EXAMINATION PLANNING MEMORANDUM

	Examination Information
Name of Financial Institution:	b4,b8
Location (City, State)	
Certificate Number	
EIC/Prepared By:	b8
As of:	June 30, 2024
Start:	October 07, 2024
Estimated End:	November 15, 2024
Estimated Hours:	b4,b8

EXAMINATION RATINGS and DATA

	Prior Examination 03/13/2023 / S	Prior Examination 09/20/2021	Prior Examination 03/30/2020 / S
CAMELS Rating	b4,b8		
IT Rating			
Trust (if applicable)			
Compliance (rating/date)			
CRA (rating/date)			
Adversely Classified Items Coverage Ratio			

EXAMINATION PLANNING RATIOS

	Current Quarter Ratios 06/30/2024	Year-end Ratios 12/31/2023	Prior Year-end Ratios 12/31/2022
Total Assets	b4,b8		
Tier 1 Leverage Ratio			
Asset Growth Rate			
Net Interest Margin			
Return on Avg. Assets			
Total PD*/Gross Loans			
Allowance for Credit Losses on Loans and Leases/Total Loans and Leases			
Net Loans/Total Assets			
Net Non Core Dependency ($250M)			

*All past-due loans plus nonaccrual divided by gross loans

OTHER RISK MEASURES

Other Risk Flags	Comments
b4,b8	The level of exposure is very elevated due to the rapid growth and significant exposure to 1-4 family loans and C&D (mostly 1-4 family).
b4,b8	b4,b8

Risk Indicators: Y	b4,b8

	C	A	M	E	L	S	Comp
SCOR: 03/31/2024	b4,b8						
Probability of Downgrade (%):							

PRELIMINARY RISK ASSESSMENT

- *Provide a brief description of the institution's business model, risk profile, and complexity.*
- *Summarize discussions held with institution management and case manager.*
- *Briefly comment on risk for each examination area.*
- *Discuss planned procedures and workpaper documentation, commensurate with the risk presented for each examination area.*

Overview of the institution's business model, risk profile, and complexity: ***Describe the institution's business model, including identification of the financial activities in which the institution has chosen to engage. Describe the risk profile through a determination of the types and quantities of risks to which the institution is exposed and the quality of the risk management practices used by institution management to control these risks. Describe the complexity of the institution's operations, including a review of its balance sheet structure and scope of the business lines, customer base, and product and service offerings.***

BUSINESS MODEL

Th b4,b8 b4,b8 LPOs. The LPOs are throughout the state of b4,b8 and the branches are all in central b4,b8 A lease is in place for an LPO i b4,b8 to open in the near term. The bank is wholly-owned by a non-complex, shell holding company b4,b8 b4,b8 b4,b8 b4,b8 b4,b8 b4,b8 b4,b8 b4,b8 In 2024, management has initiated the process to begin working with a crypto exchange and is in the process of seeking regulatory approval/guidance for such a partnership. Management also added a b4,b8 Fintech customer b4,b8 in 2024, which significantly expanded cash and ACH activity related to b4,b8 companies. Both the crypto-exchange and b4,b8 dded b4,b8 of non-interest bearing deposits as well. Management has moved to a larger reliance on wholesale funds, primarily brokered deposits, to fund growth. Core deposits now account for just b4,b8 of average assets as of June 30, 2024, down from almost b4,b8 at year-end 2022. Brokered deposits account for b4,b8 of average assets, up from b4,b8 over the same time.

RISK PROFILE

The overall risk profile is increasing and is elevated given the rapid growth funded primarily by wholesale funding, non-traditional deposit sources (crypto b4,b8, offering of new services b4,b8 banking/crypto exchange b4,b8 and weakening earnings performance and capital ratios. While the loan portfolio remains focused in 1-4 family lending, there is an elevated exposure to C&D b4,b8 of Tier 1 Capital and ACL). CRE exposure in total i b4,b8, but falls to b4,b8 if owner-occupied credits are excluded per guidance. Additionally, while not at alarming levels, the past due trend for 1-4 family loans and C&D loans are both trending poorly.

The rapid growth presents an elevated level of risk. Total assets have b4,b8 in the 30 months between year-end 2021 and June 30, 2024. Core deposit growth only accounts for abou b4,b8 of the funding for the growth, with the remainder primarily coming from brokered deposits (now b4,b8 of average assets) and large time deposits. This change in funding mix, combined with the increase in interest rates, has compressed the NIM from b4,b8 to b4,b8. As the margin has declined, management has sought out new non-interest sources of income, including b4,b8 b4,b8 Management is also actively pursing additional third-party processor arrangements related to b4,b8 b4,b8 payroll processing for b4,b8, as well as additional relationships with other digital asset exchanges,

Capital retention has also not kept up with asset growth. The Tier 1 Leverage ratio is down from b4,b8 at year-end 2021, to b4,b8 as of June 30, 2024. While dividends have been modest, and the holding company has injected b4,b8 b4,b8 in capital over this time-frame, the growth has far outpaced retention.

