The Elevate Banking Forum

Hosted by SouthState Bank

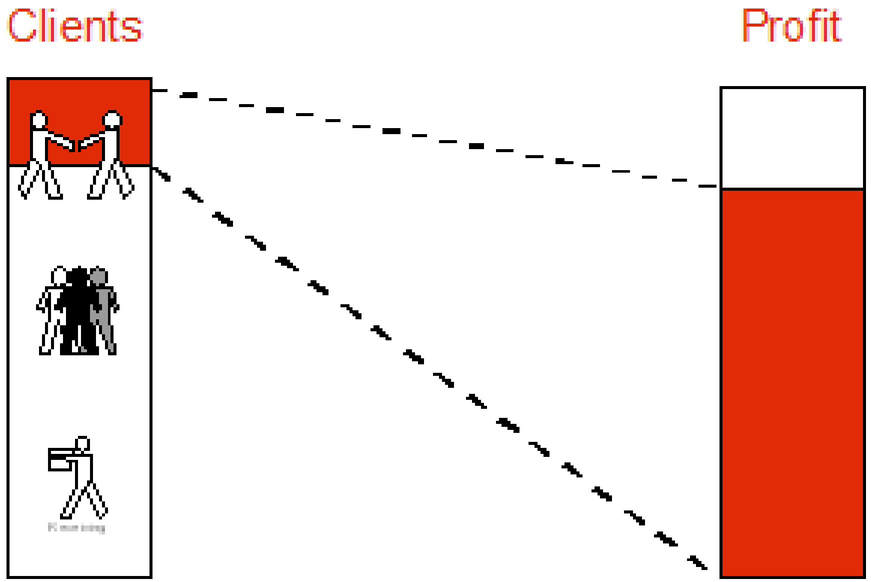
Ed Kofman

Director of Loan Hedging

SouthState
CORRESPONDENT DIVISION

Customer Profitability

Dissecting Relationship Profitability

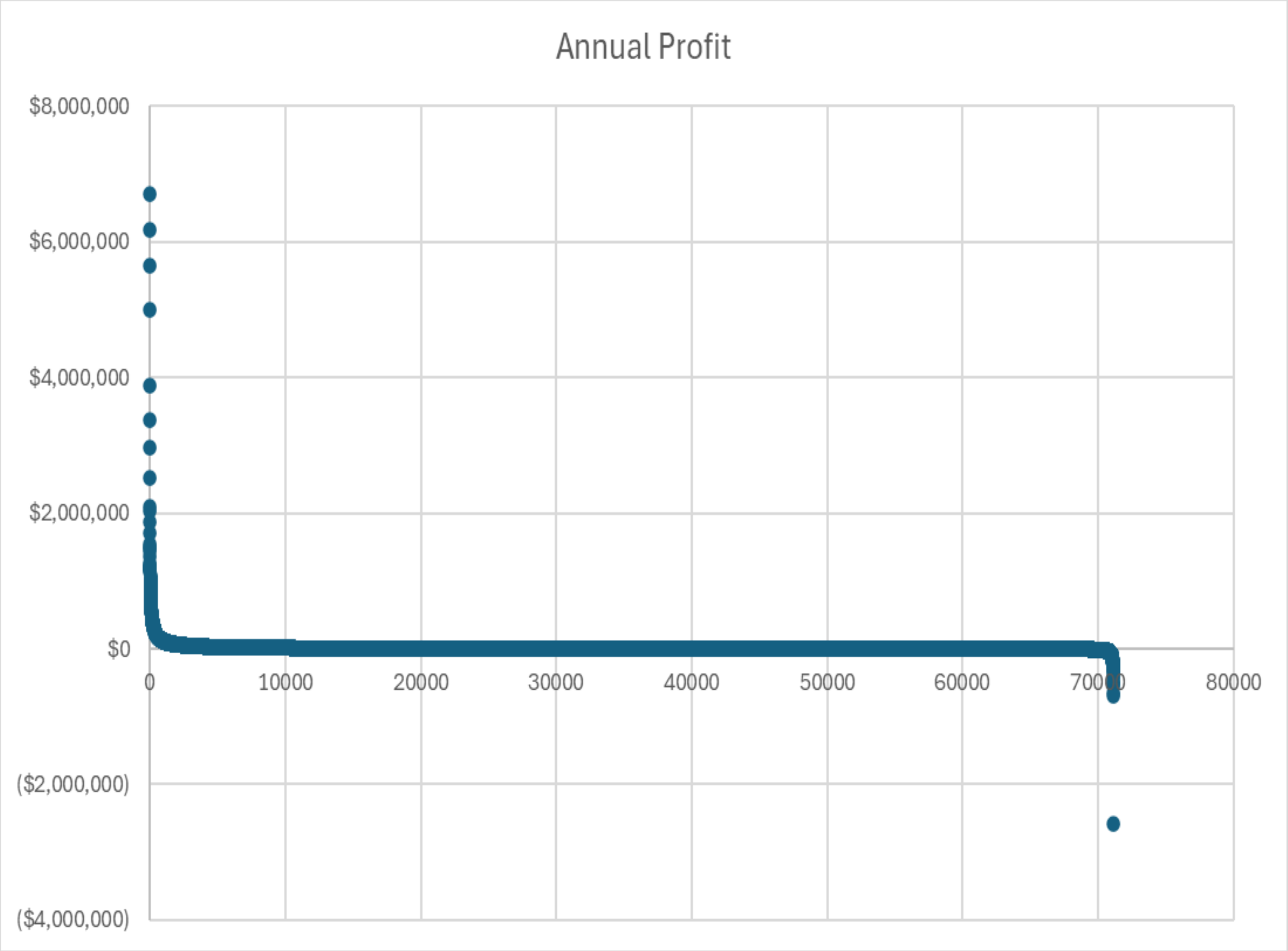


The top 20% of your clients
Generate 80% of your profit

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

Dissecting Relationship Profitability

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

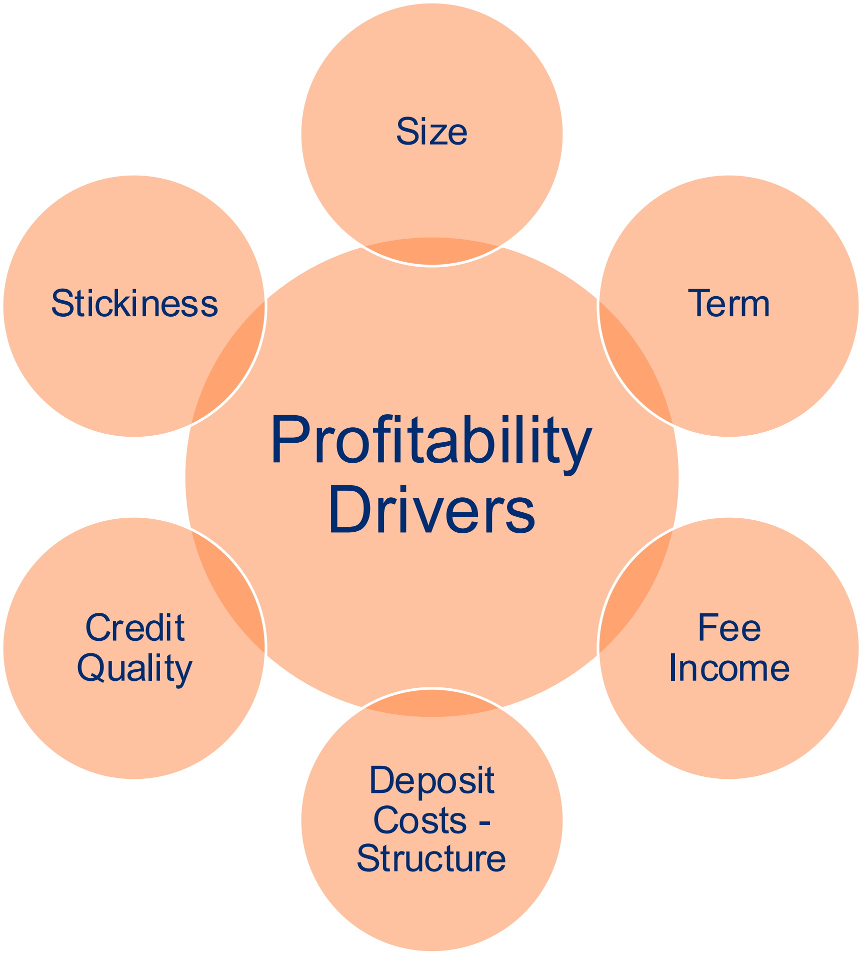


- Top 0.04% of clients = 10% of all profits
- Top 1.56% of clients = 50% of all profits
- Top 7.56% of clients = 80% of all profits

- 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

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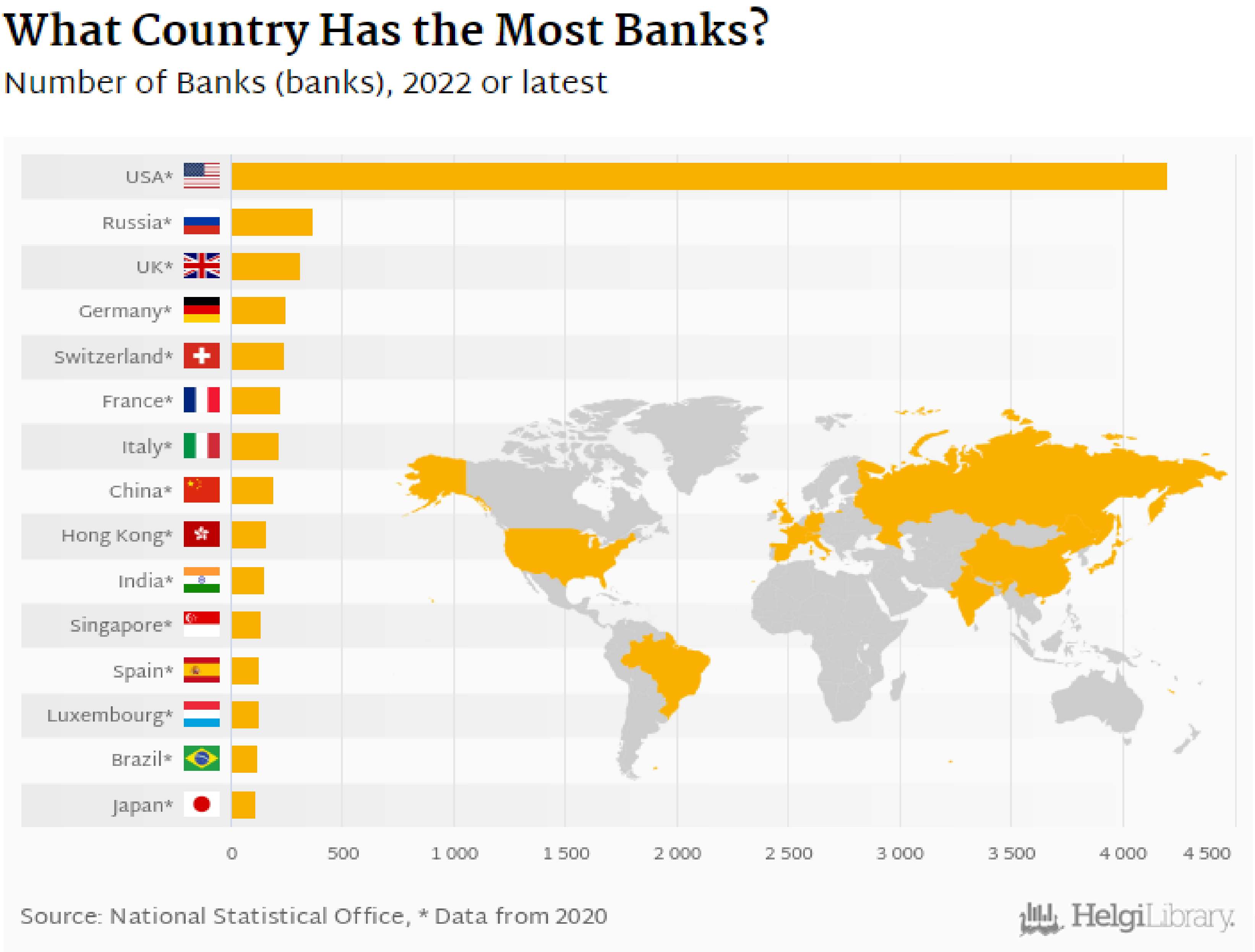
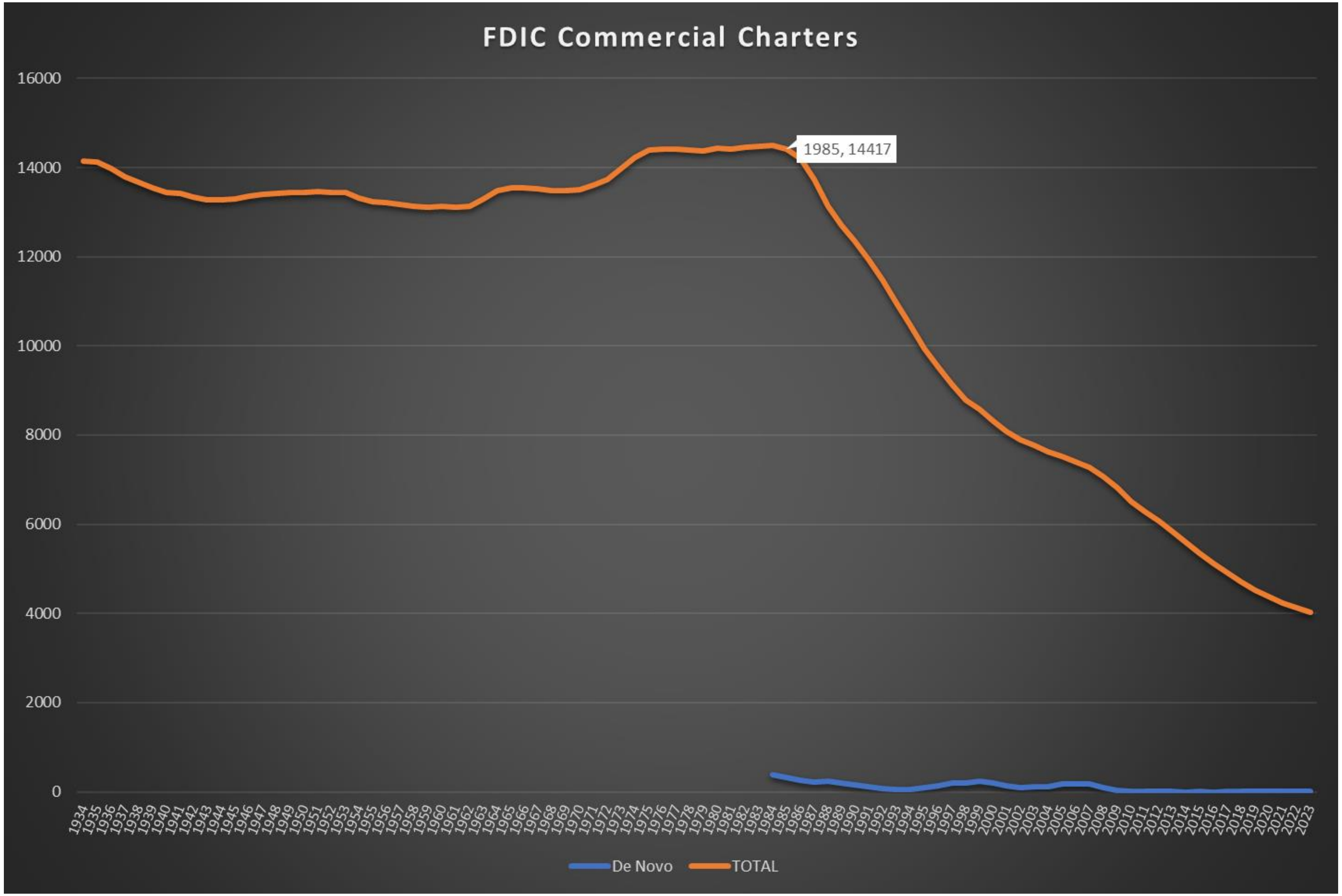
Why So Many Banks

