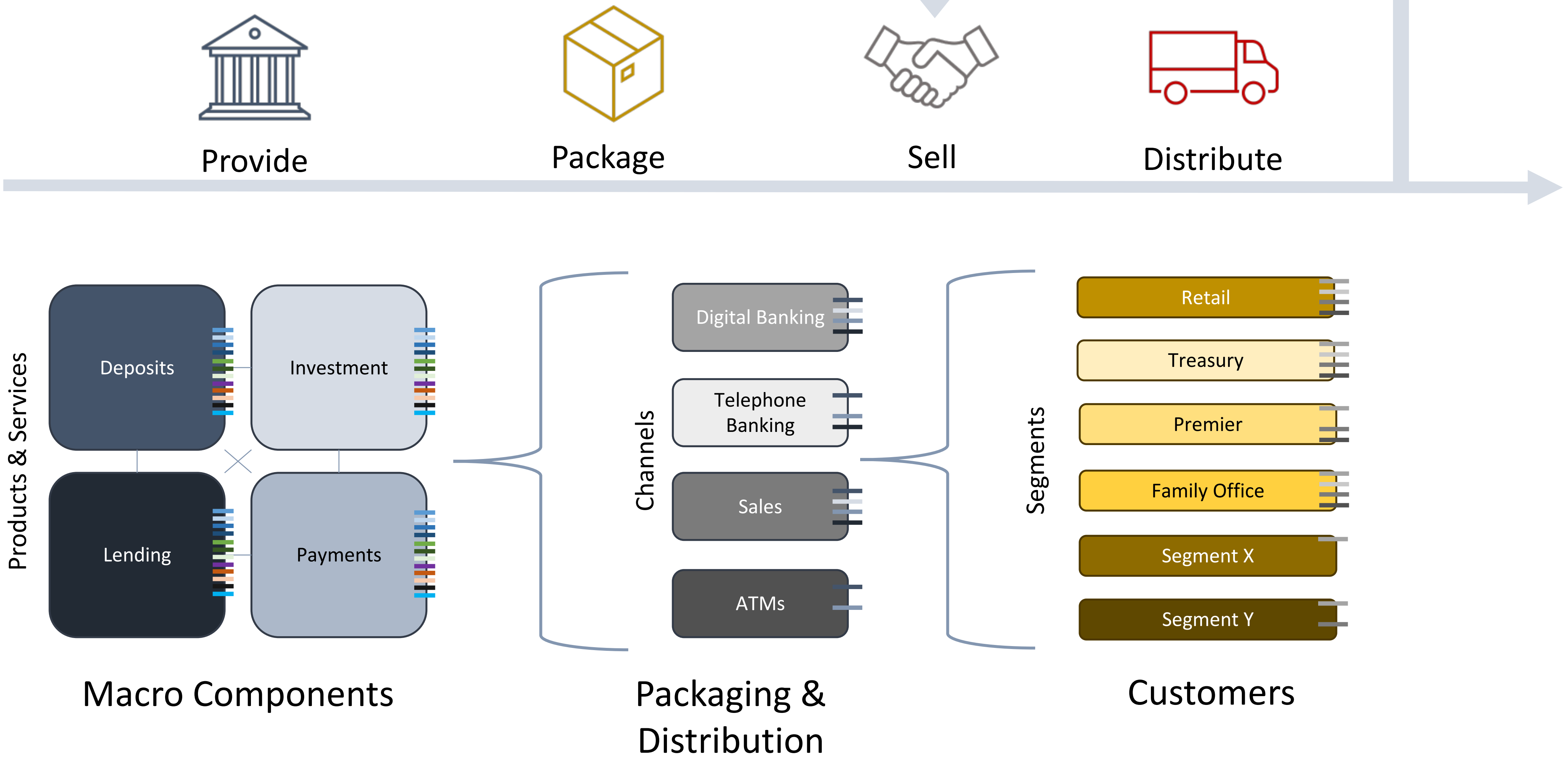
Tomorrow’s leading banks will be those that have mastered the role of the value architect. This is not a shift from today’s business model to a completely new one. Rather, it’s an evolution from managing a single, vertically integrated business model towards managing multiple non-linear business models and roles in the value chain.

