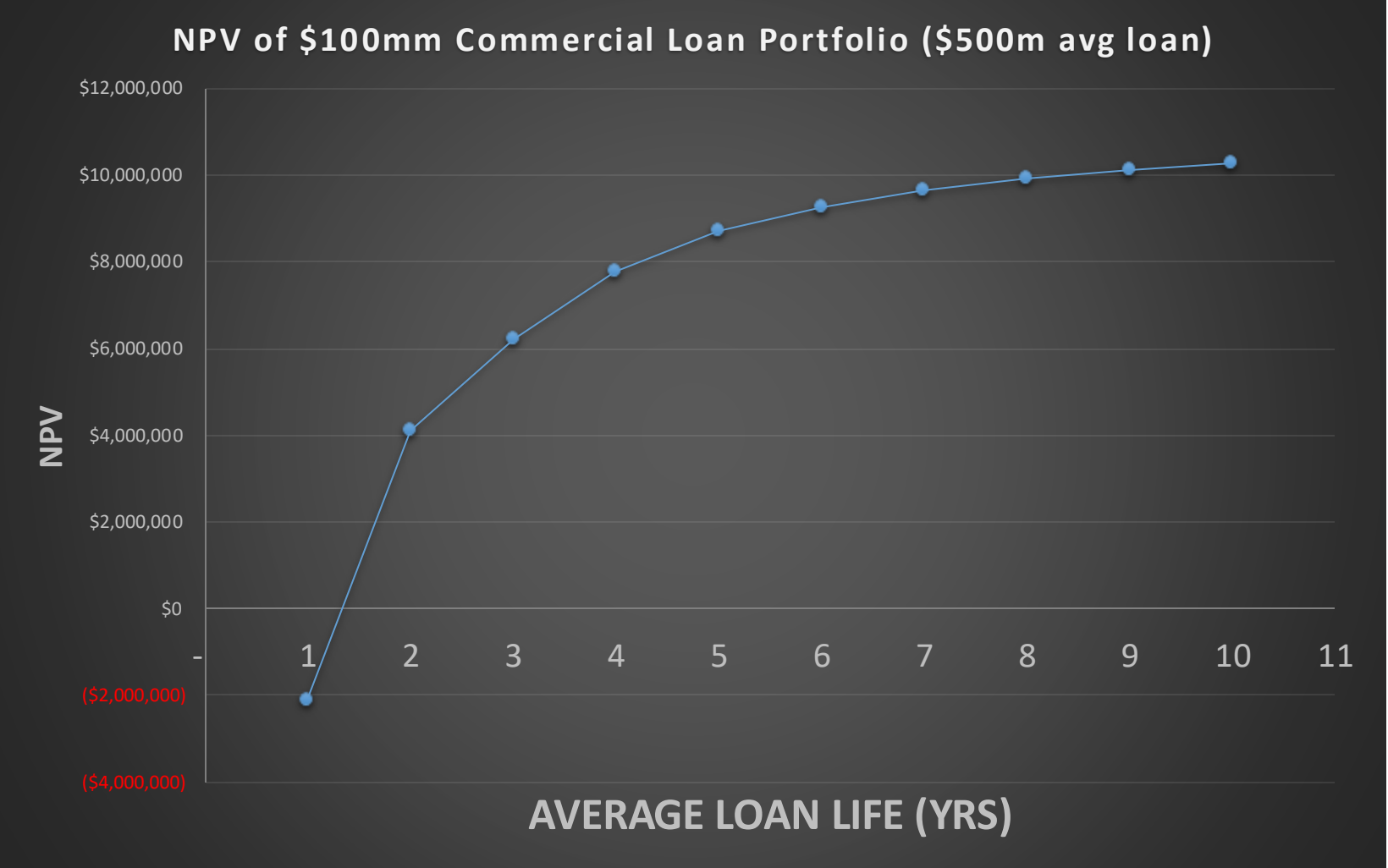
Equity Buildup



Term (yrs)	Principal Reduction
1	0.97%
2	2.11%
3	3.44%
4	4.65%
5	6.08%
7	9.26%
10	15.03%
15	28.05%



Expected average life vs NPV of Income



Long-term Relationship



Two identical \$100mm loan portfolios, only difference is expected average life

Loan Portfolio	\$	100,000,000		\$	100,000,000
Avg Loan Size	\$	500,000		\$	500,000
Avg Am (yrs)		22			22
Expected Avg Life (yrs)		6.99			2.32
Average Yield		6.72%			6.72%
COF		3.00%			3.00%
Credit Charge (per yr)		1.00%			1.00%
Avg Loan Acquisition Cost	\$	6,400		\$	6,400
NPV Income Over 10yrs		?			?

Long-term Relationship



Difference in NPV of income?

Loan Portfolio	\$	100,000,000		\$	100,000,000
Avg Loan Size	\$	500,000		\$	500,000
Avg Am (yrs)		22			22
Expected Avg Life (yrs)		6.99			2.32
Average Yield		6.72%			6.72%
COF		3.00%			3.00%
Credit Charge (per yr)		1.00%			1.00%
Avg Loan Acquisition Cost	\$	6,400		\$	6,400
NPV Income Over 10yrs		\$9,660,645			\$4,995,971



Long-term Relationship

Two identical \$100mm loan portfolios, with smaller average loan size, difference in expected average life

Loan Portfolio	\$	100,000,000		\$	100,000,000
Avg Loan Size	\$	250,000		\$	250,000
Avg Am (yrs)		22			22
Expected Avg Life (yrs)		6.99			2.32
Average Yield		6.72%			6.72%
COF		3.00%			3.00%
Credit Charge (per yr)		1.00%			1.00%
Avg Loan Acquisition Cost	\$	3,800		\$	3,800
NPV Income Over 10yrs		\$7,002,585			(\$2,012,715)

Long-term relationships vs. churn



- \$1Bn commercial loan portfolio
- 5% growth target (\$50mm)



- 2% GDP



- \$1Bn commercial loan portfolio
- 2% organic growth (\$20mm)
- 3% market acquisition (\$30mm)



- Market acquisition
 - Service, differentiated product, loan category
 - Pricing or credit

- 3% market acquisition



7yr avg loan life (3% runoff)

- \$1Bn commercial loan portfolio
- Loan production needs
 - \$30mm runoff
 - \$50mm growth
 - Total new production \$80mm to get to \$1.05Bn in loans

2.3yr avg loan life (36% runoff)

- \$1Bn commercial loan portfolio
- Loan production needs
 - \$360mm runoff
 - \$50mm growth
 - Total new production \$410mm to get to \$1.05Bn in loans



