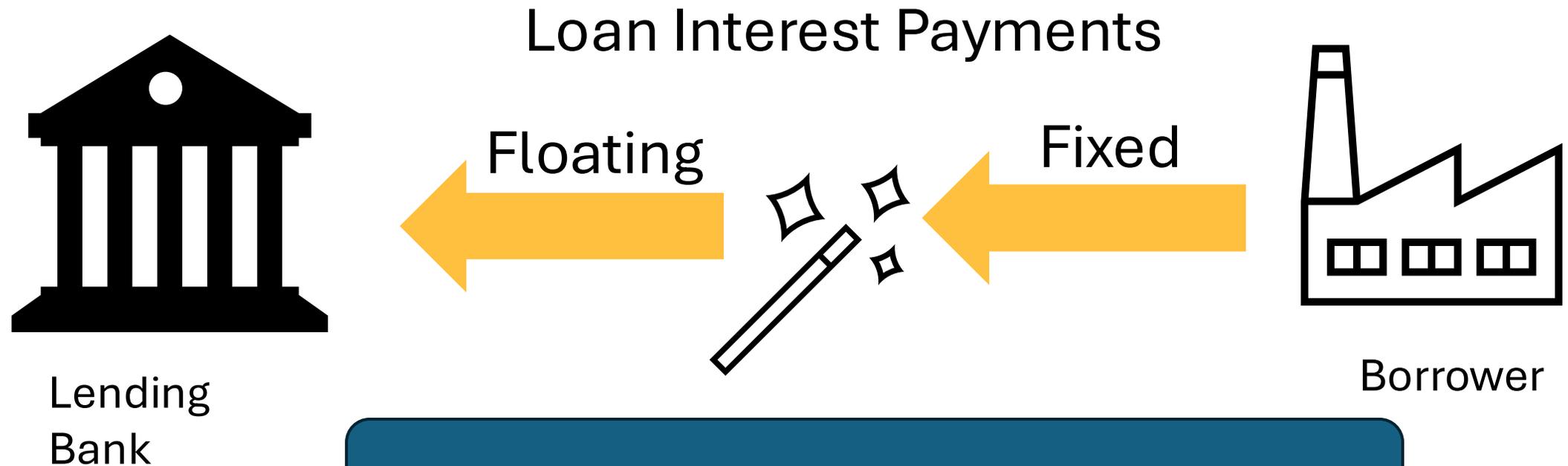


How ARC Drives Performance

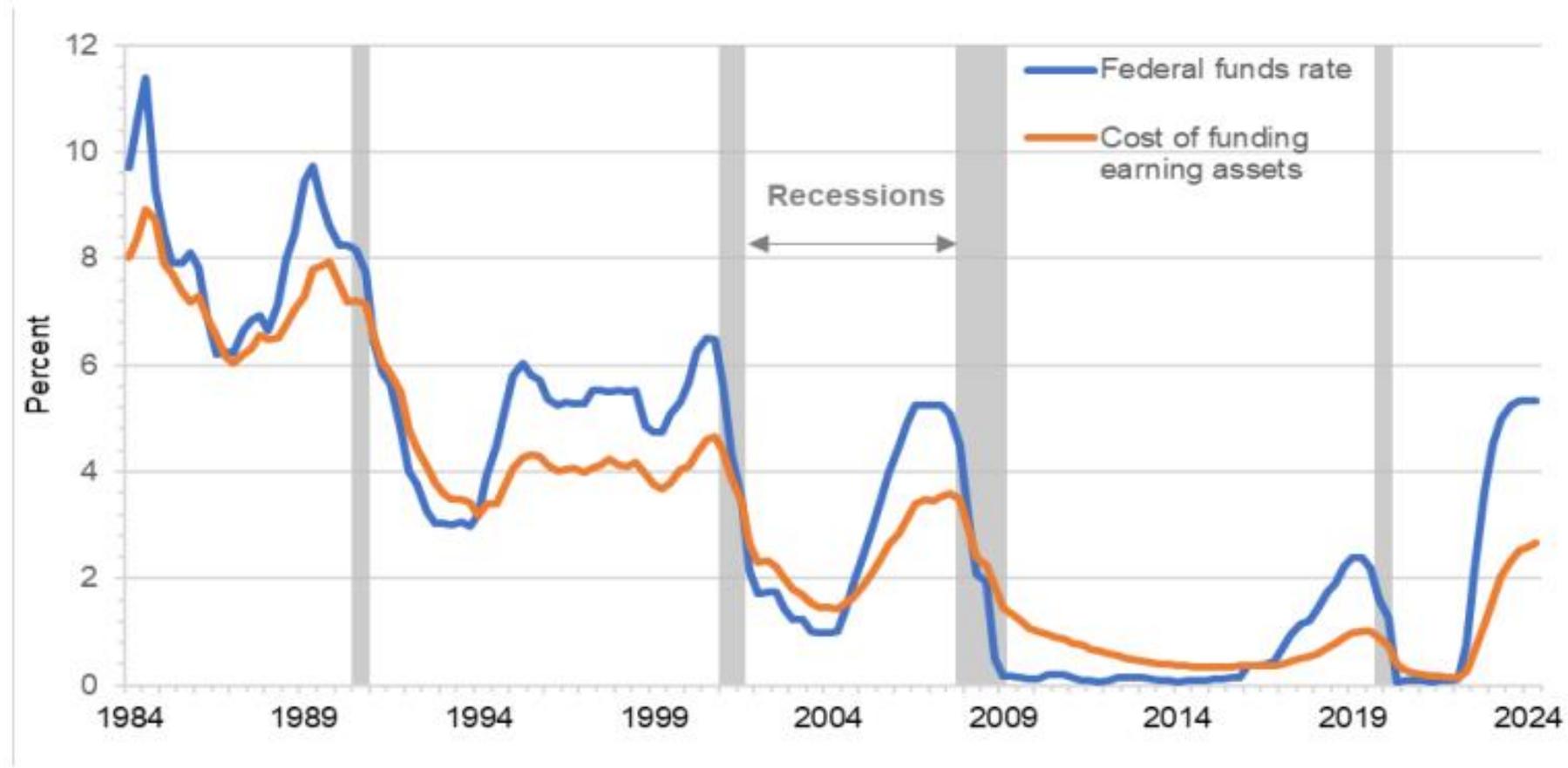


Arc Hedge



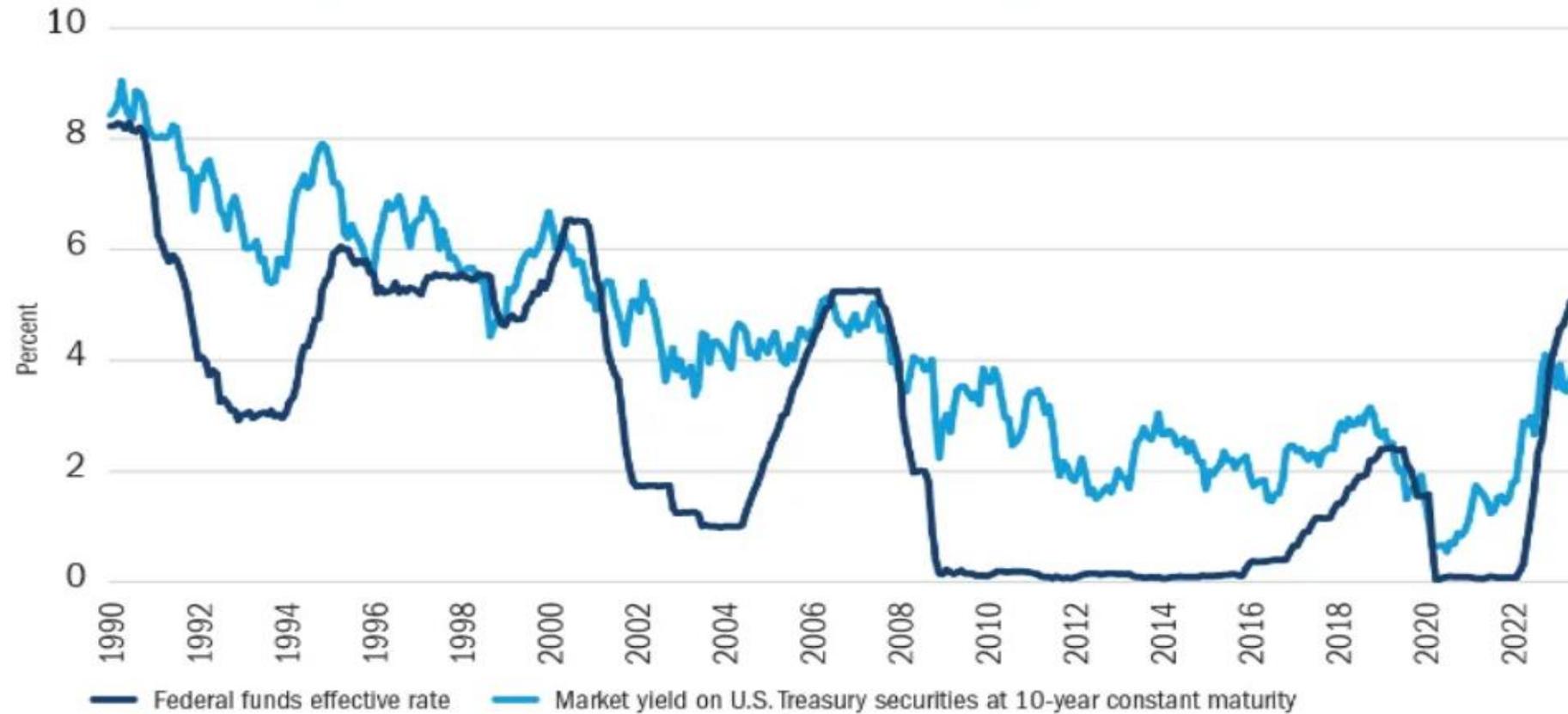