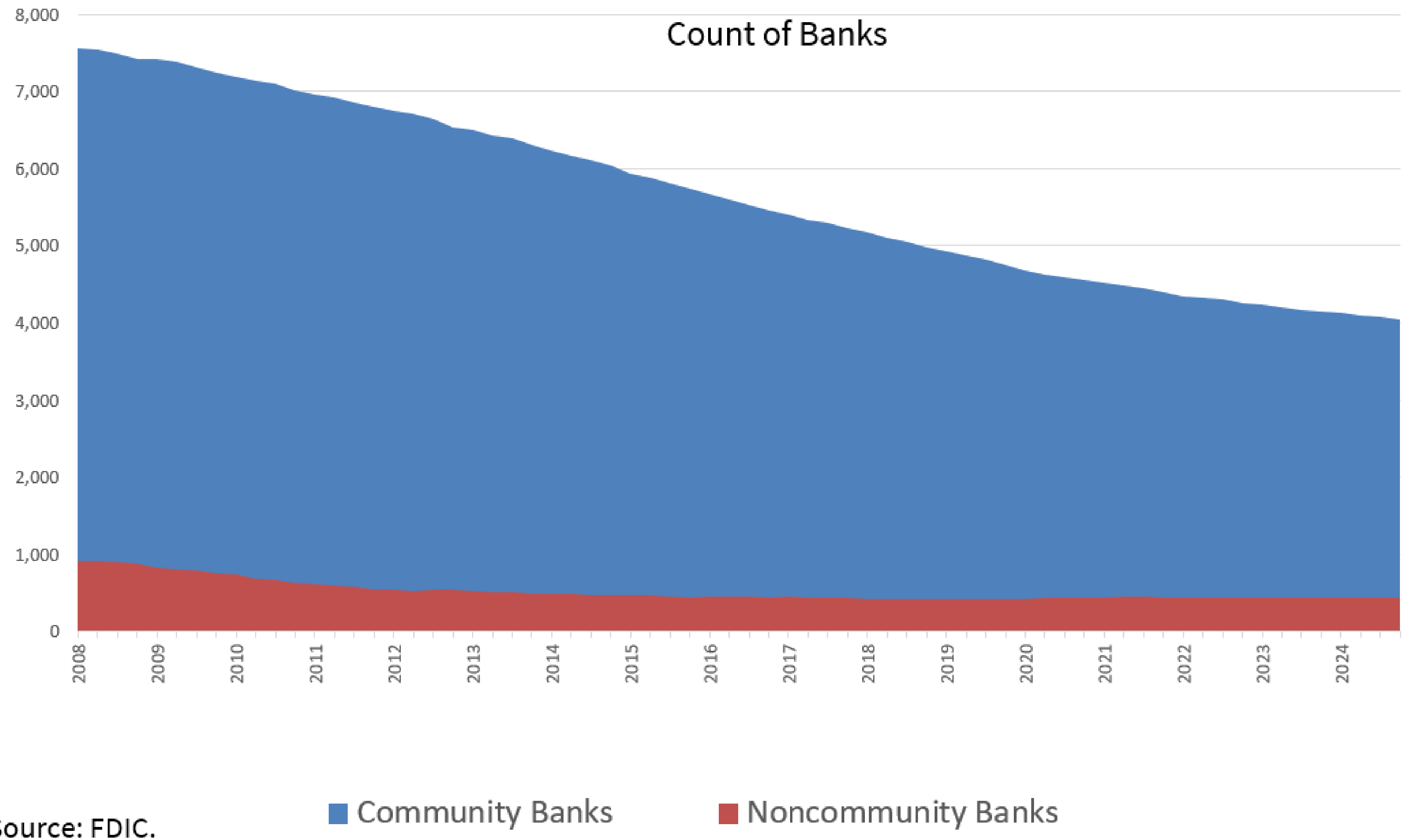


Competitive Landscape



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

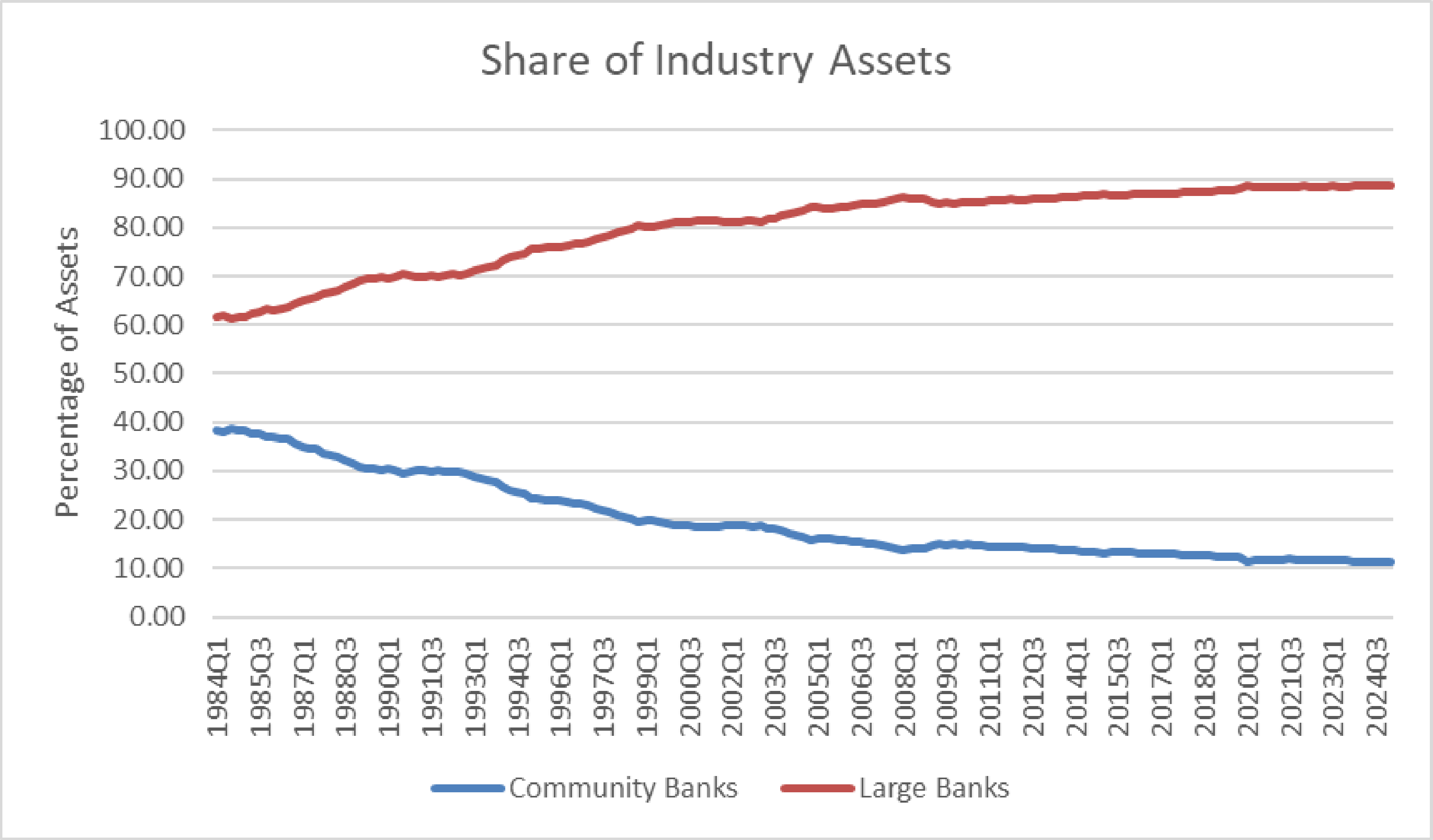
Competitive Landscape



Not all banks are consolidating equally

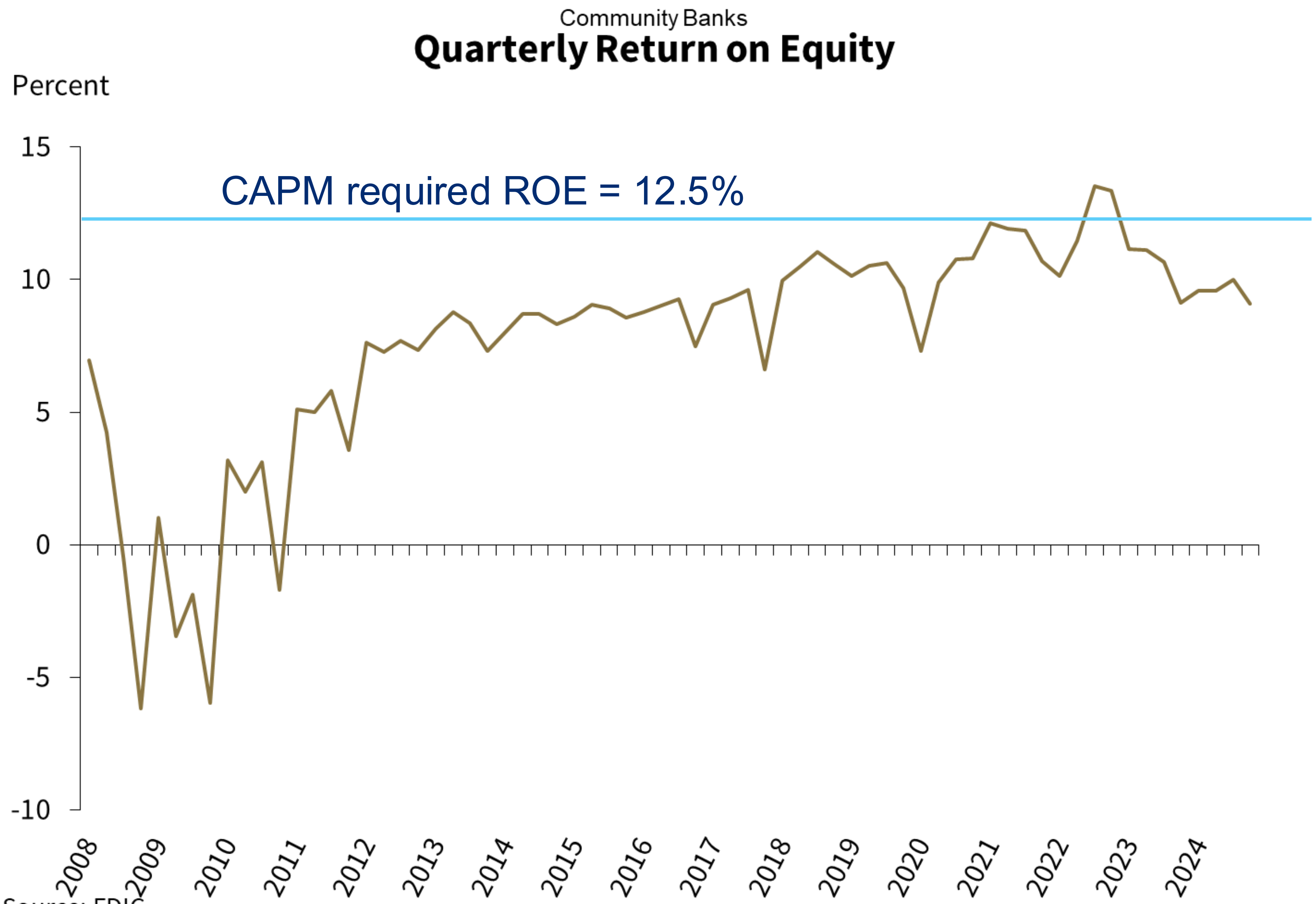
Source: FDIC.

Competitive Landscape



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

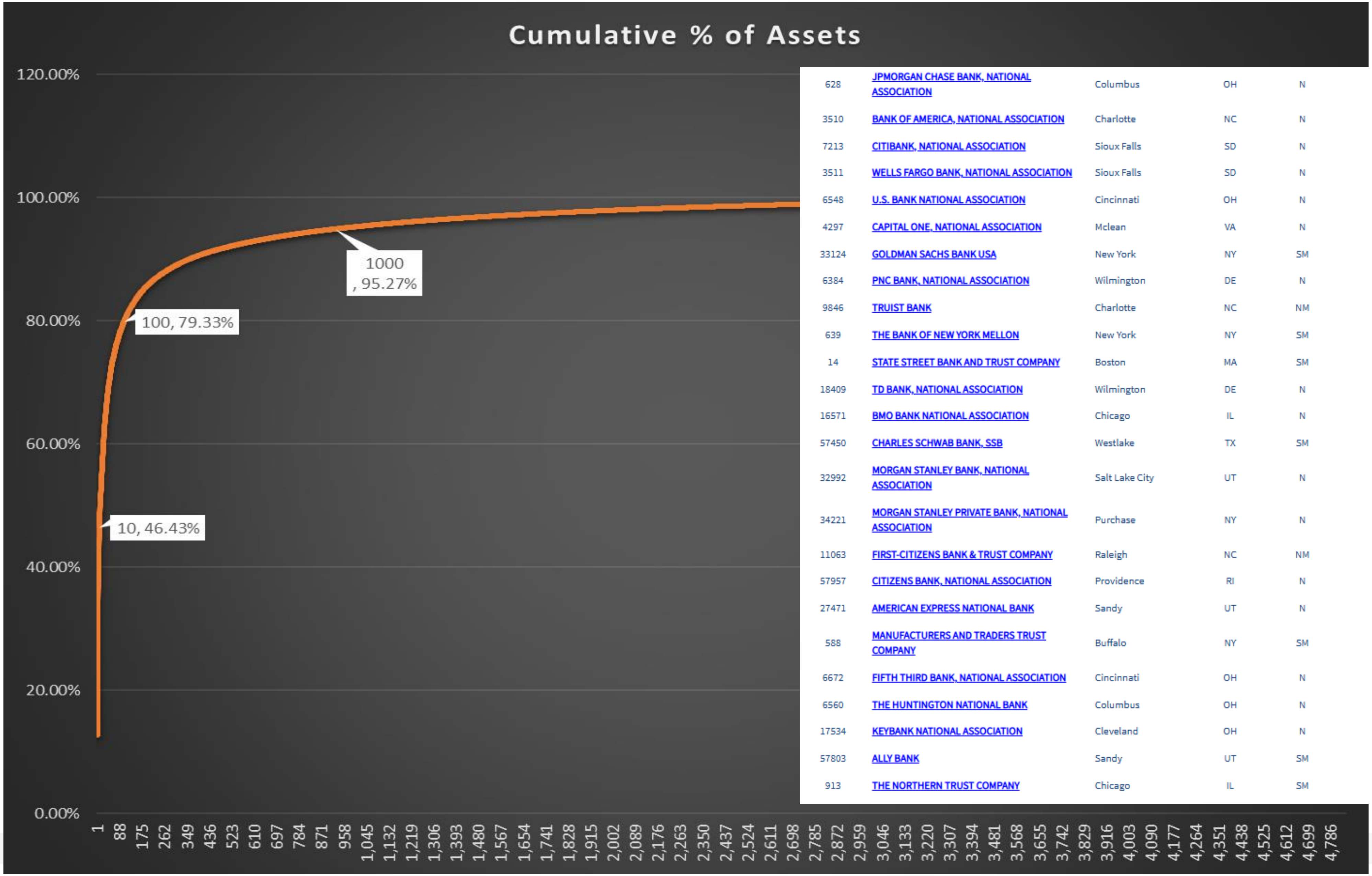
Competitive Landscape



Source: FDIC.

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

Competitive Landscape



628	JPMORGAN CHASE BANK, NATIONAL ASSOCIATION	Columbus	OH	N	3,788,551,000	2,132,981,000
3510	BANK OF AMERICA, NATIONAL ASSOCIATION	Charlotte	NC	N	2,665,555,000	1,975,044,000
7213	CITIBANK, NATIONAL ASSOCIATION	Sioux Falls	SD	N	1,833,933,000	790,085,000
3511	WELLS FARGO BANK, NATIONAL ASSOCIATION	Sioux Falls	SD	N	1,746,394,000	1,392,827,000
6548	U.S. BANK NATIONAL ASSOCIATION	Cincinnati	OH	N	671,438,131	523,489,192
4297	CAPITAL ONE, NATIONAL ASSOCIATION	Mclean	VA	N	648,909,392	497,324,904
33124	GOLDMAN SACHS BANK USA	New York	NY	SM	625,410,000	390,220,000
6384	PNC BANK, NATIONAL ASSOCIATION	Wilmington	DE	N	554,573,142	432,497,011
9846	TRUIST BANK	Charlotte	NC	NM	535,585,000	417,545,000
639	THE BANK OF NEW YORK MELLON	New York	NY	SM	398,293,000	227,667,000
14	STATE STREET BANK AND TRUST COMPANY	Boston	MA	SM	371,784,000	207,849,000
18409	TD BANK, NATIONAL ASSOCIATION	Wilmington	DE	N	356,447,140	293,309,122
16571	BMO BANK NATIONAL ASSOCIATION	Chicago	IL	N	253,742,866	199,266,993
57450	CHARLES SCHWAB BANK, SSB	Westlake	TX	SM	247,664,000	209,546,000
32992	MORGAN STANLEY BANK, NATIONAL ASSOCIATION	Salt Lake City	UT	N	239,249,000	192,903,000
34221	MORGAN STANLEY PRIVATE BANK, NATIONAL ASSOCIATION	Purchase	NY	N	235,034,000	212,449,000
11063	FIRST-CITIZENS BANK & TRUST COMPANY	Raleigh	NC	NM	229,412,000	160,302,000
57957	CITIZENS BANK, NATIONAL ASSOCIATION	Providence	RI	N	217,970,015	178,748,164
27471	AMERICAN EXPRESS NATIONAL BANK	Sandy	UT	N	211,720,953	168,449,838
588	MANUFACTURERS AND TRADERS TRUST COMPANY	Buffalo	NY	SM	211,042,013	168,383,903
6672	FIFTH THIRD BANK, NATIONAL ASSOCIATION	Cincinnati	OH	N	209,311,000	167,802,000
6560	THE HUNTINGTON NATIONAL BANK	Columbus	OH	N	206,645,430	167,403,258
17534	KEYBANK NATIONAL ASSOCIATION	Cleveland	OH	N	182,591,692	151,999,252
57803	ALLY BANK	Sandy	UT	SM	178,052,000	151,303,000
913	THE NORTHERN TRUST COMPANY	Chicago	IL	SM	171,309,876	51,521,446

