ABA Stonier Graduate School of Banking
Capstone

THERE MAY BE AN OPPORTUNITY IN BEEBE – A BRANCH PROPOSAL

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I. EXECUTIVE SUMMARY:

This presentation is focused generally on whether RiverWind Bank (the "Bank") should open a new branch in the City of Beebe. More specifically, author proposes acquiring property located on DeWitt Henry Drive in Beebe and building a new, full-service branch on the acquired property. The total estimated cost of construction of the new facility is $810,000, which includes the acquisition cost of the site ($300,000) and construction of a 2,000 square foot building ($300,000). The expected timeline for implementation of the project is approximately 10-12 months. This includes time for due diligence, site acquisition, regulatory approval and construction of the new location.

The Bank should, in the opinion of the author, expand into the Beebe market for a number of reasons, including:

1. **Growth**: Asset growth has been, and continues to be, one of the main objectives of the Bank, and a new location in Beebe provides enhanced growth opportunities for the Bank, inasmuch as the City of Beebe is growing and is, arguably, underbanked at present.

2. **Profitability**: An expansion into the Beebe market is also a profitable move. Author prepared three separate Pro Formas to assess the desirability of the proposed investment. They are attached as Exhibits 2-4, respectively. Pro Forma 3 (Exhibit 4) is likely the most instructive and reasonable pro forma, and the calculations of this pro forma reflect very profitable numbers over a 10 year period, to wit: (1) NPV of nearly $1,000,000 for the investment cash flows, representing an IRR of nearly 18%, (2) Branch profitability by Year 3, and (3) payback of the initial investment by Year 6.

3. **Future Opportunities**: The move to Beebe likely represents future growth opportunities for the Bank. A move to Beebe would open up future moves down the Highway 167

corridor towards Little Rock, or along the Highway 64 area towards growth markets of Vilonia and Conway. Expanding the footprint of the Bank also may increase the attractiveness of the Bank for banks considering mergers and acquisitions. This could increase long-term shareholder value.

4. **Timing**: The timing of a move to the Beebe market is ripe now with the weakening of the market champion, due to the departure of its long-term market president. Local customers are now open to moving relationships to a new bank, as evidenced by the new business acquired by Bank in the last 12 months, but this window of opportunity could close if the Bank waits too long to open a new branch.

In the event the Board of Directors approves this proposal, certain initiatives should start taking place now, including the following:

1. **Recruitment of Staff**: It is anticipated that a total number of 4 FTE will be required to operate this new branch, and it is highly recommended that one of the employees should be a lender with ties to the community. The success of this branch will hinge directly on whether this location can generate a high volume of quality loans. Having a lender with ties to the community will assist with this. Finding such a lender will take time.

2. **Engage Beebe Stakeholders**: Generating loans is one thing; generating quality loans is another. The Bank has always had board members and management living and working within the communities it serves. This has assisted the Bank, throughout the years, in assessing credit quality – both from the standpoint of the individuals behind the credit to the proposed use of funds. This will not be the case in Beebe. To mitigate this risk, Bank must endeavor to forge relationships with stakeholders in the community who may act as advisors to the Bank with respect to certain local decisions. It may also be necessary to formalize this relationship by creating a bank advisory group with some of the individuals from the Beebe community. These relationships

should also have the additional benefit of creating some loyalty with strong Beebe customers and obtaining assistance with other matters (e.g., potential employees, referrals of customers, etc.).

3. **Management Commitment**: In order to successfully expand into the Beebe market, management must be committed to the project. Management must commit to delay discretionary projects (e.g., ITM's, renovation of Main Bank). Management must also commit to executing upon the employee engagement initiative, previously discussed by Management, and continuing the efforts to streamline the Operations Department.

It is also important to commit to certain back-end and ongoing initiatives, following this investment, including the following:

1. **Monitoring Performance of New Branch**: The Bank must monitor the growth of loans in the new location and also the profitability of the new branch. As seen in the various pro formas, the viability of this investment is directly related to loan growth. If acceptable levels of loan growth are not being achieved, it may be necessary for the Bank to adjust personnel.

