Banking in the 21st Century – Financial Institutions and Fintech

Current Trends, Opportunities and Real World Case Studies

Ballard Spahr LLP

Forms of Relationships Between Fintechs and Banks

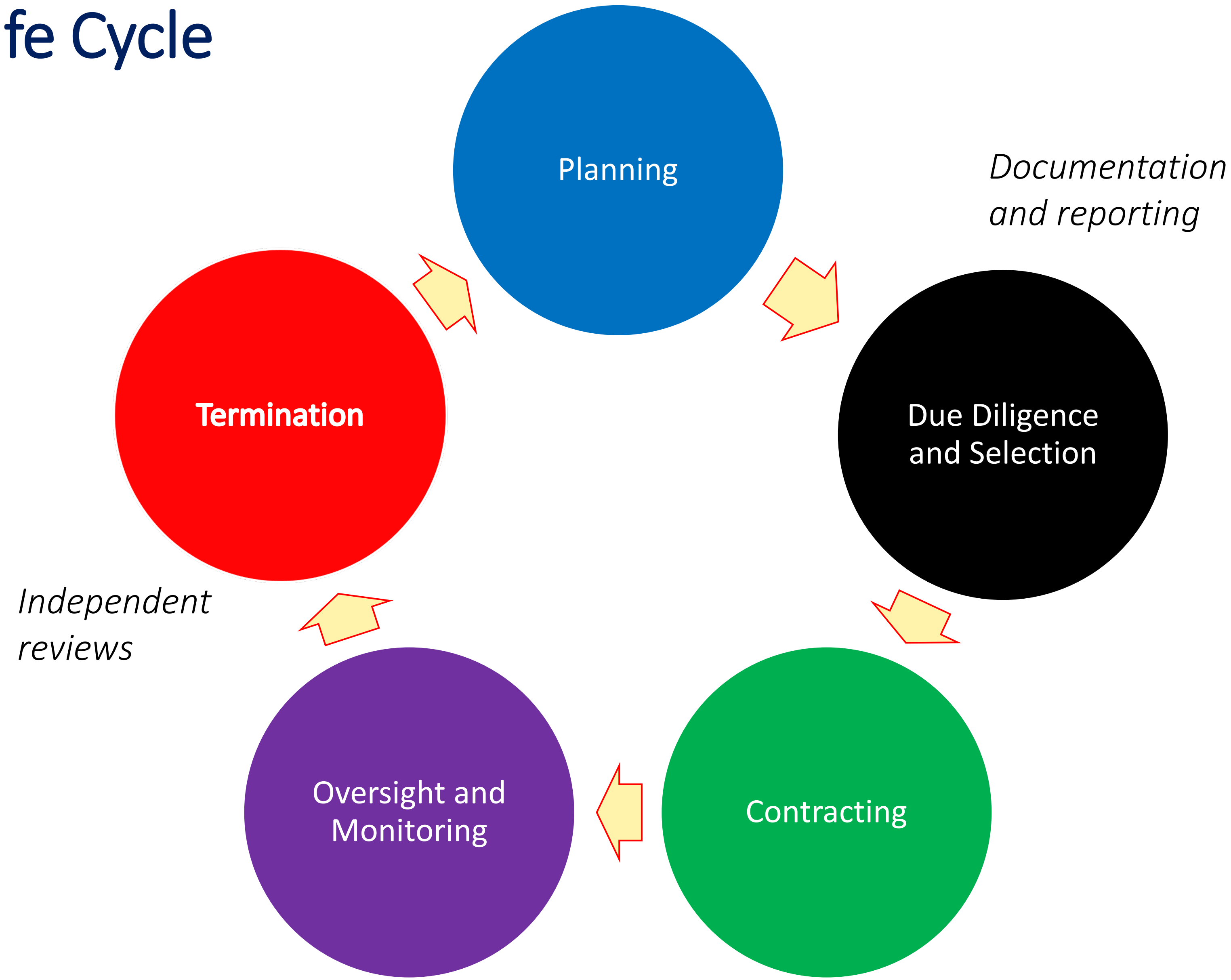
Areas of Discussion

- Fintechs as Service Providers for Banks
- Fintechs as Financial Vehicles/Partners for Banks
- Merger and Acquisition in the Bank/Fintech Marketplace

