

## FEDERAL DEPOSIT INSURANCE CORPORATION

Re: Square Financial Services, Inc.  
(In organization)  
Salt Lake City, Salt Lake County, Utah

Application for Federal Deposit Insurance

### ORDER

The Board of Directors of the Federal Deposit Insurance Corporation (“FDIC”) has fully considered all available facts and information relevant to the consideration of the statutory factors enumerated in section 6 of the Federal Deposit Insurance Act (“FDI Act”), including financial history and condition, capital adequacy, future earnings prospects, general character of management, risk to the Deposit Insurance Fund, convenience and needs of the community, and consistency of corporate powers, as they relate to the application for Federal deposit insurance for Square Financial Services, Inc. (“Bank”), a proposed Utah-chartered industrial bank to be located at 3165 East Millrock Drive, Suite 160, Salt Lake City, Utah, 84121. The FDIC has concluded that the application should be approved.

Accordingly, it is hereby **ORDERED**, for the reasons set forth in the attached Statement, that the application submitted by the Bank for Federal deposit insurance be, and the same hereby is, approved, subject to the following conditions:

1. That initial paid-in capital funds of not less than \$56,005,350 be provided.
2. Capital levels of the Bank shall at all times satisfy the following conditions:
  - Meet or exceed the levels required for the Bank to be considered “well capitalized” under section 324.403(b) of the FDIC’s Rules and Regulations, 12 C.F.R. § 324.403(b);
  - The Leverage Ratio and Total Capital Ratio shall, in no event, be less than the levels provided in the Bank’s business plan, as amended on August 23, 2019, during the first three years of operations;
  - Thereafter, the Leverage Ratio and Total Capital Ratio shall be no less than the levels provided in the Bank’s Business Plan as annually approved by the FDIC, but in no event, shall the Bank’s Leverage Ratio be less than twenty (20) percent, as calculated in accordance with the capital regulations of the FDIC;
  - The Bank shall also maintain an adequate allowance for loan and lease losses.
3. That prior to the effective date of Federal deposit insurance, the Bank, Square, Inc., and Jack Dorsey, as controlling shareholder of Square, Inc., shall enter into a Capital and Liquidity Maintenance Agreement and a Parent Company Agreement with the FDIC (the written agreements are attached to this Order).
4. That any changes in the Bank’s proposed management or the proposed ownership or control of ten percent (10%) or more of the Bank’s stock, including new acquisitions of

or subscriptions to ten percent (10%) or more of stock, shall be approved by the FDIC prior to the Bank's opening for business.

5. That the Bank shall adopt an accrual accounting system for maintaining the financial records of the Bank in accordance with U.S. Generally Accepted Accounting Principles, and maintain separate accounting and other business records, including customer account records. In addition, the Bank's books and records shall be maintained under the control and direction of authorized Bank officials and available for review by the FDIC at the Bank's main office located in Salt Lake City, Utah.
6. That prior to the Bank's opening for business, full disclosure shall be made to all proposed directors of the Bank of the facts concerning the interest of any insider in any transactions being effected or contemplated, including the identity of the parties to the transaction and the terms and costs involved. An "insider" is a person who: (i) is or is proposed to be a director, officer, or incorporator of the Bank; (ii) is a shareholder who directly or indirectly controls ten percent (10%) or more of any class of the Bank's outstanding voting stock; or (iii) is an associate or related interest of any such persons.
7. That prior to the effective date of Federal deposit insurance, the Bank shall have appointed and must thereafter retain senior executive officers who possess the knowledge, experience, and capability to carry out the responsibilities of their positions in a safe and sound manner and independently from the activities of Square, Inc. and its affiliated entities.
8. That prior to opening for business, the Bank shall have appointed a Chief Risk Officer and a Chief Operating Officer.
9. That during the Bank's first three years of operation, the Bank shall provide notice to, and obtain the prior written non-objection of, the FDIC for any proposed change to the Board of Directors of the Bank ("Board of Directors") or to any senior executive officer position. Such notice shall be submitted at least thirty (30) days prior to the proposed election to the Board or appointment, and shall include a complete Interagency Biographical and Financial Report for each individual proposed for election or appointment.
10. That with respect to any proposed Bank director or senior executive officer for whom background checks have not yet been completed, the Bank shall take such action as required by the FDIC if the FDIC objects to any such person based on information obtained during the background check.
11. That prior to the Bank executing final employment agreements and compensation arrangements for any director or senior executive officer of the Bank, and prior to the Bank commencing operations, the Bank shall submit copies of, and obtain the FDIC's written non-objection to, such final employment agreements and compensation arrangements.