2. **Monitoring of Employees and Customers**: The Bank must also commit to the ongoing monitoring of employee morale, stress levels of Bank management, and customer perception. As was seen by the Bank with the expansion into the Searcy market, certain threats to overall culture can be precipitated by a move into a new market. Employees can feel alienated, or feel that the "new" market is more important. Customers from existing markets may also exhibit resistance or resentment to this change. The Bank must proactively survey employees and customers, providing them with a means to express their feelings, so that the Bank can address these threats to culture.

With the appropriate amount of attention to the initial implementation of the project, and the continued diligence of management to assess the backend criteria, and adjust as necessary, the investment in a new branch location in Beebe should be successful and provide the Bank with an additional area of growth, profitability and future expansion potential.

II. INTRODUCTION AND BACKGROUND:

A. Overview of the Bank:

The Bank is a small, locally owned private institution with all of its board members and a majority of its shareholders living and working in either Woodruff or White County, Arkansas. By far, the Bank is the smallest bank operating in both White and Woodruff Counties. As of 12/31/19, the Bank had assets of $104,894,000, with the next closest bank operating within the White and Woodruff Counties being approximately three times larger in terms of asset size. The Bank is primarily an asset-based lending institution, with an emphasis in real estate lending.

The headquarters of the Bank is located in the City of Augusta, Woodruff County, Arkansas, with two branch locations of the Bank located in the City of Searcy, White County, Arkansas. Woodruff County and White County lie immediately adjacent to each other in Central Arkansas. The question examined herein is whether the Bank should expand to another city located in White County, Arkansas – the City of Beebe.

B. History of the Bank:

The City of Augusta is the county seat of Woodruff County, Arkansas, and is perched atop a high bluff located on the east side of the White River upon a spot originally referred to as Chickasaw Crossing.[1] Subsequent to the settlement and establishment of the City of Augusta in 1860, two separate financial institutions – Woodruff County Bank and Bank of Augusta and Trust– operated in the City of Augusta. Unfortunately, both of these institutions closed during the Great

[1] The traditional understanding is that a Native American Tribe – the Chickasaw – settled this area many years prior to European settlement, and they utilized this area as a crossing to the western side of the White River.

Depression, and, in response to these closures, and the resounding need of a bank in the area, the Bank of Augusta opened on March 4, 1935. The City of Augusta enthusiastically embraced the opening of the Bank "with an avalanche of deposits amounting to $120,653.75 which was far more than was expected the first day."[2]

From 1935 until 2011, the Bank continued to operate solely within the Woodruff County market, with the only significant move being the opening of a branch bank in a grocery store on the east side of Augusta in 1996.[3] Woodruff County is located in the Mississippi River Delta region of Arkansas, which has historically been known for its fertile soil, accessible underground aquifers, and significant contribution to the agricultural industry of the State of Arkansas. Over the last few decades, however, it has also been recognized for declining economic conditions, including loss of population and industry, and Woodruff County is no exception to this trend.

While the Bank was profitable and otherwise successful during this timeframe, the asset growth of the Bank was very slight, due, at least in part in recent times, to the stagnant economic conditions of Woodruff County. For many reasons, including, specifically, a desire for asset growth, the Bank hired Bill Patton as its President in 2011. Mr. Patton, who at that time had 35 years of banking experience, all of it in neighboring White County, Arkansas, led the Bank on an expansion campaign, beginning with the hiring of staff from White County and thereafter, in 2012, opening a branch bank in Searcy, White County, Arkansas. [4]

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[2] "$120,653.75 Deposited in The Bank of Augusta the Opening Day for Business," *The Augusta Advocate*, March 7, 1935.

[3] This Branch was closed temporarily, first, in early 2020, in response to the COVID-19 pandemic, but subsequently closed permanently, as the owner of the grocery store closed the store location permanently, largely due to COVID-19. At present, the grocery store building remains vacant and represents a local casualty of this global pandemic.