The addition of the b4,b8 b4,b8 b4,b8, and exposure to crypto assets (bank has some crypto exchange deposit accounts and is planning to partner with an exchange to give customers direct access to crypto trading through an application), presents a very high level of risk, both through third-party risk, and operational risk due to the significant increase in risk management and operational demands on staff. Of note is that the website for the b4,b8 b4,b8. Such services greatly increases the risk posed by such a company.

Management also has a significant relationship with a large third-party payment processor, b4,b8 b4,b8 is a b4,b8, who works with traditional businesses as well as b4,b8 to provide payment solutions. Management is also actively looking to add additional TPPPs, one being b4,b8 to facilitate b4,b8, and b4,b8 to process payroll for b4,b8

AML/CFT risk is elevated and increasing as discussed below due to the continued and increasing servicing of cash intensive b4,b8 related businesses. The relationship with the crypto exchange, while not in place yet, also displays an elevated degree of risk tolerance from management and the board as wire activity is expected to increase by around b4,b8 wires a month if the agreement with the crypto exchange in implemented.

COMPLEXITY

The bank now represents a very high level of complexity. The desire to enter into the crypto market, on top of already heavily banking b4,b8 related companies, b4,b8, and starting up an b4,b8 all in a very short window, paired with rapid growth, presents a very complex institution. The rapid growth and high reliance on wholesale funding also creates significant complexity for all component areas.

Discussions: ***Include the date, names, and summary of discussions held with management. Also include the date, name, and summary of key risk discussions with the case manager, field supervisor (FS)/supervisory examiner (SE), and institution's external auditor.***

Bank Management

EIC b8 held a discussion with President/CEO b4,b8 on August 22, 2024. President b4,b8 reported that the main challenges facing the bank have been the rapid increase in rates, which drove down mortgage activity and increased funding costs. He also noted that the regulatory environment is challenging, as the bank is active in several products/services with heavy regulatory focus. He stated that management has had a good relationship with regulators in the past on such issues, and hopes that the expansion into digital assets will go as well as the expansion into b4,b8 banking. President b4,b8 expressed his belief that community banks need to be looking to change and be innovative, and that not doing so would likely lead towards becoming obsolete.

He stated that the local RE economy has been slow, but that recent months have seen an uptick in activity.

President b4,b8 reported that he believes management has done a good job bringing on experienced personnel to help manage the several new products/services. New staff was hired to managed the b4,b8 banking operations, which are just getting started. Management has also hired some employees with digital asset experience, and contracted with some others, to help plan the entry into the digital asset marketplace through the partnership with b4,b8. Other than those additions, there were b4,b8 b4,b8

Case Manager

The EIC discussed the upcoming examination with CM b8 s at multiple points during September and October 2024 to ensure the scope included any areas of concern.

Supervisory Examiner

The EIC discussed the examination plan with field management (SE b8

b8) during several conversation in September and October 2024 prior to the exam to include any of their concerns in the scope.

A discussion was also held on September 23, 2024, with representatives from the b4,b8 Chicago RO, and the WO Emerging Technology group. The discussion centered around the planned digital asset exchange activity, and the resources available from the Emerging Technology group. There was also discussion about investigating any future fintech related plans of management due to the recent hire of a VP of Fintech.

External Auditor

A standard CPA contact letter was sent to external auditor b4,b8 , via email to b4,b8 on August 22, 2024.

Examination Areas and Planned Procedures: ***Comment on CAMELS, specialty examinations, and other areas based on the preliminary review of available information (such as the UBPR, risk profile, request list items, etc.) and discussions with the case manager, FS, and institution management. Evaluate risk for each examination area. Provide direction on planned examination procedures, and describe procedures being conducted for training purposes, if applicable.***

In accordance with outstanding instructions, examiners will complete the Core Analysis Decision Factors in the primary ED modules in ONE Resource. Examiners may use the supplemental ED modules if deemed necessary.

Examiners will complete the Interest Rate Risk and Liquidity Risk Response Form and Credit and Consumer Products/Services Survey.

CAPITAL

Capital retention and augmentation has not kept up with asset growth in recent years, resulting in declining capital ratios. Management had elected to use the CBLR in recent years, but was forced to stop using it as the Tier 1 Leverage ratio b4,b8

b4,b8

b4,b8 Capital planning, risk limits, and the strength of the holding company will all be reviewed closely.