12. That for any senior executive officer for whom the FDIC has not previously received an Interagency Biographical and Financial Report and for whom a background check has not been completed, the Bank shall submit such forms with a written description of salary, benefits, deferred compensation, stock compensation or incentives, and bonus and severance payments, and compensation analyses and studies, as applicable, to support the reasonableness of the proposed compensation for such individual.
13. That during the Bank's first three years of operation, the Bank shall obtain the written non-objection of the FDIC prior to the implementation of any stock benefit plans, including stock options, stock grants, or other similar stock-based compensation plans benefitting Bank employees not previously reviewed by the FDIC as part of the application for Federal deposit insurance.
14. That prior to the effective date of Federal deposit insurance, the Bank shall obtain adequate fidelity coverage.
15. That the Bank shall obtain an audit of its financial statements by an independent public accountant ("independent auditor") annually for at least the first three years of operation and submit to the FDIC's San Francisco Regional Office: (i) a copy of the audited annual financial statements and the independent auditor's report within ninety (90) days following the end of the Bank's fiscal year; (ii) a copy of any other reports by the independent auditor (including management letters) within fifteen (15) days after receipt by the Bank; and (iii) written notification within fifteen (15) days when a change in the Bank's independent auditor occurs.
16. That the Bank shall operate within the parameters of the Business Plan submitted as part of the application for Federal deposit insurance and as updated. Annually, the Bank shall submit an updated Business Plan to the Regional Director of the San Francisco Regional Office ("Regional Director") for consideration by the FDIC. The Business Plan, as updated, shall be based on prudent operating policies, include current and three years of pro forma financial statements and other relevant exhibits, prescribe adequate capital maintenance standards relative to the Bank's risk profile, and incorporate reasonable risk limits with respect to adversely classified assets, liquidity levels, and other relevant risk factors.
17. That the Bank shall notify the Regional Director of any proposed major deviation or material change from the Business Plan, as updated, sixty (60) days before consummating such deviation or change. In addition, the Bank shall notify the Regional Director within fifteen (15) days if any risk limits specified within the Business Plan, as updated, are exceeded.
18. That the Bank shall conduct business pursuant to operating policies that are commensurate with the proposed Business Plan as submitted as part of the application for Federal deposit insurance and as updated, independent from those of affiliated entities, and adopted by the Board of Directors. In addition, the Board of Directors shall adopt controls reasonably designed to ensure compliance with and enforcement of Bank

policies. Further, the Board of Directors shall ensure that senior executive officers are delegated reasonable authority to implement and enforce the policies independently of Square, Inc. and its affiliated entities.

19. That the Bank shall pay no dividends during the first three years of operations without the prior written approval of the FDIC.
20. That the Bank shall develop and implement a Community Reinvestment Act plan appropriate for the Bank's business strategy, including identification of an assessment area that complies with Part 345 of the FDIC's Rules and Regulations.
21. That the Bank shall develop and implement a sound Compliance Management System ("CMS") including a comprehensive written compliance program ("Compliance Program") to ensure that the marketing of, qualification for, sale of and operation of products and any debt collection activities comply with Section 5 of the Federal Trade Commission Act and otherwise ensure compliance with all applicable consumer protection laws, implementing rules and regulations ("Consumer Protection Laws") to which the Bank is subject. At a minimum, the Compliance Program shall provide for and include: (a) comprehensive, written policies and procedures designed to prevent violations of Consumer Protection Laws and prevent associated risks of harm to consumers; (b) an effective training program that includes regular, specific, comprehensive training in Consumer Protection Laws commensurate with individual job functions and duties for appropriate Bank personnel, including all individuals having responsibilities that relate to Consumer Protection Laws, senior management and the Board; (c) an internal CMS monitoring process that is designed to detect and promptly correct compliance weaknesses within the Bank and any service providers; (d) an effective complaint monitoring process that includes procedures for promptly addressing and resolving all written, oral, or electronic complaints or inquiries, formal or informal, received by the Bank or its service providers, promptly addressing any root causes of such complaints, and documenting and tracking all complaints and inquiries through resolution; and (e) effective independent audit coverage of the Compliance Program and the Bank's compliance with all Consumer Protection Laws and internal policies and procedures.
22. That during the Bank's first three years of operation, the Bank shall notify the FDIC of any plans to establish a loan production office at least sixty (60) days prior to opening such facility.
23. That the Bank shall not commence operations until the FDIC has concluded a pre-opening visitation with findings satisfactory to the FDIC.
24. That prior to the Bank opening for business, the Bank shall fully document and conduct full-scope independent validations of all models with such model validations being subject to the satisfaction of the FDIC.

25. That Federal deposit insurance shall not become effective until the Bank has been granted a charter and has authority to conduct a banking business, and its establishment and operation as a depository institution has been fully approved by the State of Utah.
26. That this approval is conditioned on the facts as currently known by the FDIC. If there are any material events prior to the opening of the Bank for business, the Bank shall notify the FDIC as soon as the Bank becomes aware of the event, and this approval may be withdrawn or modified.
27. That if Federal deposit insurance has not become effective within one (1) year from the date of this ORDER, or unless, in the meantime, a written request for an extension of time by the Bank has been approved by the FDIC, the consent granted shall expire at the end of this time period on said date.
28. That until Federal deposit insurance becomes effective, the FDIC retains the right to alter, suspend, or withdraw its commitment should any interim development be deemed by the FDIC to warrant such action.