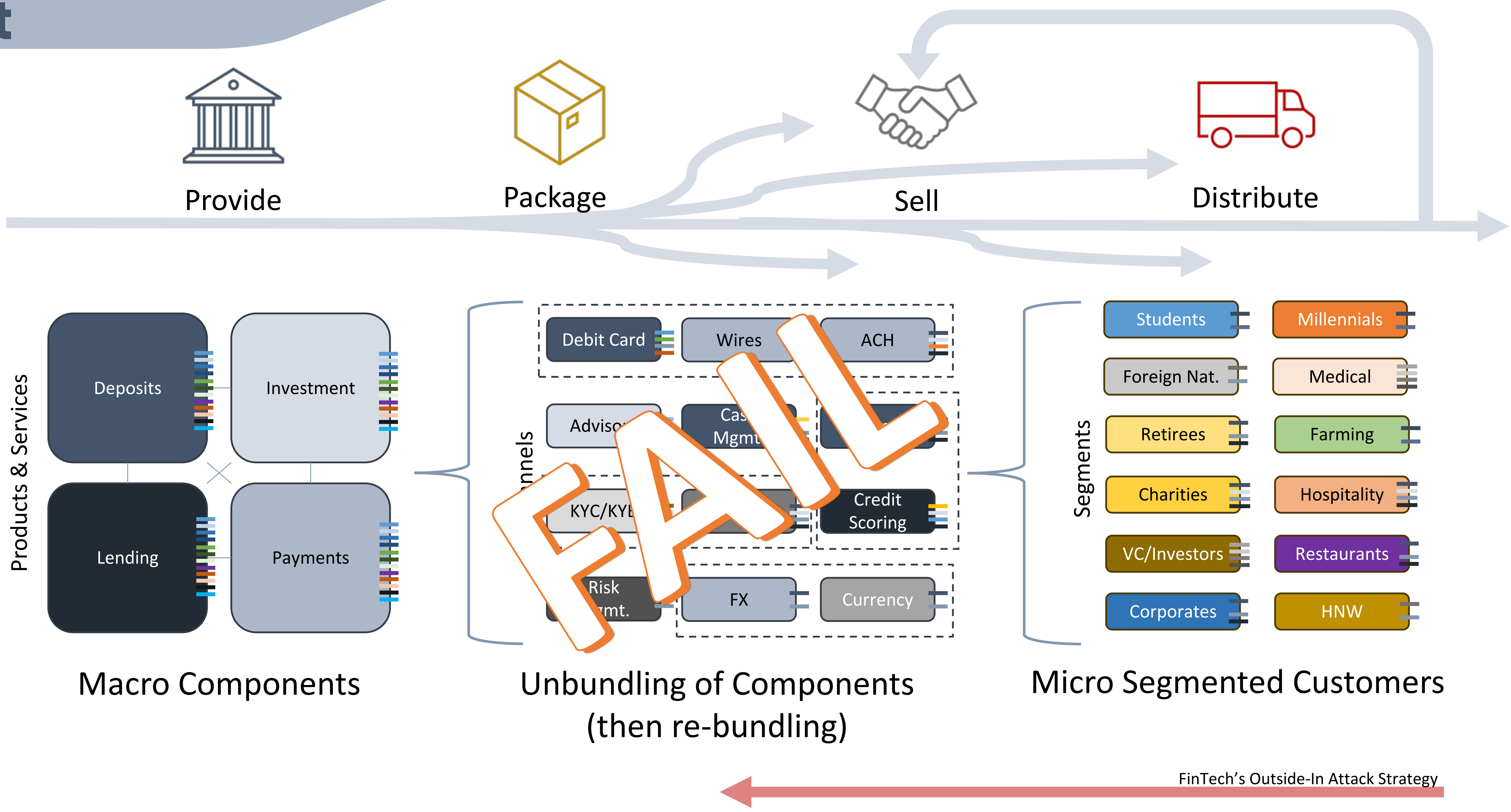
– Accenture “The Future of Banking”