Challenges/Opportunities for Community Banks

Community vs. Non-Community Banks

Custom **Community Banks**	Custom **Non -Community Banks**	National Average
Banks: 4323	Banks: 152	Banks: 4477
Assets $833.5 mm | ROE 10.99% | ROA 1.19%	Assets $98,360.4 mm | ROE 10.26% | ROA 1.07%	Assets $5,585.9 mm | ROE 11.3% | ROA 1.14%

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

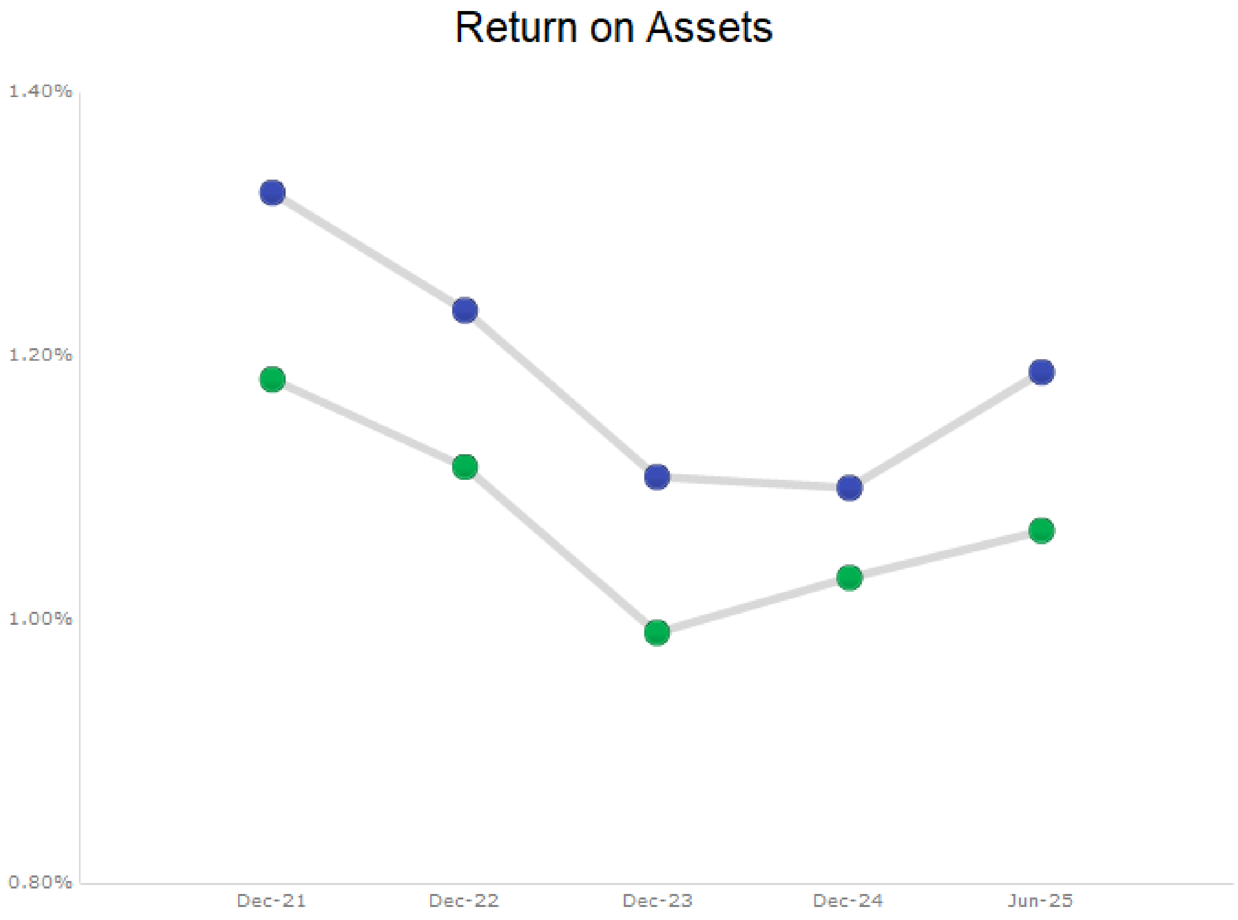
Non-Interest Income

Operating Expense

Income & Expense

Balance Sheet

Quarters Years



	Dec-21	Dec-22	Dec-23	Dec-24	Jun-25
Custom	1.32%	1.23%	1.11%	1.10%	1.19%
Custom	1.18%	1.12%	0.99%	1.03%	1.07%

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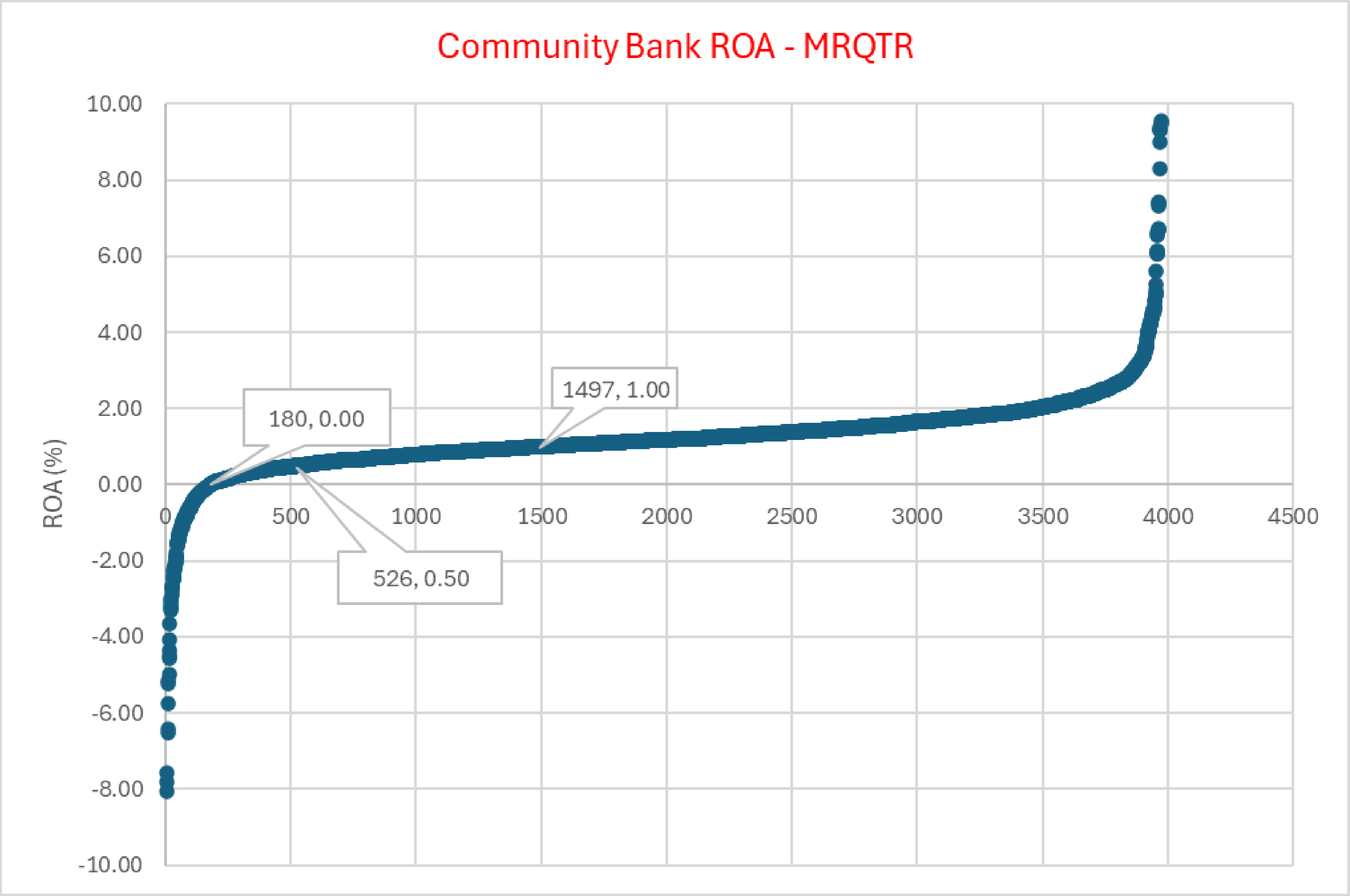
Community vs. Non-Community Banks



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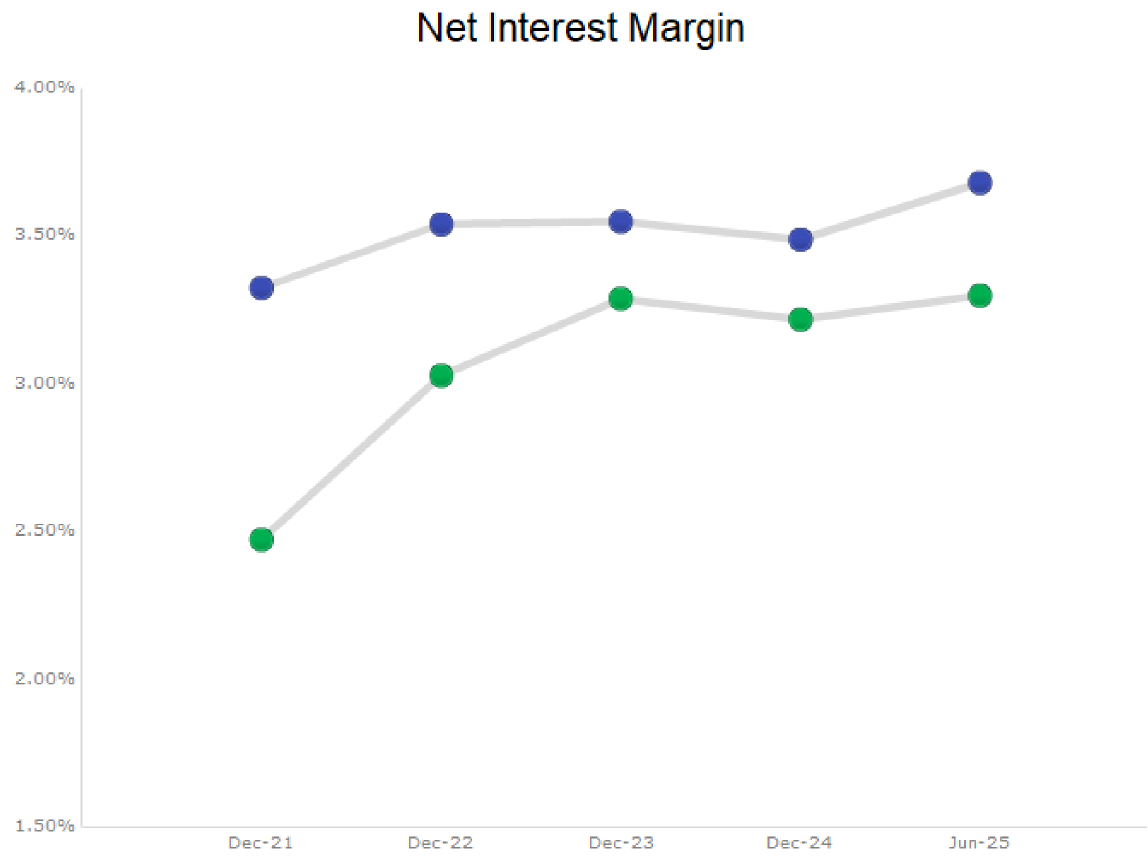

Custom

3.32%	3.54%	3.55%	3.49%	3.68%

Custom

2.47%	3.03%	3.29%	3.22%	3.30%

National Average

Community vs. Non-Community Banks

Custom Community Banks	Custom Non -Community Banks	National Average
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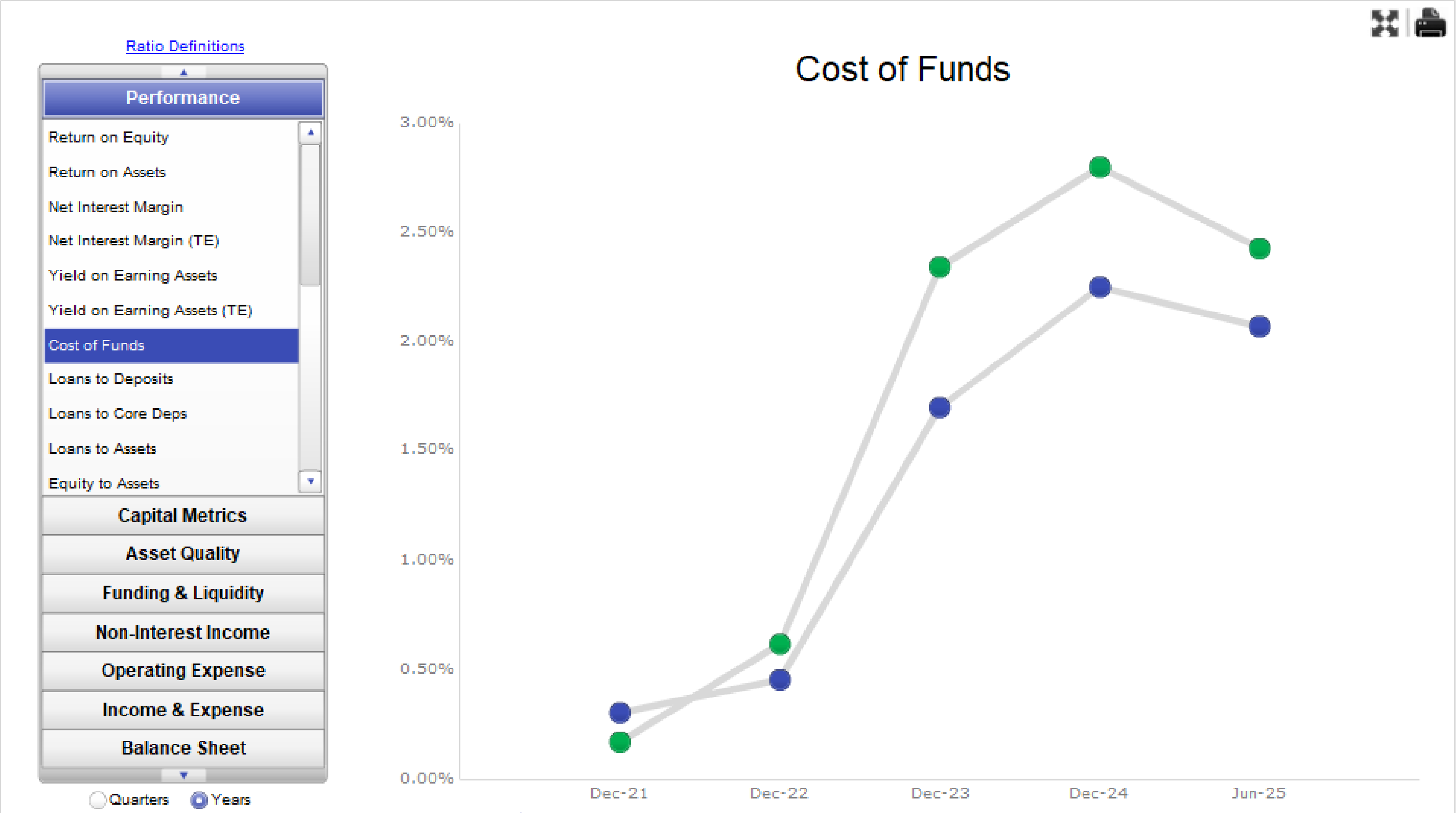

Custom	Dec-21	Dec-22	Dec-23	Dec-24	Jun-25
Custom (Community Banks)	0.30%	0.46%	1.70%	2.25%	2.07%
Custom (Non-Community Banks)	0.17%	0.62%	2.34%	2.80%	2.43%

