The Premise for Cultivating Wealth Management Services for Community Banks

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Table of Contents

Executive Summary

In evaluating the generational transfer of wealth, community banks must consider competing in the wealth management space. Services such as digital robot advisors, generational wealth planning, defined benefit plans, and integration of wealth management into the overall sales strategy of traditional bank products will all be part of a successful business line. To achieve the vision will require significant investment in acquisition of wealth professionals and their existing book of business or significant investment in developing a customized wealth management platform in collaboration with a technology firm. Competing in this space will aid liquidity constraints as CD balances wane off community bank balance sheets over the next generational cycle. It also provides community banks the opportunity to attract more sophisticated clients, improve the mix of deposit customers, and increase value to shareholders as the program scales.

Bank Independent is proposing a revenue share model that allows the Bank to build on more than 70 years of legacy. By leveraging a strategic vendor partner to create a new business line, the Bank would be required to hire investment advisors and build a book of business. The Bank would serve as the account owner while the vendor partner would take on the compliance, risk, technological, and licensing responsibilities of the program. This partnership through an Ameriprise or LPL Financial will more easily enable the cultivation of a long-term, sustainable business line to help the organization deepen existing relationships and onboard new client opportunities that were previously unattainable. Most of this opportunity is expected to come from the Madison County market due to a higher concentration of high-net worth clients and strong commercial businesses. The Bank is very active in the market from a lending perspective

and continues to grow commercial client relationships, but wealth management services continue to be a frequent request from this customer base.

The financial implications of building a successful wealth management program start with investment services. This directly supports the Bank's strategic objective to deliver sustainable earnings by offering a new source of non-interest income. The vision for the new business line will center around leveraging the exiting portfolio of 4,000 commercial clients believed to have a need for defined benefit plans. Further, the Bank has identified consumer investment opportunity as potential driver of success especially IRA/401K rollovers and personal stock portfolios. This business will also enable the Bank to be more strategic and proactive in managing liquidity by deepening existing relationships and cross-selling services to new clients. The Bank does not believe it will sustain long-term deposit disintermediation from developing this program, but rather expects core deposit growth as a result of a successful investment services strategy.

The biggest obstacles to success will be the recruitment of investment advisor that fit into the larger culture of the organization, integration of investment services into the larger Sales Team strategy, and fostering an environment to cultivate existing team members into investment professionals over time. The organization will also be responsible for ensuring incentive structures are compliant with current regulation and develop tactics to achieve the vision while maintaining the necessary separate between FDIC insured products and non-FDIC insured products. The primary goal of cultivating a long-term sustainable business line that protects client deposits while strengthening relationships is attainable and scalable by utilizing a vendor partner. The implementation and maturation of investment services will strengthen the Bank's ability to remain true to its vision of being the bank of choice in the communities it serves.