Fintechs as Service Providers for Banks

- Considerations for entering and monitoring fintech service provider relationships are the same as for other vendor relationships in terms of process
- Proposed Interagency Guidance on Third-Party Relationships: Risk Management from the FDIC, OCC and Federal Reserve Board (7/19/21)
    - Heavily based current OCC Guidance, including FAQs
- FDIC/OCC/Fed issued a Guide for community banks on conducting due diligence on fintech companies (8/21), after the Interagency Guidance
- Fed published a paper on bank/fintech partnerships (9/21)
- Risk-based approach depending on factors such as complexity of the relationship and whether the relationship relates to “critical activities”

Third-Party Relationship Life Cycle



Key Principles of Good Third-Party Relationship Risk Management

- An organization can outsource the task but not the responsibility
- All phases of third party risk management are important to the regulators
- Ensure policies and procedures are appropriate to the risk
- Well-defined processes for new vendors and to manage existing ones—document/execute, document/execute, repeat
- “Collaboration” can be a synergistic key to better results

Fintechs as Financial Vehicles/Partners for Banks

- Considerations for Bank-Fintech Financing/Sponsorship Arrangements
  - Diligence and monitoring of enterprises
  - Compliance management and awareness – exercise of control
  - Volume controls
  - Ownership and sharing of customer information
  - Termination/wind-down and ongoing obligations
  - Arrangements with funding sources

fidem financial

SANJI GUNAWARDENA
PRESIDENT

NOVEMBER 8, 2021

MARKET TRENDS

Issuers are contemplating ways to divest off non-strategi portfolios

- Reduces credit loss provisions to boost earnings
- Increase customer application approvals
- Release capital and resources for other uses
- Improves issuer reported credit performance

WHAT WE DO

Capital & operational partnership as an:

Asset Manager for Existing Lending Assets

We purchase existing assets in consumer finance across product categories such as credit card receivables and consumer loans.

Marketing Manager for Acquiring New Lending Assets

We fund and run new channels that leverage industry leading expertise.

HOW WE DO IT

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Fidem purchases receivables; Bank partner releases capital and loan loss reserve held; Bank redeploys that capital as it sees fit, i.e., flow to earnings and book value, support other programs, repurchase stock, etc.

The assets move into a special-purpose entity (SPE) managed by Fidem with funding provided by experienced credit card investors.

Accelerate Performance

Fidem pays the partner Bank for servicing, which receives additional cashflow from its existing scale, and thereby greater revenue efficiency.

Bank can therefore grow its asset base, increase the quality of that asset base, and increase revenues without deploying additional capital or loan loss reserve.

Highly Efficient Operating M

Most banks prefer to retain servicing, ensuring no disruption to Customer Experience, but Fidem also has the ability to fully convert portfolios into our own servicing infrastructure.

WHAT YOU CAN EXPECT

Fidem has created a platform to source, fund, acquire, and manage credit card receivables

Banks benefit by partnering with an experienced team that can move quickly and with confidence to complete transactions.

Investors benefit by having an industry-leading team identifying, underwriting, and managing transactions.

Our approach creates attractive economics for bank sellers

Transactions are designed to maximize Loan Loss reserve releases, minimizing impact to long term revenues and profitability.