[4] This move necessitated a name change for the Bank, for obvious reasons, and, after much discussion and deliberation, RiverWind Bank was selected as an appropriate name, as it incorporated a nod to the ever important White River which appeased the local customers and shareholders of the Bank.

The expansion into White County proved to be effective with respect to asset growth of the Bank, as the Bank grew from $62,368,000 in assets, as of 12/31/2011, to $79,029,000 in assets, as of 12/31/2014. The successful growth of the Bank from 2011 to 2014 led to the opening of a second branch location in Searcy, Arkansas, in 2015, and the Bank, thereafter, continued its growth trend – increasing its assets to $104,584,000, as of 12/31/2019. In summary, in the eight years since the expansion of the operations of the Bank into White County, the assets of the Bank grew in excess of $42,000,000, representing a growth rate of 67.68% over this time frame.

Underlying this growth strategy was the understanding that, to remain a viable community bank going forward, the Bank must increase its asset size. At the same time, however, it was imperative that asset growth not impair profitability and capitalization of the Bank. Since the initiation of this market expansion, the Bank has successfully grown its asset size, but it has also maintained acceptable profitability and capital levels, posting a Return on Average Assets of 0.69, a Return on Equity of 6.40%, and a Tier I Capital Ratio of 10.82%, as of 12/31/2019. All are respectable numbers for a small, growing community bank.

C. Overview of Markets:

Economic Data for Woodruff County and White County:

Economic Data	**Woodruff County**	**White County**
1960 Population[5]	13,954	32,745
2019 Population[6]	6,490	78,727

[5] "Arkansas 2000: Census of Population and Housing", US Census Bureau, issued June 2003.

[6] US Census Bureau (https://www.census.gov/quickfacts/woodruffcountyarkansas) and US Census Bureau (https://www.census.gov/quickfacts/fact/table/whitecountyarkansas,US/PST045219)

Median Household Income[7]	$32,271	$42,270
Total Deposits in Market[8]	$144,284,000	$1,519,999,000
Number of Housing Units[9]	3,896	33,954
Median Value of Owner-Occupied Housing Units[10]	$66,200	$123,300

Woodruff County Banks, as of June 30, 2019[11]:

Institution Name	Offices in Market	Deposits in Market	Market Share
RiverWind Bank	2	65,558	45.44%
First Financial Bank	1	54,885	38.04%
Merchants & Planters	1	23,841	16.52%
Totals	4	144,284	100%

White County Banks, as of June 30, 2019[12]:

Institution Name	Offices in Market	Deposits in Market	Market Share
First Security Bank	11	744,606	48.99%
First Community Bank	4	256,645	16.88%
Regions Bank	6	150,764	9.92%

[7] USDA, citing Bureau of Labor Statistics, Local Area Unemployment Statistics (LAUS), and Census Bureau, Small Area and Poverty Estimates (SAIPE) Program

[8] *See infra*, discussion of Deposit Market Share for both counties.

[9] US Census Bureau, 2018 American Community Survey (https://www.census.gov/acs/www/data/data-tables-and-tools/data-profiles/2018/)

[10] US Census Bureau, 2018 American Community Survey (https://www.census.gov/acs/www/data/data-tables-and-tools/data-profiles/2018/)

[11] Federal Deposit Insurance Corporation, Deposit Market Share Report for Woodruff County, Arkansas (June 30, 2019). https://www7.fdic.gov/sod/sodMarketRpt.asp?barItem=2

[12] Federal Deposit Insurance Corporation, Deposit Market Share Report for White County, Arkansas (June 30, 2019). https://www7.fdic.gov/sod/sodMarketRpt.asp?barItem=2

Simmons Bank	3	117,380	7.72%
Centennial Bank	5	115,034	7.57%
Southern Bank	3	103,826	6.83%
RiverWind Bank	2	22,578	1.49%
Eagle Bank and Trust	1	5,903	0.39%
Merchants & Planters	1	3,263	0.21%
Totals	36	1,519,999	100%

In summary, the Bank has a much higher market share in a market with much less deposits, and declining economic factors, and the Bank has a very low, but significantly increasing, share in a market with much higher deposits, and increasing economic factors. This makes it very apparent that the White County market represents the much better growth opportunity for the Bank.