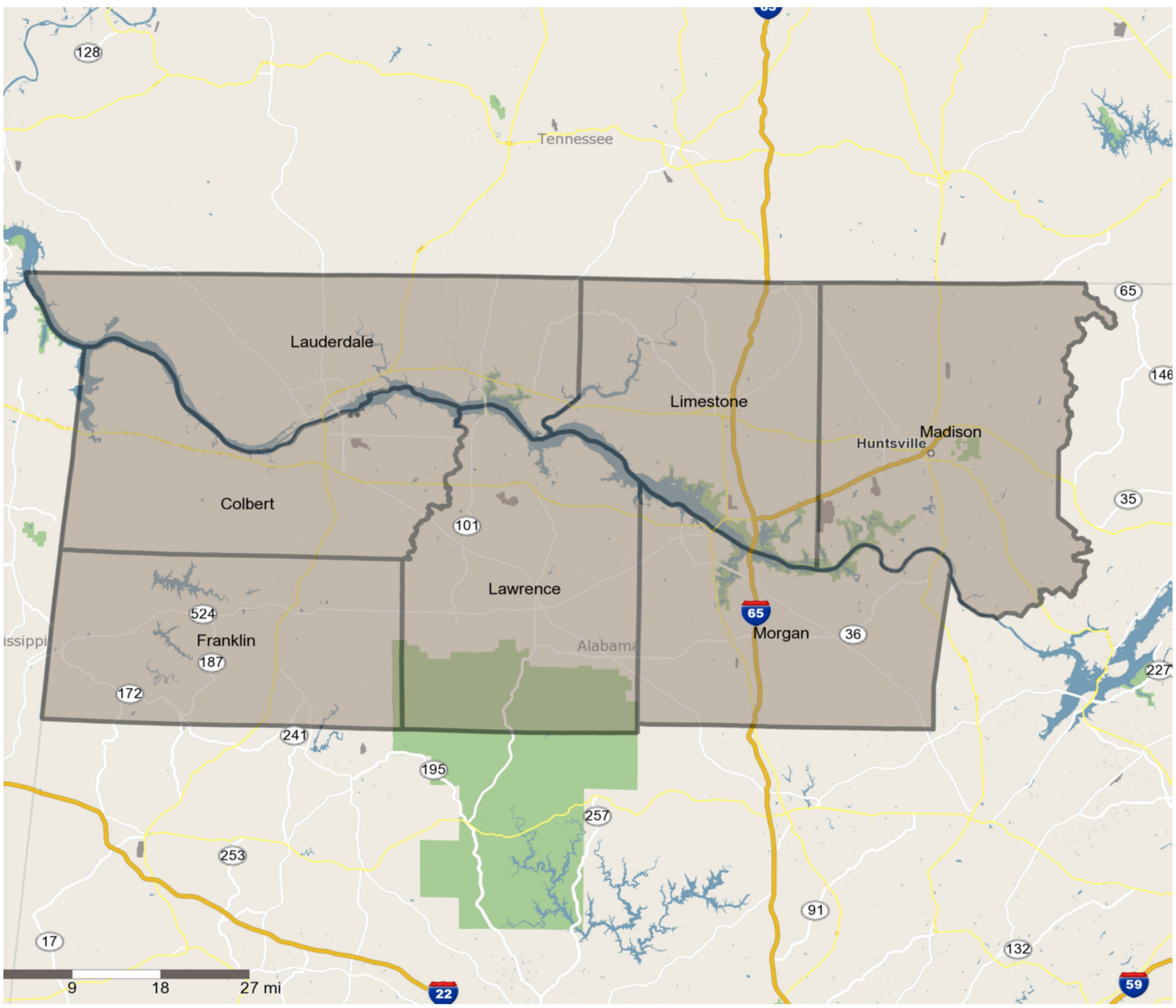
Introduction & Background

Legacy of Organization

Bank Independent was founded specifically to serve the needs of the community after Leighton's only bank left town in 1947, leaving the community without banking services for the first time since 1903. A group of Leighton farmers recognized the needs of the community and pooled their resources to open The Bank of Leighton. This new aggressive organization was renamed First Colbert Bank in 1965 and soon advanced from a state-chartered bank to a national bank in 1967. In 1975, the organization chartered The Bank of Florence in Lauderdale County, Alabama. The two banks merged in 1982 to become Bank Independent with roughly $150 million of assets. The organization continued to expand its branch network in extreme Northwest Alabama before expanding into Morgan and Limestone Counties in 2002 broadening the footprint to four counties. In 2005, Bank Independent purchased seventeen branches from Colonial Bank in locations throughout north Alabama, resulting in 25 offices of Bank Independent operating in fifteen communities and six counties. The bank grew to approximately $800 million of assets with the acquisition of Citizens Bank of Moulton in 2008 which provided nearly $200 million of liquidity. The additional funding capacity was quickly put to work through the acquisition of Interstate Billing Service in 2009, a nationwide corporate billing service based in Decatur, Alabama. Interstate Billing Service utilizes approximately $225 million of liquidity providing an annualized yield exceeding other asset categories at the organization. The latest expansion opportunity came in 2014, when the organization moved into Madison County, Alabama to benefit from strong growth in Huntsville. Over the past 70 years, Bank Independent remained closely held by the family that founded the organization. In that time, Bank Independent grew its contiguous footprint from one to seven counties, asset size from $30 million to $1.6 billon, and employee base from 25 to 560.

Market Background

Bank Independent's footprint remains in the northwestern quadrant of the state of Alabama as represented in Exhibit I:



Traditionally, this region of Alabama was dominated by agriculture and rural communities. To a large extend this still holds true apart from Madison County which includes the Huntsville Metropolitan Statistical Area (MSA). The Bank's footprint should be viewed as two distinct areas, one being a six-county footprint to the west of Interstate 65 and the other as Madison County. The six-county footprint represents mostly rural communities with vibrant small cities providing anchors to their respective geographical areas. In contrast, Madison County contains the state's third largest city and the highest population growth rate in the state[1]. A large contributor to this growth is fueled by investments from NASA, Boeing, and the Department of Defense resulting in a relatively educated work force compared to surrounding counties. According to Data USA, median household income for the state is $46,257 compared to $60,503 for Madison County and an average of $43,986 for the other six counties in Bank Independent's footprint. Madison County represents the second highest median household income of any county in the state[2]. Madison County outperforms state-wide statistics as well as our six-county footprint for several economic measures as outlined in Exhibit 2:

		Six-County	Madison County	Statewide
Median Household Income	2016	$ 43,986	$ 60,503	$ 46,257
Unemployment	Jun-18	5.05%	4.40%	5.00%
Poverty Rate	2016	17.63%	14.10%	17.10%
Median Property Value	2016	$ 113,100	$ 178,200	$ 136,200
Employment Growth	2016	0.37%	8.77%	2.10%

[1] (Gattis, Real-time News from Huntsville, 2017)
[2] (Data USA: Alabama/Economy, 2016)

According to the FDIC, Bank Independent's seven county footprint contains approximately $13.4 billion of bank deposits as shown in Exhibit 3 below:

FDIC Deposit Market Share as of June 30, 2018			
Colbert, Franklin, Lauderdale, Lawrence, Limestone, Madison, & Morgan			
Institution Name	**Number of Offices**	**Deposits ($000)**	**Market Share**
Regions Bank	29	$ 2,297,417	17.18%
Compass Bank	14	$ 1,483,945	11.09%
Bank Independent	26	$ 1,267,333	9.47%
Wells Fargo	11	$ 831,818	6.22%
ServisFirst Bank	2	$ 762,793	5.70%
Progress Bank	5	$ 757,096	5.66%
CB&S	20	$ 623,129	4.66%
Synovus Bank	5	$ 617,539	4.62%
First Metro Bank	9	$ 550,262	4.11%
All Others (29)	101	$ 4,184,310	31.29%