We operate under two models:

- Retained service model where the issuer will continue to service assets
- Full portfolio conversion to a different servicer

WHO WE ARE

We are world class operators that have deep expertise in credit card and consumer lending businesses

SANJI GUNAWARDENA	President
JEFF GIVEN	Head of Business Development
DALE HOOPS	Chief Risk Officer
SHANU YADAV	EVP Corporate Development
JIMM BELL	Chief Operating Officer
GERARD WIJEYERATNE	Controller
CHRISTOPHER RAJIAH	Chief Revenue Officer
STEVE HOOPS	Credit & Collections

OUR TRACK RECORD

Fidem Financial is part of ECN Capital Corp. (TSX: ECN) is a team of credit card industry experts with over

250 years of collective experience

$3.2B	Receivables purchase transactions completed over the last 36 months
$39M	Reduction in losses vs. initial valuations
30%+	Equity returns to date, even with COVID-19 impact
00	No triggers breaches based on performance and in some case overall losses trends are returning to pre-COVID levels

Our team has led business and risk functions across most major national and regional issuers

LET'S TALK

We deliver the right asset growth and return at every stage of the transaction lifecycle

Sanji Gunawardena

PRESIDENT

Fidem Financial

M&A with a FinTech - From the Seller's Perspective

- Any sales transaction with a NonBank Buyer (including a FinTech) presents greater risk
- At the same time, that transaction may present greater opportunities
  - The Bank being sold may be in a market less attractive to existing financial institutions
  - A NonBank Buyer may be motivated to pay a larger purchase price/offer preferential terms
  - A NonBank Buyer may be less concerned with the term and duration of the selling bank's core contracts
  - A NonBank Buyer may be less motivated by expense eliminations – fewer staff layoffs

Transaction Risks to the Seller

- The biggest risk is whether or not the Buyer can put together an approvable application
  - Transaction likely held to same standards as a de novo application
  - Transaction may raise Reg W issues
- The time period from signing to closing is likely to be greater, which increases the risk of a material adverse change
- NonBank Buyers may be less tolerant of issues arising during diligence

Mitigation of Transaction Risks

- Forfeitable Earnest Money
  - A Seller should ask for more earnest money and require it to be forfeited even if regulatory approval is not obtained
- Reverse Due Diligence
  - Review the Buyer’s plans, capital, growth projections, proposed management changes, affiliate relationships, etc.
  - Think about how the Buyer can answer the question “why this Bank?”
  - Push to attend the pre-filing meeting
- Think about how the transaction is structured

Case Study

Mid-Central Federal Savings Bank – Mid-Central National Bank

- Jiko (https://jiko.io/)
  - A true “fintech” – Jiko enables customers to invest in government-backed Treasury Bills in $100 increments and still use the “account” for transactions via debit card with cashback features and proprietary account features designed to protect privacy
- Long Transaction Life-Cycle
  - Pilot program, followed by applications, including a conversion application
- Why this Bank?

M&A with a FinTech - From the Buyer's Perspective

- Permissibility
- Diligence
- Structural Issues
  - If BHC is Buyer, is the Target engaged in a listed permissible NonBanking activity? Can the BHC operate the business as a financial holding company
  - If the Bank is the Buyer, are we sure it is an activity in the business of banking or incidental thereto?
  - Is it an asset purchase, stock purchase or merger?
  - Which structure is better?
- Applications, HSR filings and other issues

Glen P. Trudel

Speaker

- Glen is a consumer financial services, banking, and business attorney who counsels financial institutions, marketplace lenders, "fintech" entities, and others on both regulatory and transactional matters. Glen has significant experience with documenting a wide variety of vendor outsourcing, servicing and other partnership arrangements, including marketplace lender platforms and structures, and with the acquisition and divestiture of consumer and business credit card and other loan portfolios. He advises financial institutions and other entities on a variety of vendor outsourcing and administrative issues, debt sales and collection agreements, and other transactions.