Q: Why should banks prefer floating?

Cost of Funds are Highly Correlated to Short-term Rates (.8634 correlation)



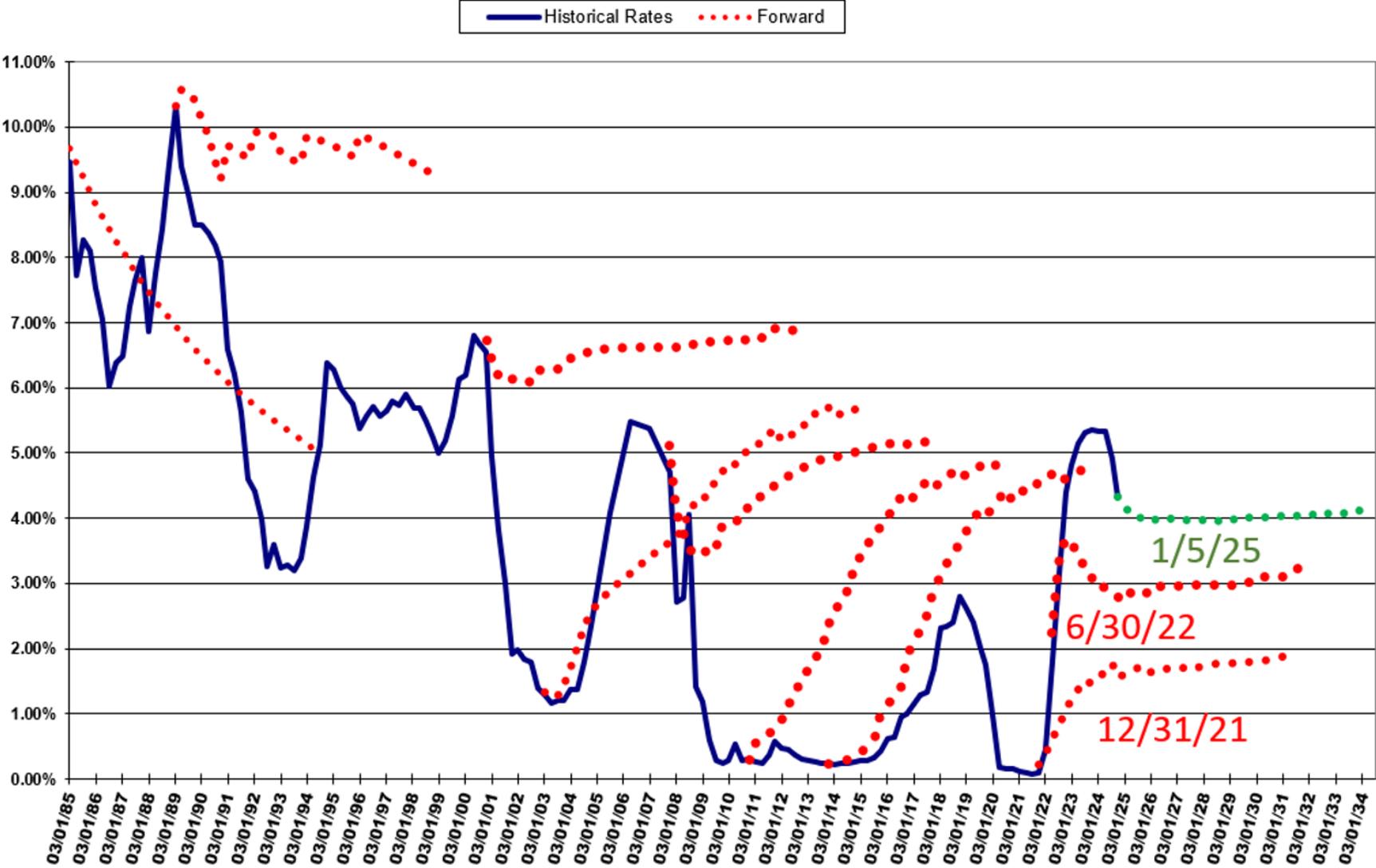
Source: Federal Reserve Board, Haver Analytics