Bank Independent controls $1.3 billion of those deposits, or 9.47%, giving it the third largest share of banks operating in the northwest Alabama footprint. Most of the market share is derived from the rural, six-county footprint. As of June 2018, the organization controlled 20% of the $6.2 billion of bank deposits in the six-county footprint while only controlling 0.45% of the $7.2 billion of bank deposits in Madison County alone [3]. Further, there are 28 banks operating in Madison County with one organization, Regions Bank, owning nearly 20% of the deposit market. While Bank Independent operates 26 branches across the six-county footprint, the organization only has two branches in Madison County to serve customers. Strategic capital investment will be required to achieve deposit share goals through a combination of new branch investment as well as digital services to remotely provide the customer experience consumers demand. The median age of the Bank's deposit customer is 68 years while the median age for

[3] (Summary of Deposits, 2018)

our market is 41 skewing the Bank's customer segmentation. New deposit growth for the organization is mostly derived from Certificate of Deposit (CD) growth rather than commercial demand deposit, money market, or retail deposit growth. While Bank Independent offers traditional community bank deposit offerings, younger generations have a propensity to leverage wealth management technology to maximize returns. The opportunity for new funding will be skewed to the Madison County market where digital wealth management services is more widely expected by consumers.

Competitive Landscape

Bank Independent strives to be the bank of choice in the communities they serve, remain closely held, and deliver sustainable results by proactively managing growth opportunities. Traditionally, the organization was a consumer-focused retail bank; but through strategic acquisitions has morphed into a commercial first institution with a focus on commercial real estate and factoring through Interstate Billing Service. By focusing on customer experience and building commercial relationships with centers of influence in the communities of the traditional six-county footprint, the organization made significant gains in loan growth over the past 15 years. While the six-county market allowed for sustainable growth in capital, the biggest opportunity for expansion is Madison County. Therefore, the strategic focus shifted to maintain market share in the six-county footprint while leveraging those deposits for lending opportunities in Madison County. Since 2014, Bank Independent grew loans in Madison County by $302 million resulting in growth in earnings and capital ratios. Compared to the national peer group average at second quarter-end 2018, the Bank's ROA of 1.25, ROE of 13.03, and net interest margin of 5.50 compares favorably to the national peer group averages of 1.20, 11.35, and 3.70

respectively [4]. The success of this strategy led the organization to focus on liquidity and more specifically growing deposit market share in Madison County while filling products gaps that can be barriers to gaining new relationships. While the strategy proved successful in growing loans, the associated commercial deposit accounts did not follow the loan activity. Several of the higher net worth business loans onboarded from Madison County were closely held companies with small employment bases. In many cases, these businesses held their deposits with a financial organization providing wealth management services for the owners as well as custodian services for their respective 401K plans. Competition in Madison County will require Bank Independent to be nimble in its approach and focus on high-tech, high-touch solutions to solve for customer expectations.

Strategy & Implementation

Strategic Fit of Investment Services

Bank Independent exists to make a positive difference in the communities it serves. As such, clients have a plethora of needs that extend beyond traditional deposit and loan products. In order to retain and grow market share, as measured by deposit base, the organization will be required to evolve and scale with client needs. The current retail deposit mix consists of demand deposits, money markets, savings, and CDs. The bank is missing opportunities to service clients with investment services both digitally and/or face-to-face. The advent of Artificial Intelligence (AI) based investment solutions provides a unique opportunity for community banking

[4] (SWS Associates, LLC, 2018)

organizations to provide cost effective solutions through strategic partnerships to multiple client segments outside traditional products. There are several vendors that offer platforms and partnership models for community banks to address this opportunity and build a successful Wealth Management business line. Outside of facilitating these investment needs, a robust business line facilitates additional deposit growth prospects such as cash settlement accounts for educational plans, retirement accounts, and other life event driven financial opportunities. All these opportunities will allow Bank Independent to make a positive difference with clients as well as deepen relationships. Therefore, the organization is committed to finding a high-tech and high-touch investment services partner to cultivate a sustainable business line that can be scaled with the strategic vision of the company.

As the organization expands into new markets across Alabama, client expectations change, and the communities of North Alabama centered around the Huntsville Metropolitan Area. As noted in the FDIC deposit share reports, Madison County offers the organization an opportunity unlike the other rural areas in North Alabama with over $7 billion in deposits. Much of this deposit base consists of industries and citizens tied to the Defense, Aerospace, Engineering, and Technology fields. The economy of Madison County employs over 175,000 people and is specialized in Public Administration; Professional, Scientific, Tech Services; and Manufacturing which employ respectively 2.05; 1.98; and 1.28 times more people than what would be expected in a location of its size. The largest industries in Madison County are Professional, Scientific, Tech Services; Healthcare & Social Assistance; and Manufacturing [5]. These specialized industries draw people to Madison County from other regions creating a melting pot of different backgrounds and experiences. The concentration of skilled, educated

[5] (Data USA: Alabama/Economy, 2016)

workers in Madison County has become attractive enough that organizations such as the FBI are relocating operational employees from Virginia to Alabama and tech companies like Facebook are placing data centers in the Madison County Area. Automotive manufacturing giant, Toyota-Mazda announced they would build a $1.6 billion plant in Madison County that will eventually create 4,000 new employment opportunities [6]. The positive employment and demographic trends of North Alabama create a strategic need for Bank Independent to provide investment services to accommodate the life event needs of the client base.