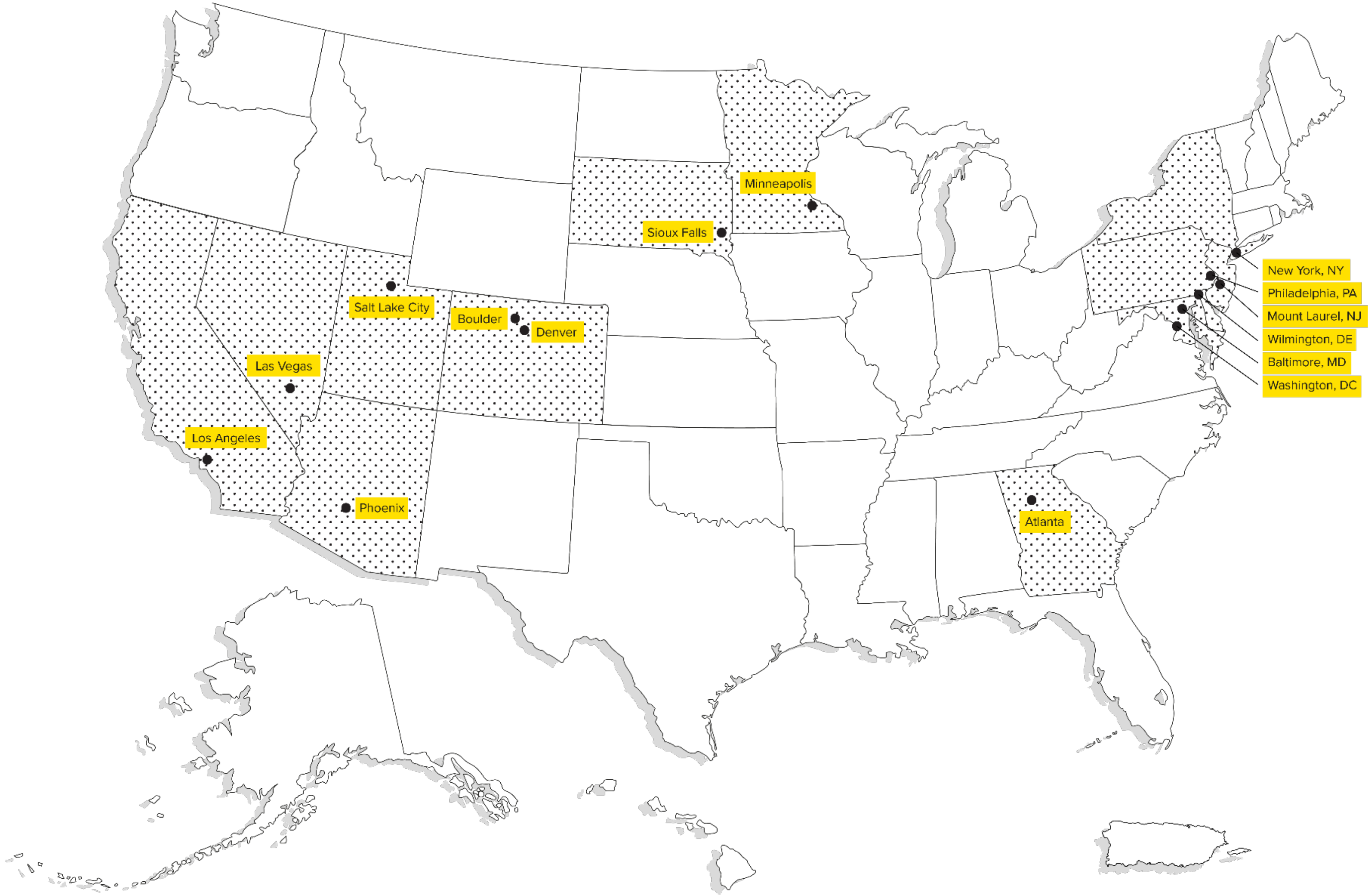
- Former SVP and Counsel with MBNA America Bank, N.A. (now part of Bank of America). During his 14 years with MBNA and since then, Glen has advised on a broad variety of general purpose and private label credit card/unsecured lending, deposit, and other bank regulatory issues. Glen has extensive experience in representing card issuers and partners in the negotiation, structuring, creation, and administration of joint marketing, co-brand, affinity, miles/reward program, and enhancement agreements, as well as account portfolio acquisitions and divestitures.

