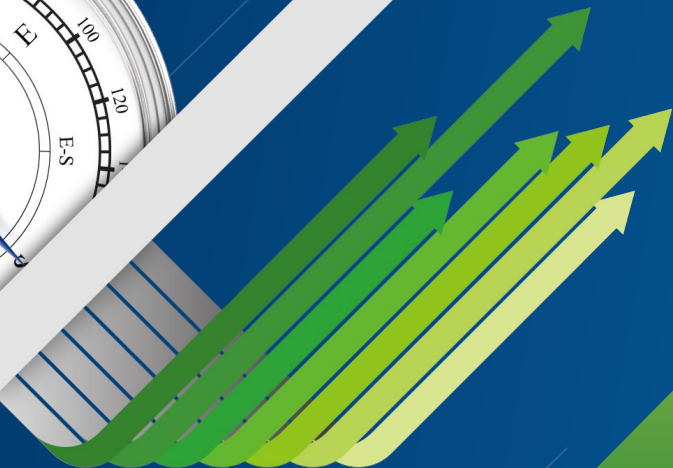




Cannabis Banking – What C-Suite and Board Members Need to Know for 2022

October 20, 2021



Today's Presenters

Expertise in financial services, program development and regulatory oversight.



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What is Green Check?

A complete solutions for banking cannabis

We offer **purpose-built software**, combined with **expert advisory services** and a rich **partner ecosystem** to deliver fully compliant, efficient and profitable cannabis banking programs.



What to know about Cannabis Banking in 2022

1: Strategic Planning for 2022

- Key factors you should consider when discussing this topic in a board meeting, and anticipating the questions that may be asked
- The market opportunity for 2022 and beyond
- Uncovering the true value of a cannabis line of business beyond deposits and fee income
- Why more institutions are lending to cannabis businesses and how they are doing it responsibly

2: Legal and Regulatory Update

- presented by Nelson Mullins

3: Case Study

- Building the case
- Engaging a partner
- Marketing strategy

Strategic Planning for 2022

What's going to happen in Washington?

It is unlikely that the SAFE Banking Act will pass

- The SAFE Banking Act has stalled in the Senate Banking Committee
 - Sherrod Brown (D-OH): "This committee's been too much about Wall Street and not enough about housing, not enough about rural and urban affairs and people's everyday economic lives, and that's my focus [...] We're not ready to move on it."
- Senate leadership is focused on the Cannabis Administration and Opportunity Act
 - Cory Booker (D-NJ): "I will lay myself down to do everything I can to stop an easy banking bill [...] as opposed to focusing on the restorative justice aspects."

The future of the Cannabis Administration and Opportunity Act is unclear - we don't even have a final draft of the bill yet

What's the market opportunity going to be in 2022?

Legalization will be on the ballot in:

- Arkansas (Adult)
- Florida (Adult)
- Idaho (Medical)
- Mississippi (Medical)
- Nebraska (Medical)
- North Dakota (Adult)
- Ohio (Adult)
- Oklahoma (Adult)
- Wyoming (Medical)

Marijuana licensing and sales will begin in states that legalized or expanded their programs in 2021:

- New York
- New Jersey
- Connecticut
- New Mexico
- Alabama

Are we going to lose customers if we start banking cannabis?

Financial institutions risk losing valuable customers in 2022 if they do not establish cannabis banking programs

- A midwestern bank was approached by a member of a prominent farming family that had decided to start growing marijuana. They were upfront about their plans and made it clear that, despite a multi-generational relationship with the bank, they were prepared to go elsewhere if necessary.
- A major customer at a southern bank decided to pivot from growing flowers in their greenhouses to marijuana, and the bank decided to release their marijuana restrictions only after they lost a good part of their customer's business to a cannabis-friendly competing financial institution.

Case Study

What did their cannabis banking journey look like?