Deposits and Profitability

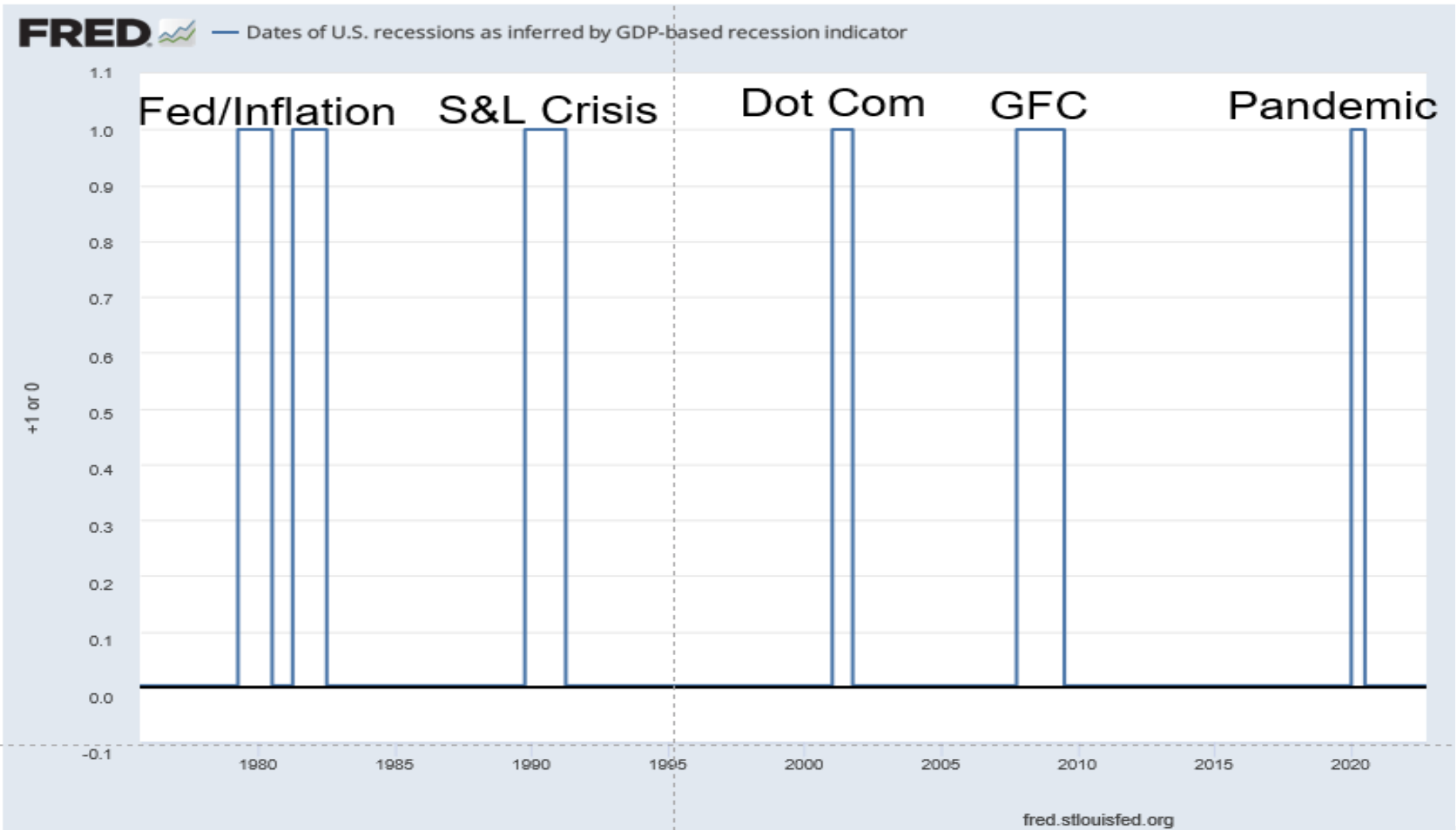
Case Study – over \$40Bn bank, 71k commercial clients

Products	Correlation
Treasury Management Client?	0.1629
Merchant Services Client?	0.0659
Loan Client?	0.0480
Deposit Client?	0.0139
Private Wealth Client?	0.0134
Investment Services Client?	0.0032

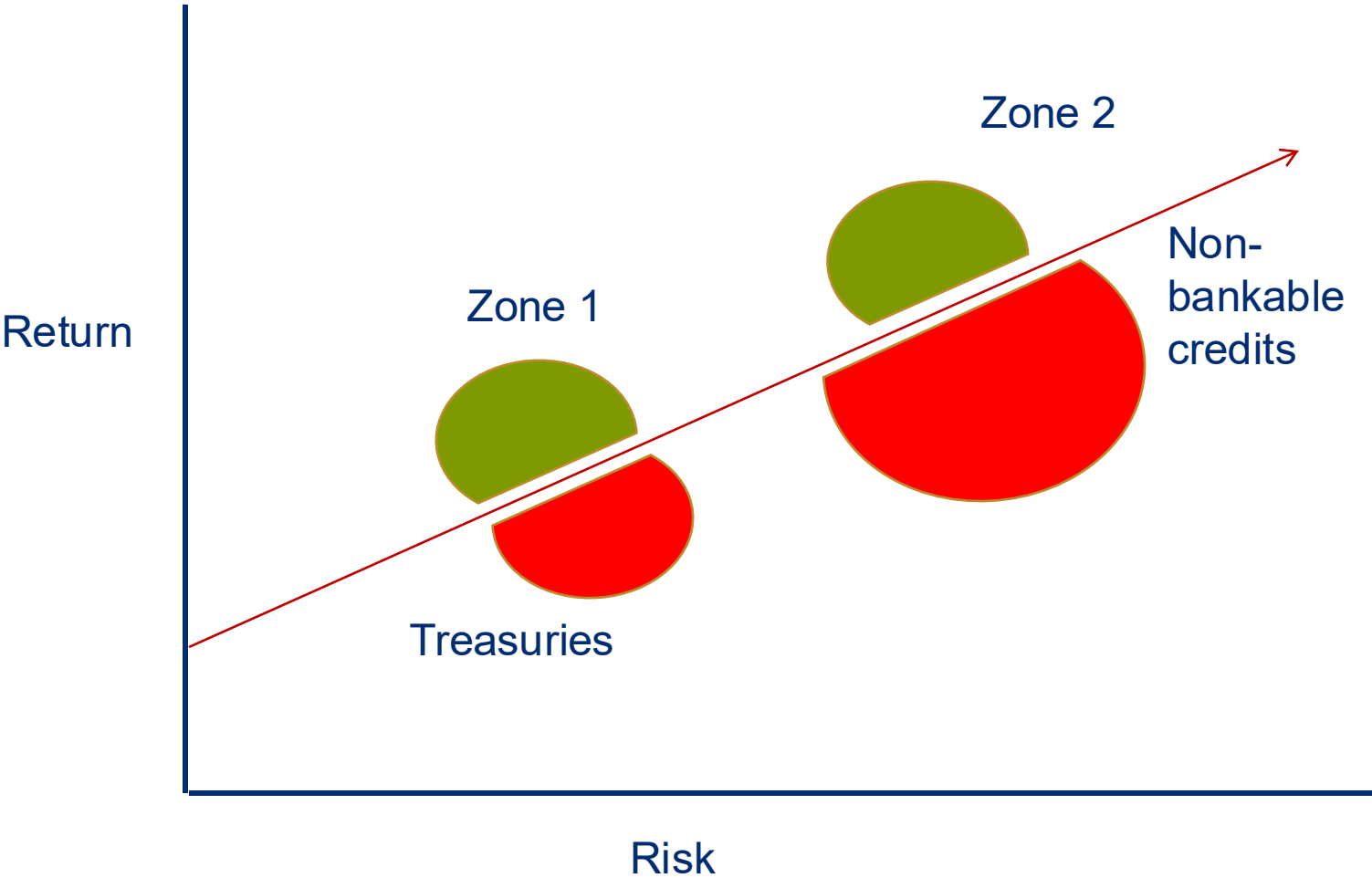
Size of Product	Correlation
Deposit Balances	0.721
Loans (Outstanding)	0.320
Treasury Fees (per yr)	0.164