By Order of the Board of Directors of the Federal Deposit Insurance Corporation.

Dated at Washington, D.C. this 17th day of March, 2020.

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By: Robert E. Feldman  
Executive Secretary

## **FEDERAL DEPOSIT INSURANCE CORPORATION**

**Re:** Square Financial Services, Inc.  
(In organization)  
Salt Lake City, Salt Lake County, Utah  
Application for Federal Deposit Insurance

### **STATEMENT**

Pursuant to the provisions of Section 5 of the Federal Deposit Insurance Act (“FDI Act”) (12 U.S.C. §1815), the Federal Deposit Insurance Corporation (“FDIC”) received an Interagency Charter and Federal Deposit Insurance Application on behalf of Square Financial Services, Inc. (“Bank”), a proposed new Utah industrial bank, to be located at 3165 East Millrock Drive, Suite 160, Salt Lake City, Salt Lake County, Utah. The organizers have applied to the Utah Department of Financial Institutions for an industrial bank charter.

The FDIC must consider the statutory factors of Section 6 of the FDI Act (12 U.S.C. §1816) when evaluating an application for deposit insurance. These factors relate to the financial history and condition of the depository institution; the adequacy of capital and management; the future earnings prospects; the risk to the Deposit Insurance Fund; the convenience and needs of the community to be served; and the consistency of corporate powers with the FDI Act.

The Bank will be a wholly owned subsidiary of Square, Inc., a publicly traded financial technology company with its main offices in San Francisco, California (“Square” or “Parent Company”). Square began operations in 2009, and offers credit and debit card payment services, point-of-sale hardware, and other business products and services primarily to small retail merchants.

The Bank will offer small business loans nationwide to existing Square merchants, a service currently provided through Square’s subsidiary, Square Capital, LLC, and also to businesses that are not part of the Square network through referral partner relationships. The Bank will offer deposit products to Square merchants, Square related entities, and to the general public nationally through the Bank’s website.

The financial projections indicate the Bank will be “Well capitalized.” Capital of \$56 million will be provided by Square. The Bank will be required to maintain a Leverage Ratio and Total Capital Ratio, as defined in the capital regulations of the FDIC, during and after the first three years of operation at not less than the levels specified in the Bank’s business plan.

The FDIC also has considered whether the parent company will serve as a source of financial strength to the Bank, as required by section 38A(b) of the FDI Act (12 U.S.C. §1831o-1(b)). To ensure that the Bank maintains sufficient capital and liquidity, approval of the application is conditioned upon the Bank, Square, and Jack Dorsey, controlling shareholder of the Parent Company, executing a Capital and Liquidity Maintenance Agreement with conditions and

requirements for Square (or for the controlling shareholder to cause Square) to provide financial resources to support the Bank.

The FDIC also considered that Square is not subject to consolidated Federal bank supervision and the activities of Square and its subsidiaries are not exclusively financial in nature. As an additional safeguard to protect the safety and soundness of the Bank and the Deposit Insurance Fund, approval of the application is conditioned on Square and Jack Dorsey, controlling shareholder of the Parent Company, executing a Parent Company Agreement with conditions and requirements related to reporting and examination of Square and its subsidiaries, and to allow the FDIC to monitor compliance with laws and regulations governing transactions with affiliates. The Bank will also be required to maintain a board of directors with a majority of members that are independent of Square and its subsidiaries and affiliates; and Parent Company representation shall be limited to no more than twenty-five (25) percent of the members of such board of directors.

The FDIC received two adverse public comments that were considered to be Community Reinvestment Act (“CRA”) protests. After a careful review of the concerns, the FDIC determined that the protestors’ concerns related to CRA were satisfactorily resolved and that no concerns were identified that would indicate that the Bank would not adequately serve the convenience and needs of the communities to be served.

For the purposes of this proposal, capital and management are considered satisfactory, and projections for future earnings prospects are favorable. Corporate powers to be exercised are consistent with the purpose of the FDI Act. The Bank’s plans demonstrate a commitment to serving the convenience and needs of the community. No undue risk to the Deposit Insurance Fund is apparent.

Accordingly, based upon careful evaluation of all available facts and information, and in consideration of the factors of Section 6 of the FDI Act, the Board of Directors of the Federal Deposit Insurance Corporation has concluded that approval of the application is warranted, subject to certain prudential conditions.

**BOARD OF DIRECTORS  
FEDERAL DEPOSIT INSURANCE CORPORATION**