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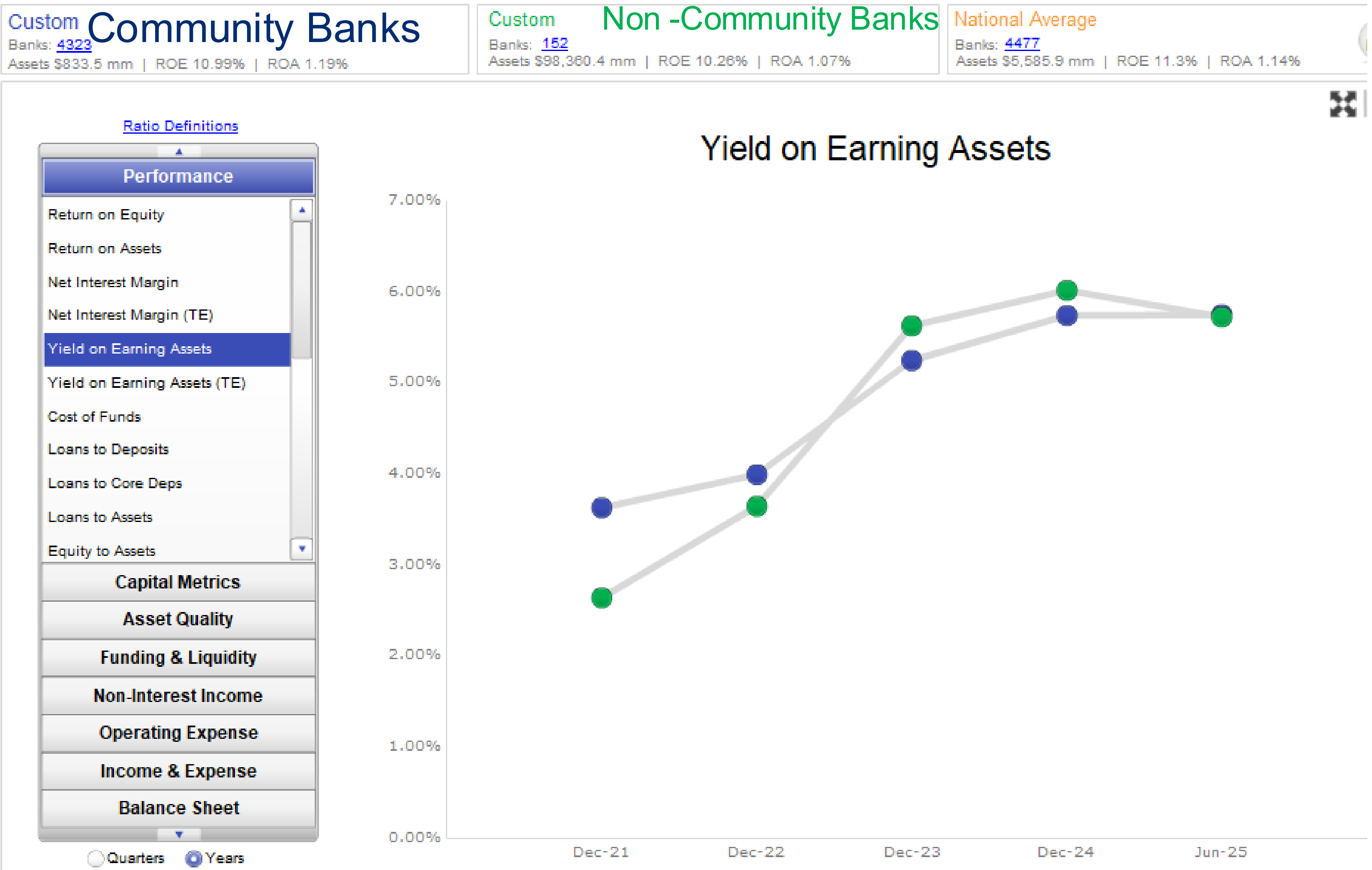
Community vs. Non-Community Banks



Custom

3.63%	4.00%	5.25%	5.74%	5.75%

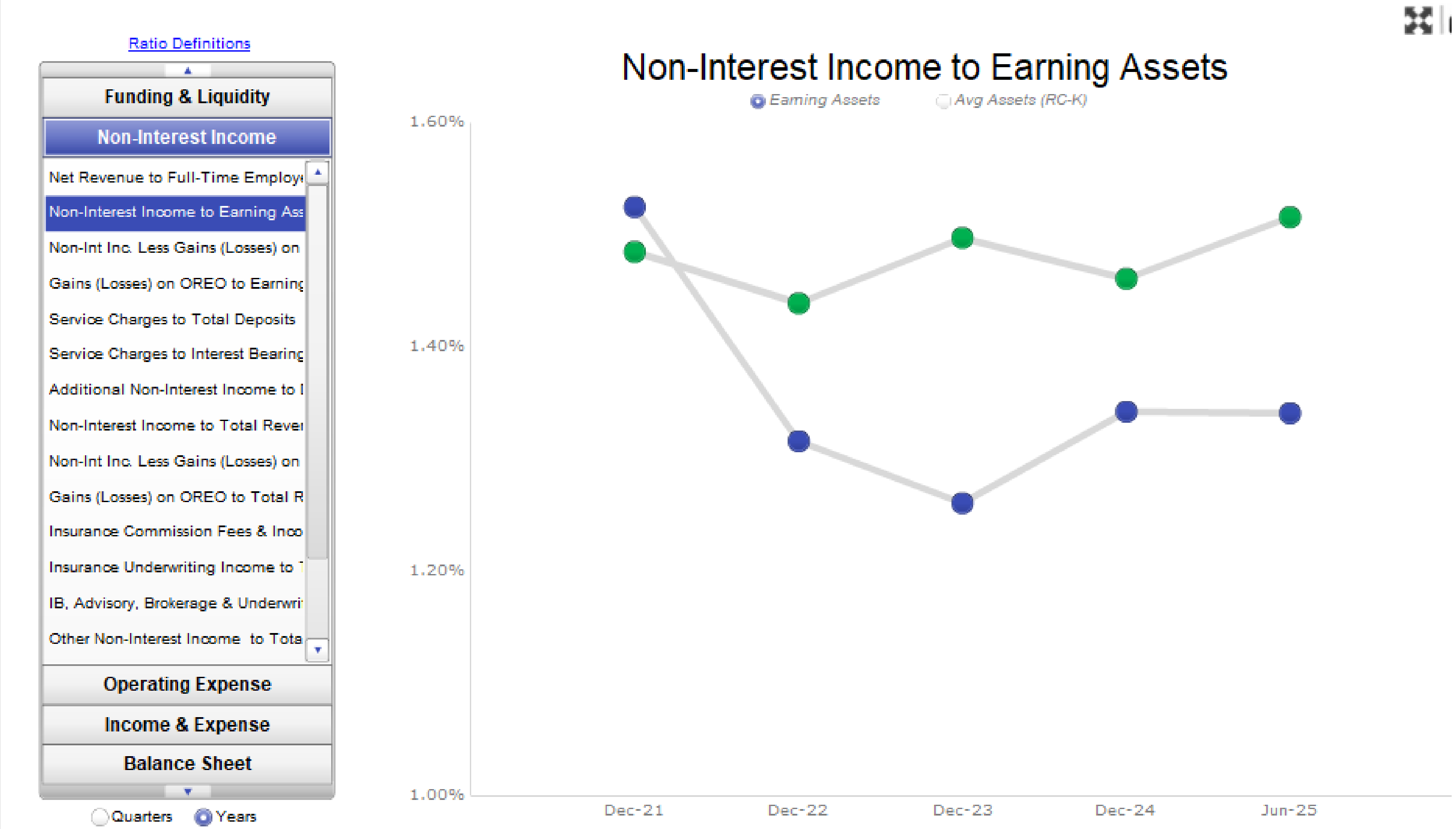
Custom

2.64%	3.65%	5.63%	6.02%	5.73%

National Average

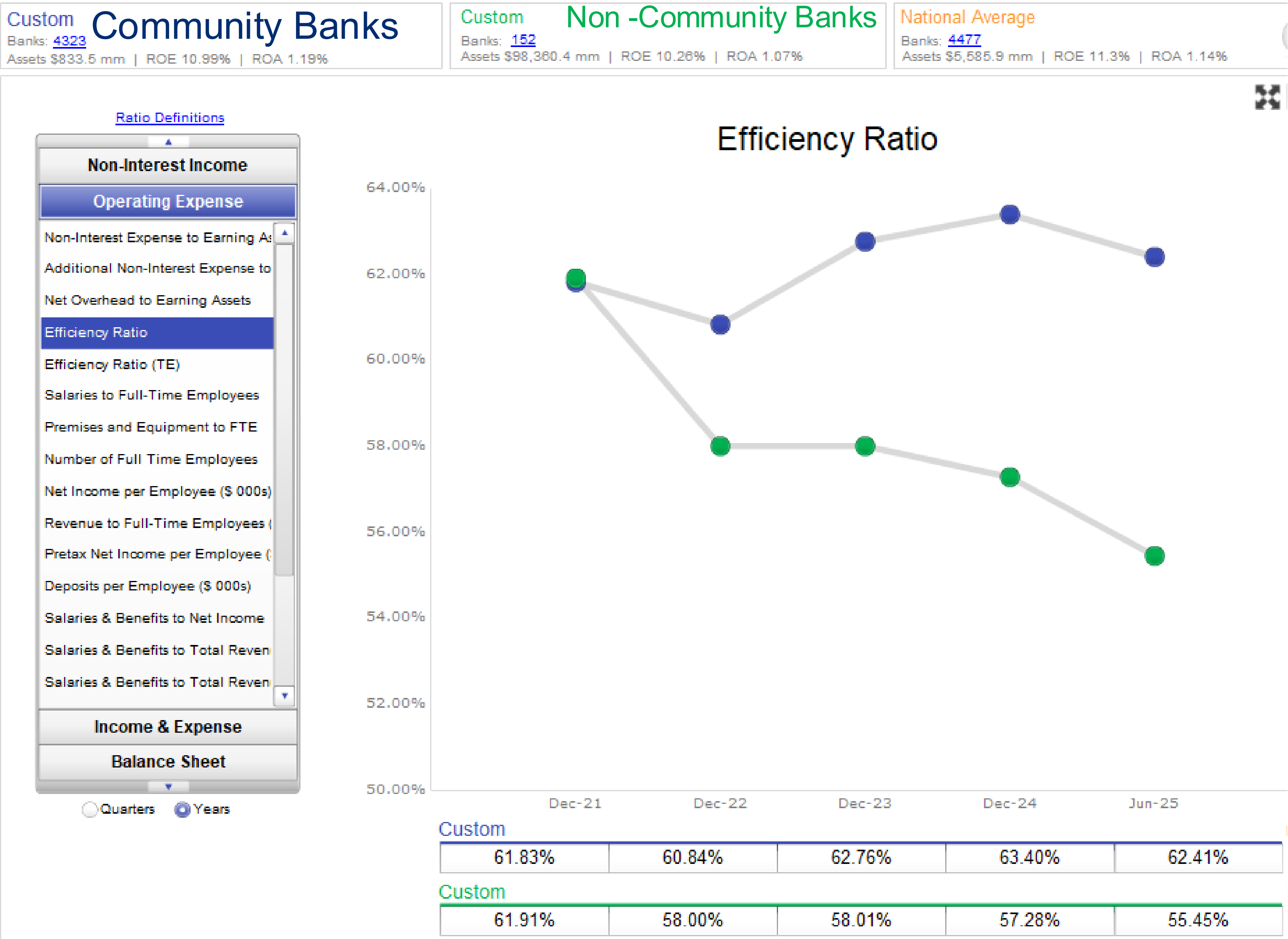
Community vs. Non-Community Banks

Custom — Community Banks	Custom — Non -Community Banks	National Average
Banks: 4323	Banks: 152	Banks: 4477
Assets $833.5 mm | ROE 10.99% | ROA 1.19%	Assets $98,360.4 mm | ROE 10.26% | ROA 1.07%	Assets $5,585.9 mm | ROE 11.3% | ROA 1.14%



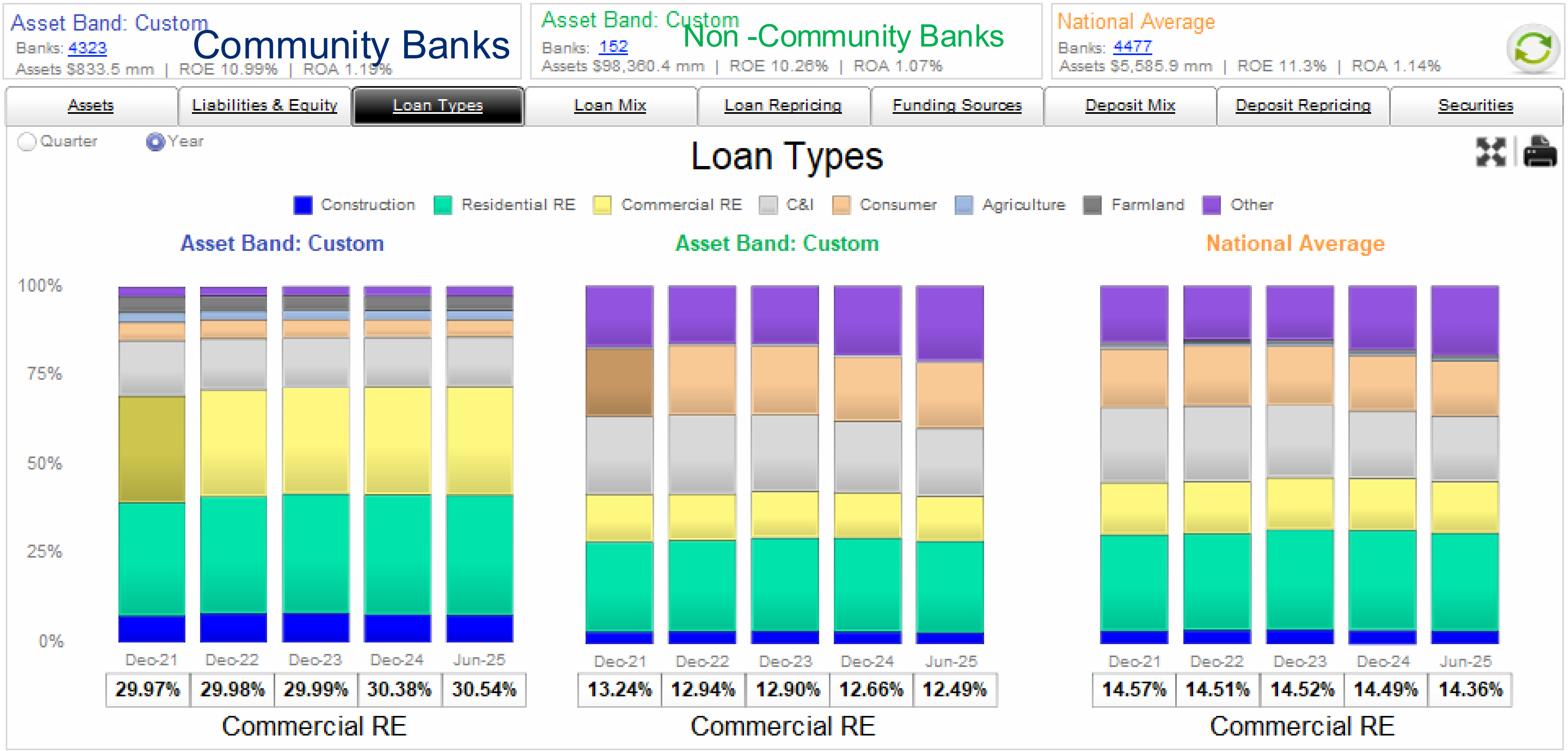
	Dec-21	Dec-22	Dec-23	Dec-24	Jun-25
Custom (Community)	1.52%	1.32%	1.26%	1.34%	1.34%
Custom (Non-Community)	1.48%	1.44%	1.50%	1.46%	1.52%