Longer-term Rates are Much Less Correlated to Cost of Funds



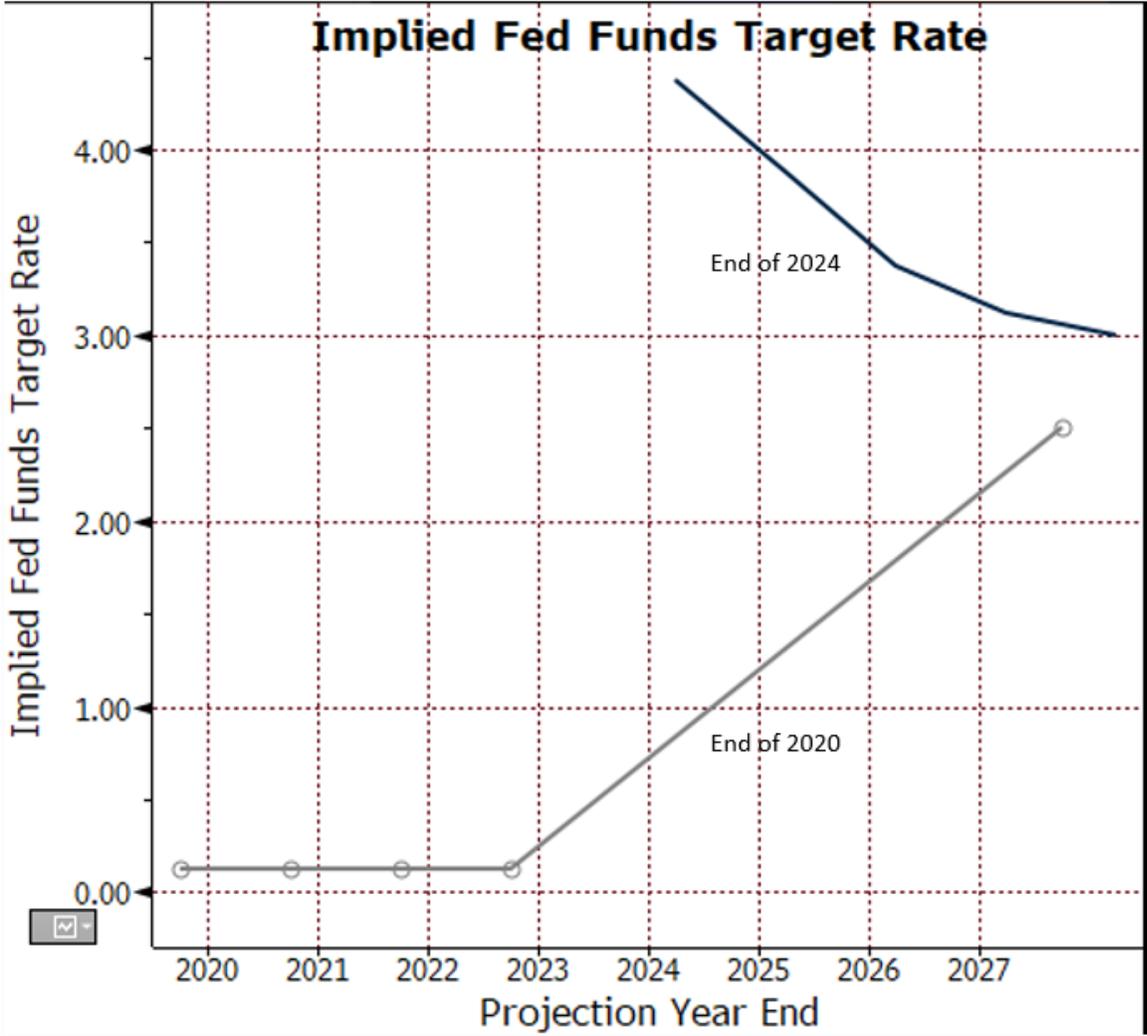
Source: Federal Reserve Bank of St. Louis