Discussing alignment with strategic goals

1 Accommodate

- Support a small number of known clients
- No growth plans
- Less than 10 MRBs

2 Pursue

- Actively seek deposits and/or fee revenue
- Moderate size program with focus on commercial services
- 10-100 MRBs

3 Innovate

- Strategic line of business
- Maximize opportunity
- Lending, Insurance, Wealth Management
- 100+ MRBs

Modeling a cannabis banking program

Risk assessment model – comprehensive analysis of your institution's current control environment, what controls are needed to bank the cannabis industry, and determining what gaps exist

Financial model – multi-year proforma that analyzes the impact of incoming deposits to the balance sheet, anticipated fee revenue, expenses, investment opportunity and exit strategy factors

Operations model – building the infrastructure to support onboarding, cash handling, deposit reconciliation, ongoing monitoring, additional filing workload, enhanced scrutiny of high risk transactions and customer support

Marketing model – discreet or public offering, finding MRBs in your market area, building a successful program that meets your strategic goals

Financial Model considerations

Pace

What are your overall program goals and what pace will you build your program at?

Pricing | Current Market

What is the current pricing in your market? Who are your competitors? Will the market change over time?

Approach

Will you run your program manually? Or will you implement software? How many FTE will you need to be successful? What is the cost of the software?

Lending

What portion of these deposits will be available for lending out? What is the current loan demand? Will you lend directly to MRBs?

SUMMARY OPERATIONAL METRICS:

CRBs Business Accounts	6	30	54	72	84
CRB Employee Retail Accounts	30	150	270	360	420
Market Share	10.5%	35.1%	42.1%	37.4%	29.1%
Deposit's Verified (\$Millions)	23.9	140.0	316.8	469.7	578.4
Cummulative Retained Deposits (\$Millions)	4.8	32.8	96.2	190.1	305.8
Projected Lending (\$Millions)	3.3	22.3	65.4	129.3	207.9

CALL REPORT FINANCIAL METRICS

Without Cannabis
Banking
Current

With Cannabis
Banking
Year 1

Year 2

Year 3

Year 4

Year 5

Financial Institution	Example Financial Institution (NY)							
Call Report Date (FDIC)	(mm/dd/yy)	3/31/21	Annualized					
FI Annual Growth Rate	3.0%	Q1 YTD						
Non-Interest Income	NII (RI-5m)	302,000	1,208,000	1,499,624	2,944,090	5,113,438	6,992,194	8,339,099
Non-Interest Expense	NIE (RI-7e)	2,584,000	10,336,000	10,557,628	11,160,113	11,872,375	12,539,610	13,124,971
Net Income	NI (RI-10)	1,004,000	4,016,000	4,137,438	5,790,052	8,941,742	12,770,632	16,862,126
Average Assets	RCON2170	453,073,000	453,073,000	457,907,473	499,679,659	577,228,027	685,730,336	816,357,083
Average Liabilities	RCON2948	416,872,000	416,872,000	420,148,342	451,788,999	507,904,864	585,181,350	677,600,921
Net Worth/Capital		36,201,000	36,201,000	37,759,131	47,890,660	69,323,163	100,548,986	138,756,162
Net Worth/Capital Ratio			8.0%	8.2%	9.6%	12.0%	14.7%	17.0%
Return on Assets (ROA)	NI / AA		0.886%	0.904%	1.159%	1.549%	1.862%	2.066%
Interest Income	II (RI-1h)	3,827,000	15,308,000	15,359,442	16,234,995	17,996,467	20,682,708	24,083,599
Interest Expense	IE (RI-2e)	130,000	520,000	520,000	535,600	551,668	568,218	585,265
Net Interest Income	Net II		14,788,000	14,839,442	15,699,395	17,444,799	20,114,490	23,498,335
Efficiency Ratio	NIE/(Net II + NII)		64.62%	64.62%	59.86%	52.63%	46.26%	41.22%

INCOME STATEMENT
Revenue:

Account Setup Fees	0.1%	42,000	3,000	12,000	12,000	9,000	6,000
Monthly Account Fees	7.9%	2,490,000	39,000	228,000	516,000	765,000	942,000
Deposit Fees	48.4%	15,289,472	239,474	1,400,000	3,168,421	4,697,368	5,784,210
Lending Interest Earned	41.3%	13,035,161	50,662	463,195	1,745,890	3,939,943	6,835,470
ACH/Wire Transfer Fees	0.6%	186,663	2,838	17,100	38,700	57,375	70,650
Consumer Accounts	1.6%	516,675	8,093	47,310	107,070	158,738	195,465
Revenue	100.0%	31,559,970	343,066	2,167,605	5,588,080	9,627,424	13,833,795