Community vs. Non-Community Banks

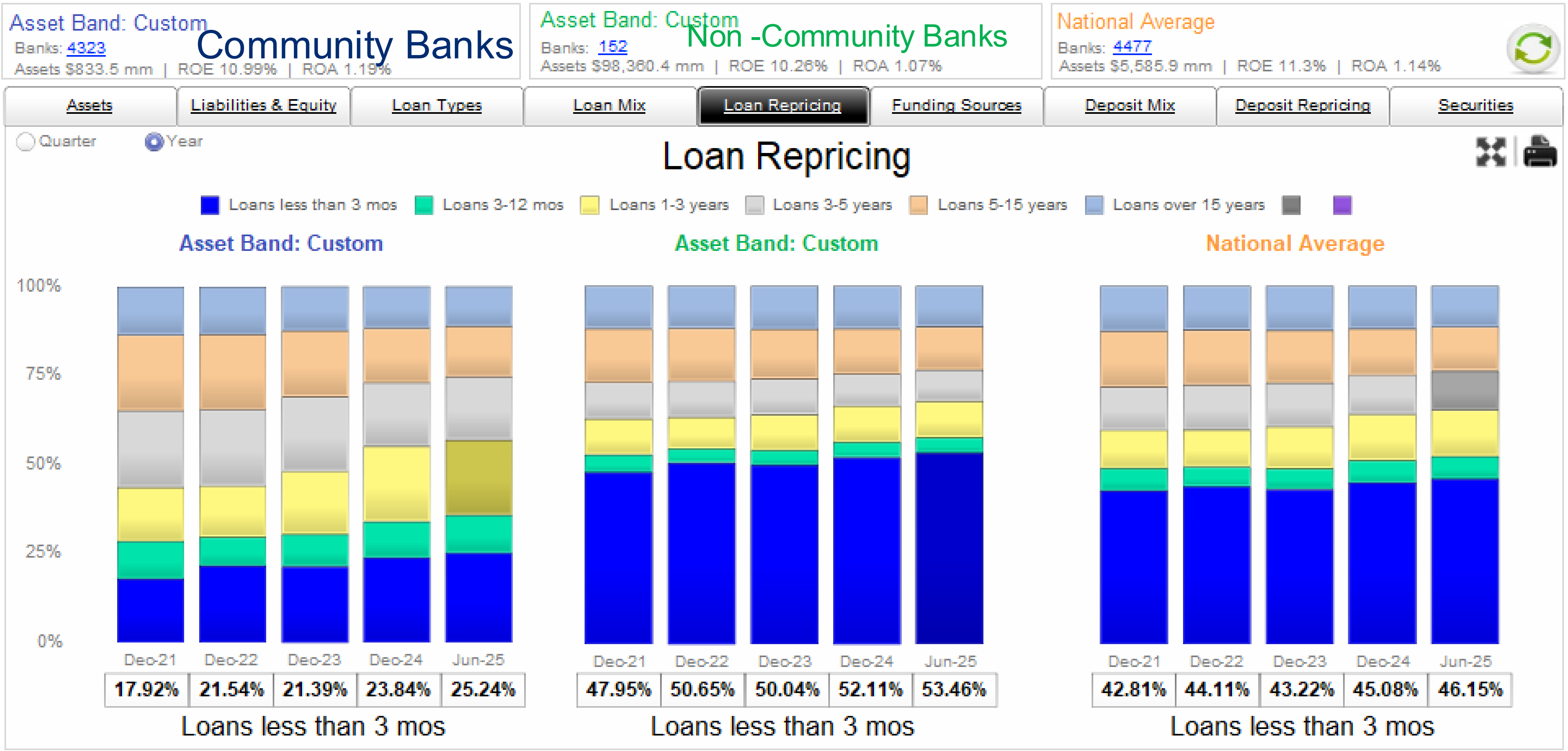


Efficiency Ratio = Non-Interest Expenses / Total Revenue

Community vs. Non-Community Banks



Community vs. Non-Community Banks



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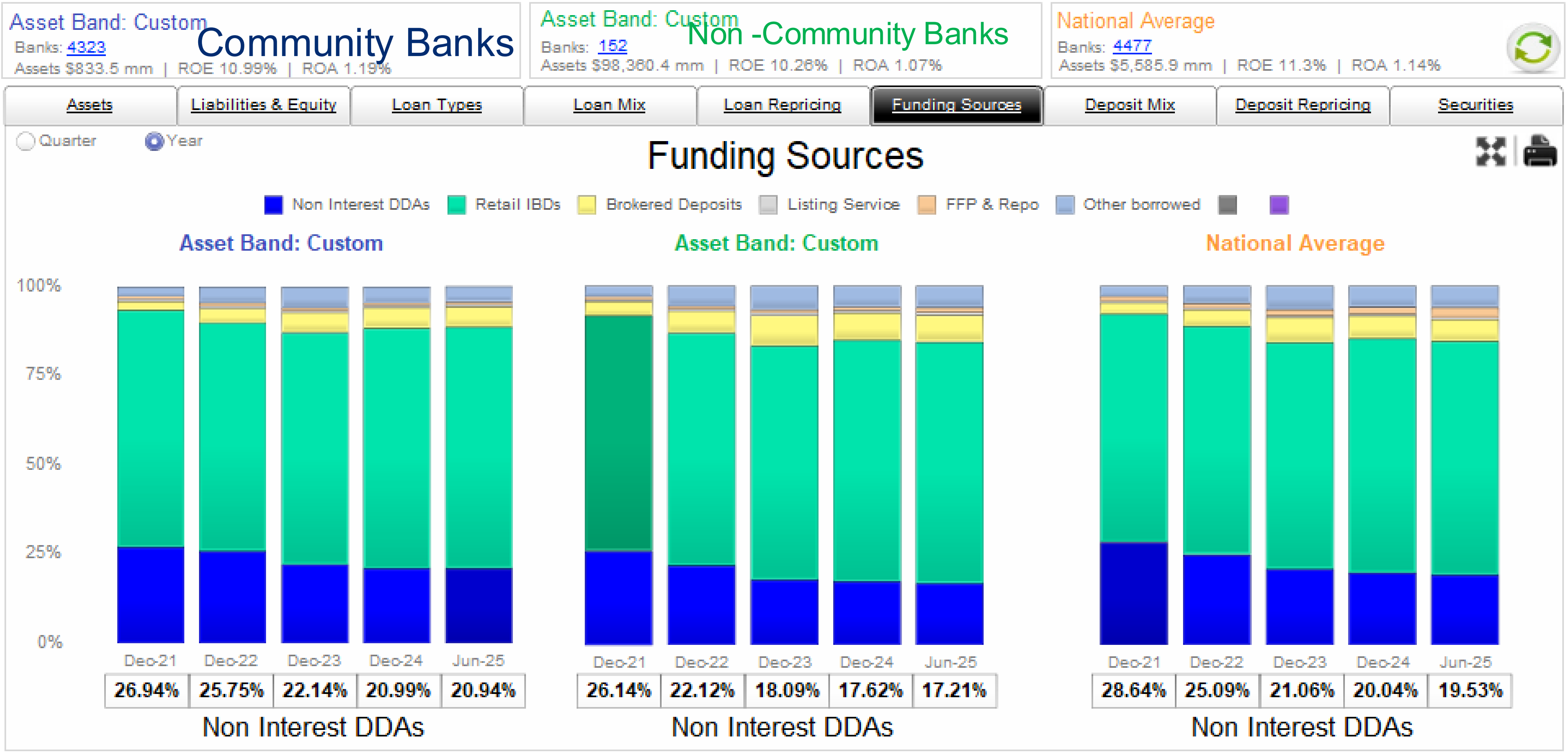


Non-interest Income

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

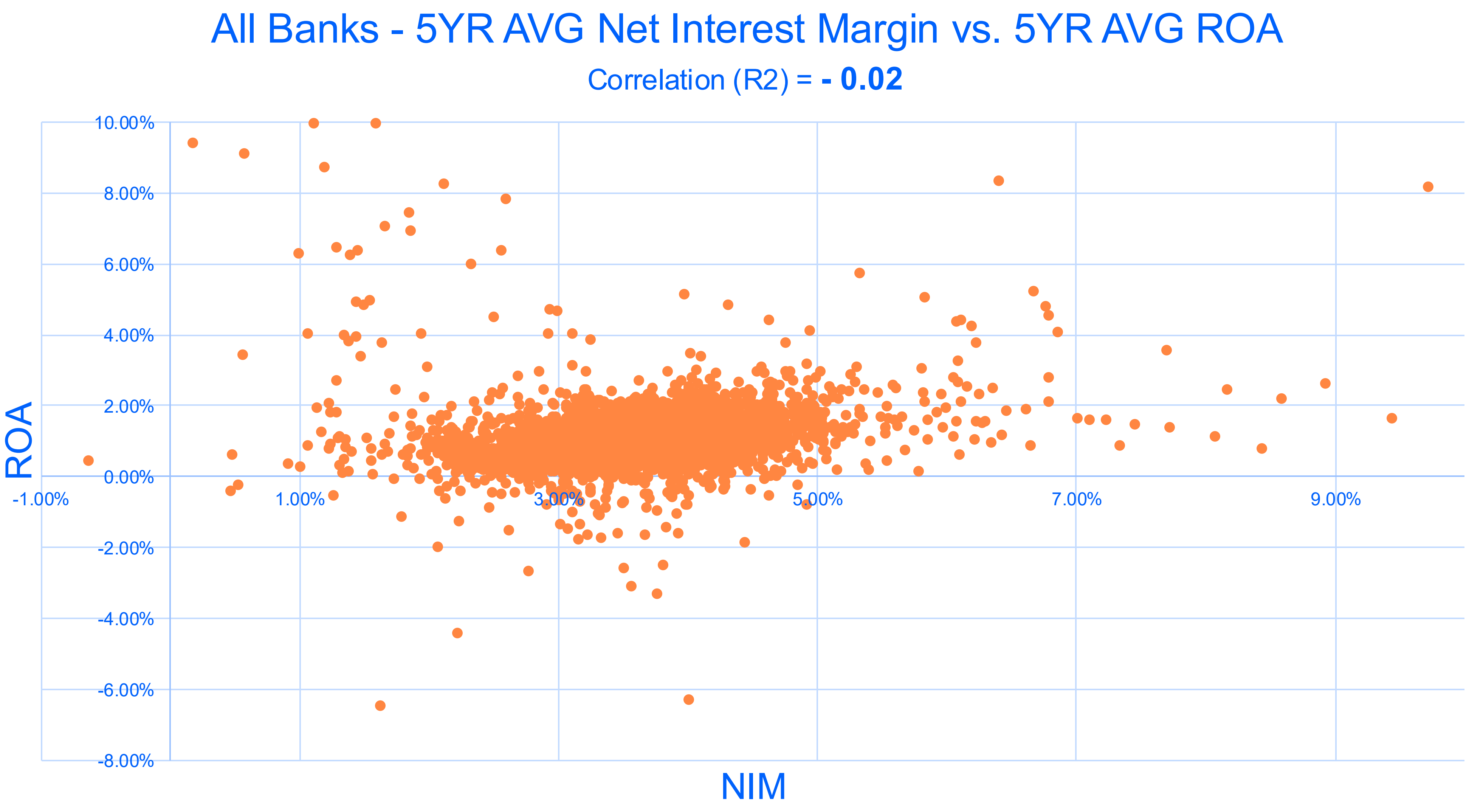
1	Nonint Inc/ Avg Assets	0.901
2	Nonint Exp/ Avg Assets	0.424
3	Net Loan Charge-Offs/ Avg Tot Lns & Lses	0.053
4	Average of Interest Exp/ Avg Assets	-0.049
5	Average of Interest Income/ Avg Assets	-0.033
6	Provision Exp/ Avg Assets	0.032
7	Yield on Earning Assets (%)	-0.028
8	Realized Gains/ Avg Assets	-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

Why Fee Income Matters?

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

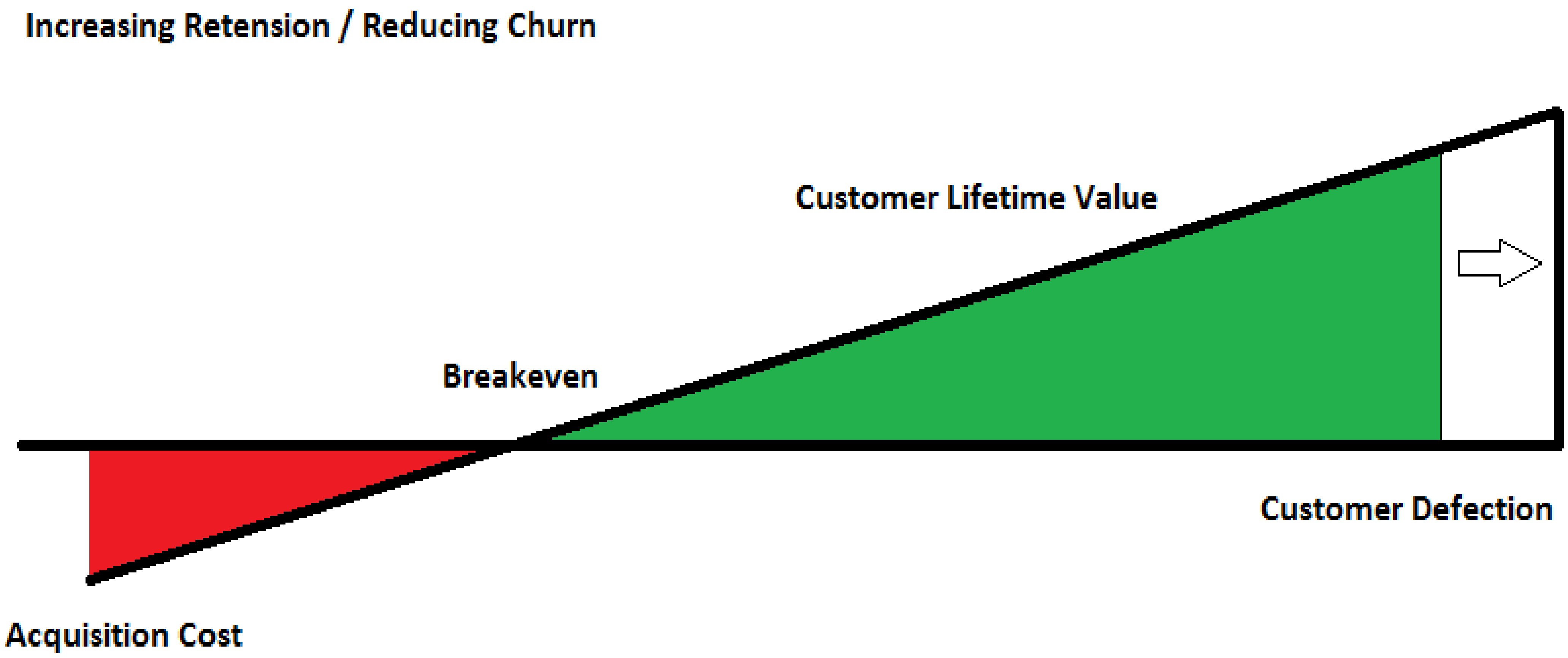
NIM – ROA/ROE relationship



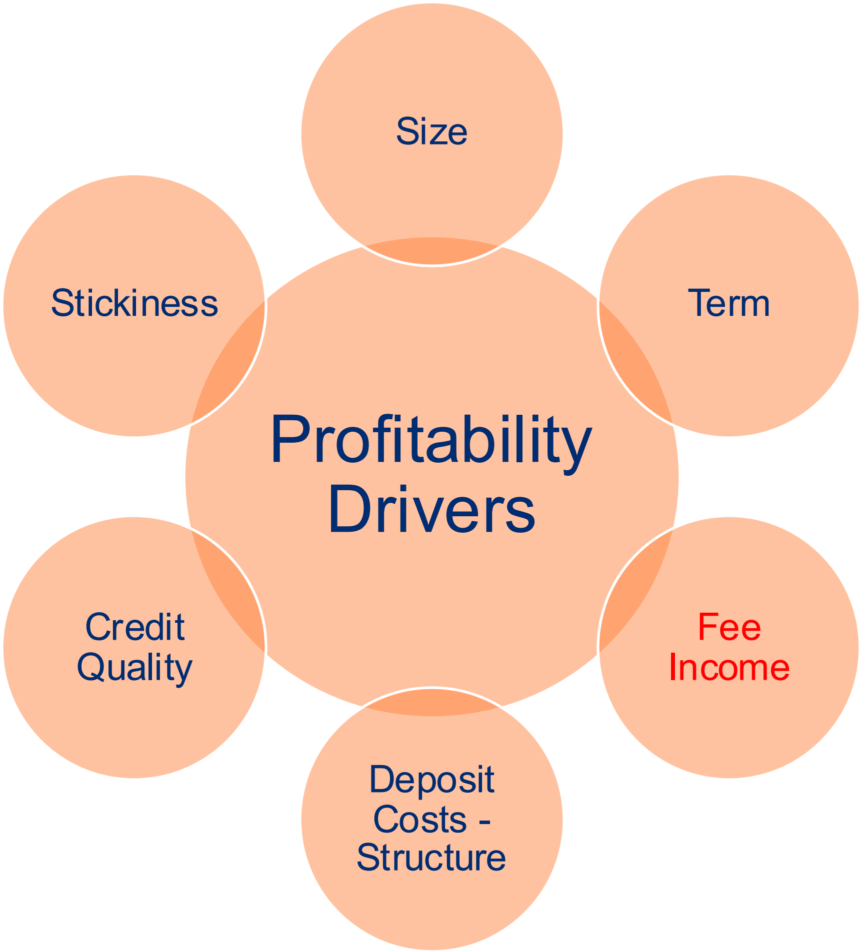
Banking is the Business of Keeping not Making Loans