Predicting Future Rates





Fed Track Record

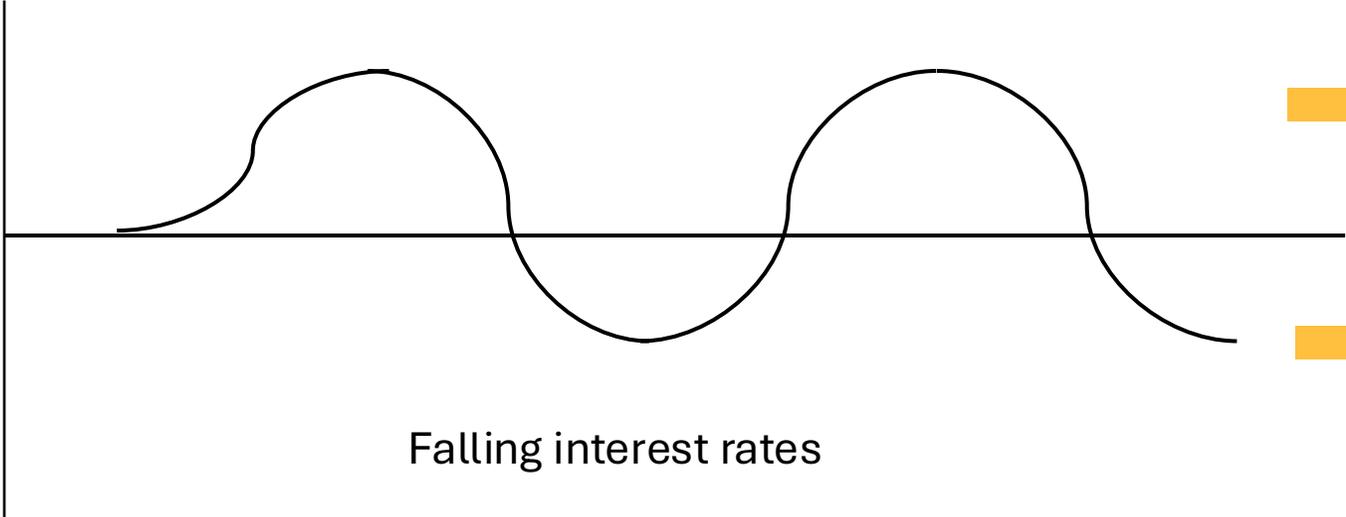


Risk Without Reward – Fixed Rate Loans



COF/Interest Rates

Rising interest rates



ROA/ROE declines

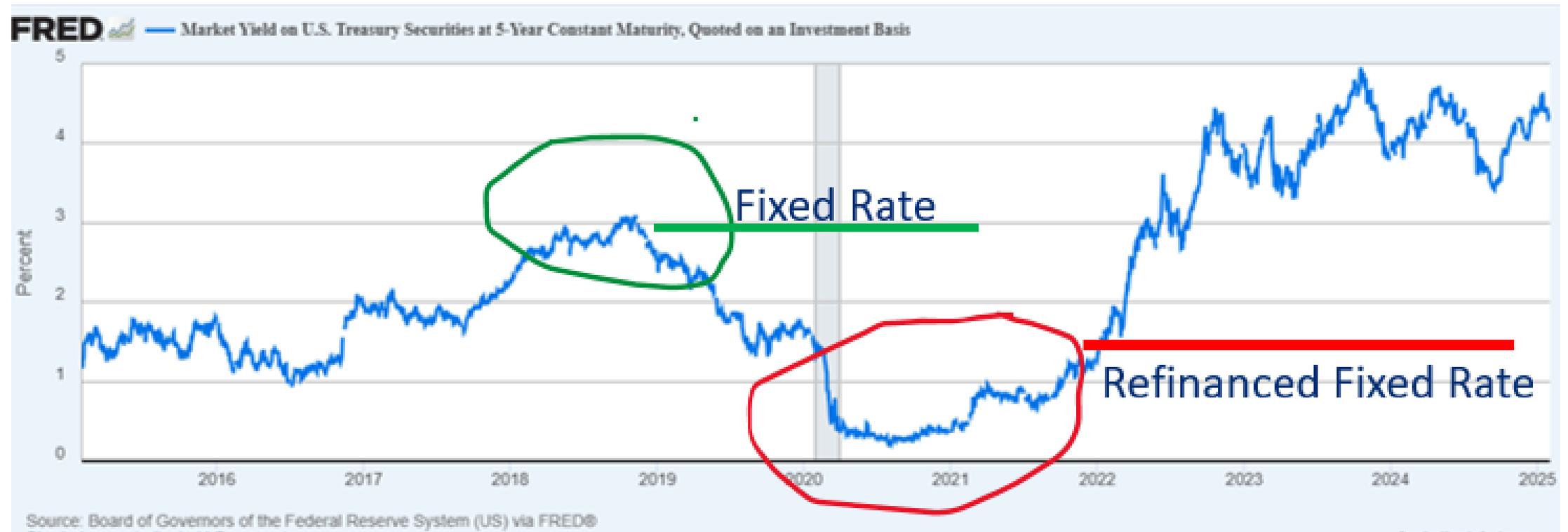


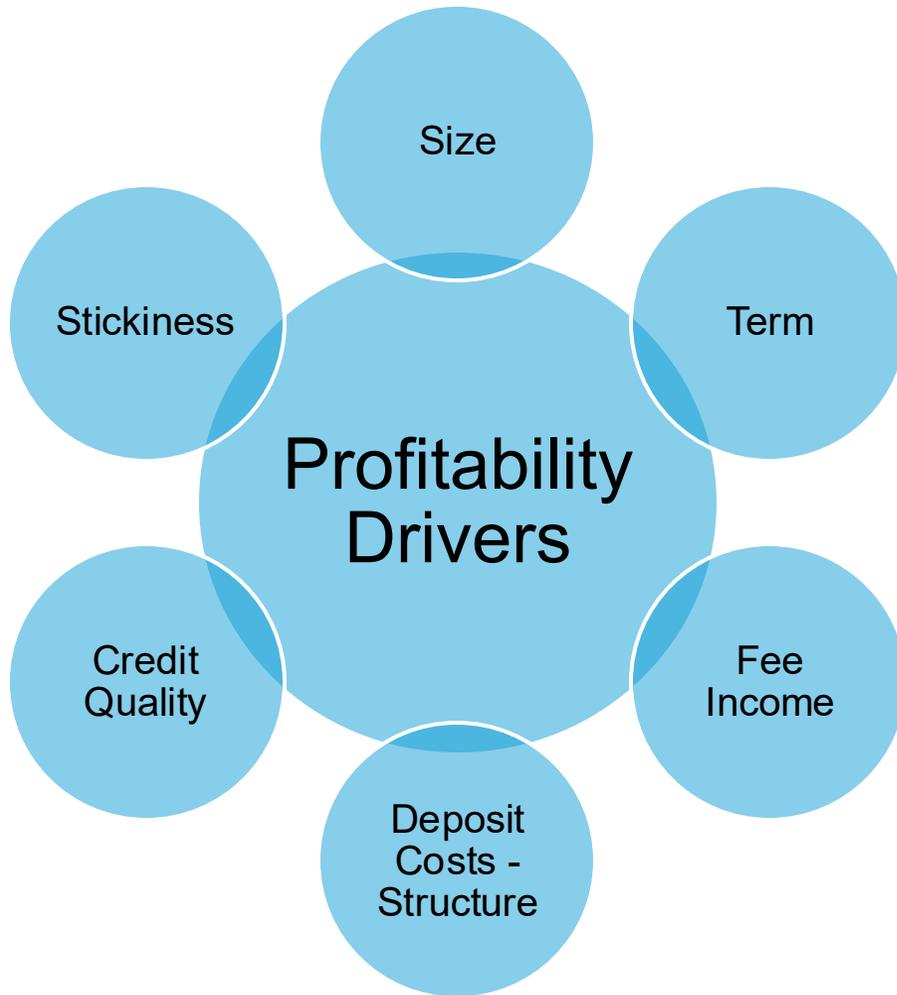
ROA/ROE declines

Falling interest rates



The “One-way Floater” Trap





CRE Borrowers = High Value Relationships, Yet Community Banks Often Miss the Chance to Capitalize