ASSET QUALITY (including loan scope)

The primary line of business for lending continues to be 1-4 family related loans. As of June 30, 2024, over b4,b8 of the loan portfolio, and nearly b4,b8 of Tier 1 capital and the ACL are 1-4 family related loans (1st or 2nd liens or construction of). The construction piece related to 1-4 family homes is b4,b8 capital. Total CRE, including NOO, is b4,b8 . As the total exposure to C&D loans is b4,b8 of Tier 1 Leverage capital and the ACL, the Examiners will complete the CRE work-program. Examiners will also closely review underwriting, especially for the new 1-4 family loans originated, and sample CRE and C&D loans to ensure sound administration and underwriting.

b4,b8

MANAGEMENT

Given the significant growth, and addition of new products and services discussed in the Risk Profile and Complexity sections above, risk management practices and strategic planning will be a major focus of the examination. Particular focus will be given to the processes of selecting, and the ongoing risk management of third parties, the decision making process to add new services, and growth/earnings/capital plans. Board involvement in risk selection, the quality of information brought by management to the board for making decisions, and the quality of b4,b8 for monitoring new initiatives will also be areas of focus.

EARNINGS

b4,b8

b4,b8 It is clear that management has brought on additional staff in specialty areas to grow those lines of income, but that income has not grown to a level to support the overhead. Management's plans for maintaining or growing non-interest income will be a focus of the examination, as it is clear from the expansion of products and services that alternative sources of income are a significant priority. Due to the rapid changes, budgeting will also be closely reviewed.

LIQUIDITY

b4,b8

b4,b8 A portion of these deposits are related to the relationship with the b4,b8 and crypto exchanges. The volatility of these deposits will be closely evaluated during the exam. Given the high volume of non-core funding and rapid growth history, examiners will review funds management practices closely, evaluating risk limits, stress testing, and the contingency funding plan. Examiners will also discuss long-term liquidity plans.

SENSITIVITY TO MARKET RISK

b4,b8

b4,b8 Examiners will evaluate management's strategy to deal with the mismatch of pricing. Also, given the significant sources of non-interest income, how management considers those sources when looking at risk limits for sensitivity to market risk will also be closely reviewed.

ANTI-MONEY LAUNDERING/COUNTERING THE FINANCING OF TERRORISM (Including complexity assessment)

The bank operates out of b4,b8 Management is active in banking the b4,b8 banking industry. b4,b8 banking services include direct relationship sourced through the bank's Specialty Banking Division. Additional activities include b4,b8 solutions through its sponsor relationship with Third Party Payment Processors such as b4,b8 that manage programs such as a b4,b8 b4,b8 b4,b8 b4,b8 b4,b8 Management reports all processing services for direct b4,b8 merchants was turned off. b4,b8 b4,b8 Management has also added a relationship with a Fintech, b4,b8, that significantly expands banking services to this industry. b4,b8 has developed a client interface that provides a full online banking platform tied to b4,b8 proprietary subledger system. b4,b8 and two other b4,b8 sponsor banks, b4,b8, transact payment banking services through b4,b8 clearing accounts

where funds are collected prior to moving out to either b4,b8, or alternatively credit to b4,b8 FBO account for b4,b8 customers. b4,b8 b4,b8 Moreover, bank is evolving its "banking as a service" offerings and has recently notified the FDIC of its planned engagement in crypto-related activities.

b4,b8

b4,b8

b4,b8

INFORMATION TECHNOLOGY (Including complexity assessment)

Background, ITP, and IT Environment:

The Information Technology Profile (ITP) was completed on July 22, 2024. The ITP Scoring Matrix reflects a Net Technology Profile Score of b4,b8

b4,b8

Management noted no IT related security incidents since the previous examination, no foreign contracts, and no involvement in blockchain technology. b4,b8

b4,b8

Prior IT Examination:

b4,b8

IT Examination Scope:

The IT Examination will include review of the bank's conformance with the Interagency Guidelines Establishing Information Security Standards (Appendix B to Part 364 of FDIC Rules and Regulations). The Interagency Guidelines on Identity Theft Detection, Prevention, and Mitigation (Appendix J to Part 334 of the FDIC Rules and Regulations) will be reviewed. Examiners will use the Information Technology Risk Examination (InTREx) work programs to evaluate the IT environment. The scope of the IT examination will emphasize controls surrounding critical components including network operations and monitoring, information security controls, and cybersecurity preparedness. Examiners will focus additional emphasis on wire transfer and ACH controls due to high activity noted. Project Management and Vendor Management will be in focus due to changes in key vendors and key technologies implemented. Examiners will limit the review of audit to the recommendation in the last Report and review of the audit scope and the audit risk assessment. In addition, Business Continuity Management will be limited to review of program guidance, disaster recovery tests/ tabletop exercises performed, and training provided for staff. All other areas are expected to receive normal review.