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

Long-term relationships

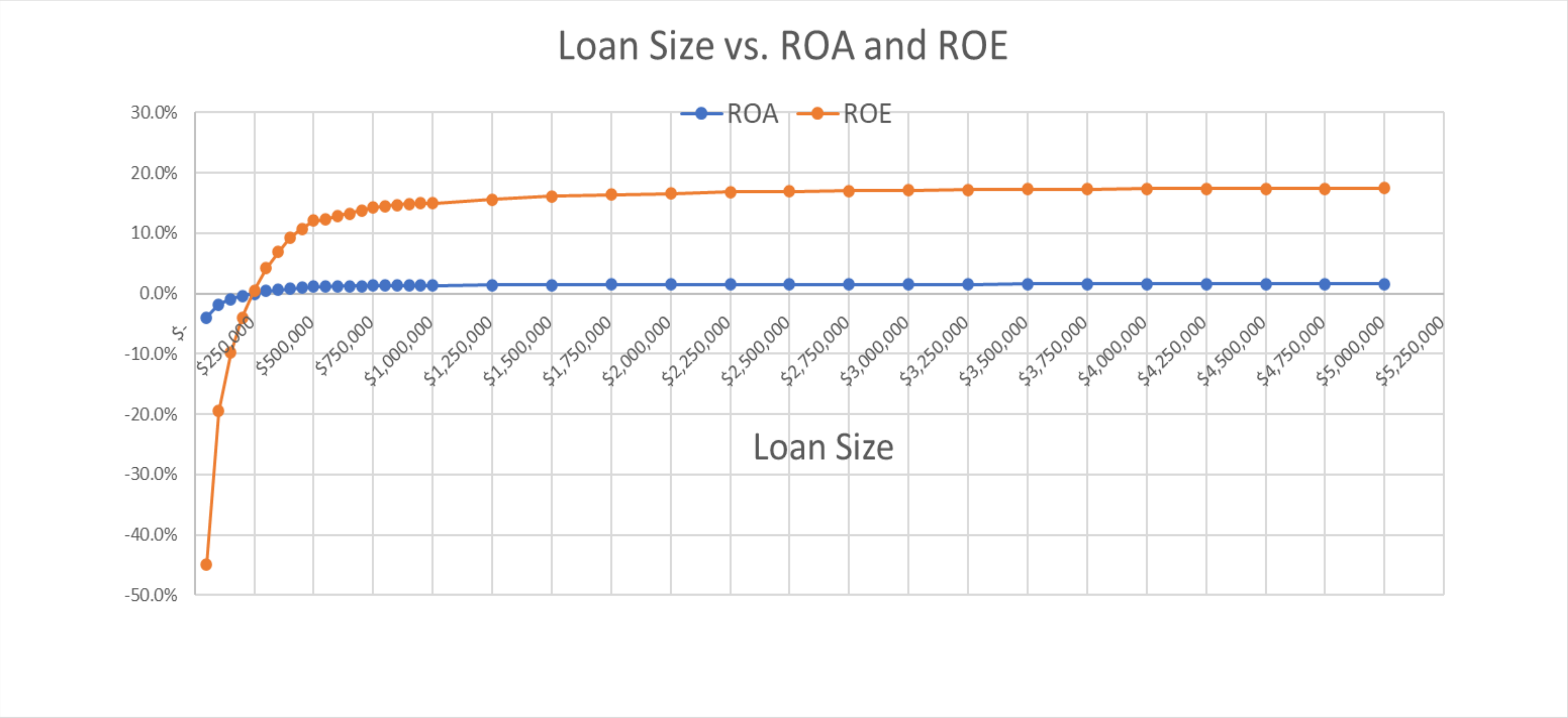


Dissecting Banking Profitability



Loan Size – scale matters

5yr CRE loan, S + 2.50%

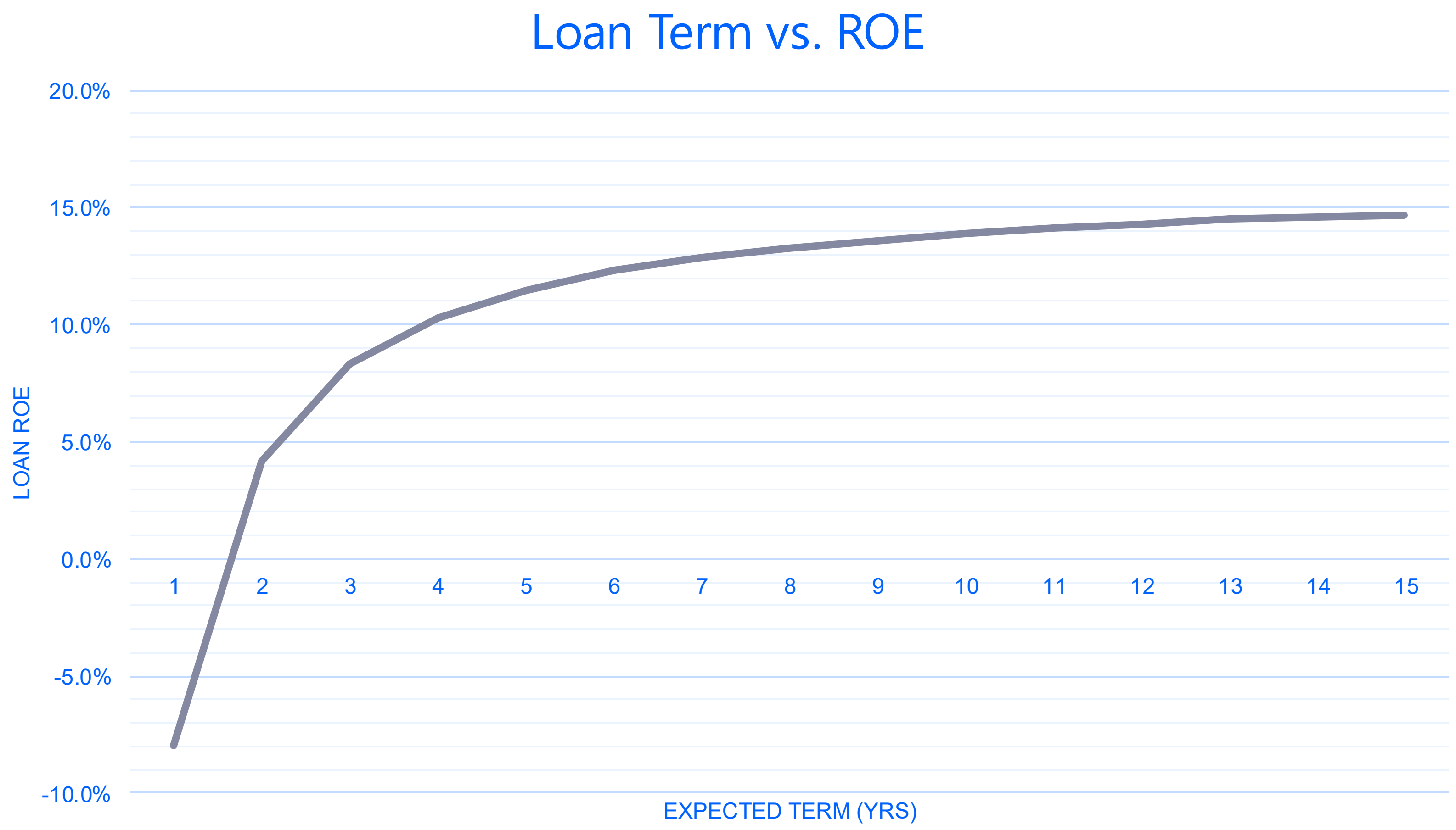


Loan Size – scale matters

	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

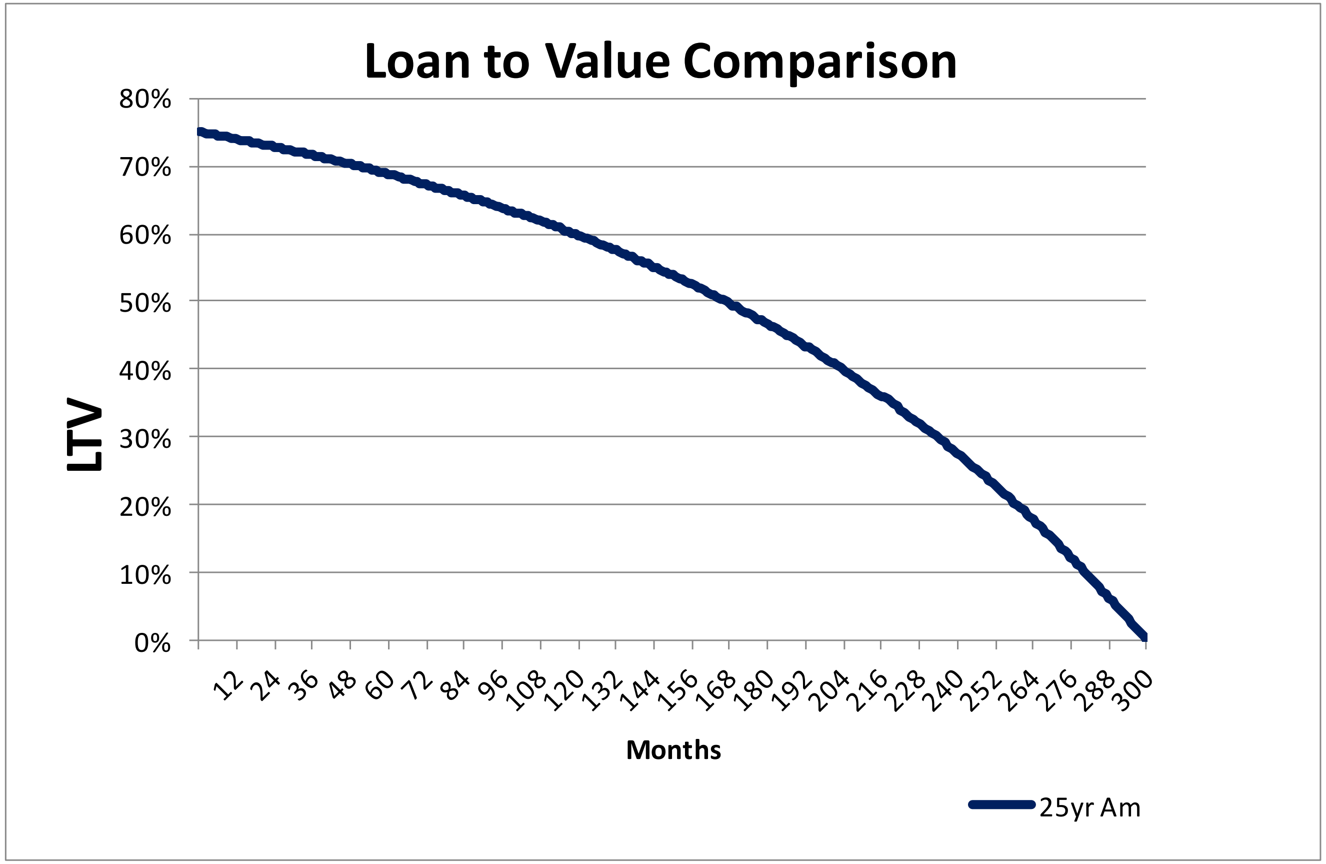
Loan Term

$500k CRE loan, S + 2.50%



Loan Term

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%

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

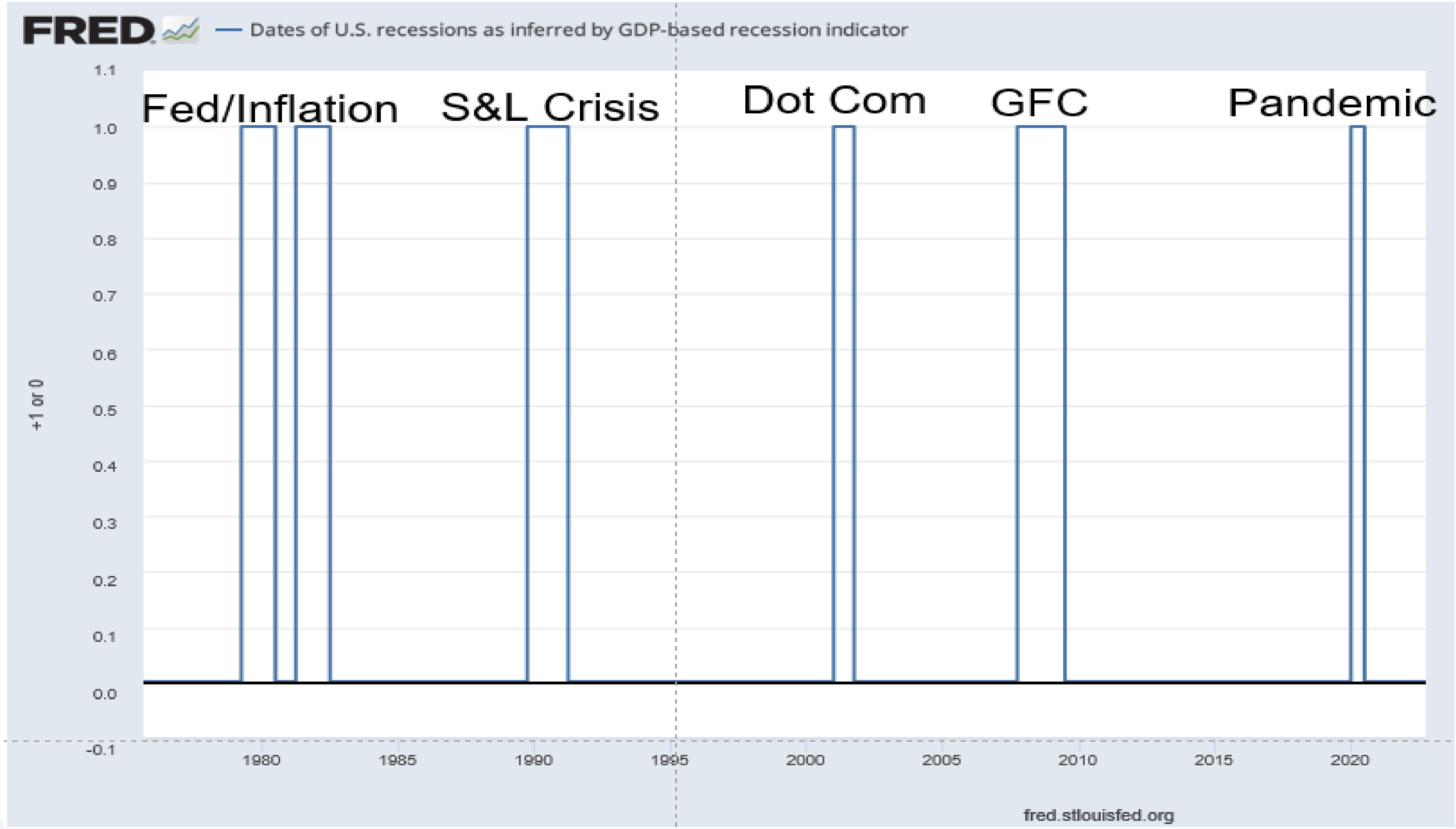
7yr avg loan life (3% runoff)