- ✓ Long term horizon
- ✓ Predictable revenue streams
- ✓ Doesn't want to manage multiple relationships
- ✓ Wants to grow
- ✓ Flexibility to change collateral



Current ARC Hedged Loan Pricing

SOFR + 2.00% Plus 25 bp hedge fee (2.25% "all-in")

Current Borrower Fixed Rates

5y/25yam	5.78%
10y/25yam	6.04%
20y/25yam	6.33%

First Year Yield to Lender @SOFR +2% +25 bp hedge fee

5y/25yam	6.89%
10y/25yam	7.57%
20y/25yam	8.10%

Assumes SOFR @3.85%

Pricing and Hedge Fees



ARC Pricing:

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

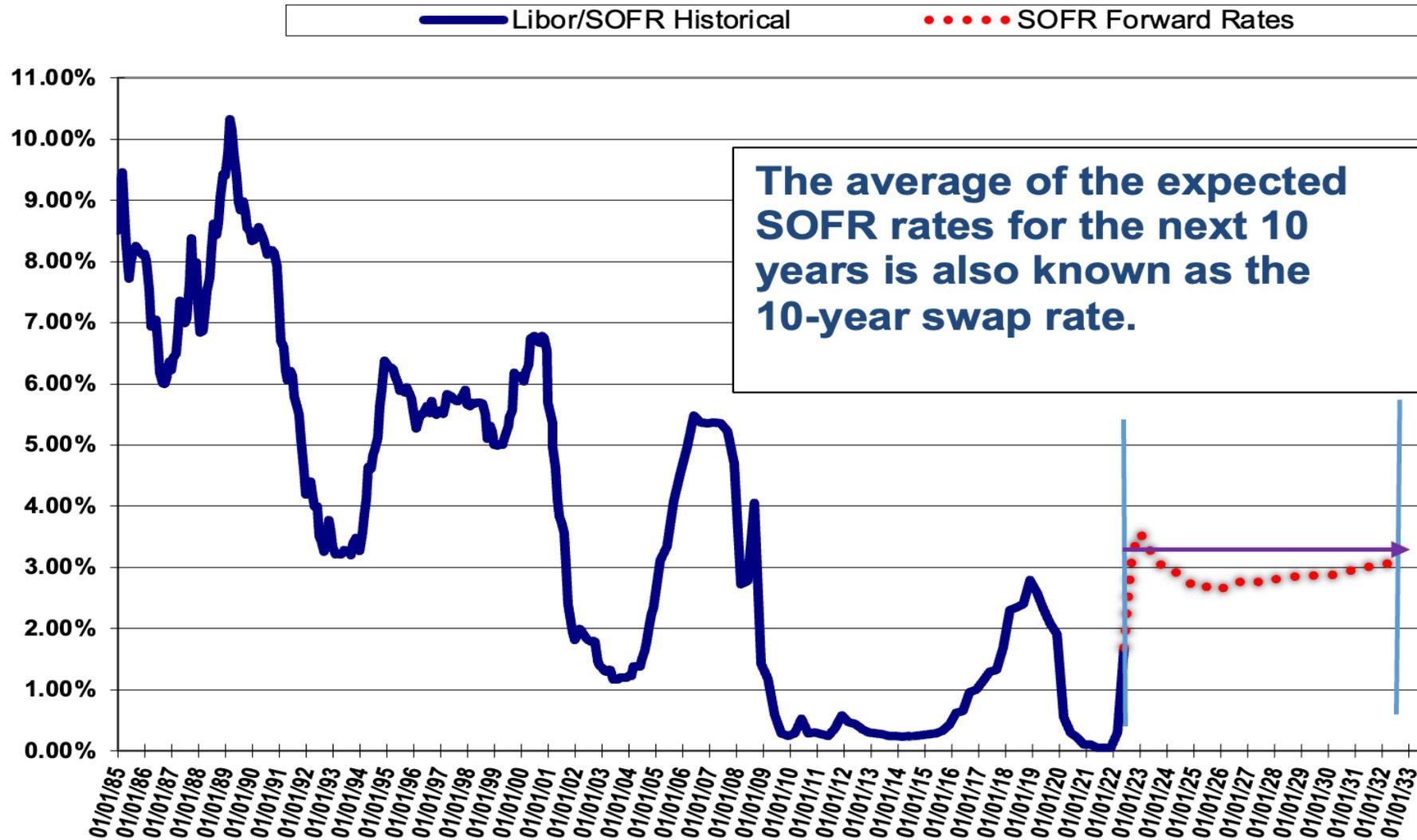
- Realized upfront, no clawback
- Realized if loan prepays
- Pricing power for lender
- High value in inflationary environment
- Provides flexibility to waive other fees and borrower out-of-pocket costs

Amort.	Maturity										
	3yr	4yr	5yr	6yr	7yr	8yr	9yr	10yr	12yr	15yr	20yr
3yr	3.72%	-	-	-	-	-	-	-	-	-	-
5yr	3.63%	3.62%	3.62%	-	-	-	-	-	-	-	-
7yr	3.61%	3.59%	3.61%	3.61%	3.61%	-	-	-	-	-	-
10yr	3.59%	3.58%	3.60%	3.61%	3.64%	3.67%	3.69%	3.69%	-	-	-
15yr	3.58%	3.57%	3.57%	3.61%	3.64%	3.68%	3.72%	3.75%	3.81%	3.85%	-
20yr	3.57%	3.56%	3.56%	3.60%	3.64%	3.68%	3.73%	3.77%	3.86%	3.94%	3.99%
25yr	3.57%	3.55%	3.56%	3.60%	3.64%	3.68%	3.74%	3.78%	3.88%	3.98%	4.05%
30yr	3.57%	3.69%	3.56%	3.59%	3.65%	3.68%	3.74%	3.80%	3.89%	4.00%	4.08%

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

Hedge Pricing





More Hedge Transactions = More Fee Income

Fee Calculator

Basis points fee	0.25%	Input	% of loan amount	1.71%
Initial balance:	\$ 5,000,000			
Amortization Term (yrs):	25			
Commitment Term:	10			
Initial Hedge Rate:	3.70%			
Fixed Rate to Borrower:	6.20%			
Starting Date:	10/20/25			
Approximate ARC Referral Fee:	85,719	Output		

- ✓ Hedge Fees are the present value of additional basis points built into the hedge rate
- ✓ Can be recognized in current income (with ARC)
- ✓ Up-front fee provides significant first year yield boost
- ✓ **\$5mm 10y/25yam w 25 bp hedge fee closed each month adds over \$1,000,000 added to bottom line!**

Prepayment Provision



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 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.