D. Business Model / Bank Strategy:

While the move to White County certainly assisted in the significant growth of the Bank from 2012 to current, part of this growth can also be attributed to the overall strategy, if not the essence, of the Bank. Being a small bank is challenging, but it also allows the Bank to be nimble, flexible, efficient and strategic as it relates to customer service and customer acquisition. This is the strategy of the Bank in a nutshell – proactive, personal and flexible customer service in a world that is constantly moving away from this paradigm to a more digital, less personal service model.

Management of the Bank are also lenders who are tasked with not only managing the financials of the Bank but also with customer acquisition and business development. If a customer has a problem or a question, whether it is related to a loan, the online banking application, a deposit product, or any other banking question, that customer typically knows a person at the bank that he or she can call or text to get an answer – quickly. Loan decisions, even those that require board approval, can typically be turned around in 24-48 hours. While other larger institutions may have to restrict or prohibit certain loans – e.g., construction or mobile home lending – the Bank, due to its size, can assess each request separately, in light of local economic factors and the character of the individual customers, to determine whether a loan should be made.

III. STRATEGY AND IMPLEMENTATION:

A. Description of Investment:

The investment under consideration is the opening of a new, full-service branch of the Bank in the City of Beebe, Arkansas. Specifically, the proposed investment is to acquire property somewhere along the DeWitt Henry roadway, which lies south of, and parallels, Highway 67/167, and on this property construct a full-service bank branch.[13] In addition to acquisition and construction costs, the investment would include the purchase of furniture, fixtures and equipment, and the hiring of additional staff. The Branch will be staffed with approximately 4 Full Time Equivalent (FTE) employees, who can handle all aspects of banking from taking deposits, opening consumer and business deposit accounts, and lending money.

The author is specifically proposing purchasing property and constructing a new facility, as opposed to renting a smaller location for a new branch (lease option), which would likely be a lower-cost alternative. The primary reason for the ownership option proposal is the site availability and the lack of desirable rental options. In the event a more desirable lease option is identified, Author would support the lease option. Aside from the cost estimates of this paper attributable to the ownership option, the balance of this presentation would apply equally to the lease option.

B. Why this Investment Should be Considered:

[13] See Exhibit 1 -- Map of Proposed Site

An expansion into the Beebe market is attractive for a number of reasons, including its proximity to current branches, infrastructure and staff, its relative location to the City of Little Rock, various economic trends, a relatively lower level of competition, as compared to the Searcy market, and existing customer relationships. All of these factors, more particularly described below, will contribute to the long-term growth strategy of the Bank.

Beebe is located in White County, Arkansas, and is approximately 20 miles from the City of Searcy, also located in White County, Arkansas, and approximately 40 miles from the City of Augusta, Woodruff County, the main headquarters of the Bank. It is located in the Searcy, AR Micropolitan Statistical Area, and is included in the Little Rock-North Little Rock, AR Combined Statistical Area, the total estimated population of which is 905,000.

Beebe has an increasing population and is the second most populous city in White County. The population of Beebe, as of 1990, was 4,455[14], and, as of 2019, the estimated population of Beebe was 8,168, representing a population increase of 83.34%.[15] Part of this population increase can be attributed to its location. Beebe is located at the southwestern corner of White County and is situated directly on the Highway 67/167 corridor which connects Little Rock Metro area with the northeastern part of the state. This corridor is an important artery for commuters who work in the Little Rock / North Little Rock metro area but choose to reside in small towns outside of the metro area, seeking better quality of family life and better public schools. Cities such as Cabot, which is south and west of Beebe, also located on the Highway 67/167 corridor, have experienced tremendous growth as a result of the urban flight from the Little Rock / North Little Rock metro area. It has been observed that some of the smaller cities are now, as a result, much larger,

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[14] US Census Bureau, Arkansas 2010, Population and Housing Unit Counts, 2010 Census of Population and Housing, Issued August, 2012.