- $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

Credit Quality



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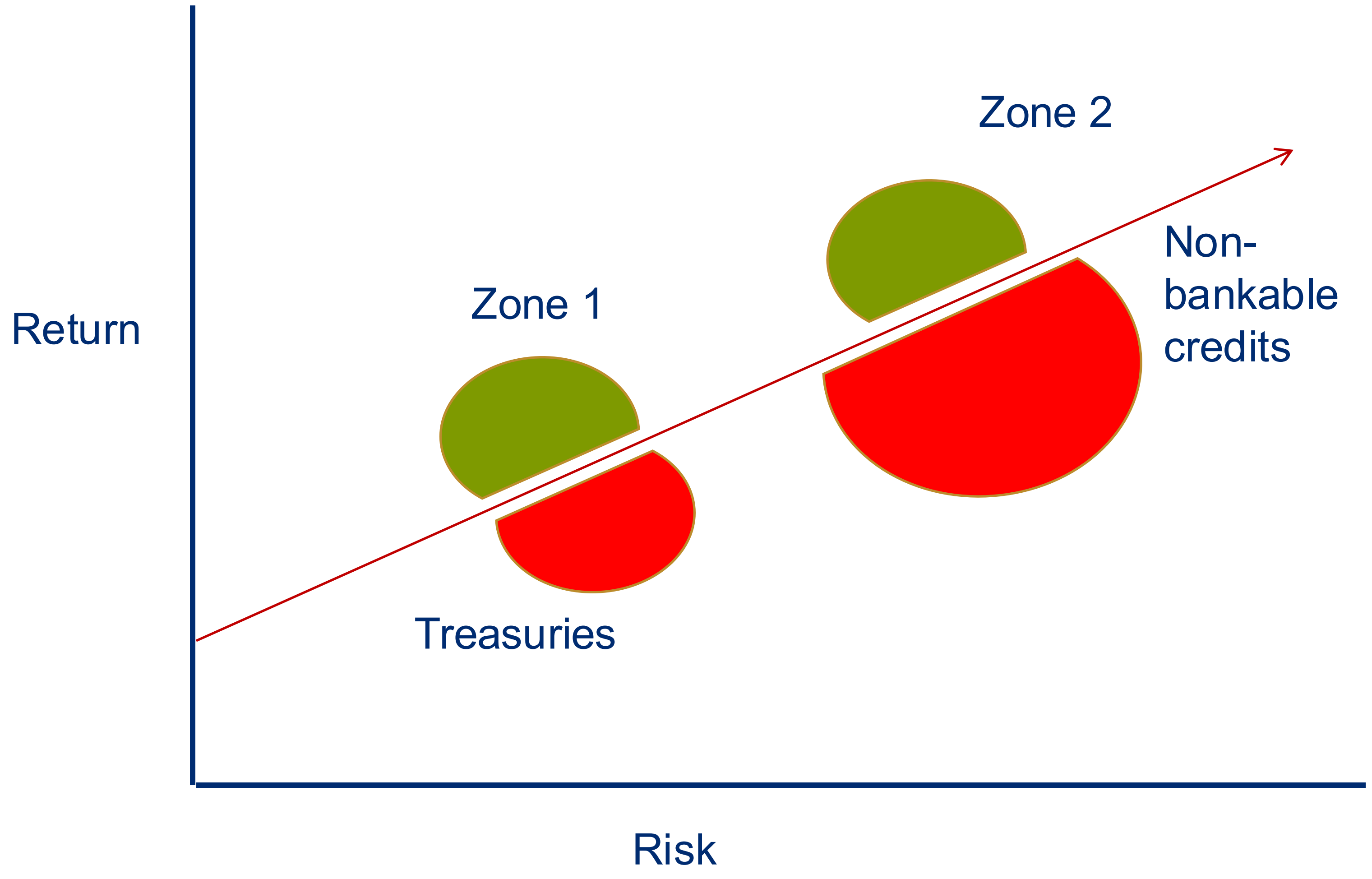
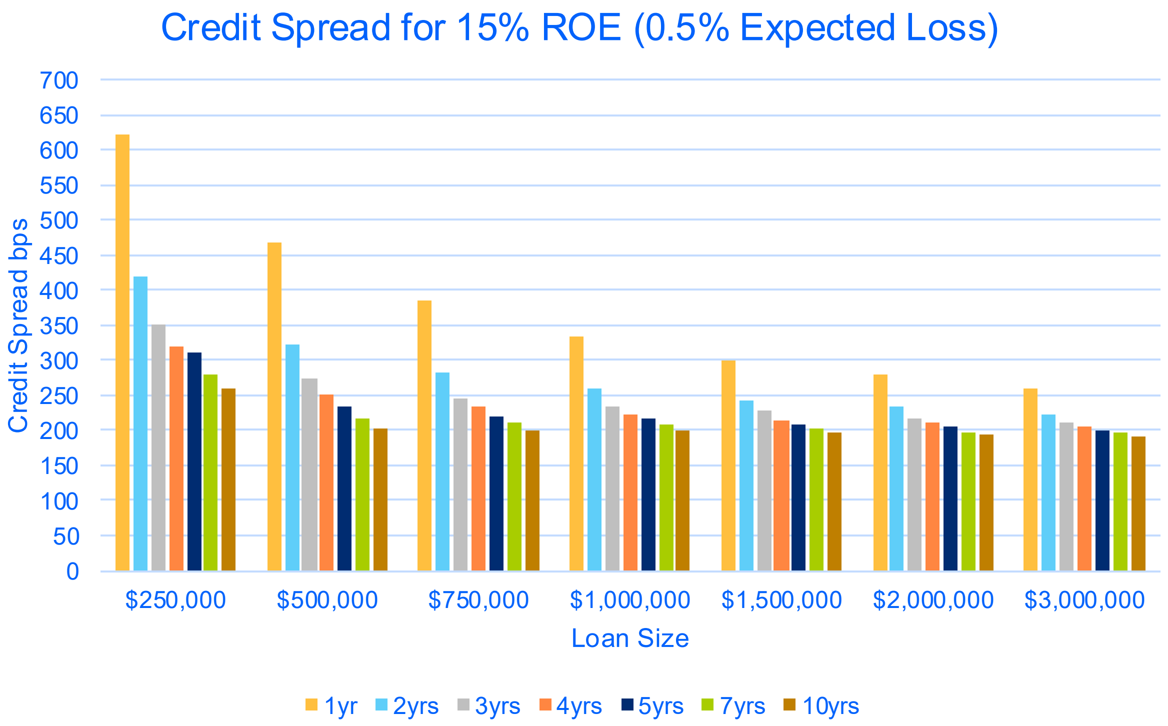
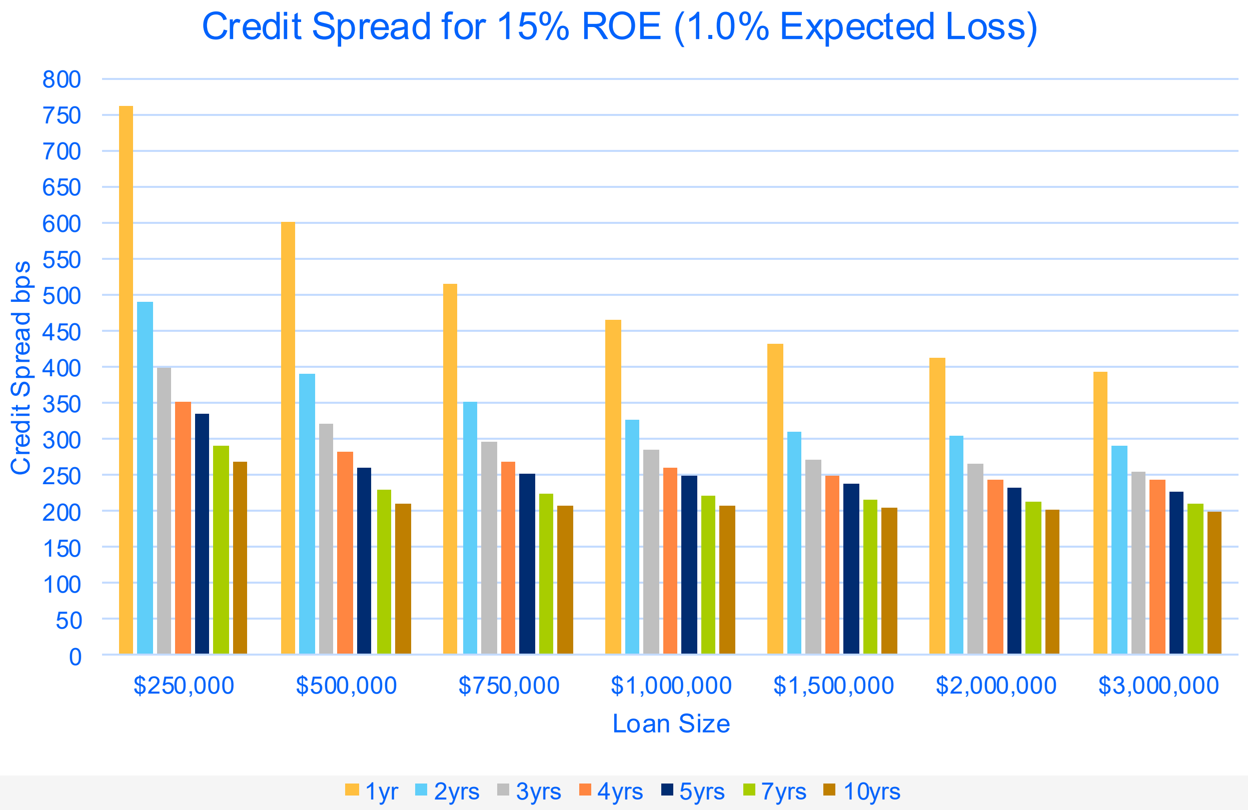


Credit Quality/Term/Size



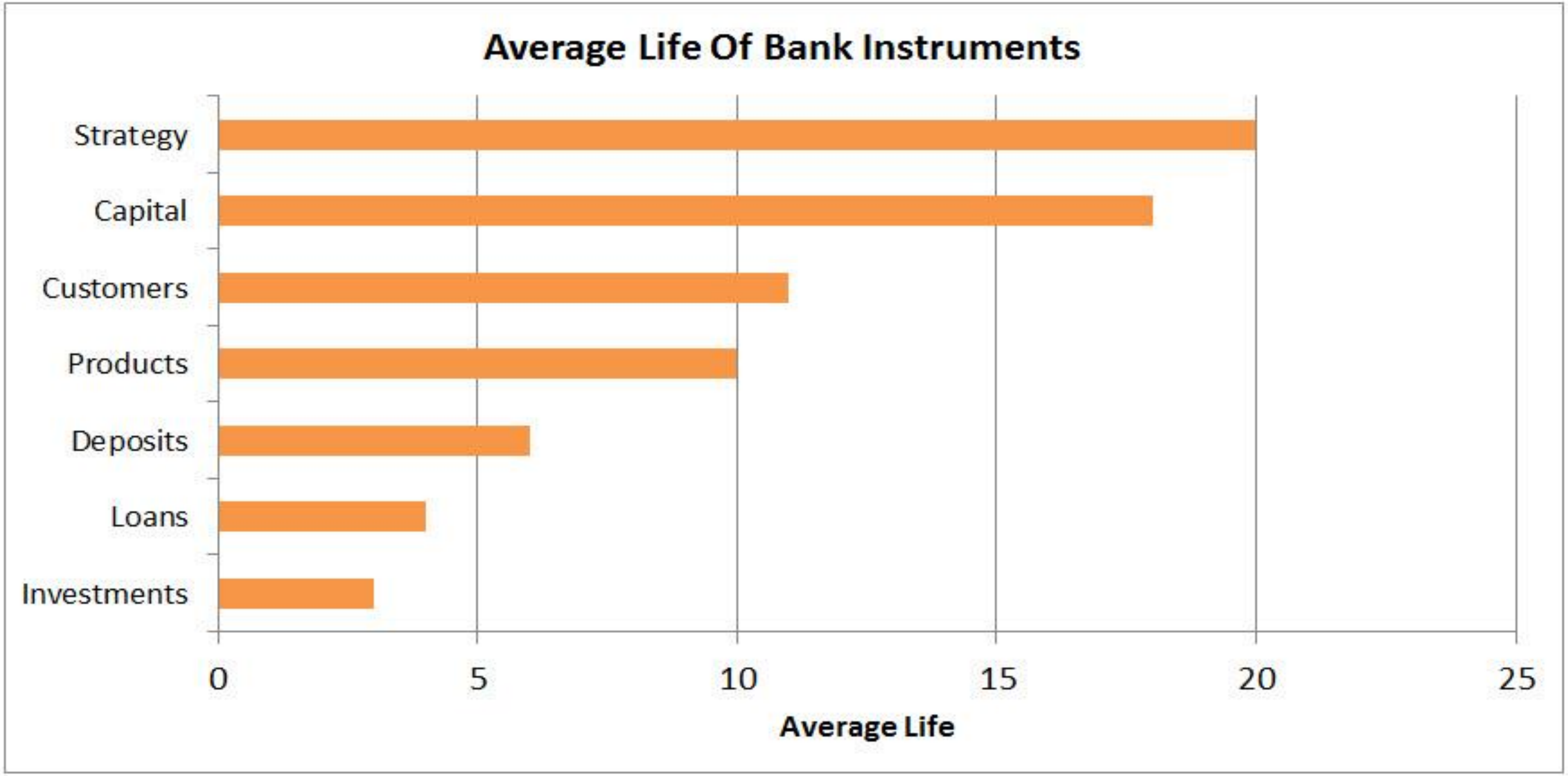


Relationship vs. Transaction (stickiness)

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

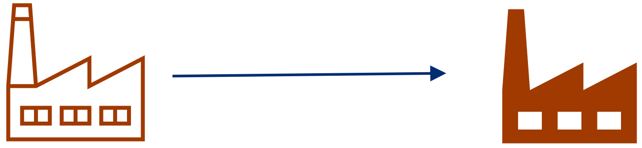
Long-term Relationship vs. Transaction

Potential upsell and cross-sell

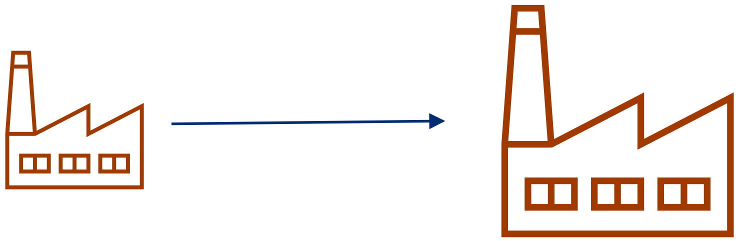


Relationship vs. Transaction (stickiness)

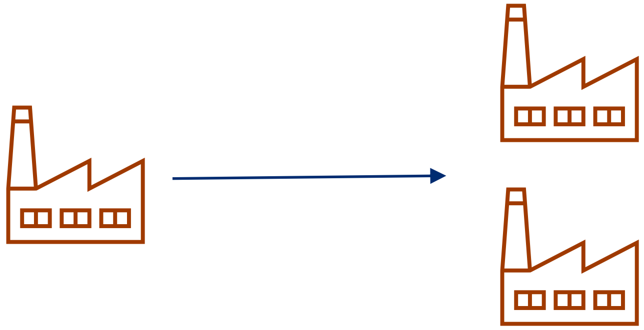
Balance sheet vs. project finance



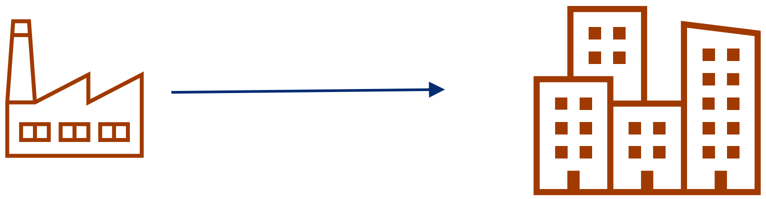
Change in collateral asset



Expansion in collateral asset



Addition in collateral asset



Change in business model

Results →

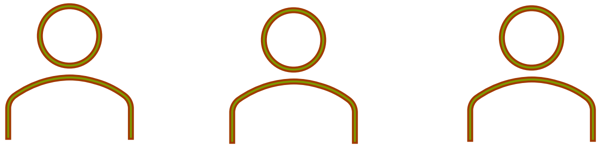
- More deposits
- More loan balances
- Longer relationships
- Less competition
- Less price sensitivity