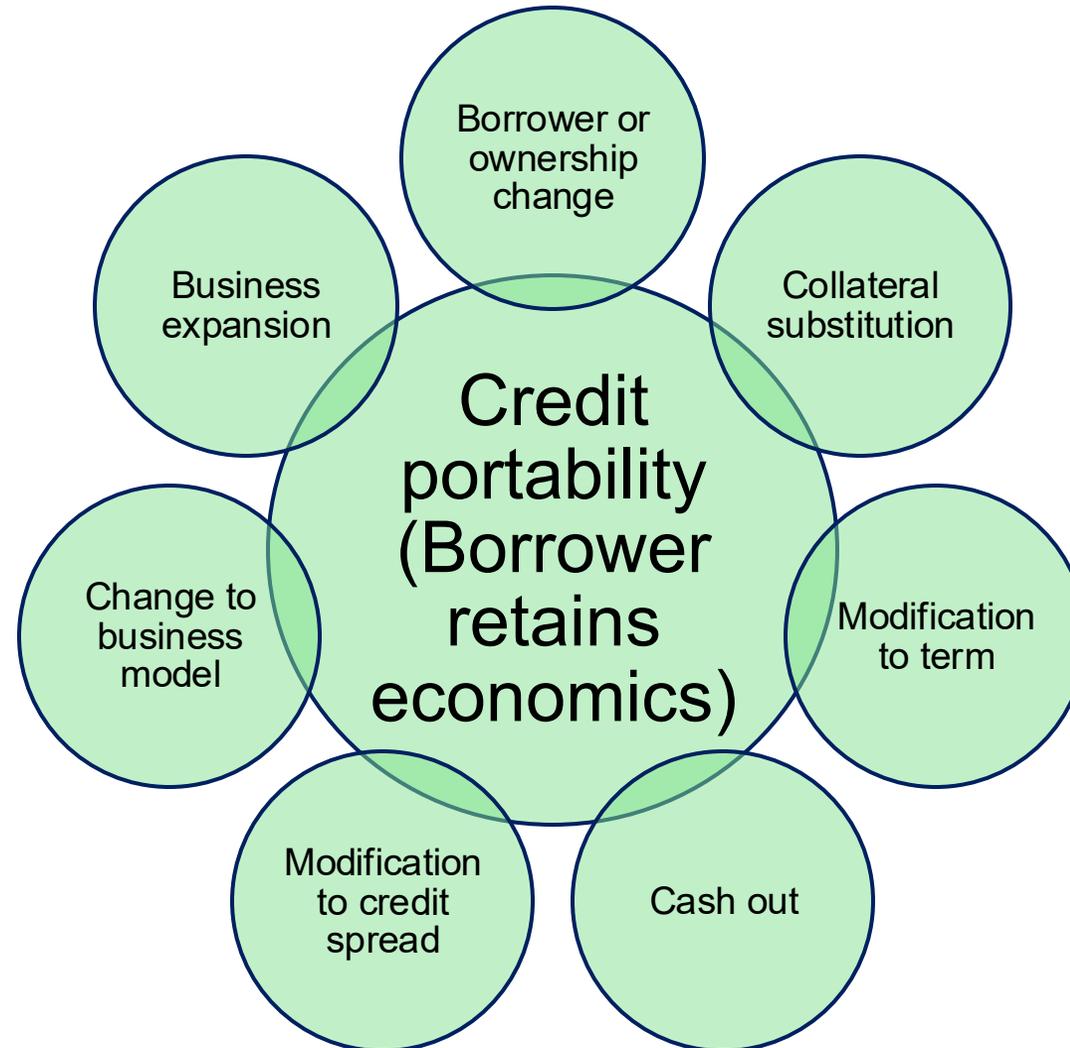
Initial Hedge Rate: 3.770%
 Loan Spread: 2.000%
 All-in Fixed Rate: 5.770%

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

Long-term Relationship vs. Transaction



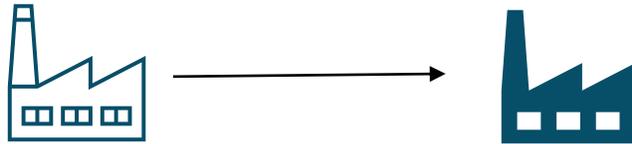
Planned obsolescence vs credit portability



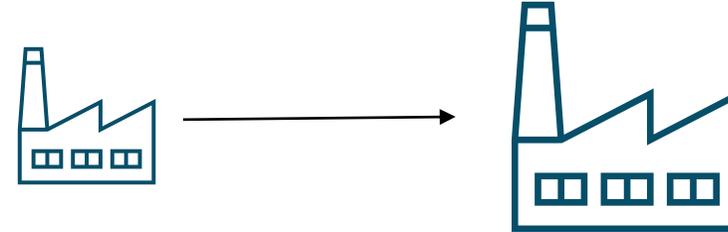
Relationship vs. Transaction (stickiness)