[15] US Census Bureau (https://www.census.gov/quickfacts/fact/table/beebecityarkansas,US/PST045219)

prompting farther moves to further communities. The City of Beebe has likely seen an increase in population due to its location and will likely continue to see growth for this reason.

Another positive economic generator for the City of Beebe is the presence of Arkansas State University – Beebe. ASU-Beebe is a community college located in Beebe with approximately 3,500 enrolled students, which offers a variety of degrees for both full-time and part-time students. With an increasing need for flexible and affordable secondary education, the importance of this institution has increased, attracting more students and likely contributing to the overall population increase to the city. Additionally, the students, professors and other staff of the school present ideal customer profiles for the Bank, and students of the school might present the Bank with potential staff.

Another positive factor for the City of Beebe is the school system. The Beebe School District currently serves a majority of the southwestern portion of White County. Total enrollment of the Beebe School District is 3,259. Beebe High School was ranked 38th out of 301 High Schools in the Best Arkansas High Schools rankings by US News and World Report, citing a graduation rate of 87% and a college readiness of 25.0.[16] A thriving school district is important for long-term growth of any community, and the City of Beebe appears to be well-positioned in this area.

In addition to strategic location, and an increasing population, Beebe has other positive economic trends[17] The median household income for the City of Beebe is $51,783, which is higher than the Arkansas median household income of $45,726. The median value of owner-occupied households is $124,800, which is also higher than the state median of $123,300. This is positive

[16] U.S. News & World Report, Best Arkansas High Schools. https://www.usnews.com/education/best-high-schools/arkansas/rankings

[17] US Census Bureau (https://www.census.gov/quickfacts/beebecityarkansas).

for the Bank, considering the amount of real estate secured lending conducted by the Bank. 92.7% of the population of Beebe has a high school education and 25.6% of the population has a bachelor's degree or higher, both of which are higher than average for the State of Arkansas.

By opening a new branch in the Beebe market, the Bank should experience continued growth in assets, both near-term and long-term. The Beebe market is conducive to short-term growth of the Bank, due to the weakening of local competitor (i.e., closure of Bank B and loss of key employee for Bank A). Additionally, planting a branch in a market today that is clearly on a growth trend will allow the Bank to continue its growth, as the community grows.

C. Role of Author in Project:

The author is the President & General Counsel of Bank, and, in this role, is primarily tasked with managing the lending activities of the Bank, providing general oversight of the financials of the Bank, and managing day to day operations of the Bank. Author is a non-voting, ex-officio member of the Board of Directors of the Bank. Author will advise the Board of Directors with respect to this proposal, including specific location, type of location, staffing, and the financial and non-financial impact of this investment. The Board of Directors will ultimately decide whether the Bank will invest in a branch location in Beebe, and, if so, the timing and type of this investment. It is assumed that, if this proposal is accepted, the author will be authorized to work with regulators to receive approval of this new location, in addition to execution of the overall plan, including negotiating of site acquisition, design of the new building, construction of the location and selection of staff. It is also possible that author will be requested to work at the new location for a period of time, pending the placement of permanent staff.

Author has been with the Bank for 4 ½ years, and, during this time, has acquired a number of key relationships with individuals in the Beebe area, including local business owners and centers of influence. Many of these individuals have suggested to the author that the Bank should open a branch in Beebe. In addition to proposing this new branch location to the Board, and execution of the strategy, assuming it is approved, the work of author with key individuals in the Beebe area will be critical to the acquisition of new business. It is noted that, while author has obtained new loan relationships with individuals in the Beebe market, and a few key deposit accounts, a new branch location is likely key to obtaining overall relationships – i.e., those that bring not only loans but also deposit accounts and other incidental services.