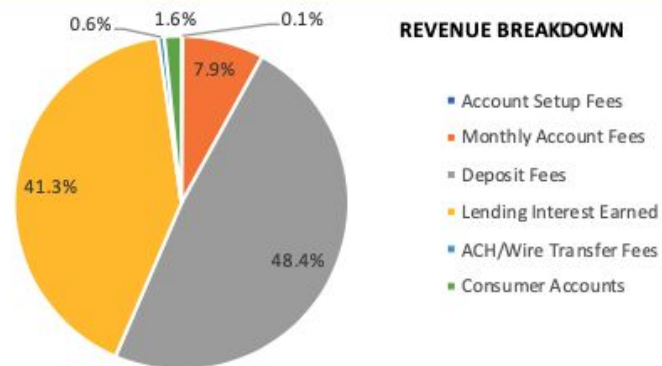
Operating Expenses:

Salaries, Wages & Benefits	3.2%	1,012,844	157,500	198,450	208,373	218,791	229,731
Corporate Overhead		-	-	-	-	-	-
Admin Fees		-	-	-	-	-	-
Marketing	0.1%	27,628	5,000	5,250	5,513	5,788	6,078
Professional		-	-	-	-	-	-
Travel and Entertainment	0.1%	22,103	4,000	4,200	4,410	4,631	4,862
Operating Expenses	3.4%	1,062,575	166,500	207,900	218,295	229,210	240,670
Net Operating Income	96.6%	30,497,395	176,566	1,959,705	5,369,785	9,398,214	13,593,125
Green Check Fee	10.5%	3,316,894	55,128	306,133	688,617	1,015,974	1,251,042
Net Income	86.1%	27,180,500	121,438	1,653,572	4,681,168	8,382,240	12,342,083

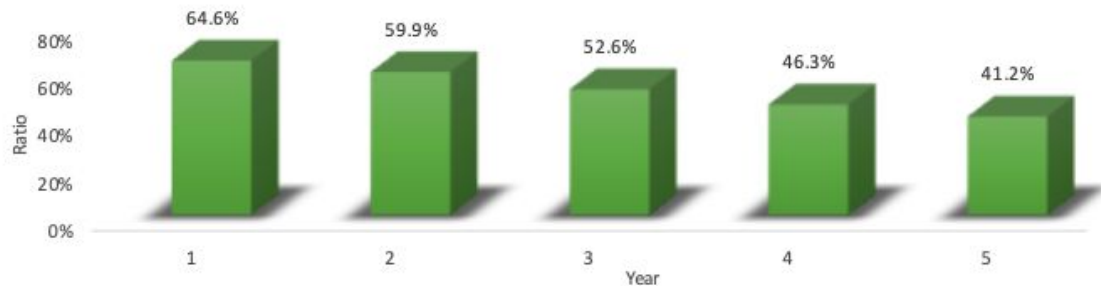
REVENUE GROWTH



REVENUE BREAKDOWN



EFFICIENCY RATIO



Engaging the adult-use market... before it's a market

Pre-licensing capital needs:

- Receipt of investment funds
- Purchasing real estate
- Real estate improvements and facility build-outs
- Equipment financing
- Payroll services
- Business insurance
- Funding for license applications

Who to reach out to:

- Lawyers and business formation agents
- Real estate developers
- Existing medical license holders
- Existing Indirect MRBs (i.e. packaging companies, equipment manufacturers, lighting companies)
- Accountants

Working with Green Check

Co-developing a board presentation

1

Risk Assessment Workshop & Tool

Comprehensive review of risks associated with a cannabis program, including examiner expectations.

2

Financial Model Workshop & Tool

Leverage our industry knowledge to determine the market opportunity and financial impact of your program.

3

Marketing Strategy Workshop & Tool

Guidance and discussion around reaching out to CRBs along with an initial Marketing Plan.

4

Initial Cannabis Banking Policy

Integrate decisions made using the Risk Assessment and Financial Model into a draft policy for Board Review utilizing our policy template.



Working with Green Check

Adding efficiency, safety and scalability to your Existing program

1

Review and Update Existing Program Policies and Procedures

2

Implement End-to-End Technology Solution

3

Train Your Staff

4

Onboard Your Existing CRBs to the Platform

5

Grow Your Program



Q&A

Let's stay connected!

