The Assumable Rate Conversion ("ARC") Program

Your Fixed Rate Loan, Our Interest Rate Risk

Loan Structuring Strategies

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Lender Training Discussion Topics

- Why use ARC?
- Pricing and structuring
- Prepayment Provision- Positioning for borrower value
- Applications and advantages
- How to get started

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Offering Long-Term Fixed Rates Isn't Easy...
That's Why We Created ARC!

Through ARC, lenders may offer long-term fixed rate loans while eliminating interest rate risk to the bank, all without carrying a derivative. However, the benefits offer far more strategic value than simply minimizing risk:

Help Borrowers But Protect The Bank

Differentiate From Competitors

Provide Better Service

Develop A Relationship

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.

A+B=C

- Bank earns (floating) ➡ Floating Index (CME 1M SOFR, found here) + **Your bank's credit spread**
- Borrower pays (fixed) ➡ Swap Rate (Provided at final closing by ARC) + **Your bank's credit spread**
- Rates can be locked at closing, in advance, or via a forward rate lock.
- Indicative rates can be priced by using the "ARC Pricing Quote" daily email, online pricing app, or by contacting the ARC desk.

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%

"ARC Pricing Quote" Example

Your Bank will Earn

- Variable Index **plus** your credit spread (e.g. 1M Term SOFR+ 4.00%)
- Your origination or document fees
- ARC Hedge Fee (up to 25 basis points of the interest earned over the life of the loan)

- Your Hedge Fee will be realized at the inception of the loan without amortization and without clawback as the NPV of your chosen hedge spread (max 25 bp) of interest over the life of the loan structure.

- Example- $10MM loan, 25 year am, 10-year term, 6% fixed rate to borrower, 25 basis point fee results in a hedge fee generated to your bank of appx. $235k, or 2.35% of the loan amount up front.

- Hedge fee quotes for specific structures can be given indicatively by contacting the ARC desk. Fee calculator available as well upon request.

Example Hedge Fee Calculation

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

- Realizing Hedge Fee income allows your bank greater competitive flexibility in competing for deals.

- Hedge Fee income allows your bank to offer no cost closings and target new market segments.

1. Symmetrical Yield Maintenance follows a simple formula based on: a) the term left in the loan, and b) the interest rate movement from the time the hedge rate was established at closing to a prepayment event.

2. The fee is the present value of the difference between the starting and ending hedge rate, multiplied by the loan amount for the remaining term of the loan.

3. The prepayment provision is invoked if the borrower prepays or terminates the loan. The borrower collects a fee if rates are higher, but pays a fee if rates are lower.

4. Indicative termination amounts can be quoted by contacting the ARC desk and can be calculated using a simple spreadsheet. The prepayment provision is defined in the Rate Conversion Agreement, and a prepay scenario table (like the one on this page) will be included in each borrower presentation and in the signed ARC Agreement.

5. The prepayment provision aligns with the borrower's view on rates (if borrower believes rates will rise, the provision is an advantage) and can align with borrowers business outlook. Borrower is given an option on the term that best suits their business needs.

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

- Take Advantage of the Yield Curve
- Recognize a New Source of Fee Income
- Offer Construction-Through-Perm
- Offer what ISDA Swaps can't:
  - Portability
  - Assumability/Assignability
  - Prepayment benefit
  - Blend and Extend
- Differentiate from the Competition
- Protect Existing Relationships
- Hedge Existing Loans
- Forward Rate Locks

How to get started with ARC

1. Contact the ARC team early to request a borrower presentation
2. Email credit memo for formal ARC hedge approval (2 days)
3. Provide draft loan documents for ARC review (immediate)
4. ARC will send a draft Rate Conversion Agreement
5. Establish a signing appointment with borrower and notify ARC
6. Approximately 30 minutes prior to signing, ARC will email the final Rate Conversion Agreement for execution
7. Immediately after signing, email all executed documents to the ARC team by 4:00PM ET
8. After borrower signing, ARC will send a Transaction Supplement to the ARC Master Servicing Agreement for bank execution

ARC is a relationship building product. Help your borrowers by taking advantage of unique market conditions and ARC's expansive product options to meet their needs and stand out against the competition!