Since expanding into the Madison County market in 2014, Bank Independent has realized the difference of our legacy market versus emerging markets such as Madison County. In reaction to customer expectations, the organization has already developed a strategic partnership to offer a robust credit card program. The client base is growing more sophisticated and the organization will be required to service both the rural, middle-market customer as well as the urban, upscale customer. In evaluating the generational transfer of wealth to Millennials and Gen Z, community banks must compete in the wealth management space. Services such as digital robot advisors, generational wealth planning, and integration of investment services into traditional bank products will all be part of a development strategy for this business line. To achieve the vision could require significant investment in acquisition of wealth professionals and their existing book of business or significant investment in developing a customized investment services platform in collaboration with a technology firm. Competing in this space will aid liquidity constraints as CD balances wane off community bank balance sheets over the next generational cycle. It also provides community banks the opportunity to attract more sophisticated clients, improve the mix of deposit customers, and increase value to shareholders

[6] (Gattis, Real-time News from Huntsville, 2018)

as the program scales. Although the focus is on the immediate market needs of North Alabama, investment services could also be an opportunity for the nationwide factoring clients of Bank Independent's sister company, Interstate Billing Service.

In developing any new business line, the Asset Quality department at Bank Independent will have a paramount role to ensure adequate planning for future funding needs. The organization must look for proactive, sustainable funding to fuel future asset growth. The ability to continue scaling the Bank will largely depend on our success in retaining existing funding while attracting wealthy, stronger clients that demand wealth services from their financial organizations. The leader of Asset Quality will be leading a team within our organization to identify an investment services proposal that fits into the larger strategic vision of senior management. This process will provide growth opportunities for the project leader to scale the bank and provide a significant, new source of revenue. By starting with the development of a solid investment services platform with the right vendor partner, the program leader could have the opportunity to cultivate a larger Wealth Management division encompassing Trust, Insurance, and Family Generational Planning.

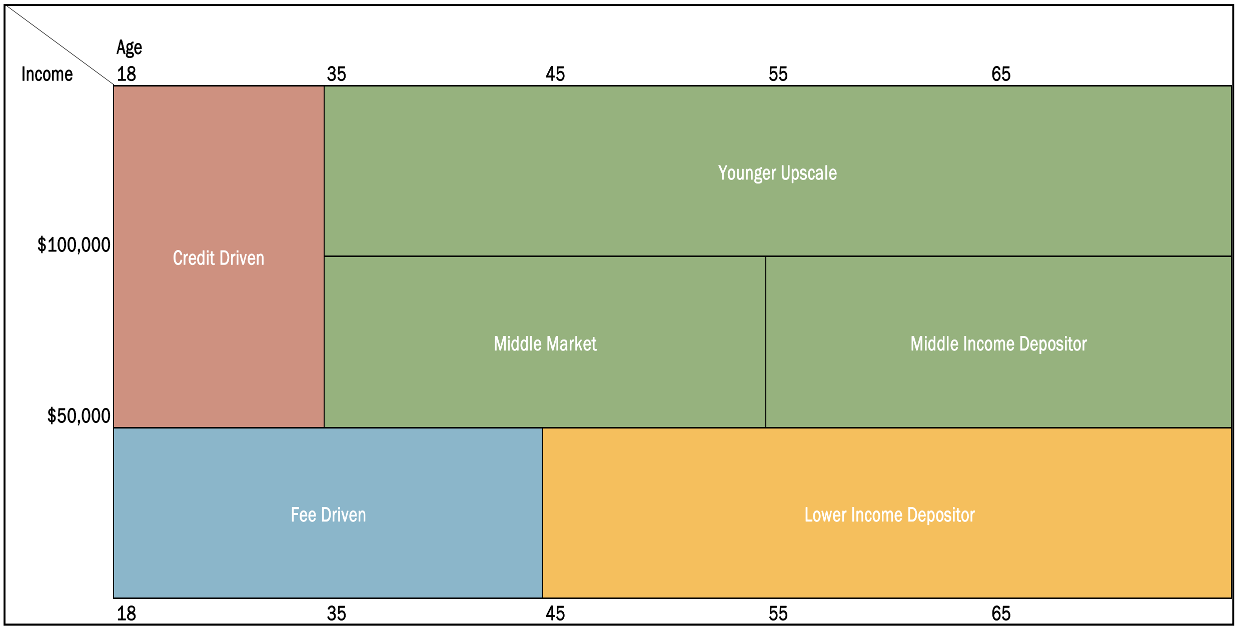
The Bank operates three strategic business lines, listed below ranked in terms of opportunity for growth and profitability:

- Interstate Billing Service (IBS);
- Business Banking; and
- Personal Banking

In addition to these three business lines, delivery experience optimization is emphasized in our strategic plan because of its significance in each line of business. The Bank's success in its legacy markets can be leveraged in Madison County as well as IBS. Although differences exist, the organization will match its' core competencies with the new opportunities. In order to cultivate Wealth Management as a fourth business line, the Bank will begin with implementation of the investment services platform to support Business Banking and Personal Banking.

One of the Bank's most significant strengths is its ability to serve business customers with a personal, hands-on approach. The dedicated Treasury Management department supports customers' needs, even making site visits. The commercial lending expertise employed in-house creates a competitive advantage because decisions are made locally. Recognizing that businesses' needs for deposit products and cash management services typically outweigh the need for loans, the Bank is making a concerted effort to improve the acquisition of business deposit relationships. By building relationships before the need for a loan arises, the Bank positions itself more favorably to secure future loans without resorting to pricing competition. In order to completely service the business client, the Bank must be able to service the 401K plans these small business offer. It is common for clients to ask if the bank can administer these retirement programs while keeping the service level consistent. As the Bank deepens its understanding of the market, it will focus on delivering administrative services for these retirement funds, their associated delivery experience, and better development and utilization of its employees to service the customer.