- Product usage and profitability
- Product size and profitability
 - Loan-only ROE – negative 100% to positive 25%
 - Deposit-only ROE – negative 5% to positive 150%

Credit Quality



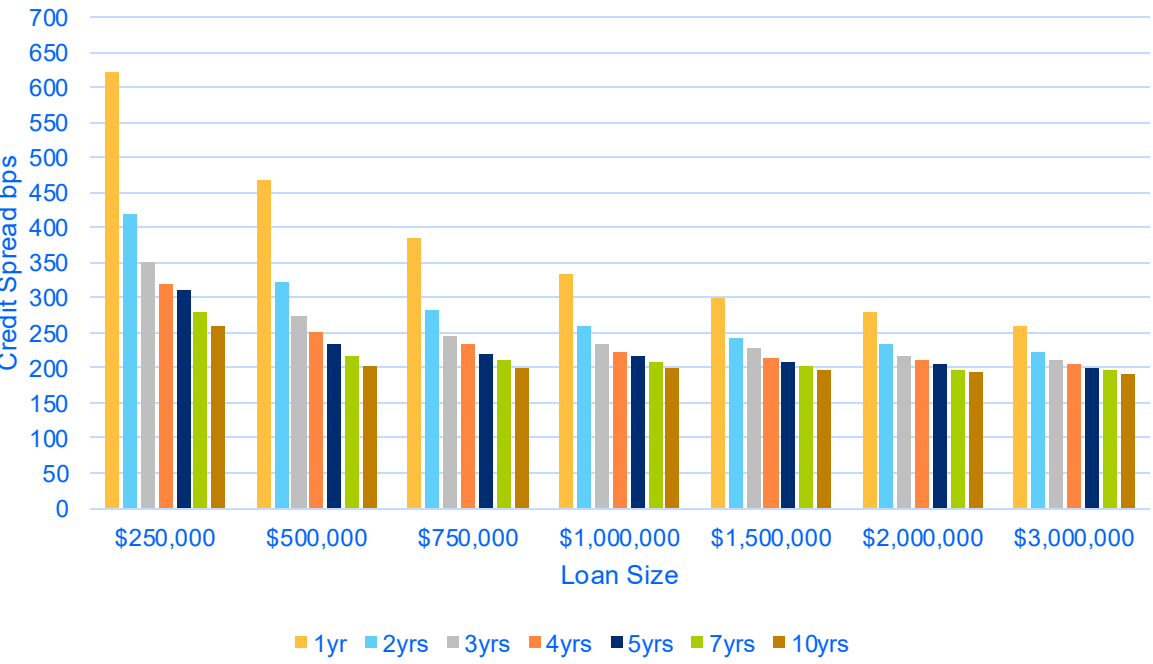
Credit Quality



Credit Quality/Term/Size



Credit Spread for 15% ROE (0.5% Expected Loss)



Credit Spread for 15% ROE (1.0% Expected Loss)





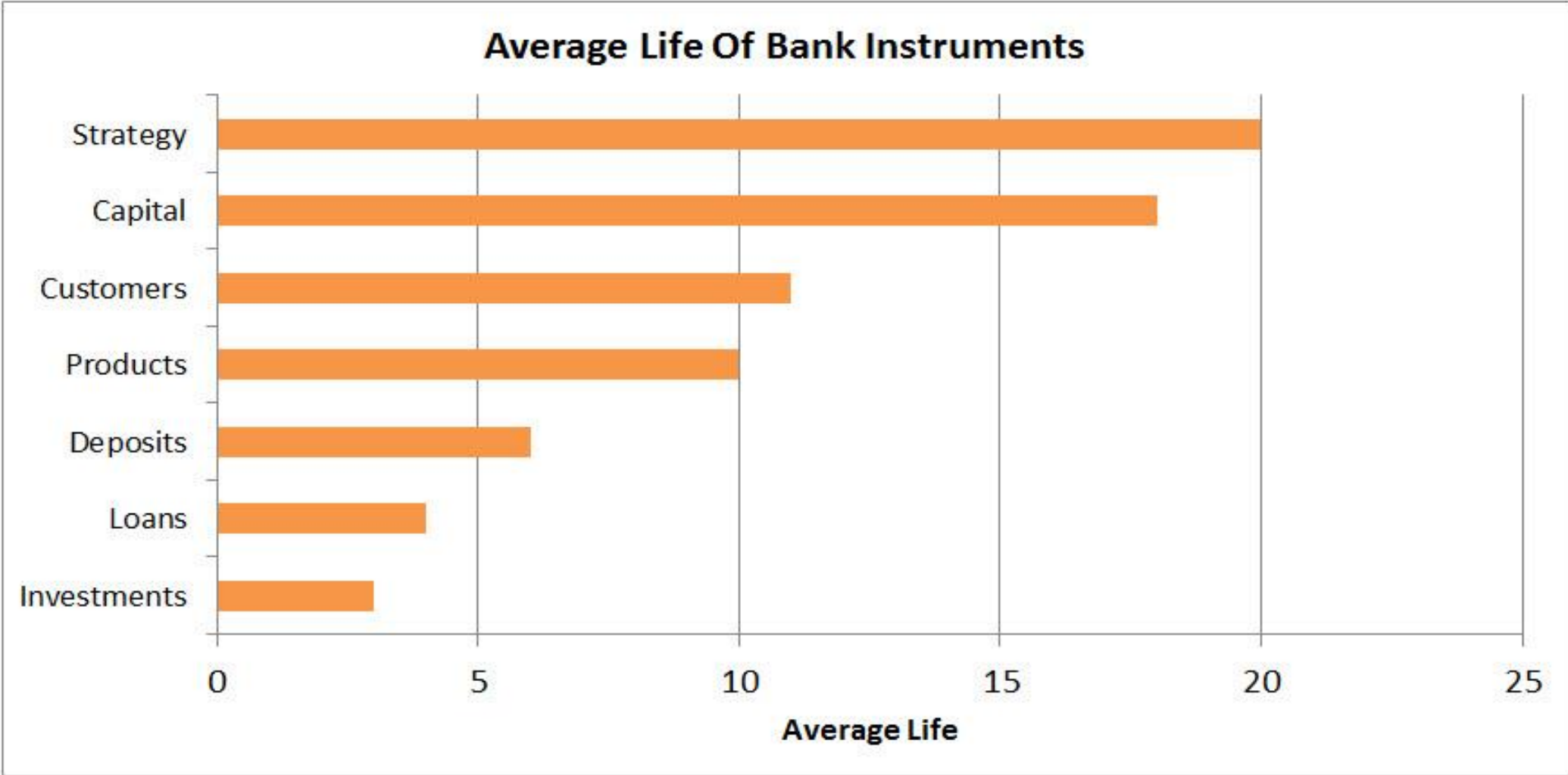
Relationship vs. Transaction (stickiness)