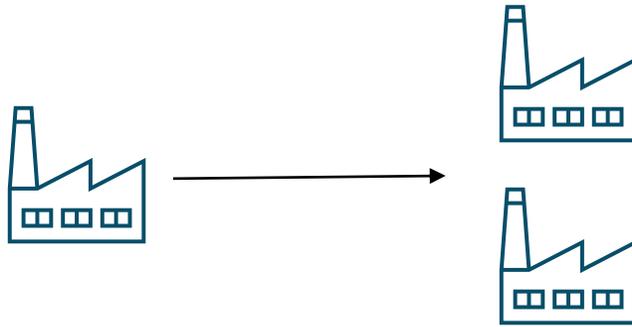
Balance sheet vs. project finance



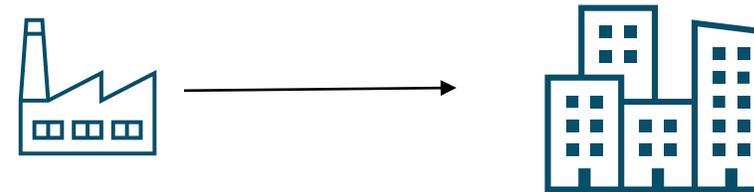
Change in collateral asset



Expansion in collateral asset



Addition in collateral asset



Change in business model

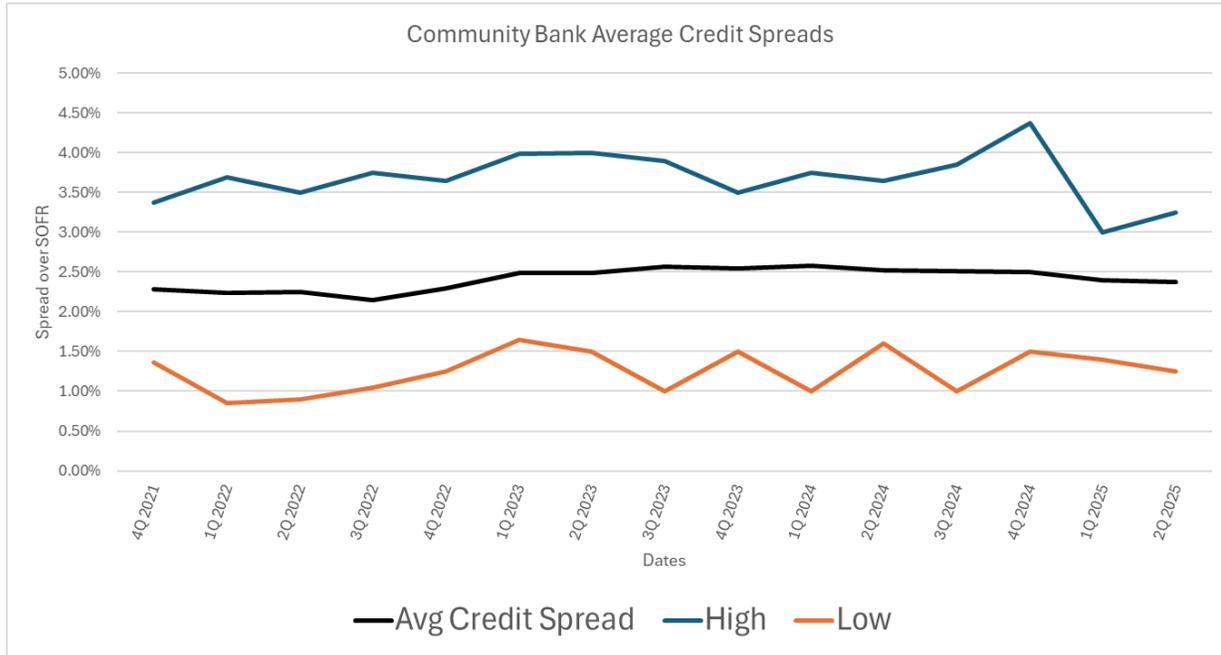
Results



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

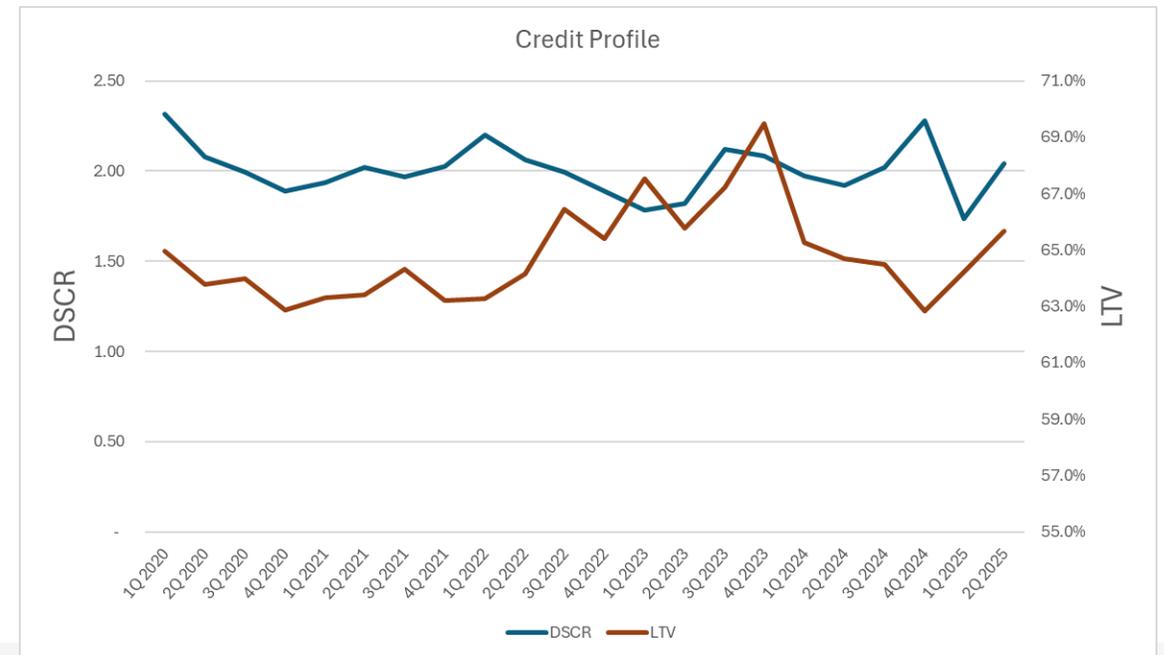


ARC Program - Spread, Size, Term, Fees, Credit Quality



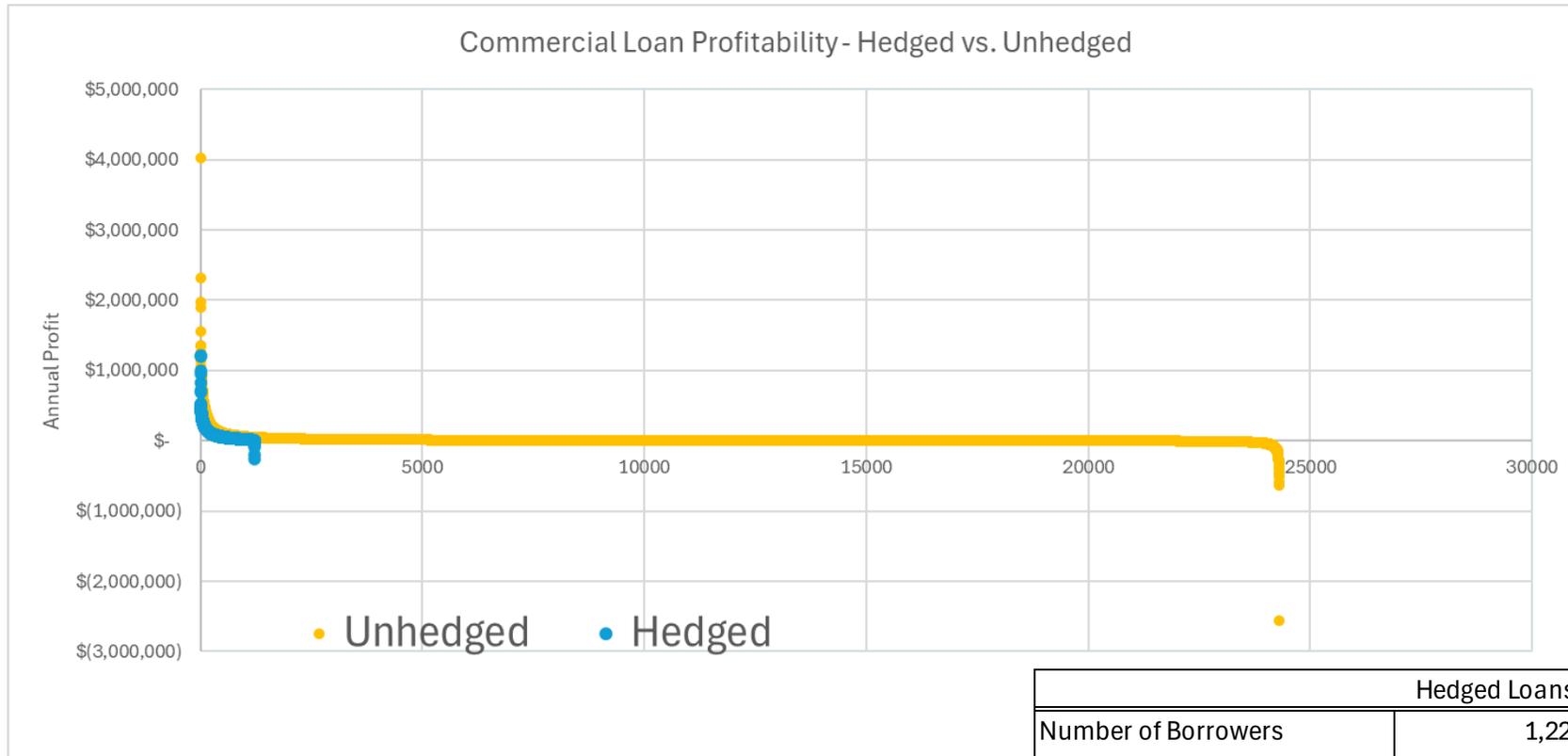
- Avg loan size - \$3.05mm (\$200k to \$26mm)
- Avg credit spread – 2.41%
- Avg am and term – 22yrs and 9.1yrs
- Avg fee income – 1.63% of loan amount
- Avg prepayment speed – 3.2% pa

- Avg LVT – 64.9%
- Avg DSCR – 2.01X





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%