D. How the Investment Aligns with Strategy of Bank / Competitive Advantages:

The overall objective of the Bank is growth of assets by customer acquisition and overall organic growth. The strategy of the Bank to meet this goal of organic growth is the delivery of small bank services with proactive customer service to obtain new core banking relationships in the areas serviced by the Bank. The Beebe market is independent of the Searcy market and represents untapped customer relationships that could assist in the continued growth of the Bank, and the market appears to be one that would respond well to the small-bank strategy of the Bank.

Beebe Banks, as of June 30, 2019[18]:

Institution Name	Offices in Market	Deposits in Market	Market Share
Bank A	3	112,143	59.63%
Bank B	2	48,090	25.57%
Bank C	1	14,118	7.51%
Bank D	1	13,707	7.29%
Totals	7	188,058	100%

[18] Federal Deposit Insurance Corporation, Deposit Market Share Report for Beebe, Arkansas (June 30, 2019). https://www7.fdic.gov/sod/sodMarketRpt.asp?barItem=2

The list above reflects the total deposits available in Beebe outnumber the total deposit market for Woodruff County, supporting the proposal that a new location in Beebe provides more upside than a new location in Augusta or anywhere else in Woodruff County.

Acting on this proposal soon will also provide Bank with certain competitive advantages with respect to competitors within the Beebe market. First of all, one of the banks identified in the above list – Bank C – has since closed its location in Beebe. Bank C is a regional bank, with assets of approximately 129 billion, and seemingly no longer provides the community bank model that a small community such as Beebe desires. This marks an opportunity, as this move leaves approximately 14 million in deposits susceptible to acquisition by the Bank.

And, secondly, the recent departure of the market president of Bank A – the clear champion of deposits in the Beebe market – has created a significant opportunity in this market. Beebe is a community that was for years served by a financial institution, which was locally owned, staffed and managed by individuals from the Beebe market. In the 1990's, Bank A purchased Citizens Bank, and it obtained significant market share in Beebe with the purchase of Citizens Bank. In the opinion of the author, Bank A was able to retain and grow the market base by continuing to utilize a localized strategy[19]. This localized strategy essentially ceased with the departure of the market president.

Since the departure of the market president, Bank A has not replaced him with a local person; rather, Bank A has opted to utilize managers from neighboring community, Cabot, to manage this market. According to several contacts in the Beebe area, this disruption has created a

[19] For years, Bank A maintained a local loan committee, staffed with former owners of Citizens Bank. Additionally, Darrell Hall, a former shareholder and president of Citizens Bank, was the market president of Bank A for many years, and, following his departure, another Beebe native and member of another family owning significant shares in Citizens Bank, served in this capacity. These individual ties to the community, in the opinion of the author, created significant stakeholders in the community of Beebe.

lot of unrest among the customer base of Bank A, as they desire the localized customer service to which they have been accustomed over the years. This presents a clear competitive advantage for the Bank in Beebe, as the Bank's strategy of providing proactive, small community bank customer service fits the vacuum created by this change.

Generally speaking, the Bank can take its perceived weakness (small asset sized) and utilize it as its strength. The Bank has been successful with this in the Searcy market. The market share of Bank in the deposit market of Searcy has increased from 0.25% of the market, in 2012 when the Bank first opened a branch in the Searcy market, to a 2.01% share, as of June 30, 2020. While the "small bank" approach can be a strength, the potential weakness of a "small bank" must also be examined – in terms of products and technology offered to customers.

While the Bank may not have all the customer-friendly technology offered by other larger banks, the Bank is overall competitive in this area. The Bank offers online loan applications, remote deposit capture, online and mobile banking, mobile wallet, a mobile app for management of debit cards, instant issue debit cards, and an online money management tool, online external transfers, among others. A few weaknesses are apparent, however. The Bank lacks a robust business banking online platform and online account opening. These products are on the future roadmap for the Bank. In short, the customer technology offered by the Bank may not present a clear competitive advantage, in the Beebe market, or any other market, but it should not be a significant impediment to future growth.