The legacy personal banking experience and an intense focus on refining our consumer segmentation have led to a mature strategy based on Raddon's age and income segmentation model. Using Raddon's model, the Bank segmented its customers based on their strategic impact as noted in Exhibit 4 below:



Nurture	Sustain	Cultivate	Grow
Find new and better ways to serve them and encourage them to flourish and prosper.	Give them what they need and help them in any way we can profitably.	Get our fair share and develop long-term mutually beneficial relationships.	Get more and get better at helping them.

In performing the segmentation analysis, the bank identified investment services as a gap that could affect retail deposit growth. The preferred solution will target the Cultivate and Grow segments to provide life event driven products tailored to different age groups and income levels. The strategic vendor partner must offer a low-cost digital solution as well as traditional investment products with advisor support. Therefore, the Bank is committed to building the fourth business line to address the common needs of consumer investment services as well as its business clients.

The comprehensive strategy will target the everyday investor, small business retirement accounts, and small business owners. The bank will differentiate itself from the regional bank competition by offering local, dedicated investment advisors that place an emphasis on customer experience and building long-term client relationships. There are few community banks offering investment services in the Bank's footprint. Further, those that offer the service are utilizing a referral model and do not employ the investment advisor. As such, these community banks do not own the customer have little control over the service level and experience. Bank Independent is seeking a hybrid model by partnering with a strategic vendor to keep consistency in the experience as well as hire and retain the investment advisor. In this model, the advisor and client are owned by the Bank while the vendor partner provides compliance and risk support as well as a platform for the Bank's advisors to execute trades. The vendor partner will also hold the licensing for the Bank's advisors. In exchange for platform leasing and FINRA/SEC support, the vendor partner utilizes a revenue share model based on Assets Under Management. This arrangement allows community banks to offer competitive wealth management solutions that didn't really exist 10 years ago.

Implementation

Implementation of an investment services program will require process changes for several departments. One area of focus will be compliance support from the vendor partner as well as licensing for the Bank's investment advisors. The initial evaluations of local investment firms, Ameriprise Financial, LPL Financial, and Polaris Portfolios all include revenue sharing structures to help pay for licensing and compliance costs. Operationally, this should not affect customer experience as the vendor partner would provide this support in the background. It would, however, require the Bank to recruit well-seasoned advisors to help get the program up and running as well as transfer their existing book of business. These advisors must be a strategic fit with the existing branch personnel and be able to support the current commercial lending relationships. Investment services in conjunction with the Bank's current Treasury Management services would be organized in the branches in Madison County as a Private Banking model with dedicated branch support. This would create new hiring opportunities as the focus shifts to supporting higher net worth small business that expect dedicated service. This is an opportunity for Bank Independent due to the lackluster service of a large financial organization for small businesses.

The implementation schedule is expected to last four to twelve months once a strategic vendor partner is chosen. During that time, several departments will be involved in the process including Asset Quality, Sales, Accounting, Legal, Marketing, Customer Service, Compliance, and Risk Management. The bank is conducting a second round of face to face discussions with each vendor to determine the right fit with an emphasis on finalizing a business case for senior management by end of first quarter 2019. Once a vendor is chosen, the first and longest step will be recruiting two investment advisors. The Sales and Asset Quality teams, in conjunction with the vendor partner, will lead the recruitment process and emphasize cultural fit, experience, and book of business. The hiring process could take up to 6 months depending on the availability and expertise in the market. During this time Asset Quality, Accounting, and Legal will work on developing non-compete agreements as well finalize revenue share agreements with the vendor partner. The customer service and Sales departments will be hiring two administrative support specialists to assist the investment advisors as well. This step of implementation will occur in parallel with hiring the investment advisor. Compliance and Risk will work with the vendor partner to secure and review all necessary disclosures and documentation requirements. Since most of the compliance risk lies with the vendor partner, the Bank's team will play a support role in this space. Finally, the organization will be educating its sales staff and customer service departments before rolling out a dedicated branding campaign. Investment Services will be a major point of focus in our marketing efforts, especially in the Madison County market. Ideally, the project schedule would end before the holiday season of 2019. The vendor partner will assign an account executive to assist the Bank's teams throughout the duration of the project.

Financial Impact

Required Investment

Incorporating a third business line at Bank Independent will require significant financial resources and a dedicated team of professionals to achieve performance excellence. Investment services would be the first step in developing a complete strategy for Wealth Management that could eventually include insurance services as well as the incorporation of a trust department. For this project, the organization expects to utilize a 12-month project schedule to recruit two investment advisors as well as an initial team of administrative support specialists. In addition to the personnel needs, the organization will explore developing a separate, wholly-owned subsidiary for the business line. Part of this process would include setting up the subsidiary as a

Registered Investment Advisor (RIA) to more easily participate in a revenue sharing arrangement. This is a recommendation from the vendor partners being considered for investment services. This would create a different branding strategy as well as provide an accommodative corporate structure for revenue sharing with the strategic vendor partner. The organization will coordinate with the Alabama State Banking Department to ensure all regulatory and compliance burdens are addressed. By partnering with a strategic vendor, there will be nominal compliance burden since the licensing of the advisor as well as the execution of trades will be conducted using their service and platform.

