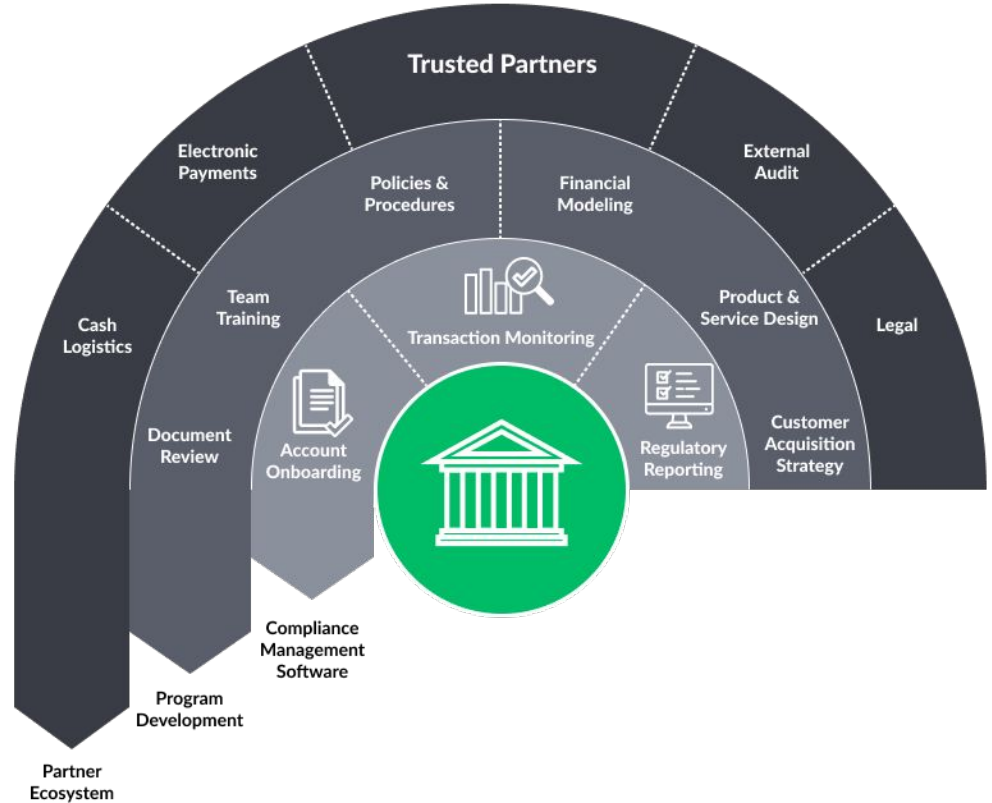


Green Check Cannabis Banking Bootcamp

March 17, 2021

About Green Check Verified

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



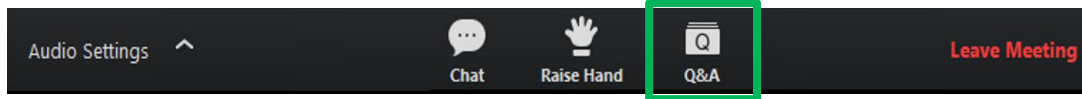
Webinar Housekeeping

A recording of the presentation will be shared following the session

Attendees will be muted to avoid background noise

Have a question during the session?

Use the **Q&A** button in your Zoom window to submit a question



Not available to those using the call-in only option

Post-webinar questions: info@greencheckverified.com

Today's Presenters



Paul Dunford
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A Practical Guide to Banking Cannabis

- **Part 1: Cannabis Fundamentals**
 - Cannabis Banking 101
- **Part 2: Build Your Program**
 - Assess Risk
 - Evaluate the financial opportunity
 - Choose Products and Services
- **Part 3: Run a Compliant Program**
 - Engage the market and onboard CRBs
 - Verification of source of funds and ongoing monitoring
- **Optional: Special Topic**
 - What makes a “good” CRB?

Green Check's program development roadmap



Cannabis Fundamentals

Module 1

Cannabis
Marijuana
Hemp
THC
CBD

cannabis



What is Marihuana?

[The] term “**marihuana**” means all parts of the plant *Cannabis sativa* L., whether growing or not; the seeds thereof; the resin extracted from any part of such plant; and every compound, manufacture, salt, derivative, mixture, or preparation of such plant, its seeds or resin. The term “**marihuana**” does not include—

(i) **hemp**, as defined in section 1639o of title 7;”

21 U.S. Code § 802

What is Hemp?

The term “**hemp**” means the plant *Cannabis sativa* L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a **delta-9 tetrahydrocannabinol concentration of not more than 0.3 percent** on a dry weight basis.

Agriculture Improvement Act of 2018 (Farm Bill)