A quick review of the deposit products of the banks in Beebe – excluding Bank B due to its closure of its banking facility – reveals that the deposit products of Bank are competitive, if not superior in certain aspects. Many of the deposit products of the other banks reflect fees for checking accounts. Most of the deposit products of Bank are completely free. Bank also offers a high reward checking account that appears to be superior to any of the accounts offered by competitor banks in the Beebe market, at least in terms of rewards/interest paid to the customers. The specific product offered by Bank pays either 2.25% APY on the average balance of the checking account during the month (up to $25,000) or 2% cash back on all debit card purchases (up to $8 monthly), provided certain conditions are met by the customer. The high rewards checking product would likely be attractive to the student base of the ASU-Beebe campus, particularly the cash back account. Most other comparative products pay a set interest rate. These student-customers likely will not carry large balances, so the cash-back product would likely yield these customers more return.

In summary, the Bank's strategy of small-bank service and comparable products will give it a competitive advantage in the Beebe market, particularly if this move is made in the near future, as the closure of the Bank B branch, and the changes in local management of Bank A, present a window of opportunity for the Bank. Leveraging this competitive advantage, in this new untapped market, should allow the Bank to continue to further its strategy of asset growth by acquisition of core deposits and banking relationships and lending opportunities.

E. Future Opportunities Created by this Investment:

Expanding the operations of the Bank to Beebe is another step toward the larger populated areas of Central Arkansas. Should the Bank continue its growth pattern to different markets in the future, the next logical steps would exist down the Highway 67/167 corridor towards the Little Rock Metro area, or, alternatively, along the Highway 64 artery, which extends North from Beebe and passes through Vilonia and Conway. While Vilonia is only 4,623 in current population, it is only 20 miles from the City of Beebe, and is recognized as one of the faster growing communities in this area of Arkansas, as the City of Vilonia cites that it grew 82% in population from 2000-

2010[20]. Additionally, Conway is approximately 35 miles from the City of Beebe. Conway is home to 3 accredited universities, a number of fortune 500 companies and a robust population of 66,127. All of these represent possible future growth expansions for the Bank.

A possibility that any small, community bank must face is the possibility of acquisition or merger by a larger bank. While this is not in any strategic plan of the Bank, it is a reality that, if management is successful in operating the Bank, larger banks looking to expand their balance sheet and/or footprint might be enticed to consider purchasing the Bank. Adding a location in the Beebe market would likely make the Bank more appealing to certain banks, particularly those with locations in or around the Little Rock metro area that would like to expand operations along the Highway 67/167 corridor towards the Searcy area. A move to Beebe, therefore, could positively impact future shareholder value.

An expansion of the Bank into the Beebe market would be an investment of both capital and time. This presents an opportunity cost associated with this proposal – i.e., time and money diverted to this project could not be deployed to other opportunities. One such opportunity that could be delayed is the implementation of Interactive Teller Machines (ITM's). The Bank has considered this investment over the last couple of years, and it is very appealing. By deploying a network of ITM's, the Bank would likely be enabled to reduce overhead costs, extend operating hours and possibly extending its service footprint. However, this expense of this project may not be justifiable for the first 1-2 years following the expansion into Beebe.

The Bank has also considered significant renovations to the main location in Augusta to accommodate a growing operations department. This project may have to be delayed, mainly due to lack of management time to handle two ongoing construction projects.

[20] City of Vilonia, Arkansas, Economic Development. (https://www.cityofvilonia.net/economic-development)

F. <u>Process Change or Improvement from the Investment</u>:

An increase in staffing will be required for this investment. A minimum of three full-time equivalents (FTE) will be required for this investment, initially, but likely a total of four FTE's will ultimately be needed. In addition to an increase in quantity, there is a need for an increase in quality – in terms of having staff qualified to manage a new branch. This will require a strong branch manager with experience in all retail functions, and, ideally, some lending experience.