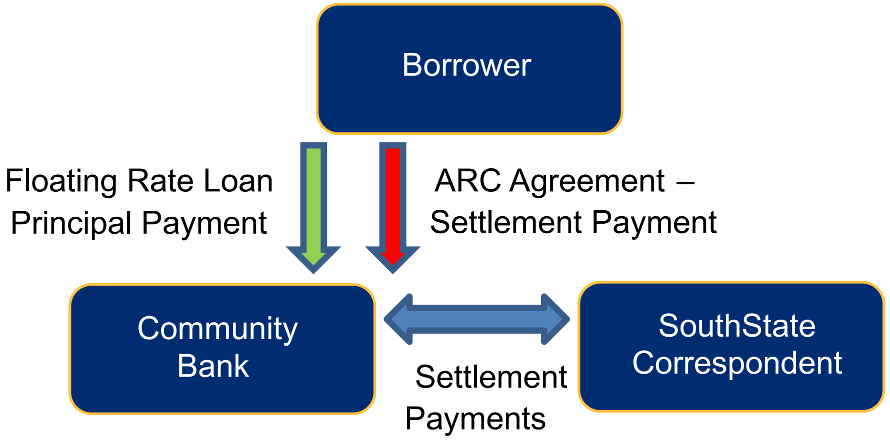
Resources available to your bank include, but are not limited to:

- Specialist support for current or prospective ARC deals- available to talk with borrowers in person or via phone.
- Marketing materials (Borrower Presentation and more)
- Accommodation of unique structures via ARC- pitch us your deal, we can help you help your borrower.
- Support for booked ARC loans- Specialists can facilitate ongoing and future needs for your borrower's business through our various ARC hedge options.

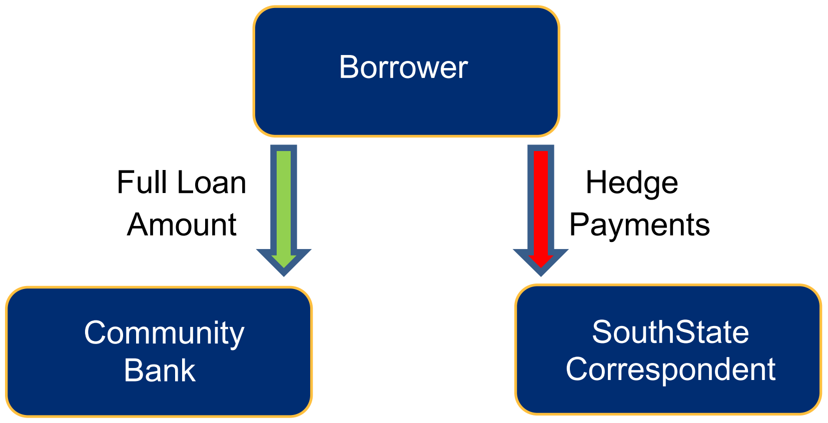
For More Information,
Contact Us At:

ARC@southstatebank.com or Call 800-481-2443

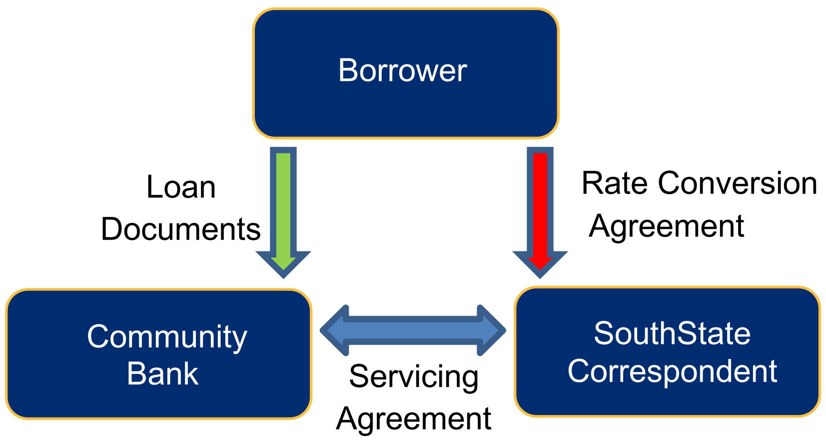
Cash Flow Diagram



Credit Obligations



Document Requirements



Disclaimer

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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