Distant Past



The Banking industry has historically been a tightly coupled, vertically integrated, linear industry

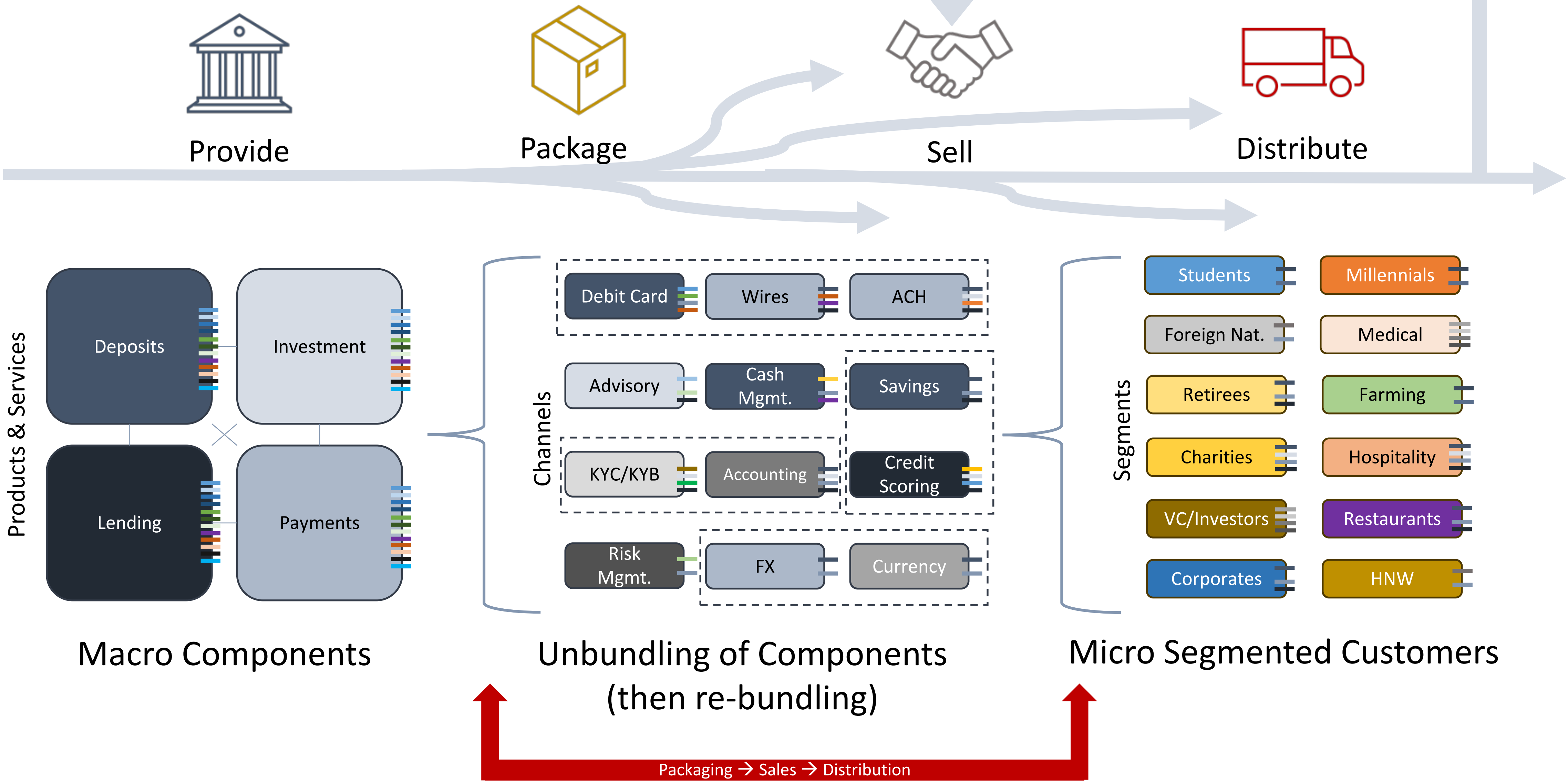
Past



The value chain is unbundling into smaller components and packages designed to serve niche segments.