Scott Coleman

Speaker

- Partner at Ballard Spahr and a member of the firm's Business and Finance, Mergers and Acquisitions, Mortgage Banking, Banking and Financial Services Groups
- He has represented banks and bank holding companies in connection with mergers, stock purchase transactions, branch purchase and assumption transactions, capital raising, corporate restructuring, branching, NonBank acquisitions, changes in bank control, and de novo charters
- Scott has significant experience in a wide range of regulatory matters, including CRA, Reg O, Reg W, Reg Y, interstate banking, brokered deposit rules, lending limits, Basel III, and regulatory capital guidelines
- He also represents bank stock lenders and subordinated debt purchasers
- The Best Lawyers in America, banking and finance law, financial services regulation law, 2010-2021

Ballard Spahr's Offices



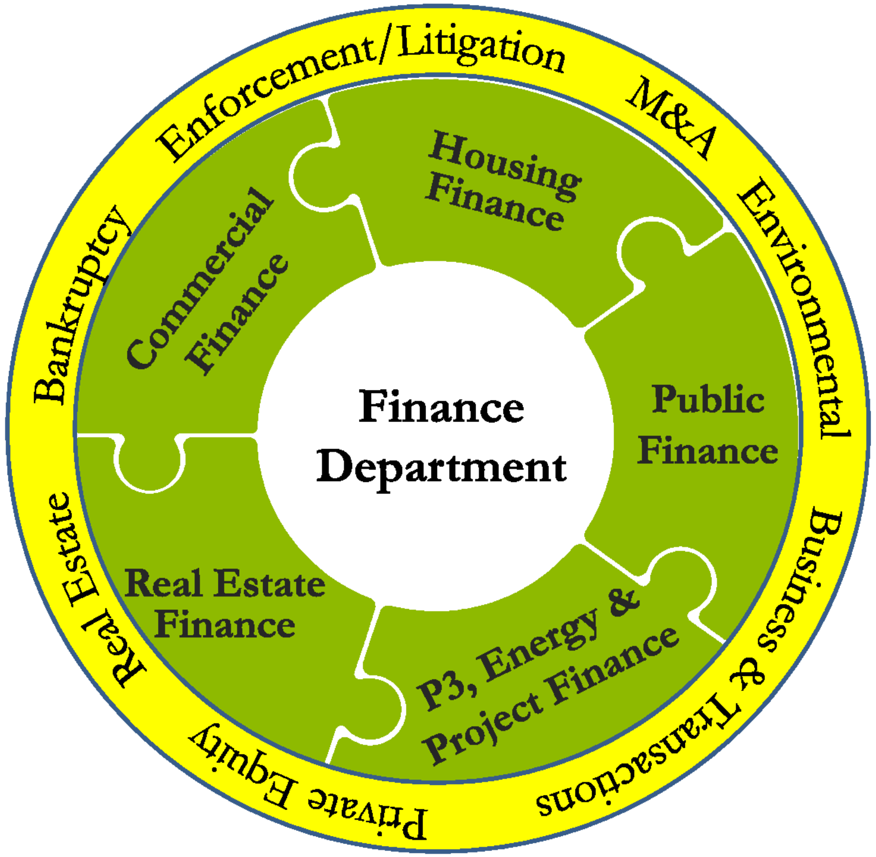
Finance Department at Ballard Spahr LLP

Financing the Future

Our **P3/Infrastructure** Group counsels clients in public-private partnership (P3) projects to build and improve infrastructure - from transportation systems to social infrastructure.

Our **Real Estate Finance** Group represents providers of all forms of capital in real estate based financings.

Our **Public Finance** Group is national, having participated in the issuance of more than $1 trillion of tax-exempt obligations in every US State



Our **Energy and Project Finance** Group provides results to clients in this fast-changing industry, in the development, acquisition, financing and regulation of energy assets.

The **Housing Finance** Group represents lenders on Fannie Mae, Freddie Mac, HUD and conventional financings for multifamily housing, student housing and seniors facilities.

Our **Commercial Finance** Group represents clients in the lending, borrowing, and arranging of capital through a variety of deal structures and project types.

Finance Department at Ballard Spahr LLP

Financing the Future

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Thank you!