Attributes	Transaction	LT Relationship
Identify fit	Short term parking	Long term growth potential
Existing vs. New Customer	New focus	Existing focus
Commitment (prepay, term, products)	Minimal	Substantial
Equity buildup*	Minimal	Substantial
Value of free cash flow	Motivated to payoff loan	Motivated to deposit at bank
Match liability / assets	Mismatch	Matched
Potential upsell / cross-sell*	Low potential	High potential
Portable vs. planned obsolescence*	Client conditioned to repay	Client conditioned to retain
Balance sheet vs project finance*	Project/collateral focus	Balance sheet focus
Trusted advisor vs. order taker*	Order taker	Trusted Advisor

Long-term Relationship vs. Transaction



Potential upsell and cross-sell





Long-term Relationship vs. Transaction

Trusted advisor vs. order taker

Order taker



Trusted advisor



Attributes	Order taker	Trusted advisor
Banking, product, underwriting knowledge	Low	High
Growth potential	Low	High
Upsell and cross-sell potential (banking product needs)	Low	High
NPV income and ROE potential	Low	High
Credit and deposit volume	Low	High
Fee potential	Low	High
Number of prospects	Low	High
Number of clients	High (50 to 200)	Low (20 to 50)
Outbound calling frequency	Low	High

How ARC Drives Performance

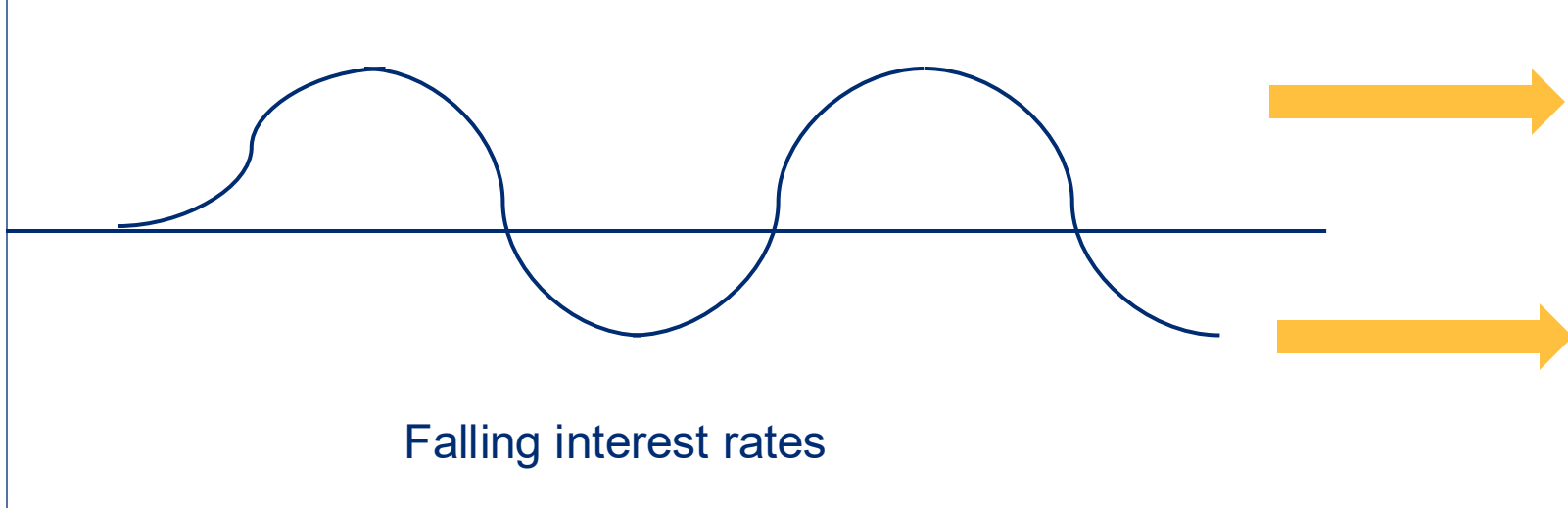


Risk Without Reward – fixed rate loans



COF/Interest Rates

Rising interest rates



ROA/ROE declines

ROA/ROE declines

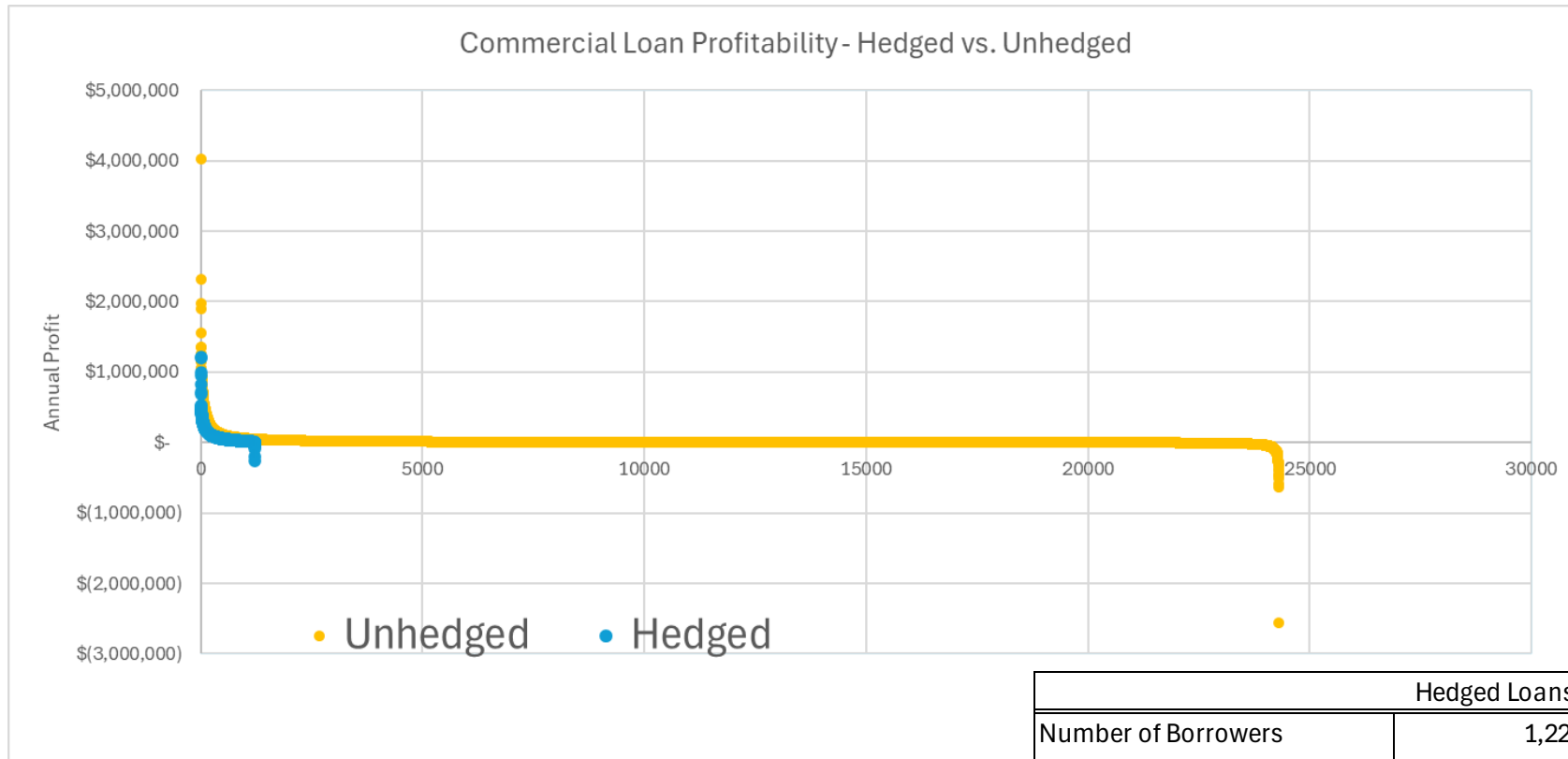
Falling interest rates



- Done without a hedge?
 - Risk without reward
 - One-way floater
 - Prepay motivated

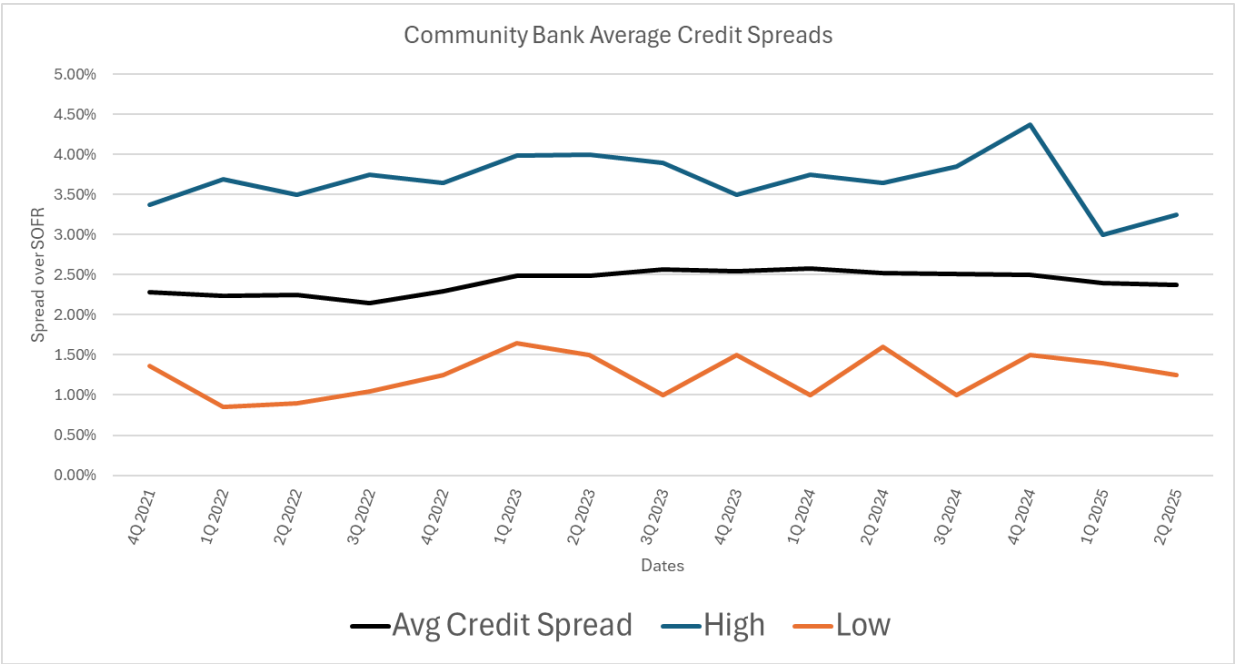


Hedge Profitability Analysis



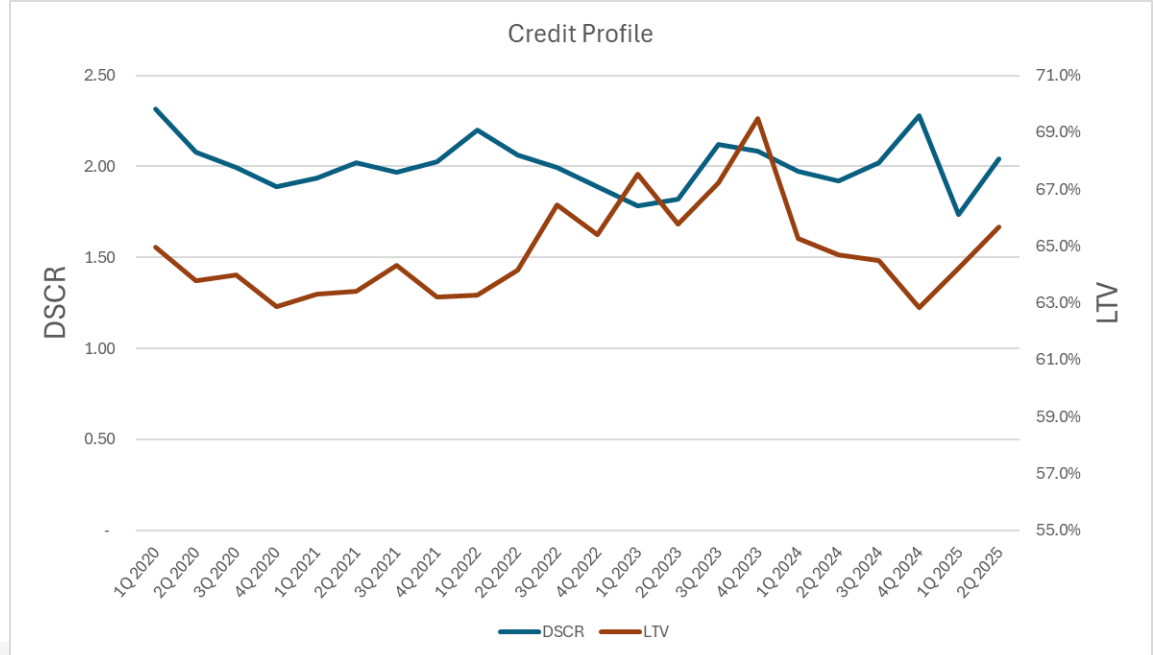
	Hedged Loans	Unhedged Loans	All Loans
Number of Borrowers	1,221	24,301	25,522
Percent of Borrowers	4.78%	95.22%	100%
Sum of Loans	\$ 4,154,648,834	\$ 18,994,365,357	\$ 23,149,014,191
Sum of Annual Profit	\$ 89,927,517	\$ 279,050,696	\$ 368,978,213
Percent of Profit	24.37%	75.63%	100%
Average Annual Profit	\$ 73,651	\$ 11,483	\$ 14,457
Average Loan Size	\$ 3,402,661	\$ 781,629	\$ 907,022
# of Unprofitable Borrowers	15	5,653	5,668
Sum of Annual Loss	\$ (751,432)	\$ (61,864,502)	\$ (62,615,934)
Sum of Unprofitable Loans	\$ 84,287,854	\$ 6,569,289,755	\$ 6,653,577,609
% of Unprofitable Loans	2.03%	34.59%	36.61%