Fintech's have unbundled traditional capabilities and focused on niche customer segments.

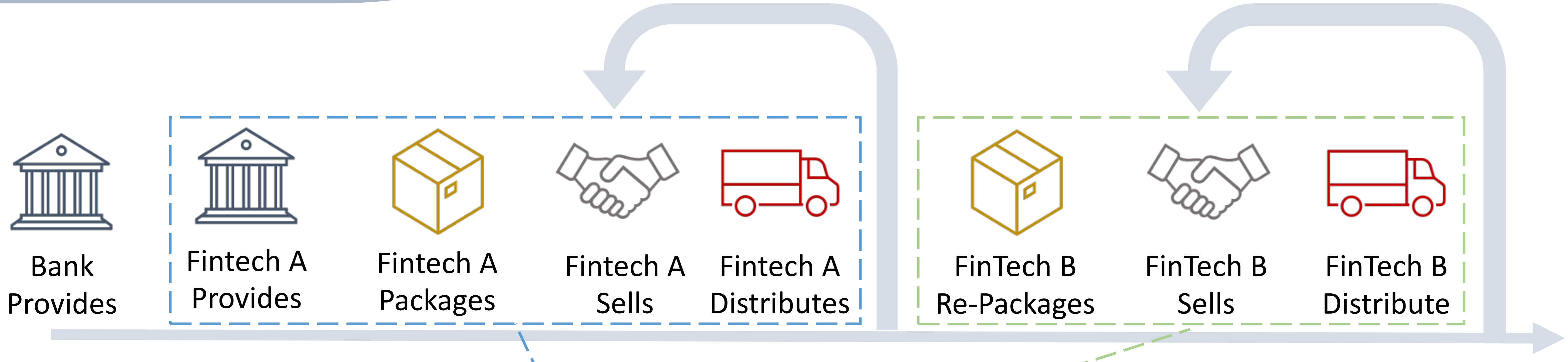
Now – Future

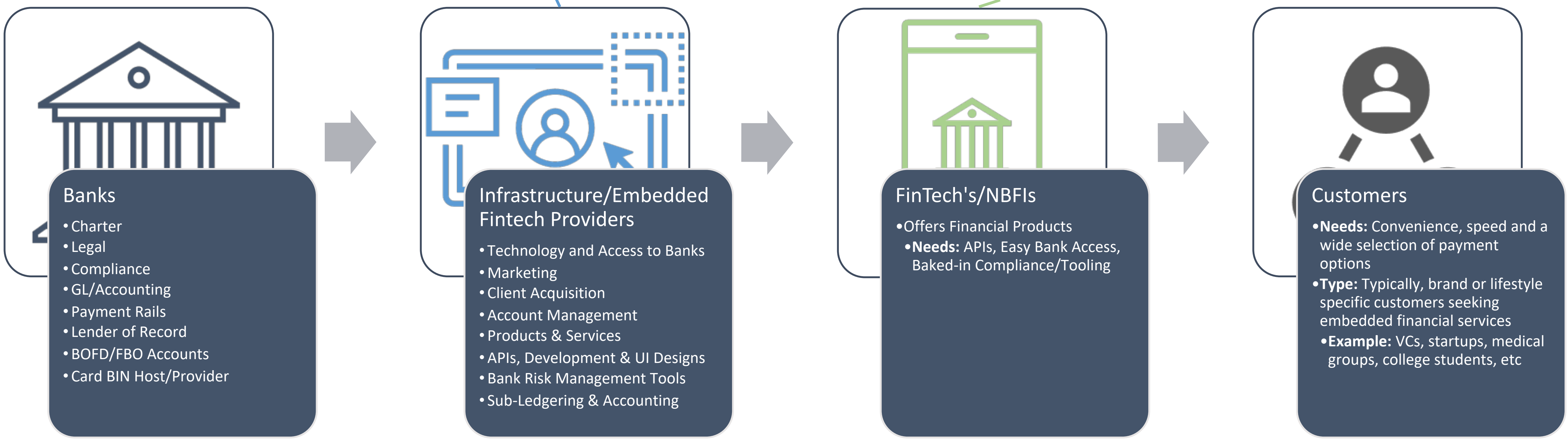


Fintech's are now partnering with Banks and are injecting themselves directly into the value chain

This is where Embedding Banking or BaaS fits in.....