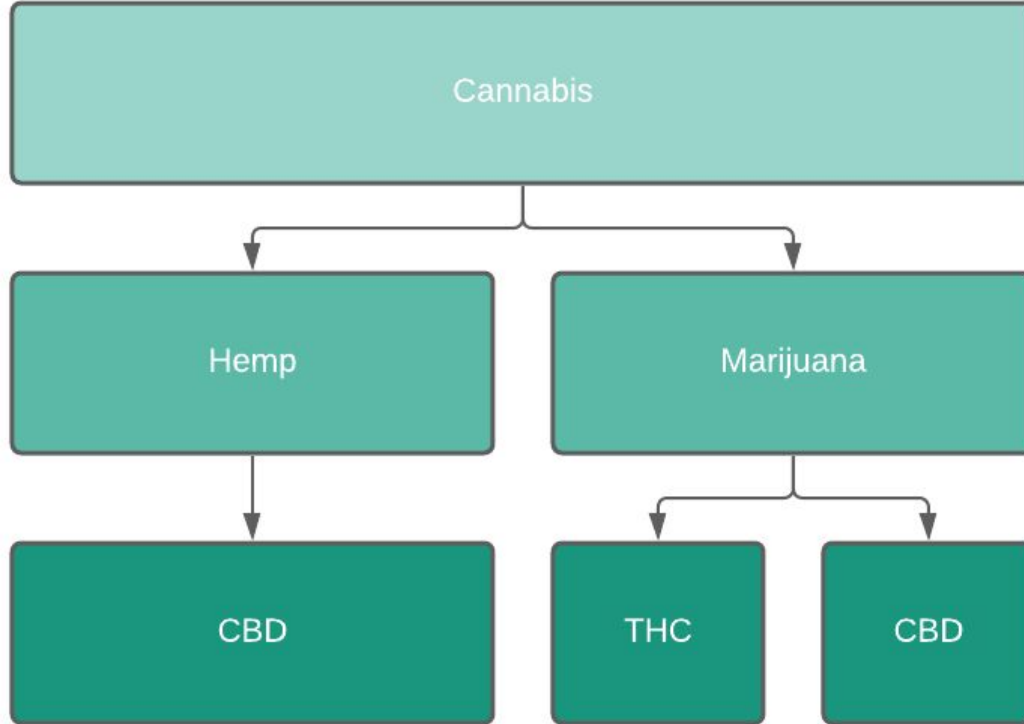
CBD & THC are chemical compounds in cannabis

Cannabidiol (CBD)

- FDA approved for the treatment of childhood epilepsy (*Epidiolex*)

Delta-9 Tetrahydrocannabinol (THC)

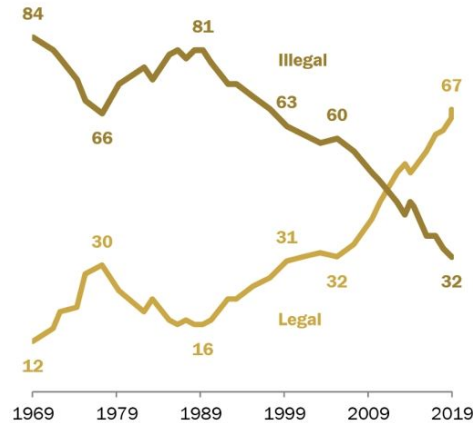
- Significantly psychoactive
- FDA Approved for the treatment of chemotherapy-induced nausea (*Dronabinol*)
- Schedule I Controlled Substance



Americans support marijuana legalization

U.S. public opinion on legalizing marijuana, 1969-2019

Do you think the use of marijuana should be made legal, or not? (%)

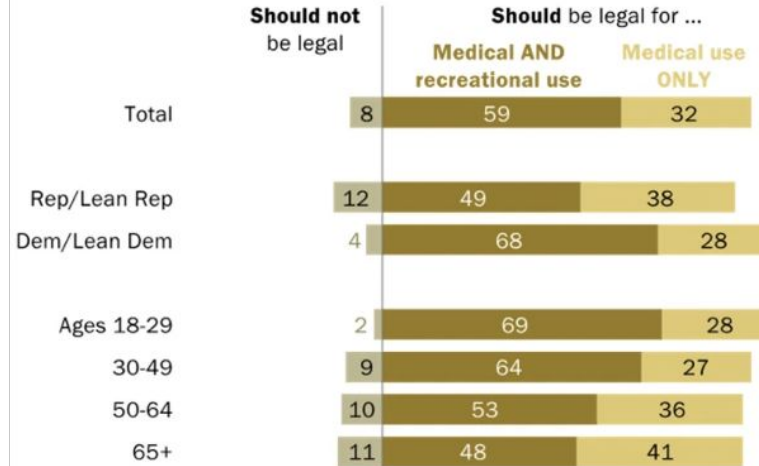


Note: No answer responses not shown. 2019 data from Pew Research Center's online American Trends Panel; prior data from telephone surveys. Data from 1969-1972 from Gallup; data from 1973-2008 from General Social Surveys.
Source: Survey of U.S. adults conducted Sept. 3-15, 2019.

PEW RESEARCH CENTER

Only about one-in-ten Americans oppose marijuana legalization for medical or recreational uses

% who say marijuana ...

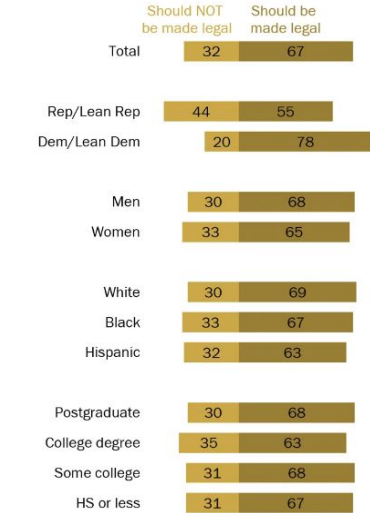


Note: No answer responses not shown.
Source: Survey of U.S. adults conducted Sept. 3-15, 2019.