ARC Program - spread, size, term, fees, credit quality



- Avg loan size - \$3.05mm (\$200k to \$26mm)
- Avg credit spread – 2.41%
- Avg am and term – 22yrs and 9.1yrs
- Avg fee income – 1.63% of loan amount
- Avg prepayment speed – 3.2% pa

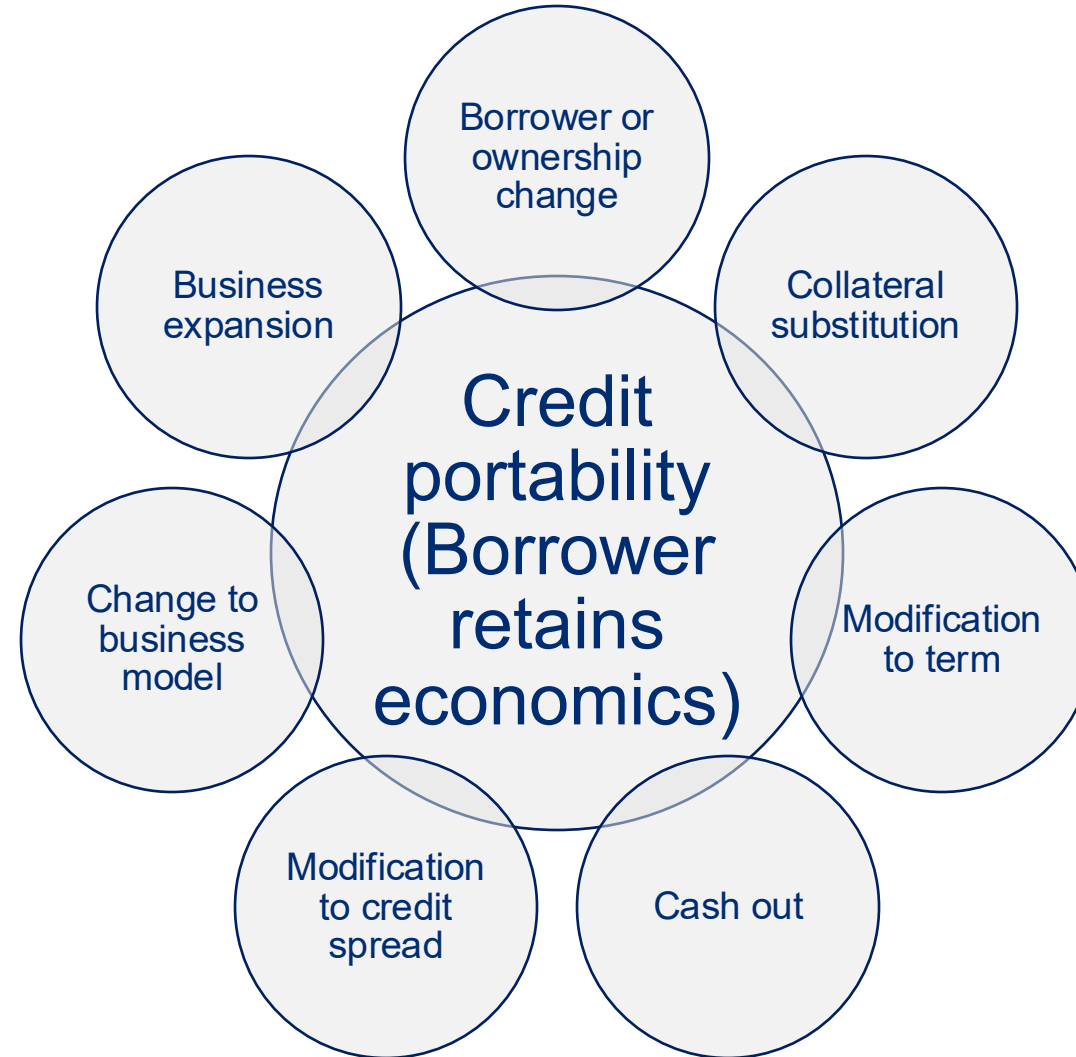
- Avg LTV – 64.9%
- Avg DSCR – 2.01X



Long-term Relationship vs. Transaction



Planned obsolescence vs credit portability



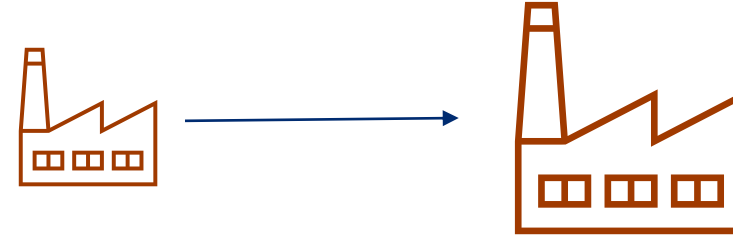
Relationship vs. Transaction (stickiness)



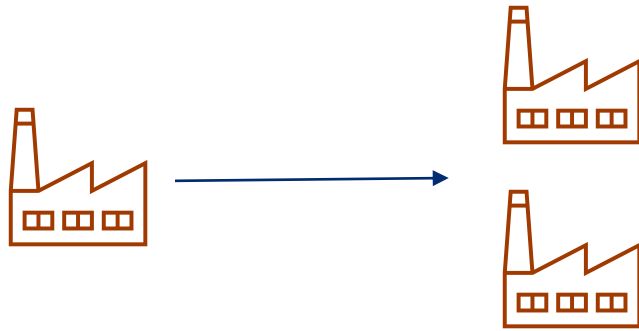
Balance sheet vs. project finance



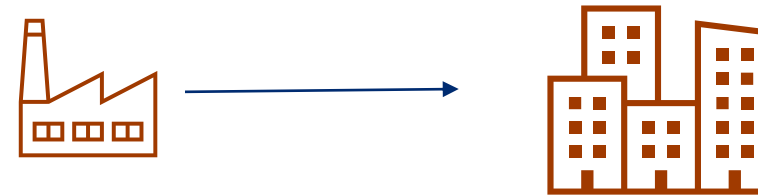
Change in collateral asset



Expansion in collateral asset



Addition in collateral asset



Change in business model

Results



- More deposits
- More loan balances
- Longer relationships
- Less competition
- Less price sensitivity



ARC Pricing:

Amort.	Maturity										
	3yr	4yr	5yr	6yr	7yr	8yr	9yr	10yr	12yr	15yr	20yr
3yr	4.71%	-	-	-	-	-	-	-	-	-	-
5yr	4.51%	4.38%	4.34%	-	-	-	-	-	-	-	-
7yr	4.46%	4.28%	4.19%	4.13%	4.11%	-	-	-	-	-	-
10yr	4.43%	4.22%	4.11%	4.02%	3.98%	3.95%	3.94%	3.94%	-	-	-
15yr	4.40%	4.19%	4.04%	3.96%	3.90%	3.87%	3.84%	3.83%	3.80%	3.81%	-
20yr	4.39%	4.16%	4.01%	3.93%	3.87%	3.82%	3.80%	3.79%	3.77%	3.78%	3.77%
25yr	4.39%	4.15%	4.00%	3.92%	3.85%	3.80%	3.78%	3.77%	3.76%	3.77%	3.74%
30yr	4.38%	4.15%	3.99%	3.90%	3.84%	3.79%	3.77%	3.75%	3.75%	3.76%	3.73%

Your Bank will Earn

- Variable Index **plus** your bank's credit spread (e.g. 1M Term SOFR+ 2.00%)
- Your origination or document fees
- ARC Hedge Fee (up to 25bp)

Three ways to lock your rate- lock at closing, lock in advance, or forward rate lock. The final swap rate will be provided by ARC at lock.

Hedge Fee Income:

Basis points fee	0.25%
Initial balance:	\$ 10,000,000
Amortization Term (yrs):	25
Commitment Term:	20
Initial Hedge Rate:	4.00%
Fixed Rate to Borrower:	6.00%
Starting Date:	10/27/22
Approximate ARC Referral Fee:	234,504

Benefits of Fee Income vs. NIM

- Realized upfront, no clawback
- Realized if loan prepays
- Pricing power for lender
- High value in inflationary environment
- Provides flexibility to waive other fees and borrower out-of-pocket costs



Prepayment/Termination Scenarios

- Rates increase, borrower receives a fee upon partial paydown or loan termination, rates decrease, borrower pays fee upon partial paydown or loan termination

Roleplay who is a good candidate for ARC?

- Deposit-rich borrowers?
- Multiple properties?
- Long-term DSCR stability?
- Long-term hold?
- Additional borrowing needs later?
- Borrowers with the expectation of rising rates?
- How about borrowers with expectation of falling rates or short-term holds?

Subject Loan: A \$1,000,000 loan is structured as a 10 year final maturity with a 25 year mortgage amortization, with a 5.770% fixed rate where the initial hedge rate is 3.770%.

If 3 years into the loan, the then current 7 year hedge rate is 25 bps lower than the starting hedge rate and the borrower prepays the entire loan, the borrower will pay \$13,548. Partial prepayments work similarly on a proportional basis. However, the borrower and lender will have the option to apply the loan to a new project/property and the repayment will not apply.

If 3 years into the loan, the then current 7 year hedge rate is 25 bps higher than the starting hedge rate and the borrower prepays the entire loan, the borrower will receive \$13,329. Partial prepayments work similarly on a proportional basis.

Initial Hedge Rate: 3.770%
 Loan Spread: 2.000%
 All-in Fixed Rate: 5.770%

Remaining Term	<u>Prepayment Hedge Rate vs. Initial Hedge Rate</u>						
	-75 bps	-50 bps	-25 bps	0 bps	+25 bps	+50 bps	+75 bps
10 years	(58,461)	(38,536)	(19,053)	-	18,632	36,853	54,673
9 years	(53,117)	(35,048)	(17,344)	-	16,993	33,643	49,956
8 years	(47,221)	(31,190)	(15,451)	-	15,170	30,063	44,686
7 years	(41,317)	(27,319)	(13,548)	-	13,329	26,444	39,347
6 years	(35,394)	(23,429)	(11,632)	-	11,468	22,776	33,925
5 years	(29,462)	(19,524)	(9,704)	-	9,588	19,063	28,425
4 years	(23,511)	(15,598)	(7,761)	-	7,686	15,298	22,836
3 years	(17,589)	(11,682)	(5,820)	-	5,777	11,510	17,202
2 years	(11,691)	(7,774)	(3,877)	-	3,858	7,696	11,514



Additional ARC benefits:

Prepayment Provision Symmetry:

- If rates rise, borrower may collect a fee upon termination or prepayment.

Loan Assumability:

- If the existing borrower sells the property underlying the hedge, the buyer may assume the loan and hedge (subject to credit approval), unavailable via ISDA swap products- which increases your bank's competitiveness.

Rate Portability:

- If borrower sells underlying property but wants to maintain their rate, the hedge and rate may be transferred to a different property of project (subject to credit approval)

Bifurcation of loan- A/B Structure:

- Loan is divided into two structures- "A" is hedged and subject to SPP. "B" is unhedged, typically shorter-term or adjustable

Partial Term Hedge:

- Loan is hedged for less than the full loan term and your bank matches the fixed rate for the remainder of the term.
- Post-hedge portion will have a lesser balance and likely have a probability of prepayment as it is not subject to SPP- less risk duration for your bank.

Blend and Extend:

- If rates rise and the borrower has additional financing needs, the historically low hedged rate may be blended into the new larger loan amount to get a below market fixed rate. (subject to credit approval)

Construction-to-Permanent financing via ARC:

- Borrower is afforded rate certainty post-construction and your bank eliminates competition post-construction.
- Bank receives stronger pricing and increased cash flow certainty.

ARC Program vs. Swaps

Your Competitive
Advantage

General:	ARC vs. Swaps	
Fee Generation	✓	✓
Swap/Hedge Portability	✓	✓
Hedge for Unique Structures	✓	✓
Hedges for Forward-Starting Structures	✓	✓
Accounting:		
<u>No</u> Hedge Effectiveness Accounting	✓	✗
<u>No</u> Call Report Derivative Disclosure	✓	✗
<u>No</u> Derivative Capital Allocation	✓	✗
<u>No</u> Dodd-Frank Reporting	✓	✗
Documentation:		
<u>No</u> ISDA Documentation for Bank	✓	✗
<u>No</u> ISDA Documentation for Borrower	✓	✗
Collateral Requirement:		
<u>No</u> Independent Amount (\$500k+)	✓	✗
<u>No</u> Additional Cash & Securities	✓	✗
Simplified Borrower Experience:	✓	✗

- ✓ ARC has all the same capabilities of any swap program.
- ✓ ARC eliminates all derivative accounting headaches for banks.
- ✓ ARC reduces the number of pages required for documentation from 45 pages using swaps to four pages for ARC.
- ✓ ARC allows current loan settlement invoicing instead of having borrowers execute separate monthly swap settlements.
- ✓ ARC eliminates the requirement for loan officers to explain a complex transaction.
- ✓ ARC is easier to understand reducing both sales friction and legal risk.

A simplified platform for borrowers and loan officers' results in more transactions booked.



Transaction Parameters*:

- Loan amounts from \$250 thousand to \$50 million
- Maximum 21.5-year term and no amortization limits
- Maximum LTV ratio of 85%
- Minimum debt service coverage ratio of 1.20x
- Loan types considered: office, industrial, retail, multifamily, special purpose, hospitality, self storage, tax-exempt, non-profit, SBA, among many others
- Loan types excluded: public golf courses, non-defense weapon manufacturers, adult entertainment, marijuana industry

*We are willing and able to make exceptions to these guidelines based on acceptable credit rationale.