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THANK YOU



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Cannabis Legal Updates

An overview of legal developments impacting the cannabis industry

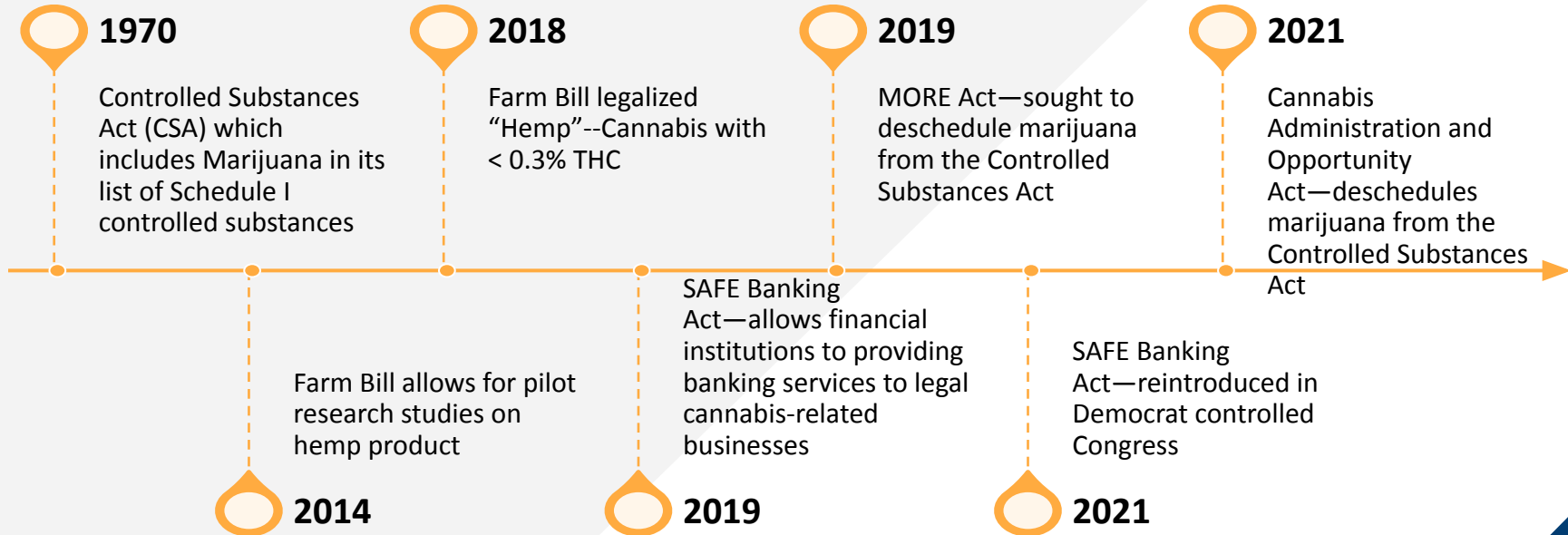
**Dowse B. ("Brad") Rustin IV, Chair – Financial Services
Regulatory Practice**

Anastasia D. Stull, Executive Director, Assureg

October 20, 2021

History of Laws Impacting Cannabis

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Continued Growth in the Industry

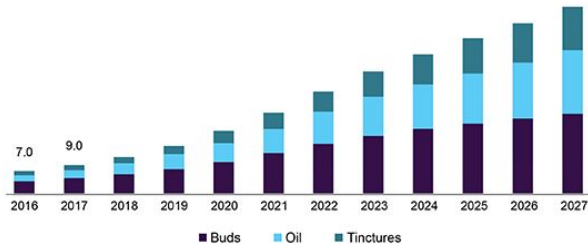
- Market Size is Growing
 - Cowen & Co. has estimated that the CBD market could be \$16 billion by 2025
 - Others have predicted that this may be closer to \$20 billion by 2024

- As of March 2019, the Cowen & Co. study indicated that 7% of the

indicated that they were using CBD as a - mainly for anti-inflammatory and

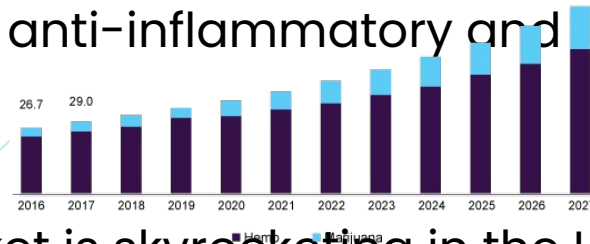
hemp market is skyrocketing in the US

U.S. legal marijuana market size, by product type, 2016 - 2027 (USD Billion)