PEW RESEARCH CENTER

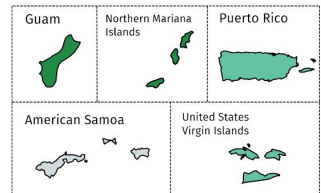
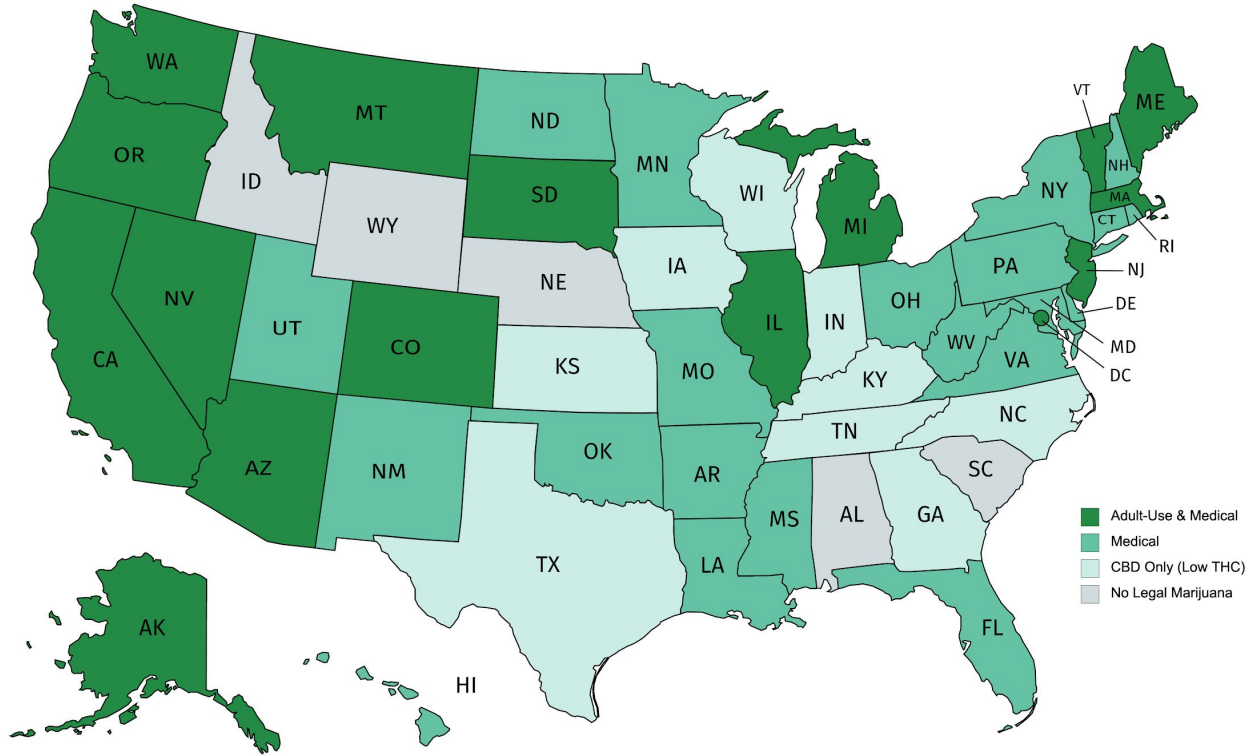
Wide partisan gap in opinions about legalizing marijuana use

% who say the use of marijuana ...



Note: Figures may not add to 100% because of rounding. Whites and blacks include only those who are not Hispanic; Hispanics are of any race. No answer responses not shown.
Source: Survey of U.S. adults conducted Sept. 3-15, 2019.

PEW RESEARCH CENTER

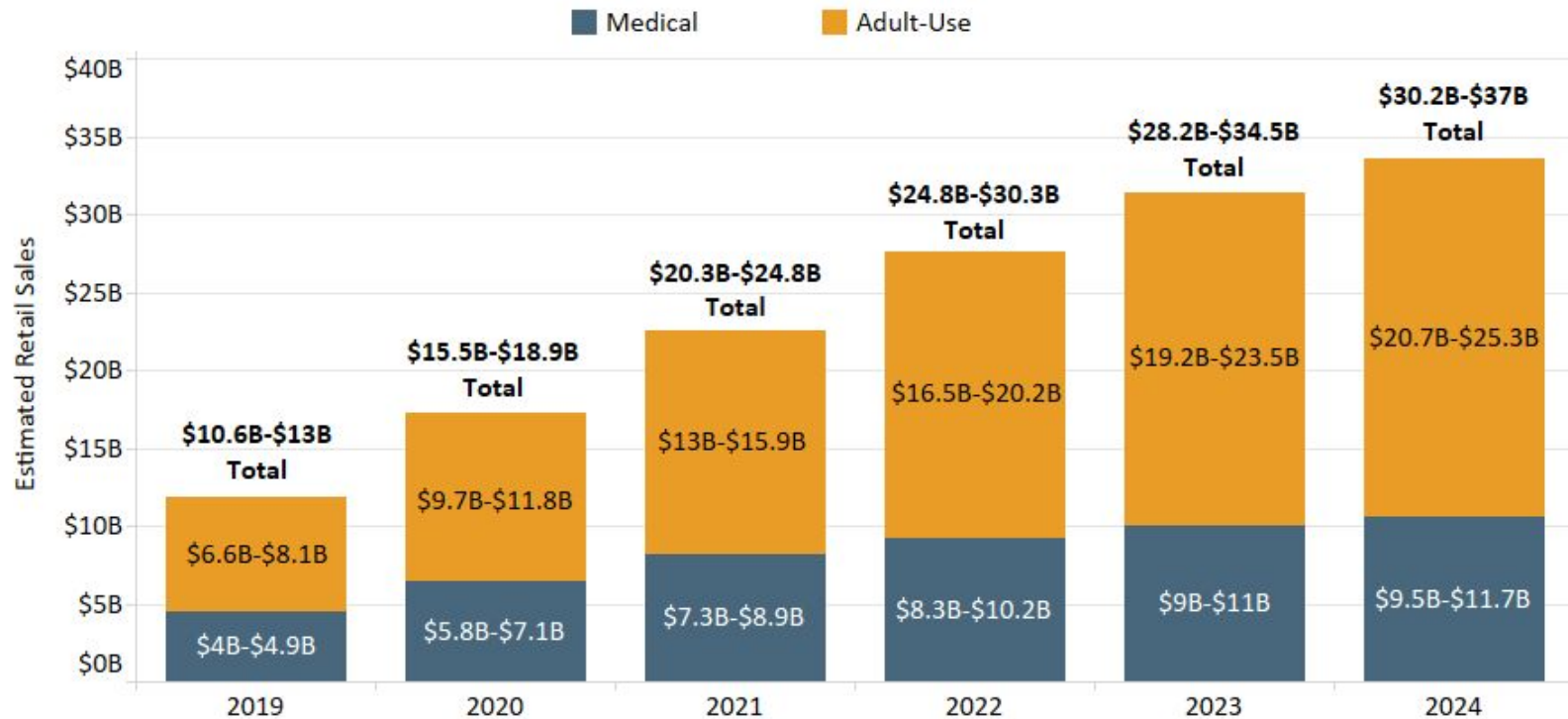


Legal status of cannabis 2021



Chart of the Week

U.S. Cannabis Retail Sales Estimates: 2019 - 2024



Source: Marijuana Business Factbook

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Providing Financial Services to Cannabis-Related Businesses

What are examiners saying?