Regulatory Requirements:

- Per Dodd-Frank, the borrowing entity *or* entity ownership must be able to demonstrate a \$1mm net worth in order to qualify as an Eligible Contract Participant (“ECP”). Ask the ARC team about methods of qualification.

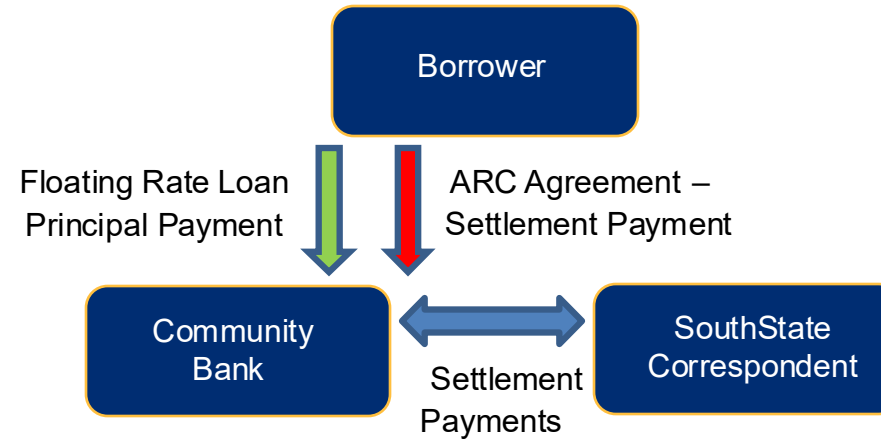


Steps For Closing an ARC Transaction:

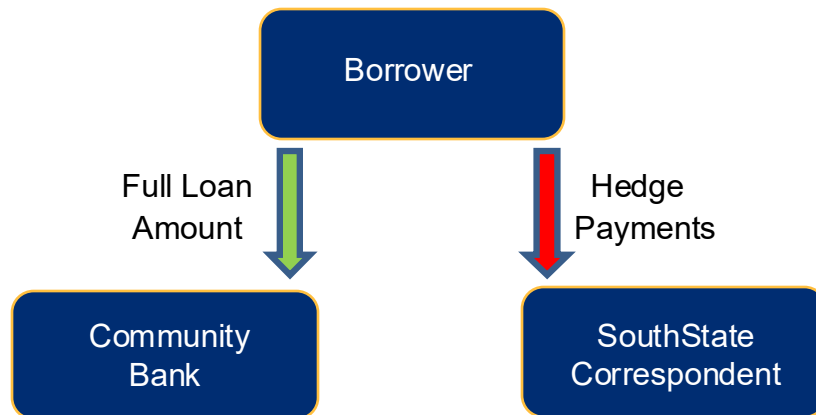
1. Contact ARC team early to discuss market conditions and request a borrower presentation.
2. If desired, schedule a call or meeting with lender, borrower and SouthState ARC specialist to answer questions and describe advantages.
3. Email credit memo and appraisal for ARC hedge approval (two business days).
4. Provide draft loan documents for ARC review (immediate). ARC will then send a draft Rate Conversion Agreement (RCA) to complete the borrower's package.
5. Establish morning signing appointment with borrower and notify ARC team.
6. Approximately 30 minutes prior to closing, ARC will email the final RCA.
7. Immediately after signing, and no later than 1pm PT, email all signed documents to ARC team.
8. After borrower signing, ARC team will send a single-page Transaction Supplement to the ARC Master Servicing Agreement for bank execution.



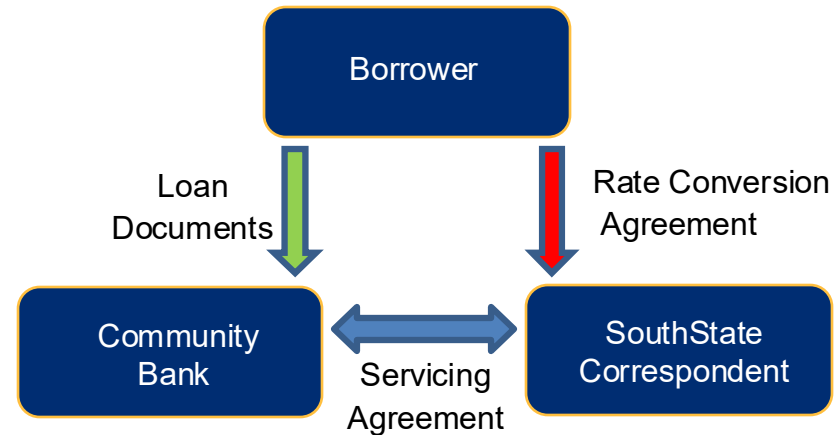
Cash Flow Diagram



Credit Obligations



Document Requirements



Thank you!

Want more ideas and data?

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SouthStateCorrespondent.com



RAROC Loan Pricing – Best Practices

- **Best is the enemy of good**
- **Designate an analyst as checkpoint for uniformity**
- **Use fund transfer pricing to measure product contribution**
- **Use outputs as ordinal ranking not arbiter of lending decisions**



Disclaimer

This presentation is for general strategic information only and should not be relied upon as a substitute for independent research before making a material management decision. This presentation does not take into account any particular bank's performance objectives, financial situation or needs. All banks should obtain advice based on their unique situation before making any decision based upon this presentation or any information contained within. In addition, any implied projections or views of the bank market provided by the authors may not prove to be accurate. While all the information contained herein is believed to be accurate as of the date of source or publication, the information is subject to change and constant revision.

In addition to any specific risks discussed herein, there are other factors that may influence the performance of an interest rate hedge product.

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.

Prior to entering into any interest rate hedge transaction, recipients should determine, in consultation with their own legal, tax, regulatory, and accounting advisors, the economic risks and merits, as well as the legal, tax, regulatory and accounting characteristics and consequences of any transaction.

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The projections or other estimates in these materials (if any), including estimates of returns or performance, are forward-looking statements based upon certain assumptions and are preliminary in nature. Any assumptions used in any such projections or estimates that were provided by a recipient are noted herein. Actual results are difficult to predict and may depend upon events outside the recipient's or SouthState Bank's control. Actual events may differ from those assumed and changes to any assumptions may have a material impact on any projections or estimates. Other events not taken into account may occur and may significantly affect the analysis. Certain assumptions may have been made for modeling purposes only to simplify the presentation and/or calculation of any projections or estimates, and SouthState Bank does not represent that any such assumptions will reflect actual future events. Accordingly, there can be no assurance that estimated returns or projections will be realized or that actual returns or performance results will not be materially different from those estimated herein. Any such estimated returns and projections should be viewed as hypothetical. Recipients should conduct their own analysis, using such assumptions as they deem appropriate, and should fully consider other available information in making a decision regarding these securities, instruments or transactions. Past performance is not necessarily indicative of future results. Price and availability are subject to change without notice.