b4,b8

Examination Staff	Aug 26-30	Sept 2- 4	Sept 9-13	Sept 16-20	Sept 23-27	Total Hours	Assignments
b8 (EIC)	b4,b8						Management with focus on key management changes, Wire Transfer and ACH, and Audit
b8							Development and Acquisition, to focus on Project Management, Vendor Management. Support and Delivery, with the exception of Wire Transfer and ACH. Also, the Information Security and Cybersecurity Workprograms.
Projected Hours							

Logistics:

The on-site examination will occur the week of September 16 and possibly a couple days the week of the 23rd. All meetings will be held onsite and meeting times will be set-up with bank management during an initial kick-off meeting the week of September 9th, at a time to be determined. Examiners will be working in a conference room at the bank's b4,b8 A telephone meeting will be set up with management to discuss logistical information the week of b4,b8

Conclusion:

The IT examination concluded the week of September 23rd and an exit meeting was held with management on

September 25th. The preliminary findings are b4,b8

b4,b8

TRUST (if applicable) (Including complexity assessment)

OTHER (if applicable, including any specialized business lines or characteristics)

b4,b8

b4,b8

Internal Routines and Controls

With the rapid growth in asset size, examiners will sample some internal controls, including vault procedures, official checks, GL reconciliations, and insider expense approvals to determine if controls are appropriate.

b4,b8

STAFFING AND ASSIGNMENTS

Examiner	Assignment	Location (On-site/Off-site)
1.	**EIC**	On-Site
2.	**OM**	Hybrid
3.	**AM**	Hybrid
4.	**IT**	Hybrid
5.	**AML/CFT**	Hybrid
6.	Loans/Mortgage Banking	Hybrid
7.	Loans/CECL	Hybrid
8.	Loans	Hybrid
9.	Operations	Hybrid
10	Mortgage Banking	Hybrid
11	Operations	Hybrid
12	Loans	Hybrid
13	Loans	Hybrid
14	Loans	Hybrid
15	Operations	Hybrid
16	AML/CFT	Hybrid
17	Merch CC Sub	Hybrid
18	IT	Hybrid
19	Crypto	Hybrid
20	AML/CFT	Off-Site
21	AML/CFT	Hybrid
22	Loans	Hybrid
23	Loans	Off-Site
24	Loans	Off-Site
25	Loans	Off-Site

b8

Other Staffing Notes:
1) Concurrent to the examination, the Emerging Technology Group will be conducting a review of management's proposed relationship with the crypto asset exchange b4,b8
2) There is a need for additional experienced staffing to assist in the review of the b4,b8 b4,b8 This could potentially be very high risk activity given the types of customers targeted by the b4,b8 and the amount of income generated, which was over b4,b8 through June 30, 2024.
3) Additional assistance and expertise could also be needed to help evaluate the new b4,b8 b4,b8 program, as office SME in that area have limited availability during the examination.
4) Due to the massive increase b4,b8 activity through the b4,b8 relationship, as well as risks posed by TPPP relationships, the b4,b8 and planned digital asset activity, additional resources could also be needed in the AML/CFT review to ensure that a comprehensive review is completed in a timely manner.

Total projected hours of b4,b8 The complexity and rapid change fully supports exceeding benchmark targets. Additionally, there will be some training hours. With loan review available to be done remotely, as well as some officer not being local, remote work will be utilized when appropriate. It is projected that between 25-30 percent of hours will be on-site.

Communications Plan: Document request should go through RO b8 via the AM or OM. The EIC will have weekly discussions with b8 of the Emerging Technology group to discuss findings related to management's plans to engage in digital asset activities through exchanges.

TRAINING

Pre-Commissioned Examiners	Trainer	Benchmarks
1.	b8	Various operations
2.		Loan review (CRE Work-program)
3.		Loan review
4.		Loan review
5.		Securities, Earnings, Capital
6.		
7.		
8.		
9.		
10.		

LOGISTICAL INFORMATION

	Information
Institution Address & Parking Info	b4,b8
Working Hours	8:00AM to 5:00PM Remote loan review will start at 8:30 AM as management must initiate each session daily.
Dress Code	Business Casual
Connectivity Plan	Cell coverage is good
Key Institution Management Absences	None
Other	

EXAMINATION NUMBERS

Safety and Soundness	AML/CFT	Information Technology	Trust (if applicable)
b4,b8			

EIC b8			
FS/Designee Approval	b6,b8		Date 10/3/2024