- “Not Banking” cannabis is no longer an option in any state with a legal program
- You must be able to demonstrate that every dollar is the result of a state-legal sale
- Managing a program manually is no longer sufficient
- Be ready to explain how you’re only banking “good” and compliant CRBs
- You need to show that you’re able to leave the line of business if necessary

Cannabis-Related Businesses (CRBs)

Marijuana-Related Businesses (MRBs)

Direct MRB (Medical / Adult Use)

A business licensed by the state's marijuana authority

Indirect MRB

A business that derives 51% or more revenue from a Direct MRB

Hemp-Related Businesses

Agricultural/Industrial HRB

A business licensed by the state or federal (USDA) hemp regulatory authority

CBD HRB

A business that derives its revenue from the extraction, production, or commercial distribution of CBD

Business challenges faced by MRBs Specifically

- MRBs are ineligible for government small business loans (PPP)
- MRBs must often pay state and federal taxes in cash
- 26 U.S. Code § 280E: Expenditures in connection with the illegal sale of drugs
- Can not use most valuable assets (controlled substances) as loan collateral
- Can not seek bankruptcy protection per Office of US Trustees
- May not accept credit card payments processed on the Visa, Mastercard, and American Express networks
- Many armored transport services will not work with CRBs

BSA Expectations Regarding Marijuana-Related Businesses (FinCEN 2014)

Providing Financial Services to MRBs

“In general, the decision to open, close, or refuse any particular account or relationship should be made by each financial institution based on a number of factors specific to that institution. These factors may include its particular **business objectives**, an **evaluation of the risks** associated with offering a particular product or service, and its **capacity to manage those risks** effectively. Thorough customer due diligence is a critical aspect of making this assessment.”

“This FinCEN guidance should enhance the availability of financial services for, and the financial transparency of, marijuana-related businesses.”

Due Diligence Requirements (1/2)

- (i) verifying with the appropriate state authorities whether the business is duly licensed and registered;
- (ii) reviewing the license application (and related documentation) submitted by the business for obtaining a state license to operate its marijuana-related business;
- (iii) requesting from state licensing and enforcement authorities available information about the business and related parties;
- (iv) developing an understanding of the normal and expected activity for the business, including the types of products to be sold and the type of customers to be served (e.g., medical versus recreational customers);

Due Diligence Requirements (2/2)

- (v) ongoing monitoring of publicly available sources for adverse information about the business and related parties;
- (vi) ongoing monitoring for suspicious activity, including for any of the red flags described in this guidance; and
- (vii) refreshing information obtained as part of customer due diligence on a periodic basis and commensurate with the risk.

“With respect to information regarding state licensure obtained in connection with such customer due diligence, a financial institution may reasonably rely on the accuracy of information provided by state licensing authorities, where states make such information available.”

Marijuana Suspicious Activity Reports (SARs)

“a financial institution is required to file a SAR on activity involving a marijuana-related business (including those duly licensed under state law), in accordance with this guidance and FinCEN’s suspicious activity reporting requirements and related thresholds.”

- **Marijuana Limited**
 - No reason to believe the marijuana-related business is violating state law
- **Marijuana Priority**
 - Suspicion that the marijuana-related business is violating state law
- **Marijuana Termination**
 - Termination of a marijuana-related business account

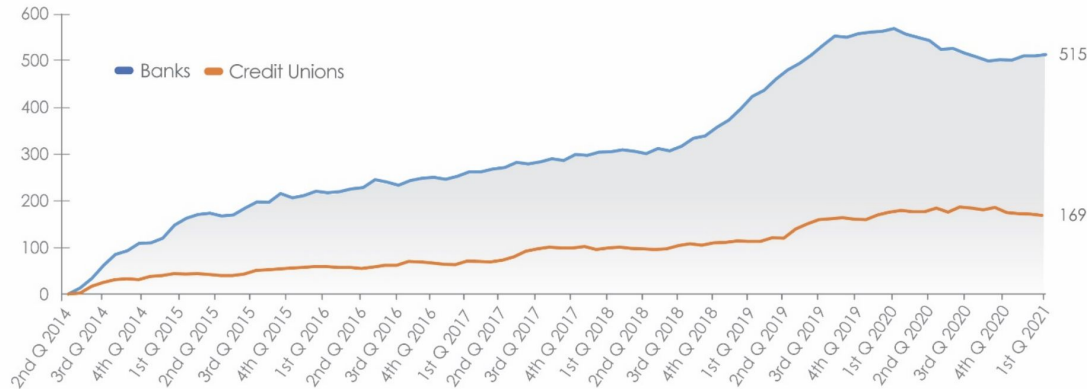


FinCEN

Financial Crimes Enforcement Network

Marijuana Banking Update

Depository Institutions (by type) Providing Banking Services to Marijuana-Related Businesses¹
(SARs filed through 31 December 2020)



As of 31 December 2020, FinCEN had received a **total of 170,975 SARs** using the key phrases associated with MRBs. Several of the SARs contain more than one key phrase, which accounts for the numbers for each key phrase being greater than the total.