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.

Questions?





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.

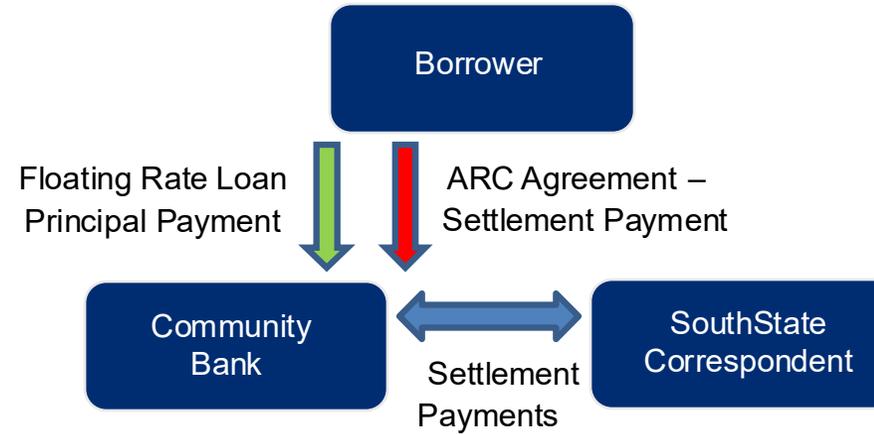


Steps For Closing an ARC Transaction:

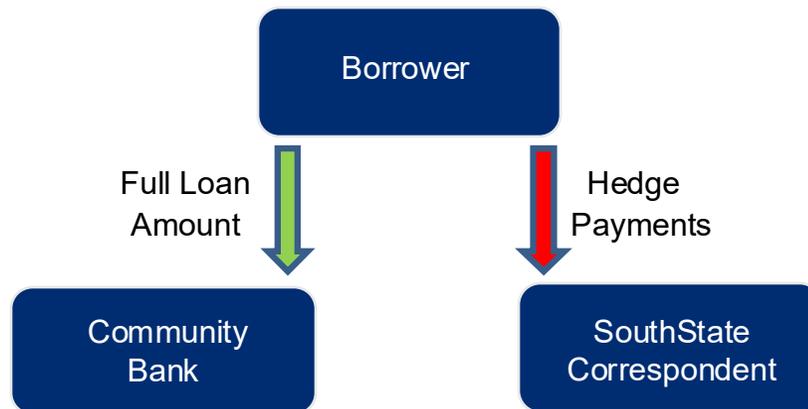
1. Contact ARC team early to discuss market conditions and request a borrower presentation.
2. If desired, schedule a call or meeting with lender, borrower and SouthState ARC specialist to answer questions and describe advantages.
3. Email credit memo and appraisal for ARC hedge approval (two business 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.



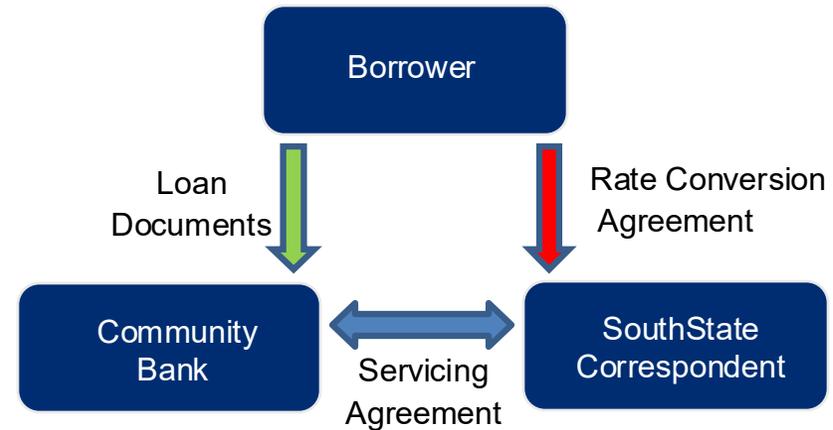
Cash Flow Diagram



Credit Obligations



Document Requirements



Thank you!

Want more ideas and data?

Sign up at:

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.