Bank Independent is seeking a revenue share model for investment services when evaluating any strategic vendor. This revenue model compares favorably to a referral-based partnership in which the Bank has previous experience. In the past, the organization utilized an independent advisor with Morgan Stanley to offer investment services in the branch. This employee was independent of the Bank and benefited from mining the existing portfolio of customers. In exchange, the investment broker paid a referral fee to the organization which provided a new revenue stream. The bank did not own the account or customer, meaning the advisor was free to move organizations after the non-compete expired while taking the book of business as well. From a revenue standpoint, the organization broke even at the end of 5 years, while the investment advisor continues to benefit from commissions. The Bank terminated this arrangement after 5 years and decided not to pursue investment services at that time. This decision did not impact the organization's ability to service the customer for several years, but now vendor models exist that are more appropriately aligned.

The initial discussion of a new investment services division generated several questions about structure for such a program. As part of the evaluation process for strategic vendor partners, a matrix was developed to address the financial and non-financial structure. Exhibit 5 details the criteria used for the initial discussion:

	Algorithm based portfolio models	Branded, flexible portfolios with advisory services	Co-branded, tailored portfolios with advisory services
Vendor Options	Polaris Portfolios	LPL Financial or Ameriprise Financial	Keel Point
Ability to hold custodian accounts	No	No	Yes
State Trust Charter Required	No	No	No
Do we own the customer	Yes	Yes	Yes
Revenue Share	20 bps of AUM	Revenue Share of 88% BI; 12% LPL	45% BI; 55% Keel Point
Annual Risk of Financial Loss	Low	Low	Low
Risk of deposit loss	Low	Low	Low
Compliance Risk	Low	Low	Moderate
FINRA ownership	Vendor	Vendor	Vendor
Resources Required	1 FTEs	4 FTEs	5 FTEs
Upfront Investment	$0	$0	< $25,000
Robo Advisors	Yes	Yes	No
Individual Account Minimum	No Minimum	$5,000	$25,000
Ability to invest in stocks	No	Yes	Yes
Integrated sweeps from Bank products	No	Yes	Yes
Target Customer	Cultivate, Grow, and small business 401K plans	Cultivate, Grow, and small business 401K plans	Cultivate, Grow, and small business 401K plans
Contract Length	3-5 years	3-5 years	5 years

The vendor models available to community banks today present favorable revenue opportunities that could not be achieved through the 'Smith Barney' model of the past. The financial proforma as well as implementation schedule are based on five-year contracts with the strategic vendor partner of choice. The major financial drivers being considered include investment advisor costs, revenue share metrics, upfront investments, technology expense, and marketing expense.

The largest upfront investment is expected to be the recruiting phase of implementation and subsequent acquisition of investment advisors. In the Bank's discussion with outside resources, this process is expected to take 90-120 days and will be a collaboration with the strategic vendor partner of choice. The individuals selected to staff the new business line must fit with the organization both culturally and professionally. The investment services team is projected to include two investment advisors as well as two administrative support specialists. The organization will seek experienced advisors with an opportunity to move their current book of business. Experienced advisors will translate into increased salary expense for the program, but the Bank's goal is to grow Assets Under Management (AUM) as quickly as possible. The Bank has also identified existing employees with an interest in working with investment services. Ideally, these employees would train under the advisors for a couple of years before getting licensed to handle their own portfolios. By year five, the program would have four investment advisors on staff with existing administrative support. As a startup program, finding the initial, experienced investment advisors to help shepherd the program in collaboration with the Chief Operating Officer will be paramount to the success of the business line.

Return on Investment

The organization is engaged in financial impact conversations with all four vendors included in exhibit 5 as well as reference institutions and the State Banking Department. The Bank decided to eliminate Polaris Portfolios from the on-going conversation because individual stock trading as well as employee benefit programs for small business are not options on their platform. Therefore, the vendor does not solve for the strategic vision of the company to meet the needs of its business and consumer clients. Upon discussion with Ameriprise Financial, the Bank visited with a reference bank in Tennessee concerning their active program. The reference bank has total assets of $1.4 billion with a market dominated by rural communities and one large urban community making its balance sheet structure and customer base very similar to Bank Independent. Over 7 years, they grew the investment services program to $30 million in Assets Under Management (AUM) with two investment advisors and very little marketing effort. They expect the program to generate roughly $1 million in net revenue before expenses for fiscal year 2019 and $400 thousand in net income. One of their biggest lessons-learned was the upfront investment in marketing expense. They expected to grow AUM more quickly but did not invest in brand awareness until the past three years. In discussions with Ameriprise Financial as well as LPL Financial, a financial proforma was developed for the final business case detailing major revenue and expense items over a 5-year contract. Both programs are very similar with comparable revenue share structures and similar product offerings as well as advisor support structures. While the organization cannot completely quantify market opportunity, the revenue share metrics of these two vendors present the most likely outcome for the new business line as Exhibit 6 shows:

AUM	Year 1 $6,500,000	Year 2 $21,000,000	Year 3 $40,000,000	Year 4 $50,000,000	Year 5 $60,000,000
Revenue:					
Commissions & Fees	$185,600	$603,200	$1,113,600	$1,313,120	$1,448,376
Bank Payout	85%	85%	85%	85%	85%
Revenue Share	$157,760	$512,720	$946,560	$1,116,152	$1,231,120
Expenses:					
Salary Expenses	$241,280	$241,280	$445,440	$525,248	$579,350
Employee Benefits	$7,424	$24,128	$44,544	$52,525	$59,935
Marketing	$25,000	$25,000	$25,000	$25,000	$25,000
Technology Expense	$5,880	$17,640	$29,400	$29,400	$29,400
Total Expenses	$258,086	$288,048	$529,384	$617,173	$676,185
Net Income:	$(121,826)	$204,672	$402,176	$483,979	$537,434

The assumptions for Assets Under Management (AUM) growth are derived from the Bank's client segmentation as well as projected advisor growth expectations from Ameriprise and LPL Financial. Both vendors project annual new opportunity at $7 million per investor with a mix of 25% advisory/fee-based service on an annual basis and 75% packaged product with upfront fees. The organization's personal deposit base exceeds 60,000 clients while the business deposit base has over 10,000 clients. Based on those metrics, personal investment balances are projected to ramp up to $18 million by year three and $35 million by year five with expected invested balances to average between $25 thousand and $100 thousand. The Bank's investment services platform would likely be uneconomical for investment accounts less than $25 thousand, although it recognizes these smaller accounts could be originated. This would translate into roughly 200 personal investment account holders by year three and 450 by year five. On the business side, the Bank's opportunity is leveraging its existing commercial relationships and providing employee benefit plans. This opportunity is projected to produce invested balances of

$22 million by year three and $25 million by year five. A slower growth rate is projected for business balances due to more limited opportunity in our rural markets. The sharp growth rate between year one and year three can be attributed to mining the current book of business and satisfying existing request for the service. The average employee benefit program is projected to carry a balance of $250 thousand to $2.5 million with an average base of 10-30 employees. These plans would mostly include administration of 401K/IRA services and Health Savings Accounts. The Bank's commercial client portfolio consists of over 4,000 clients that could have a need for defined benefit plans. As such, this presents one of the best cross-sell opportunities for the new advisors. Based on these assumptions, total fees and commissions are expected to average 2-3% on the book of business with an approximate revenue share of 85% to Bank Independent and 15% to the strategic vendor partner. As such, net revenue is projected on a ramp with slower growth for the initial launch of the program and more rapid expansion as brand awareness and advisor expansion is realized.

The major expense category for the development of the wealth management program will be salaries and benefits. The investment advisors are projected to earn 45% of net revenue in each period and roughly 50% with benefits included. As noted, getting the right investment advisors will be paramount to the program's success and that will translate into a competitive compensation structure. Marketing expense will support the advisors in generating new business leads and remains consistent for the five-year period with a focus on digital. For the first year, investment advisors will be able to mine the existing portfolio of clients for new sales leads. The advisors will be expected to integrate themselves into the overall sales process of the organization and collaborate with sales officers to provide more relationship-based services. Additional marketing expense could be needed depending on the initial success of the program.

Outside of personnel related operating expenses, technology expense is the largest projected expense for the program. This mostly includes leasing the platform from the vendor for advisors to execute trades as well as product enhancements. It also includes some compliance expense pass through items such as licensing expense and online support for more complicated transactions that may require advisor support for the vendor partner. This expense is expected to ramp up over time as new advisors are added to the system. Overall operating income is expected to be negative for year one before growth to 40-45% of net revenue given the projected AUM and operating expenses for years two through five. Based on these assumptions, the organization would breakeven in year two at roughly $15 million in AUM when simply evaluating investment services as a standalone business line.

Financial Risk

Two of the primary goals of developing investment services at Bank Independent are protecting deposit share and providing solutions that will allow for the retention of wealth as demographic shifts occur in the market. As noted in the market demographics, Bank Independent holds a significant deposit market share throughout most of the 7-county footprint. The Bank will continue to focus on protecting these funding sources. Over the past ten years, several families in our commercial portfolio experienced liquidity events as family owned business were bought and sold. By leveraging the historical banking relationships, some of this liquidity remained in the Bank for a short period of time before the client swept the funds to their investment advisor for a better return. Further, the Bank recognizes demographic shifts in its deposit base and specially in the CD customer segment. Although the Bank recognizes wealth management will not completely solve for liquidity retention, a successfully executed wealth management program would mitigate some financial risk of deposit loss. As of year-end 2018, Certificate of Deposit (CD) customers represented 32% of the Bank's interest-bearing liabilities. The average age of these customers is growing, and the balances held in these accounts will eventually be passed down to the next generation. The relative return on CD balances versus low-risk investment funds is expected to create downward pressure on those balances. Therefore, it is important to begin building the investment services program to remain the custodian of those funds as generational transfer of wealth occurs. Investment fund balances will not sit on the Bank's balance sheet, but the liquid settlement accounts will. This program will allow the organization to more easily handle the life event needs of the client and hold on to some of the funding for the relationship.