FinCEN received **130,709 SARs** from filers using the key phrase **“Marijuana Limited.”**

FinCEN received **12,605 SARs** from filers using the key phrase **“Marijuana Priority.”**

FinCEN received **36,932 SARs** from filers using the key phrase **“Marijuana Termination.”**

Hemp & CBD Regulatory Oversight

United States Department of Agriculture (USDA)

- Growing hemp
- Processing hemp
- Testing hemp for THC content

Food and Drug Administration (FDA)

- CBD in consumer products intended for:
 - Ingestion by humans and animals
 - Treatment of any medical condition

USDA Interim Final Rules for Hemp Production

- Hemp must be tested to make sure that its THC content does not exceed 0.3% (within a margin of error)
- **Growing “hot hemp” is not, in and of itself, tantamount to growing marijuana as long as the producer can demonstrate that it was unintentional.**
- States and Tribal governments have the option to develop their own hemp regulatory programs
- The USDA will audit licensed hemp producers in order to verify their physical location, the status of their license, and their commitment to producing cannabis with less than 0.3% THC
- The USDA will maintain a database of legal hemp activities and make it available to federal, state, and tribal law enforcement agencies
- Neither States nor Tribal governments may prohibit the transportation of legally-grown hemp through their territory

FDA's Position on CBD

“Despite the 2018 Farm Bill removing hemp — defined as cannabis and cannabis derivatives with very low concentrations (no more than 0.3% on a dry weight basis) of THC — from the definition of marijuana in the Controlled Substances Act, CBD products are still subject to the same laws and requirements as FDA-regulated products that contain any other substance. [...] **We are aware that there may be some products on the market that add CBD to a food or label CBD as a dietary supplement. Under federal law, it is illegal to market CBD this way.**

“What You Need to Know (And What We’re Working to Find Out) About Products Containing Cannabis or Cannabis-derived Compounds, Including CBD” 11/25/2019

**FinCEN Guidance
Regarding Due Diligence
Requirements under the
Bank Secrecy Act for
Hemp-Related Business
Customers
(FinCEN 2020)**

Hemp Due Diligence Requirements

- “Financial institutions should obtain basic identifying information about hemp-related businesses through the application of the financial institutions’ customer identification programs and risk-based CDD processes, including beneficial ownership collection and verification, as they would for all customers.”
- “confirm the hemp grower’s compliance with state, tribal government, or the USDA licensing requirements”
- “The extent to which a financial institution will seek additional information beyond the steps outlined above will depend on the financial institution’s assessment of the level of risk posed by each customer. Additional information might include crop inspection or testing reports, license renewals, updated attestations from the business, or correspondence with the state, tribal government, or USDA.”

No Hemp Marijuana SAR Requirement

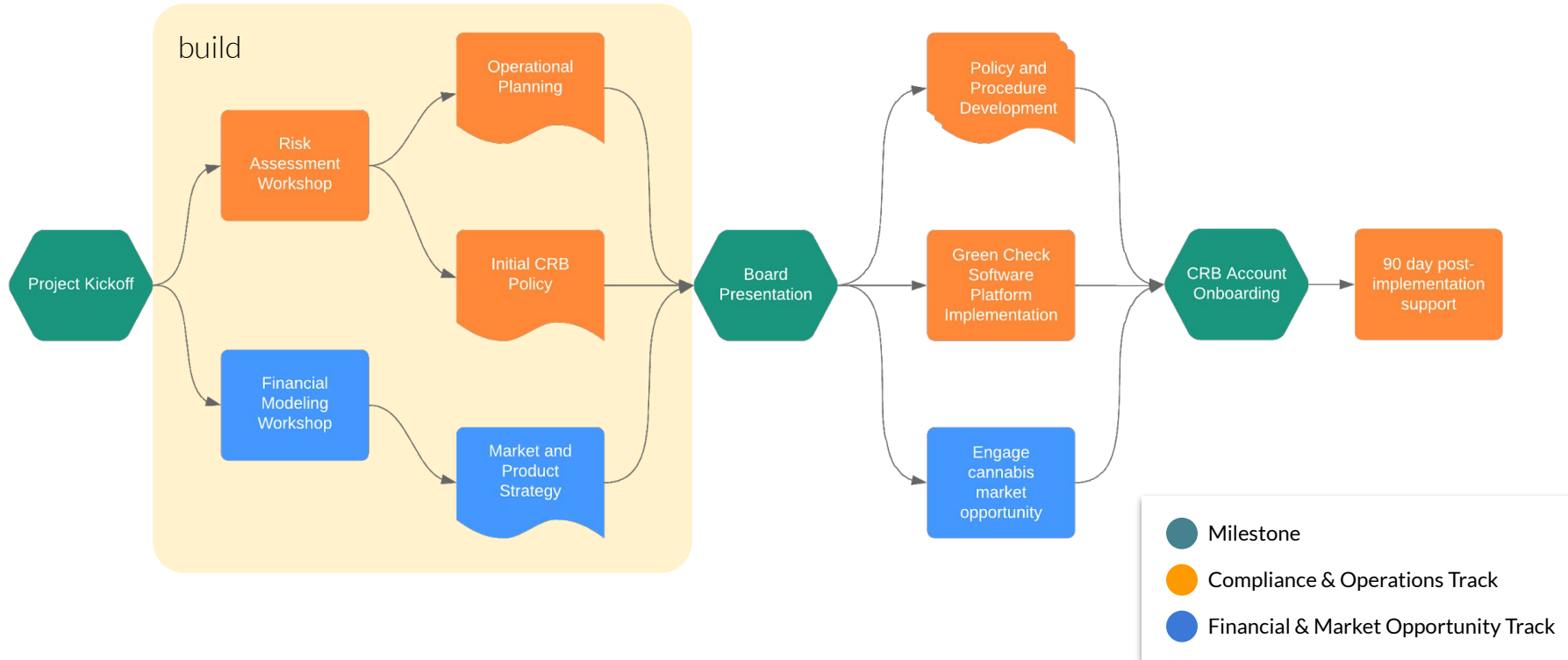
“... because hemp is no longer a Schedule I controlled substance under the CSA, financial institutions are not required to file a Suspicious Activity Report (SAR) on customers solely because they are engaged in the growth or cultivation of hemp in accordance with applicable laws and regulations”

Q&A

Build Your Program

Module 2

Green Check's program development roadmap



West Virginia's Medical Marijuana Program

Legislation: Senate Bill 386 - Medical Cannabis Act (April 2017)

Regulator: Department of Health & Human Resources, Bureau for Public Health

License Types: Growers (10), Processors (10), Dispensaries (200+ applications under consideration for a maximum of 100), Laboratories

Municipal Involvement: counties have the right to limit or refuse cannabis businesses

Financial Services: the state has designated a financial institution to handle program finances like application fees, taxes, etc.