FinTech Structures





Generating Value From BaaS

How to participate in this ecosystem – Build, Buy, or Partner

Provider Only

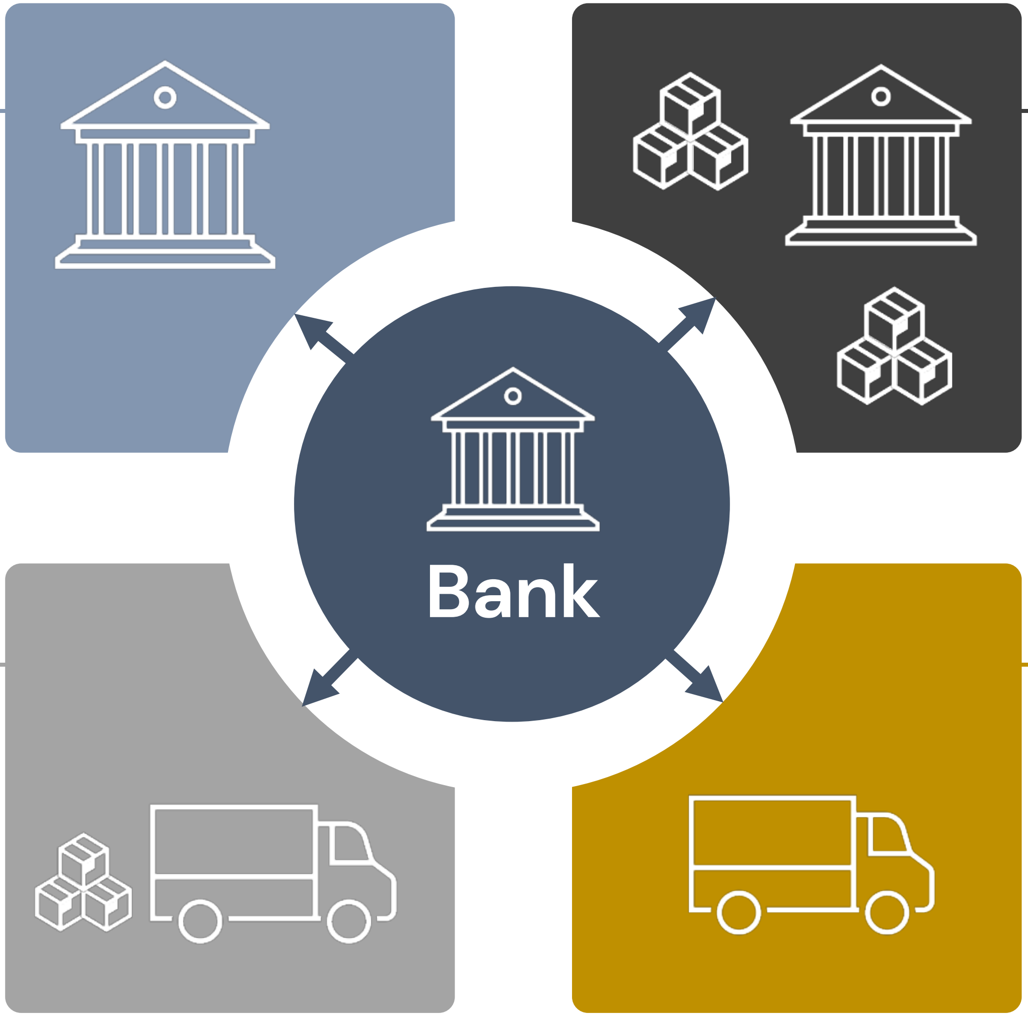
Leverage Existing Bank Capabilities

- Provide banking license, and products, operations and/or technology for use by packagers, other banks and NFCs
- Key product lines include deposits, loans and payments
- *Partner – Fintech do it all*