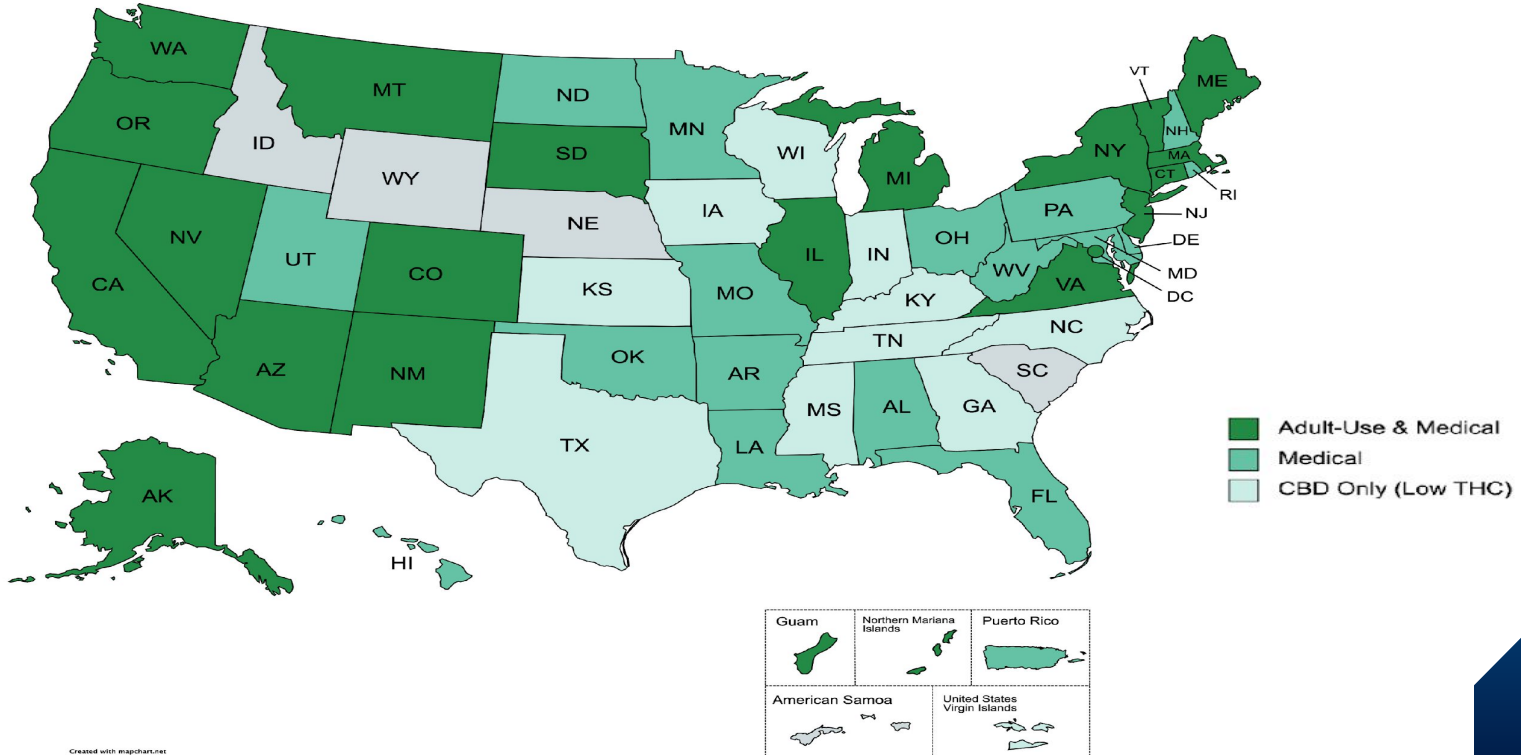
Source: www.grandviewresearch.com

The U.S. cannabis cultivation market size, by biomass, 2016 - 2027 (USD Billion)



State Action on Marijuana

- States continue to legalize marijuana and certain related products



State Developments

As of June 22, 2021, **18 states**, two territories and the District of Columbia have enacted legislation to regulate cannabis for nonmedical use.