Case Study: Bank in West Virginia

Basic information

- \$26 Billion, multi-state Bank headquartered in West Virginia
- Currently supporting Cannabis businesses in West Virginia, looking to expand into other states in market area
- Need to review and update risk assessment
- Would like to understand financial impact of moving beyond the current state with more active programs

Assessing Risk

Objective: Assess Risk

- Assess readiness to bank cannabis before developing or expanding a cannabis banking program
- Evaluate your existing controls environment as it applies to cannabis banking
- Understand what controls will need to be in place in order to reduce risk and meet Examiner expectations
- Review at least annually, and modify as your program changes

Using Green Check's Risk Assessment Tool

Categories of Risk

Financial | Oversight

What is the impact to financial and regulatory oversight?

Strategic

Does this new line of business complement or compete with other initiatives?

CRB Compliance

Are we able to effectively monitor CRB compliance with state laws?

Reputation

How do we address potential account holder concerns?

Transaction | Operations

What limitations will we place on this high-risk line of business?

Credit

What are the risks specific to lending to CRBs?

Determining the Level of Inherent and Residual Risk

POTENTIAL IMPACT	Extreme	5	10	15	20	25
	Very High	4	8	12	16	20
	Moderate	3	6	9	12	15
	Low	2	4	6	8	10
	Very Low	1	2	3	4	5
		Rare	Unlikely	Possible	Likely	Certain
POTENTIAL LIKELIHOOD						

Example Risk Item - Financial

Foreseeable Risk, Threat, Vulnerability	Potential Impact	Potential Likelihood	Inherent Risk Rating (1-25)
<p>Consideration has NOT been given to impact on Liquidity in the event of significant increases and decreases in deposits.</p>	Moderate	Unlikely	6

Mitigating Control Description	Residual Risk Rating (1-25)	Control Effectiveness	Acceptable Risk?
<p>FI is in a strong liquidity position. This will be closely monitored by our ALM committee. A financial model has been created with Green Check.</p>	3	50%	YES

Example Risk Item - Strategic

Foreseeable Risk, Threat, Vulnerability	Potential Impact	Potential Likelihood	Inherent Risk Rating (1-25)
Failure to consider the impact on other significant strategic initiatives	Moderate	Possible	9

Mitigating Control Description	Residual Risk Rating (1-25)	Control Effectiveness	Acceptable Risk?
All new products and services are evaluated by RAC, they have indicated the recent project activity has diminished, and there are adequate resources for this project.	3	66.67%	YES

Example Risk Item - MRB Compliance

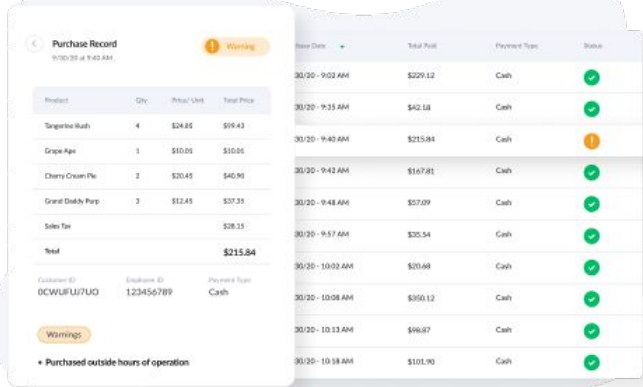
Foreseeable Risk, Threat, Vulnerability	Potential Impact	Potential Likelihood	Inherent Risk Rating (1-25)
Failure to ensure that CRB has established a system to prevent the distribution of cannabis to minors.	Very High	Possible	12

Mitigating Control Description	Residual Risk Rating (1-25)	Control Effectiveness	Acceptable Risk?
Green Check verifies each transaction from the MRB, including age of purchaser, against a database of state specific rules. This is particularly important considering the expansion beyond one state.	4	66.67%	YES

Green Check Transaction Monitoring

Automated monitoring of sales transactions

Direct integration with a business' point-of-sale and seed-to-sale systems to verify all sales and inventory data for compliance with applicable rules and regulations.



Purchase Record
9:00:20 at 9:40 AM

Warning

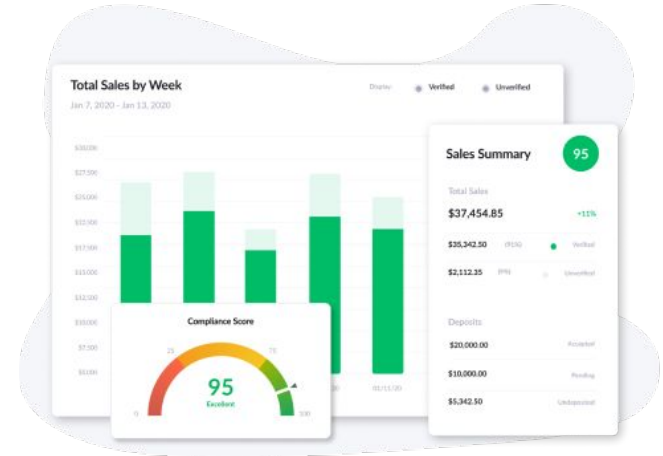
Product	Qty	Price/Unit	Total Price
Tangerine Bath	4	\$24.65	\$98.43
Grape Ape	1	\$10.00	\$10.00
Cherry Cream Pie	2	\$20.45	\$40.90
Grand Doble Pie	3	\$12.45	\$37.35
Sales Tax			\$28.35
Total			\$215.84