Provider + Packager

Leverage existing + other's capabilities

- Provide banking license, and products, operations and/or technology for use by other banks and NBFIs
- Couple our own capabilities with other vendors to compose a complete 'out of the box' solution for distributors
- *Buy and sell to FinTech's*



Packager + Distributer

Leverage existing customer base and build

- Leverage end customer relationships and existing own brand to offer unique financial services propositions
- Enable novel features by adding new products or technology from multiple providers
- *Build to serve new segments*

Distributer Only

Leverage existing customer base and resell

- Leverage end customer relationships to offer and provide largely 'out of the box' by third parties
- Propositions enabled can be tailored to serve either new (e.g., neobank) or existing (e.g., traditional retailer) customers bases
- *Buy to serve new segments*

Financial Levers

What are the primary sources of revenue for the Bank?

Deposits

Earning a margin on the net difference of invested deposits. ~50-100bps

01

Interchange – Debit/Credit

Earning NOI via interchange volume and a set margin of interchange fees. ~5-10bps

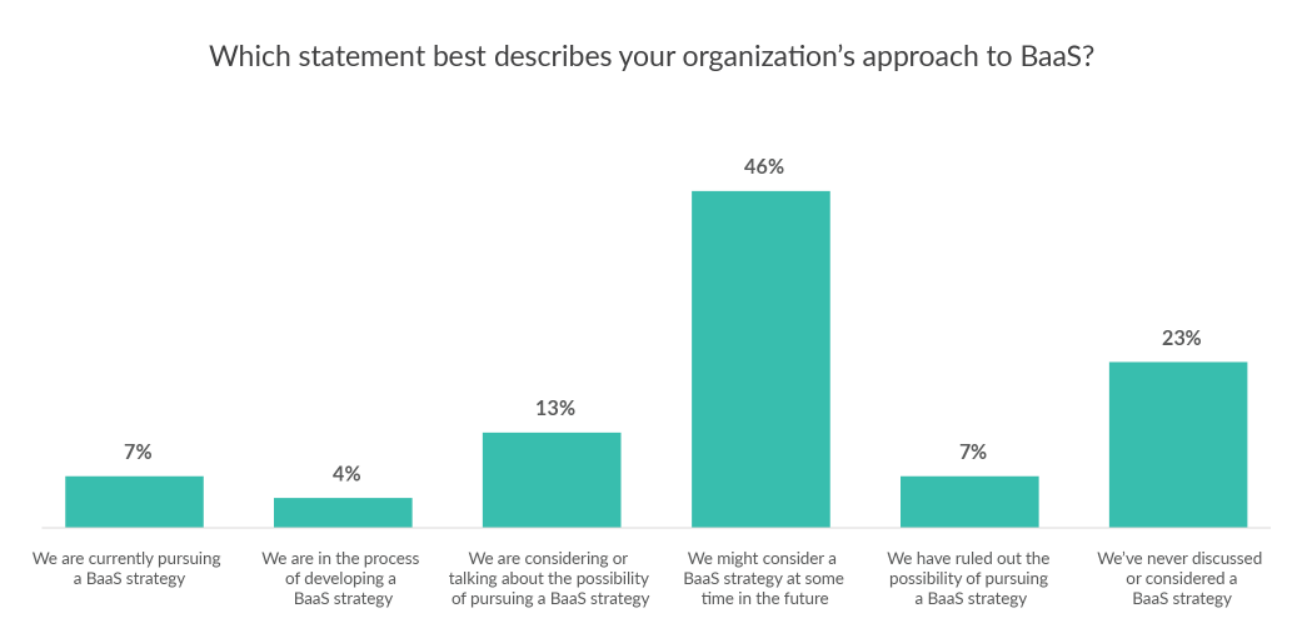
02

Transactional Revenue

Earning NOI via payment volumes with set flat rates per item. ~$.01-$.04 ACH/RTP, $1-$2 wire

03

Optional: Interest revenue and fees for taking balance sheet risk for warehouse/revolving credit lines (I.E Charge Card)