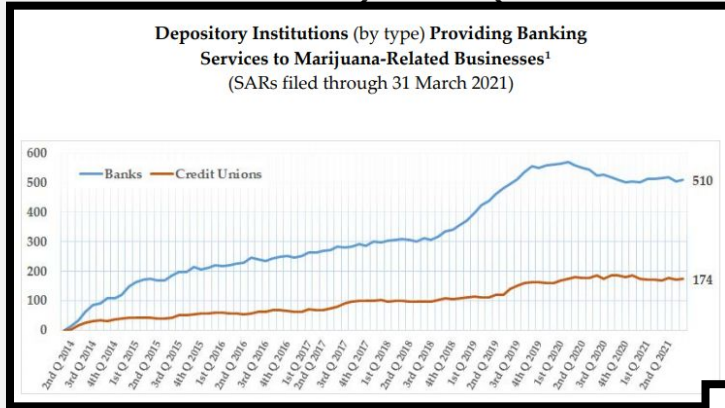
A total of **36 states**, the District of Columbia, Guam, Puerto Rico and the U.S. Virgin Islands have approved comprehensive, publicly available medical marijuana/cannabis programs.

11 states allow the use of "low THC, high cannabidiol (CBD)" products for medical reasons in limited situations or as a legal defense.

Financial Institutions Banking CRBs

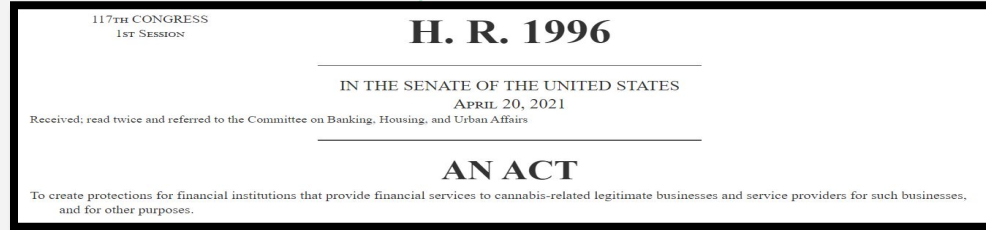
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- Even considering the uncertainty between the federal and state levels, the number of institutions banking Marijuana-Related to remain significant, although there is



The Legal Landscape Ahead

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- Potential relief for Financial Institutions looking to bank MRBs:
 - The most prominent piece of legislation, the Secure and Fair Enforcement Banking Act of 2019 (“SAFE Banking Act”), would give MRBs access to “essential” banking services.
 - Most notably, the bill would create protections for depository institutions that provide financial services to cannabis-related, legitimate businesses and service providers for such businesses.
 - The bill has already passed the House multiple times. It continues to stall in the Senate.
- The House of Representatives included a version of the SAFE Banking Act in its COVID-19 relief bill in May 2020 and again in October 2020, although the provisions ultimately were not adopted by the Senate.
- The traditional sponsors of the bill plan to reintroduce it and believe passage is likely

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SAFE Banking Act

- Reintroduced in 2021 as part of the Democratic Control of Congress
- Proceeds from a legal cannabis transaction are not “proceeds from an unlawful activity” as defined in anti-money laundering statutes
- No longer considered money laundering *solely because the proceeds are derived from cannabis activity*
- Prohibits regulators from discouraging

- On July 12, 2021, the Farm Credit Administration issued a memo related to financing of hemp production
- Provides a “checklist” of diligence a financial institution should complete in order to provide funds to a hemp



Farm Credit Administration 1501 Farm Credit Drive
McLean, VA 22102-5090
(703) 883-4000

INFORMATIONAL MEMORANDUM 

July 12, 2021

To: Chair, Board of Directors
Chief Executive Officer
Each Farm Credit Bank and Association

From: Kevin J. Kramp, Director
Office of Regulatory Policy

Subject: Financing hemp

This informational memorandum incorporates guidance from the U.S. Department of Agriculture's (USDA's) final rule on this subject. It supersedes the informational memorandum on the same subject that FCA issued on February 7, 2020.

In today's economic environment, farmers continue to diversify their agricultural products. Therefore, producing and processing hemp has generated great interest. This guidance is intended to help you assess how financing hemp fits into the lending strategies at your institution.

Please note that the information provided here applies only to hemp grown under approved state or tribal plans approved by the USDA or under the USDA plan. It does not apply to recreational and medical marijuana, which do not have any exemptions and are still considered illegal at the federal level.