Long-term Relationship vs. Transaction

Trusted advisor vs. order taker

Order taker

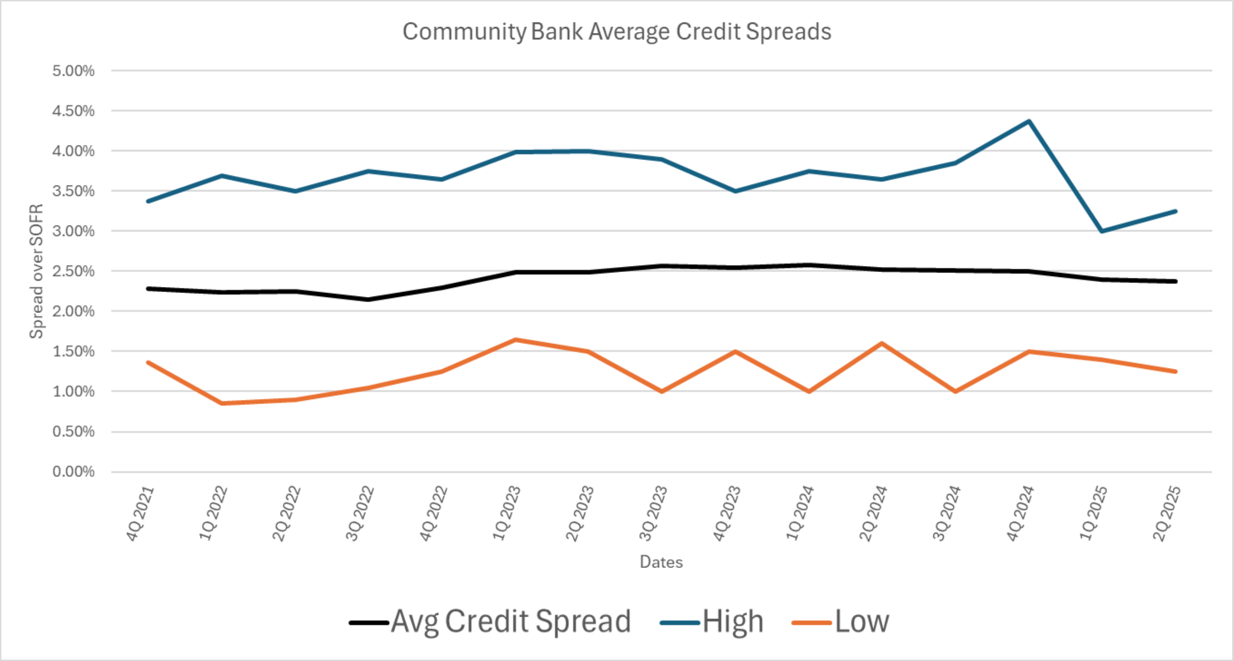
Trusted advisor



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

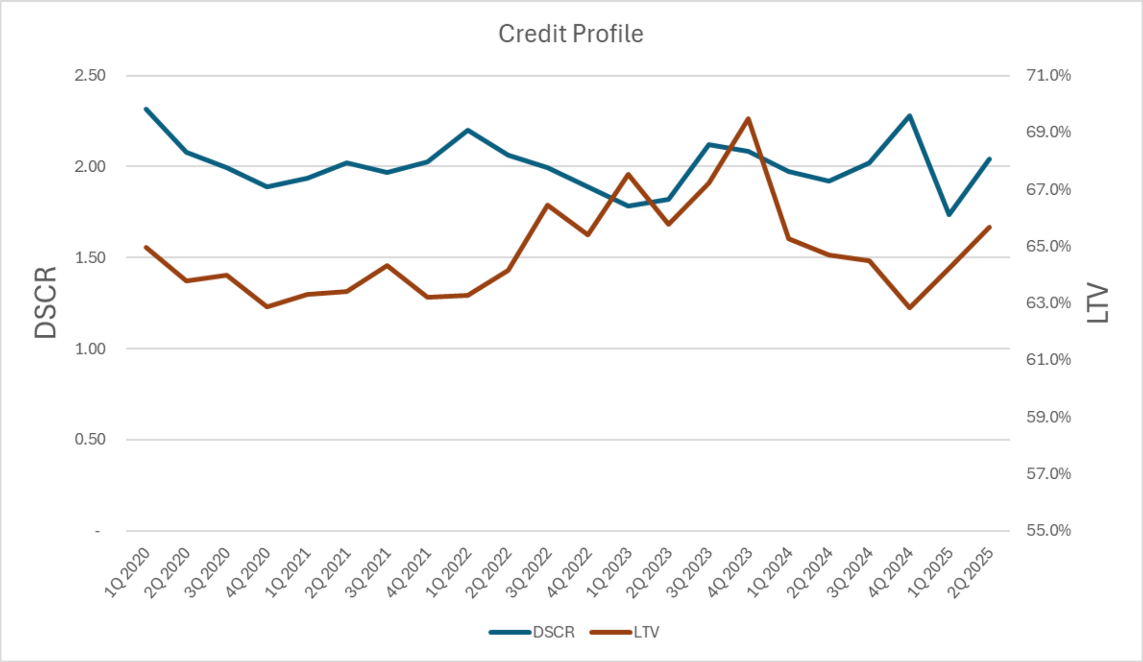
How Hedging Drives Performance

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

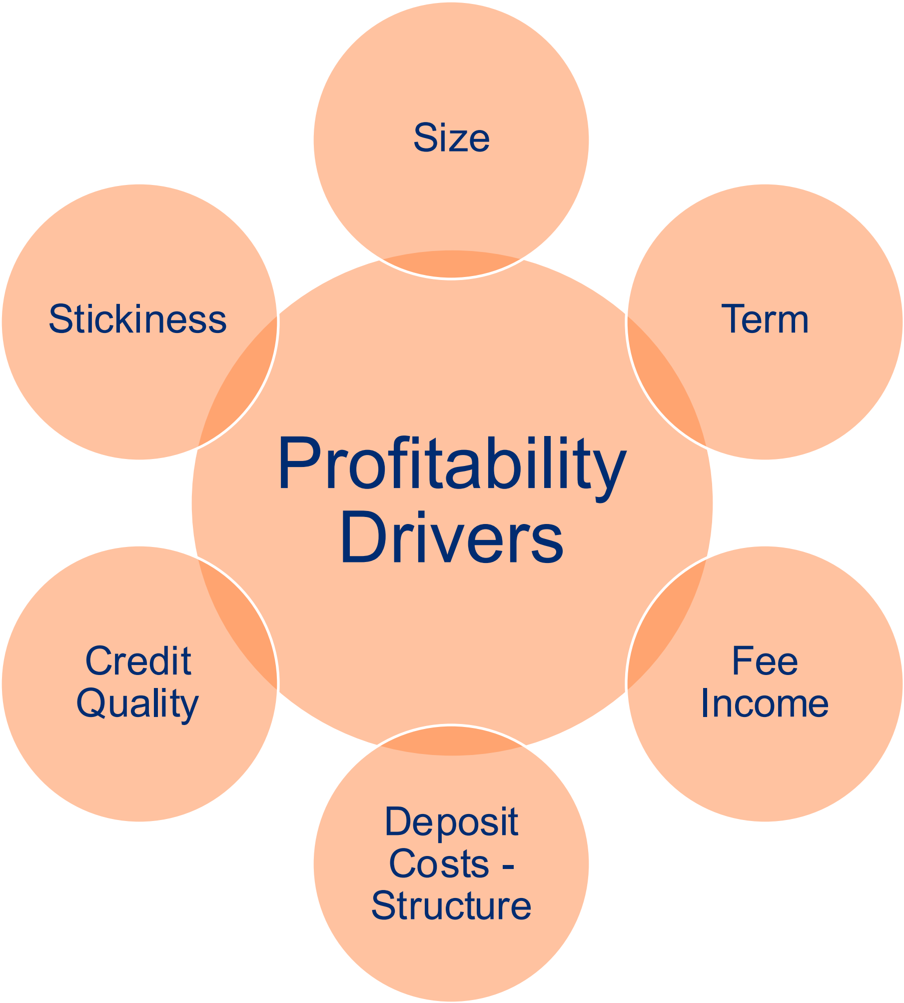


- Avg loan size - $3.05mm ($200k to $26mm)
- Avg credit spread – 2.41%
- Avg am and term – 22yrs and 9.1yrs
- Avg fee income – 1.63% of loan amount
- Avg prepayment speed – 3.2% pa

- Avg LVT – 64.9%
- Avg DSCR – 2.01X

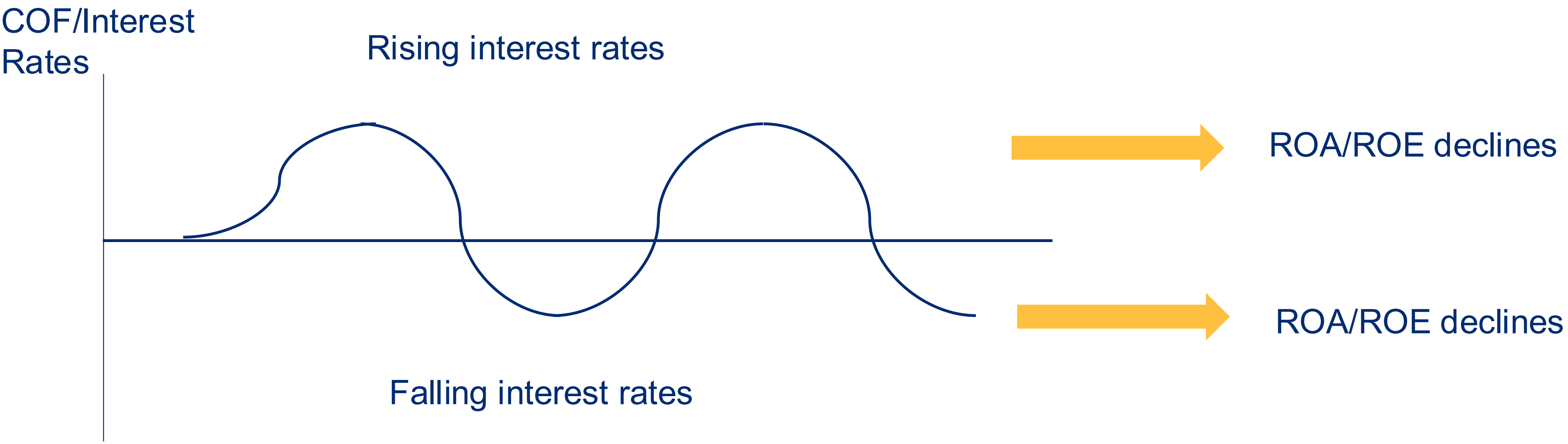


Hedging Benefits

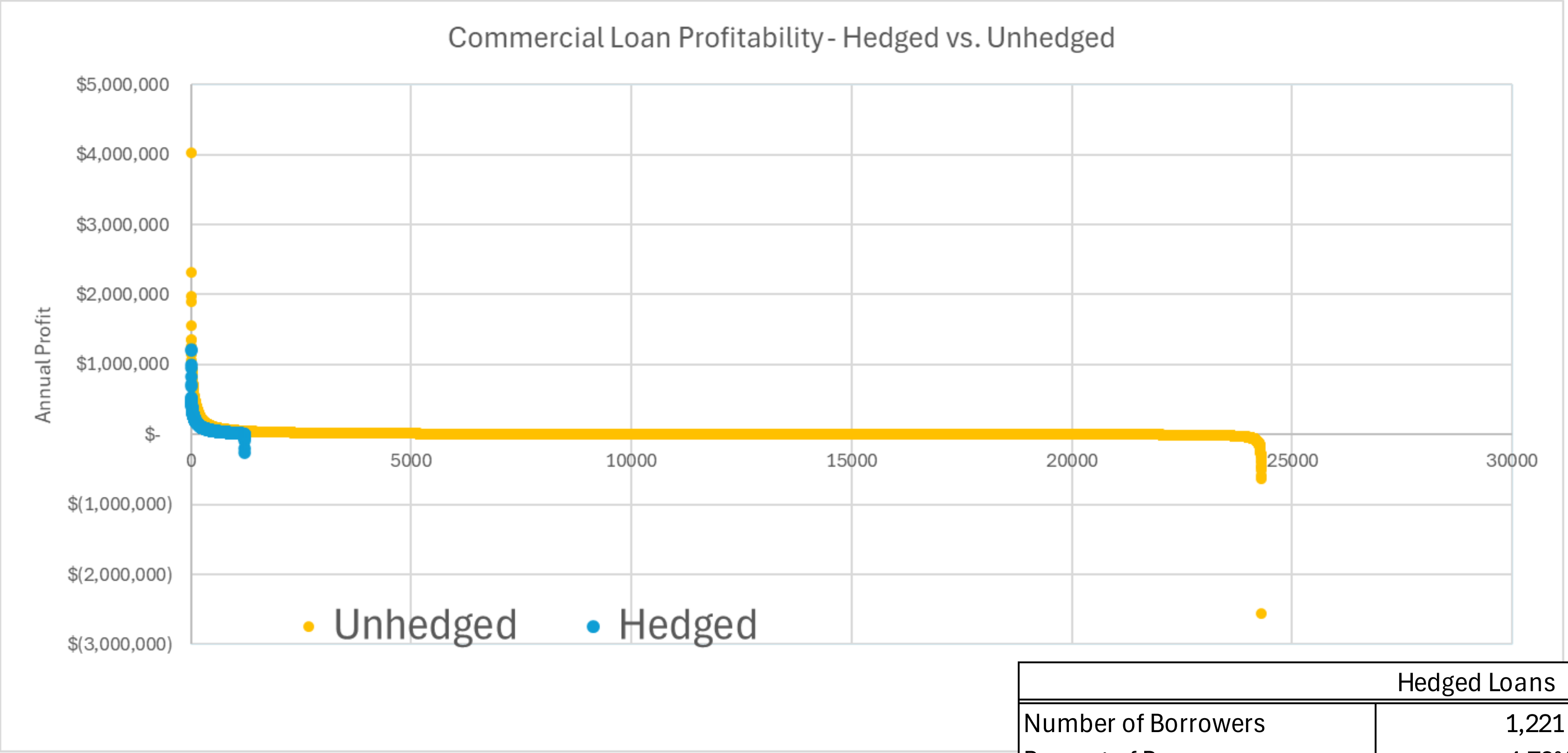


- Done without a hedge?
    - Risk without reward
    - One-way floater
    - Prepay motivated

Risk Without Reward – fixed rate loans



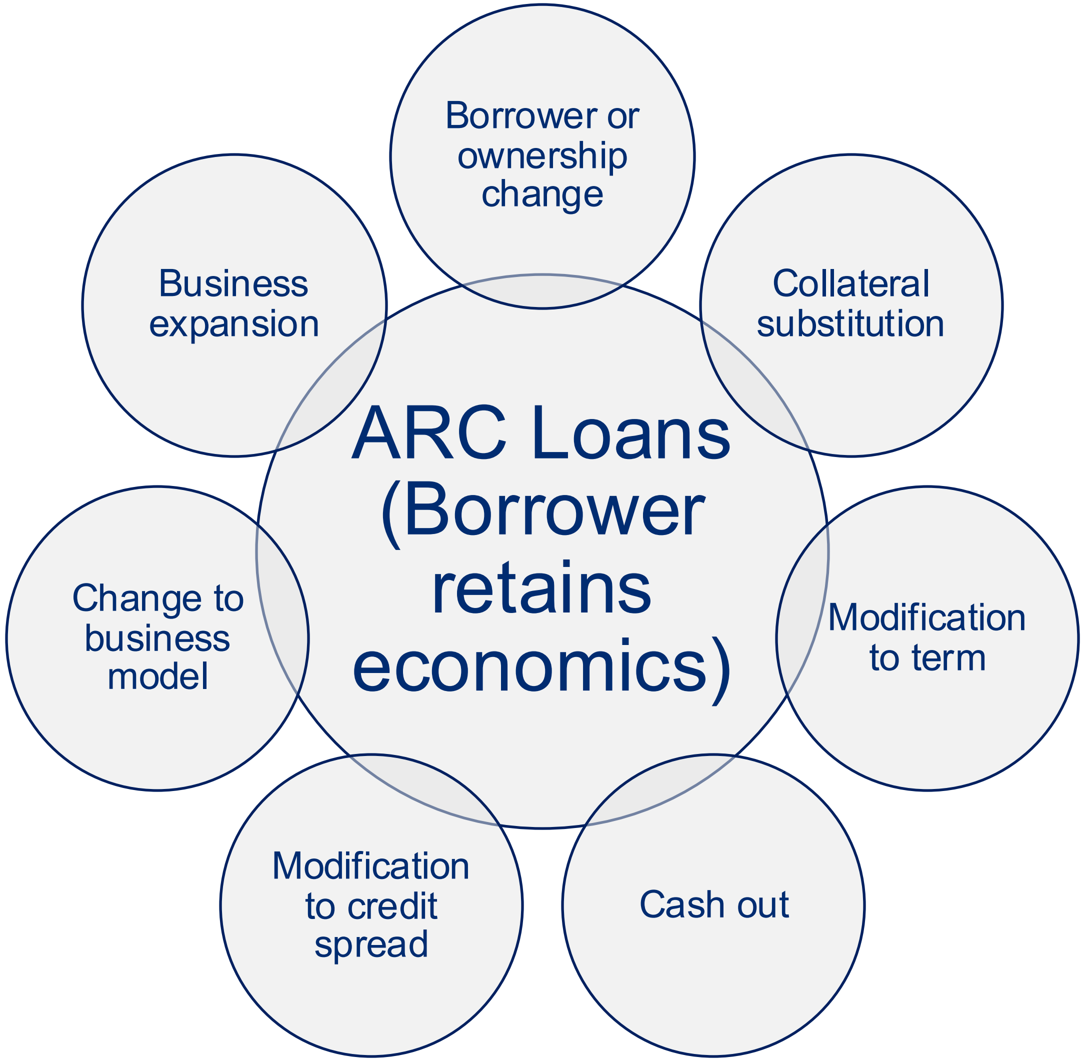
Hedge Profitability Analysis



	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%

Long-term Relationship vs. Transaction

Planned obsolescence vs Relationship



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%

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

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.

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

Who is a good candidate for a commercial hedge?

- 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	Prepayment Hedge Rate vs. Initial Hedge Rate						
	-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

ARC Program vs. Swaps

Your Competitive Advantage

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

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

Thank you!

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Sign up at:

SouthStateCorrespondent.com

Disclaimer

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In addition to any specific risks discussed herein, there are other factors that may influence the performance of an interestrate 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 otherdefined 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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SouthState
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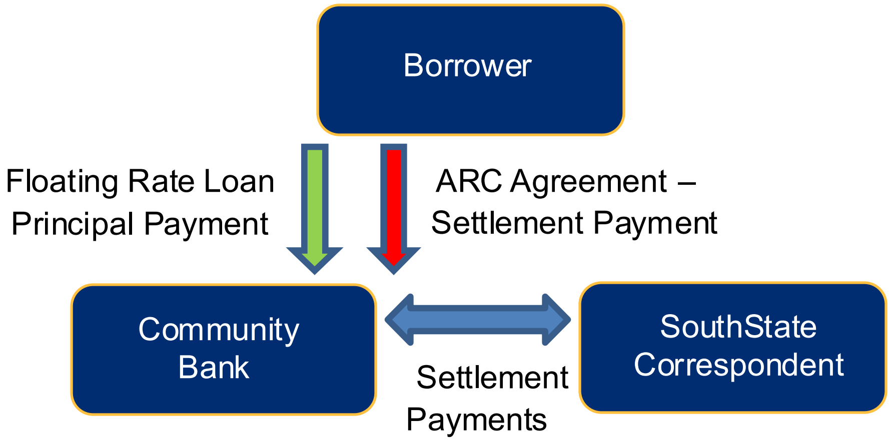
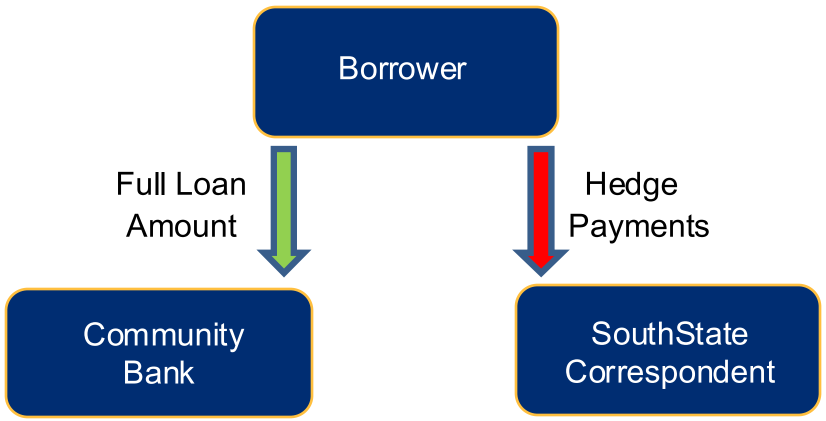
Cash Flow Diagram



Credit Obligations



Document Requirements