Customer ID: DCWUFLU7UO Invoice ID: 123456789 Payment Type: Cash

Warning

- Purchased outside hours of operation

Time Date	Total Paid	Payment Type	Status
20/20 - 9:02 AM	\$209.12	Cash	✓
20/20 - 9:33 AM	\$42.18	Cash	✓
20/20 - 9:40 AM	\$215.84	Cash	⚠
20/20 - 9:42 AM	\$167.81	Cash	✓
20/20 - 9:48 AM	\$57.09	Cash	✓
20/20 - 9:57 AM	\$20.54	Cash	✓
20/20 - 10:02 AM	\$20.68	Cash	✓
20/20 - 10:08 AM	\$50.12	Cash	✓
20/20 - 10:13 AM	\$98.87	Cash	✓
20/20 - 10:18 AM	\$101.90	Cash	✓



Rule-based alerts

Restrict deposits to only include verified funds while tracking exceptions and corrective actions on an account-by-account basis.

Financial Modeling

Objective: Financial Modeling

- Review the cannabis banking opportunity in your market, and determine the pace that works best for your institution
- Determine what products and services you want to offer
- Develop a pricing model based on your priorities
- Forecast and track the performance of the cannabis banking program, including impact to Financial Institution's key metrics

Cannabis Banking Products, Services, and Fees

Deposit services

Operating Account

Online/Mobile banking

Electronic payments:

- ACH Origination
- Bill Pay
- EFTPS

Wires

Positive Pay

Line of Credit, fixed term loans

Employee accounts

Program Costs and Staffing Considerations

Manual Program (20-25% of Revenue)

- Collecting documentation through fax, email, etc
- Review documentation, record review and approval
- Set calendar invites to review licenses
- Receive daily transaction spreadsheets to compare and record legal sales to deposits
- Manually filling out SARs and staying on top of ongoing reports
- Tracking program performance in multiple spreadsheets with complex pivot tables, etc
- Expensive ongoing training requirements

Automation (5-10% of Revenue)

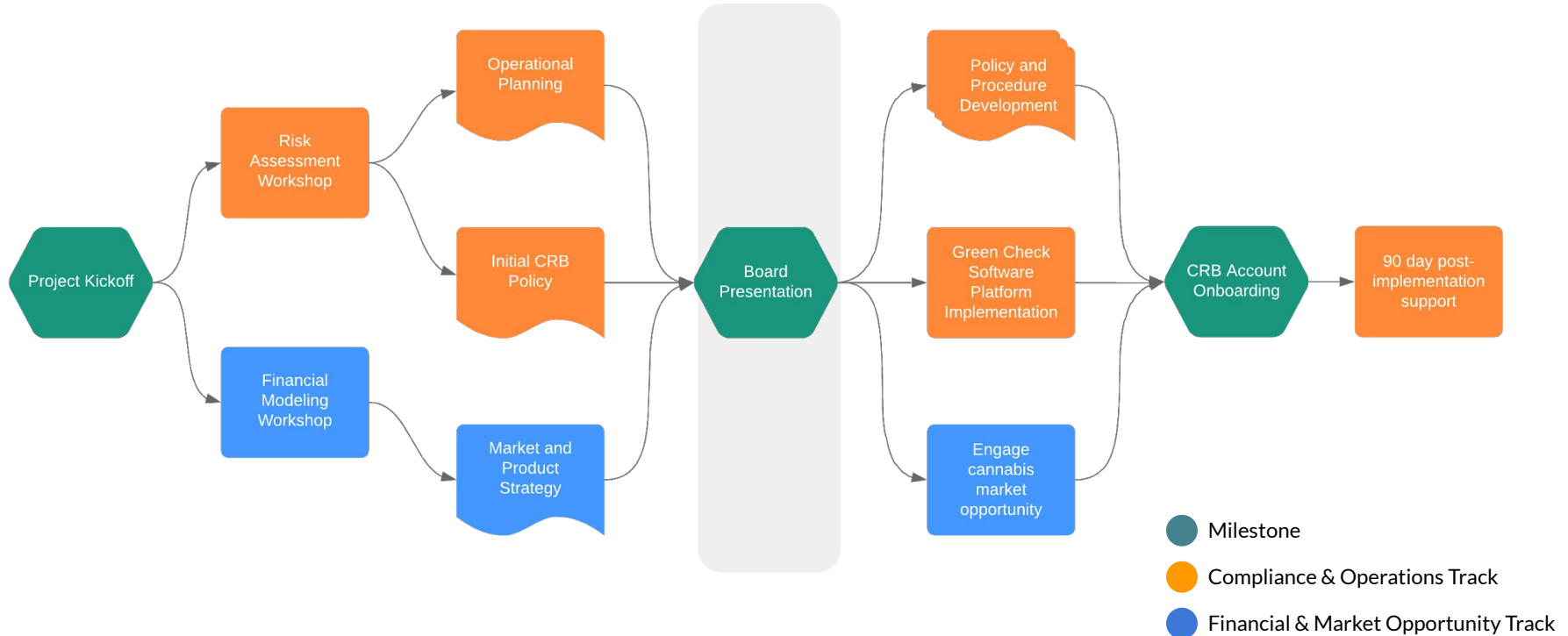
- CRB uploads all documents securely through web-based portal
- Workflows for:
 - Reviewing documentation and approval audit trail
 - Reconciling incoming deposits to sales
 - FinCEN Reporting (CTRs and SARs)
- Automatic transaction verification against state compliance rules
- Account Monitoring
 - 360 insight into program performance
 - Board reporting

Financial Model Parameters

- Currently banking 4 MRBs in West Virginia
- Fees charged are \$750 month and 1.0% of deposits
- Deposits from West Virginia MRBs are relatively moderate, averaging about \$28k per MRB per month
- Surrounding markets are substantially higher, averaging \$390k per month, need to understand impact to key ratios
- Currently offering only deposit products, assess impact of lending to MRBs
- BSA team is currently 3 FTE, need to understand the point at which additional staff needs to be added

Using Green Check's Financial Modeling Tool

Green Check's program development roadmap



Getting your Board on Board

What to bring:

Risk Assessment

Financial Model

Products and Services list and Pricing

Cannabis Banking Policy

What to anticipate:

“It’s federally illegal and we don’t want to lose our charter.”