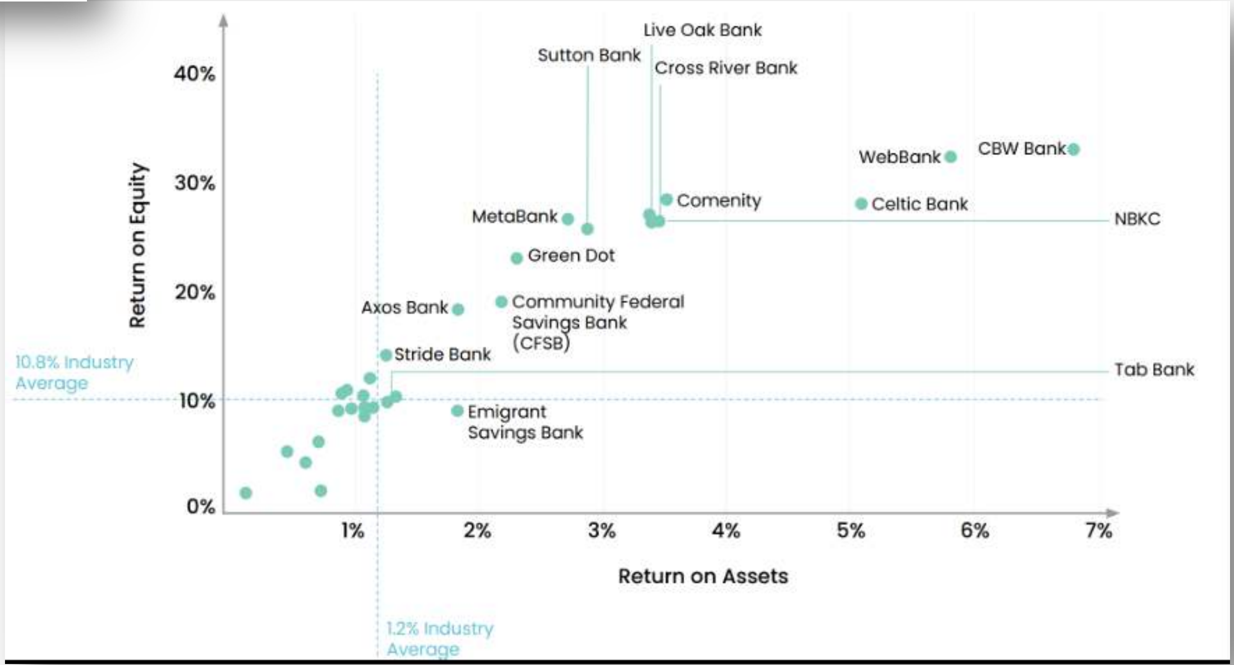
Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2022

The industry is starting to notice BaaS

- 24% of Banks are actively considering or working on a BaaS strategy
- 46% may consider it
- 30% are not working on BaaS

BaaS is one of many paths to deliver embedded Banking capabilities

FIs that have pursued BaaS are seeing 2 - 4x return compared to other FIs



Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2022

BaaS Provider/Embedded Banking = Client Acquisition

Technology Driven Enablement to Source Customers

1

APIs

Standardized APIs and a technology platform for FinTech's and NBFIs to leverage to build banking solutions on top of.

2

Marketing & Sales

Their primary objective is marketing and selling to niche customer bases. Typically, VCs, startups, FinTechs and other embedded finance companies

3

1st Line of Defense

Risk management dashboards, onboarding toolsets, and inline tech stacks to support Bank KYC/KYB, AML and OFAC processes

Risks

We are the Bank of record; we take on **all the risk**. We are reliant on the BaaS provider to properly vet, manage, and mitigate these risks. Failure by the BaaS provider constitutes a failure at the Bank.

Multiple "middle-men" exist between us, the client, and the end customer. Breakdowns in communication, deal flows, and understandings of those clients/customers can lead to reputational, transactional and operational risks

The traditional customer base that BaaS providers service are typically less stable and mature; ranging from startups, VCs funds, neo-banks, and young businesses. These customers tend to have higher inherent risks associated with them.

The BaaS platform inherently provides portability across Banks and allows for clients and customers to more easily swing to another institution. This could lead to liquidity risk and revenue loss. Volatility in these deposits and revenue could be high.