One major concern of implementing a wealth management program is deposit disintermediation. In researching the prospect of this occurring, the Bank is consulting with reference institutions that implemented start-up investment services programs as well as reviewing the latest disintermediation study from Kehrer-Limra from 2011. According to Kehrer-Limra research, advocates of the bank as a financial services company point out the need for alternative investments. In fact, clients with a propensity to purchase investment funds will buy them from some other source if the bank or credit union does not offer investments as a choice. The 2011 study by Kehrer-Limra covered 56 banks and credit unions offering investment services in conjunction with traditional bank products. For the banks and credit unions that track intercepted funds, 34 percent of investment sales are paid for by drawing down the institution's own deposits. But 16 percent of those disintermediated deposits are estimated to be leaving anyway, by the bank's own reckoning. Thus, true disintermediation is 84 percent of 34 percent, or 29 percent of investment sales. If we subtract the loans and deposits that result for the referrals from investment sales staff, which amount of 22 percent of investment sales in the banks that track these benchmarks, we are left with a negligible amount of net disintermediation – 7 percent of investment sales (The Impact of Investment Sales on Deposit Disintermediation, 2011).[7] One thing missing from the study is deposit replenishment over time as the client's wealth builds. They conclude that true net disintermediation rates are probably lower than estimates due to deposit replenishment, but that the tracking studies do not enable us to calculate the extent of replenishment. In speaking with a reference bank on the Ameriprise Financial platform, they have experienced an increase in overall core deposit funding since offering this program. They attribute the growth to new opportunities that investment services will provide. A customer with a propensity to utilize investment funds will likely do so regardless of their bank's offering. They would also have a higher propensity to hold their deposit funds with the financial institution for settlement purposes. Therefore, this program would allow the organization to attract deposit dollars that currently do not exist in its customer base. The program is expected to have a disintermediation rate close to zero percent while providing the opportunity to attract higher net-worth clients.

Non-Financial Impact

There are several non-financial key success factors for the investment services program. One of the biggest hurtles will be recruitment of advisors to the Bank's team as well as development of an onboarding process to seamlessly integrate these team members into the larger Sales Strategy of the organization. As a start-up program, the organization will be seeking

[7] (The Impact of Investment Sales on Deposit Disintermediation, 2011)

advisors with experience and name recognition as well as a standing book of business to shepherd the program through the first couple of years. The organization will collaborate with the strategic vendor partner during the recruitment process to seek the right cultural fit. The new team members cannot be isolated from the surrounding culture of sales and strive to help the organization meet the overall needs of the client base. In order to get this right, the new team members must be cultural fit to the Bank. Given the cross-sell opportunity of the Bank's exiting client base as well as the emphasis on customer experience, the Bank will focus on metrics to gauge the success of onboarding the new business line. These measures could include customer satisfaction surveys, customer retention, new household growth, share of customer segmentation, and cross-sell rates. While integration with Sales Team is vitally important, the organization will also be focused on cultivating support staff for the new investment advisors. These positions will likely come from within the organization and more easily enable relationship building. Ideally, those support specialists could be cultivated up to be the next investment advisor the Bank. This process of partnering internal personnel with new team members could enable a smoother transition as the program takes off. Overall, the biggest hurtles to success are expected from the recruitment process for advisors, integration of new business line into the larger sales strategy, and development of support staff.

Another hurtle to overcome will be the physical separation of investment advisors from traditional banking staff. By regulation, there will be facility planning outcomes including notices of FDIC insured products versus non-FDIC insured products. In this arrangement there will be a 'paper wall' between traditional banking services and investment services. Further, the new business line will be branded separate from Bank Independent and set up as a Registered Investment Advisory (RIA) with the State of Alabama. This registration will help protect the

Bank from additional regulatory scrutiny with regards to revenue sharing. The Bank cannot provide incentives to lenders for cross-sell and will rely heavily on the strategic vendor partner for oversight of marketing and promotional campaigns. Therefore, it is imperative the investment team build relationships with the traditional sales staff to ensure each business line works together to achieve the best outcome for the client outside of incentive structures. A comprehensive approach to serving the client's needs can be achieved, but only through collaborative effort between the two groups. This collaborative effort will directly support the Bank's goals of growing relationships, protecting liquidity from generational transfer of wealth, and driving non-interest income.

While the Bank will rely on customer experience metrics for the on-boarding process, longer-term trends will provide a scorecard for gauging the success of the program afterwards. The organization is focused on driving new client relationships, especially in the Madison County market where this business line is frequently requested. The new business line provides a more complete offering to clients as well as a vehicle to extend the reach of the organization. The service will enable the Sales Team to attract client deposits that were previously unattainable. Therefore, success will be partially measured by new client acquisition and core deposit growth. Another critical success factor will be retention and growth of current depositors as wealth is transferred from generation to generation. In the Shoals Market, there were three good fortune payoffs in 2018 which resulted in a flood of liquidity that exited the Bank once an investment opportunity came along. This service should help the Bank more effectively retain these relationships. Finally, growth in non-interest income will be tracked and measured for the business line. If the Bank is successful with its strategy, non-interest income will be an effect of client growth and retention.

Conclusion

Implementing an investment services business line as part of a longer-term Wealth Management strategy would fill a strategic need and level the competitive landscape for Bank Independent. The organization needs this business line to hedge against generational transfer of wealth, deepen existing relationships, and grow new client deposits. Further, this business line would create a new, sustainable stream of non-interest income. The organization is likely to experience short-term growing pains during the process related to integration of new team members into the Bank's culture as well as a short-term shift in large depositor balances. Over the longer-term, however, the organization will see strong return on investment as it builds and executes the longer-term vision. The Wealth Management Task Force recommends the organization pursue a strategic vendor partner and begin the process of building an implementation plan, recruiting investment advisors, and weaving investment services into the overall strategic plan. The task force believes Ameriprise Financial to be the strongest partner with LPL Financial Services as the second-best choice.

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