“Our existing customers/members will be upset and leave.”

“Does the possible reward outweigh the immediate risk?”

“We can’t afford to hire a new BSA officer just for marijuana.”

Q&A

Run a Compliant Program

Module 3

Green Check's program development roadmap



Three Major Workflows

Onboarding

- Enhanced due diligence requirements
- Know your state's program

Transaction Verification

- Verifying that every dollar is the result of a state-legal sale

FinCEN Reporting

- Ongoing Marijuana Limited SARs at **account opening** and **every 90 days**

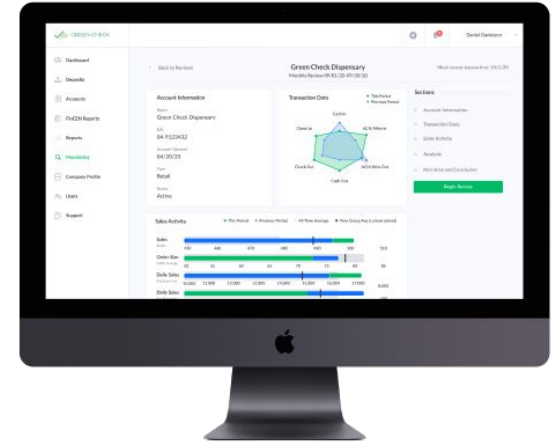
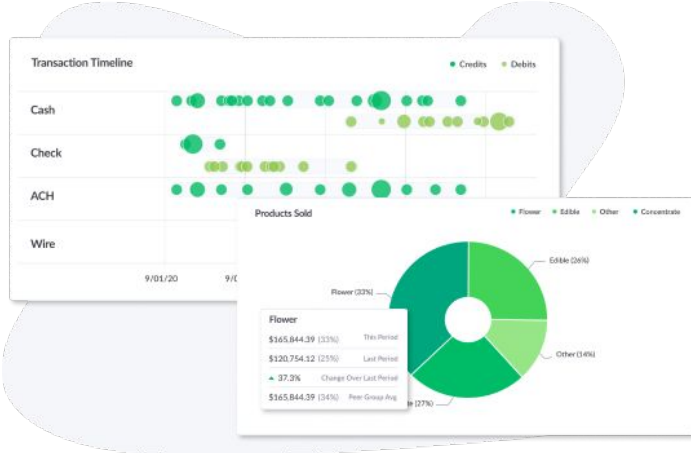
Ongoing monitoring

- Quarterly account reviews
- Measure CRB performance against peer group
- Look for unusual transactions
- Set up news alerts and follow industry media
- Don't forget your existing transaction monitoring software

Green Check Account Monitoring

Standardized Review Process

Green Check provides structure and accountability by automatically creating and assigning reviews based on customer risk ratings.



Historic and Peer Group Analysis

Data is summarized and presented so you can easily review an account's activity against its own historic performance and peer group activity levels.

Revisiting examiner expectations...

- “Not Banking” cannabis is no longer an option in any state with a legal program
- You must be able to demonstrate that every dollar is the result of a state-legal sale
- Managing a program manually is no longer sufficient
- Be ready to explain how you’re only banking “good” and compliant CRBs
- You need to show that you’re able to leave the line of business if necessary

What's next?

What you can expect following this session

Email from Green Check that includes:

- Your certificate of participation
- Access to session recording
- Links to supplemental resource documents like:
 - Presentation slides
 - Risk Assessment sample questions
 - Financial model Board summary PDF
 - Cannabis banking policy template

Connect with us!

You can find out more information on upcoming webinars and industry happenings on LinkedIn:

Green Check Verified

<https://www.linkedin.com/company/green-check-inc/>

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Stacy Litke

<https://www.linkedin.com/in/stacy-litke-2247195/>

Optional: Special Topics

What makes a “good” CRB?

Evaluate potential CRB accounts

- Lead source
- Responsive & transparent with documentation
- Clear ownership structure
- Negative news search
- Clear business plan
- Provisional vs Approved
- Social equity license
- Veteran / Woman / Minority owned
- Current banking status

EVALUATING CRBs	CRB A	CRB B
Lead source	Word of mouth	Outreach to trade association
Responsive	Slow to respond	Quick to respond
Clear Ownership Structure	5 owners that live in state	3 owners, 1 out of state
News Search	Nothing negative	Supports local food bank
Business Plan	New business so a little vague	Established business
License Status	Provisional	Active
Social Equity	Yes	No
Veteran / Woman / Minority	Yes	Yes
Currently Banked?	No	Yes

CRB Risk Rating Factors <i>(selected examples)</i>	High 10	Moderate 5	Low 1
Type of CRB	Dispensary, Delivery	Grower, Lab, Processor, Distributor	Indirect (accountant, lawyer, electrician, etc.)
Has the CRB been transparent and complete with their documentation?	No	Somewhat	Yes
Does the CRB have an ATM onsite?		Yes	No
Has there been any negative news regarding the CRB?	Yes	Some, but resolved	No
Does the CRB have an established system to prevent the sale of products to minors?	No	Yes, but it could use some improvement	Yes

Thank you!

This document is provided for informational purposes only and should not be relied upon as legal advice. This document should not be construed as including complete coverage of all policy elements required by your institution and must be modified by your institution to appropriately conform it to your institution's organizational structure, risk profile, and business lines.