We ask that your institution's board and management consider this information, along with your lending policies, procedures, and practices, to ensure that the needs of all farmers and ranchers in your lending territory are being met. When developing policies and procedures for financing hemp, your institution's board of directors should consider the requirements in the [Agriculture Improvement Act of 2018](#) (2018 Farm Bill, P.L. 115-334) and [USDA's final rule on establishing a domestic hemp production program \(PDF\)](#), which took effect March 22. (See the Background section of this document for more information.)

Decision to finance hemp

When deciding whether to finance hemp production, which can include processing, your

Schumer's Cannabis Bill

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- On July 14, 2021 Senator Schumer (D-NY) released a discussion draft of the Cannabis Administration and Opportunity Act (CAOA)
- The bill would be formally introduced in the fall
- This is the mid-term election bill that many lobbyists have been expecting
- The bill would:
 - De-criminalize marijuana federally;
 - States a nationwide age of 21 to purchase marijuana;
 - No crime for possession of 10 ounces or less



Delta-8-tetrahydrocannabinol ("D8")

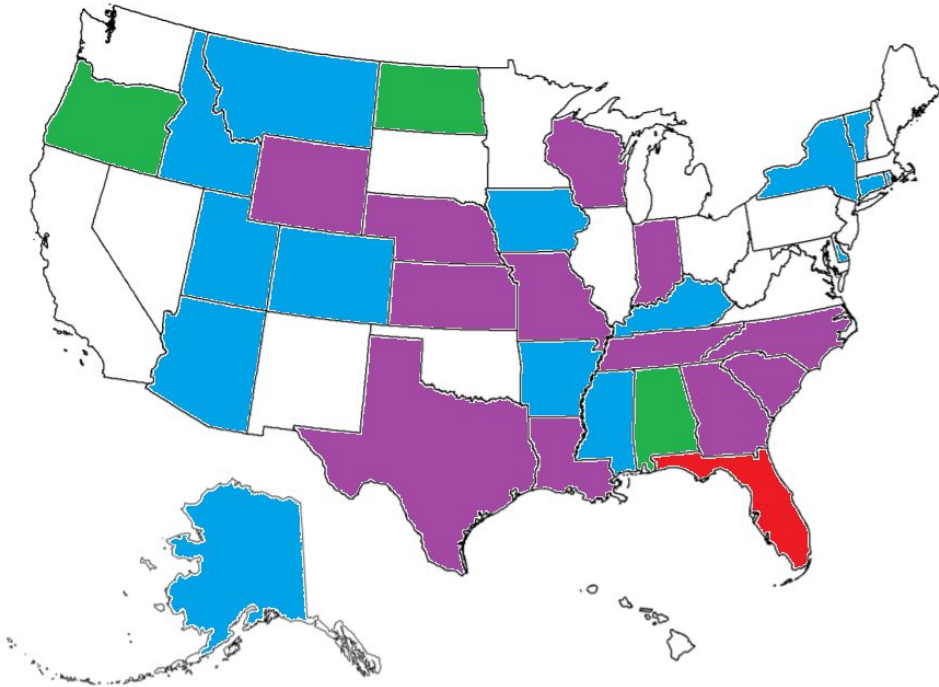
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- D8 is a psychoactive compound that is similar to THC, but is not THC. It is also derived from a cannabis plant.
- D8 can be extracted from hemp. Thus, under federal law, it is not a controlled substance so long as it is extract from hemp that is not marijuana and the extract does not have THC above legal limits.
- It is subject to state regulations



*FDA.gov warning.

D8 Regulation as of 2021



- States that ban D8
- States with pending legislation to ban D8
- States that have indicated they are "likely" to ban D8

Continued Prohibition on Card Payments / Efforts to Bypass

35

- All of the major card networks continue to prohibit transactions involving cannabis
- Techniques to bypass these prohibitions include:
 - Closed loop payment systems;
 - NACHA decoupled debit cards;
 - Fraudulent merchant accounts (farmers' market, flower shop); and
 - Cash advance from ATMs.

Questions or Comments

Please contact us if you have any questions:

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- The material provided herein is general and is not intended to be legal advice. In some states, the firm is unable to advise participants in the cannabis industry. This presentation is limited to advising financial institutions on legal structures and federal banking laws relating to financial services related to the cannabis industry.
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