In the short-term, author and other personnel can likely oversee the Beebe Branch, including loan decisions, staff scheduling decisions, and even community outreach efforts. This, however, is not a long-term sustainable approach. It will be necessary, in the opinion of the author, to hire a loan officer who can serve as the main lender, and community representative, of the Bank in the Beebe community. Ideally, this person will have both banking experience and a relationship to the Beebe community. Finding both of these traits in an individual may prove difficult, if not impossible. In this event, finding an individual with ties to the community and training them to be a lender may be required, which will be an expense to the Bank.

Obtaining local, specific knowledge of the Beebe market, and its residents and history, is critical for the Bank. Ever since the beginning, the Bank has always had stakeholders – whether management, board members or stockholders – that lived in the community served by the Bank. That will not be the case in the Beebe market. Currently, there are no board members or management that lives or works in the Beebe area. The local knowledge of the community and residents has always served the Bank well, allowing for very specific credit decisions, based upon personal knowledge of individuals, their businesses or the collateral involved. It will be very important for the Bank to continue to cultivate relationships with local stakeholders; otherwise, this could be a blind spot for the Bank in this new market.

A process change that the Bank has recently been focused on is a continued move to digital – not just for customer convenience but for the movement of items and processes (even workflows) virtually. In particular is a new system that was recently implemented that allows documents to be scanned into a database which triggers subsequent tasks or reviews (e.g., credit denials scanned into the system can be secondarily reviewed by senior officers). Certain processes and workflows have not yet been adopted into this format, and, to successfully make this expansion, a continued focus on a more digital workplace will be required, as the physical movement of documents and items becomes even more unreasonable in a wider footprint.

G. Implementation Schedule:

Phase I – 1 Month

Preliminary Due Diligence: Parties responsible – Author, CEO, Management Team and Board of Directors. Timeframe – 1 month. This project paper should serve as the foundation for the preliminary due diligence, which should include a business case for a new branch, inclusive of estimated fixed costs associated with the investment, alternatives as to site selection, staffing and projected revenue, over time, as a result of this investment. This proposal will ultimately be submitted to the Board of Directors for approval of the proposal, at least in concept.

Phase II – 4 Months

Identification of Site: Parties responsible – Author and CEO. Timeframe – 1 month. This phase will begin immediately after the Preliminary Due Diligence Phase. A site will be identified, followed by all appropriate inspections and finalization of an agreement for purchase.

Cost Budgeting / Design: Parties responsible – Author and CEO. Timeframe – 2 months. Author and CEO will likely engage an architect to assist in the design of a building and, thereafter, bids will be solicited from a general contractor for the construction of the new facility. Estimates will also be obtained from QSI (for ATM, under-counter steel, safe deposit box vault, cash vaults, security systems, etc), Kalmer Solutions (for computers and network connections) and other vendors (for other furniture, fixtures and equipment).

Final Board Approval: Parties responsible – Author, CEO and Board. The site selection, design of the branch building, together with all cost estimates of buildout and furniture, fixtures and equipment will be submitted to the Board for final approval.

Regulatory Approval: Parties responsible – Author. Timeframe – 3 months. As soon as practical, once the site has been selected, an application will be made for regulatory approval of the new location. According to Arkansas State Bank regulations, the Bank is a "Healthy Bank" and is, consequently, allowed to file for an expedited application, which, according to the rules, will be processed within sixty days of the filing. Prior to filing the application, however, the rules require the Bank seeking a new branch application to publish notice in a local newspaper for four weeks. Altogether, the Arkansas State Bank Department process requires, at a minimum, three months to process the application. The FDIC regulations will also be consulted in this process.

Phase III – 6 Months

Construction / Build Out: Parties responsible – Author, CEO, Contractors. It is likely that the construction of the building, and furnishing of the branch with all furniture, fixtures and equipment will take 5-6 months.

Staffing and Launch: Parties responsible – Management Team. The hiring and training of staff will occur simultaneously with the construction of the facility and will be overseen by members of the Management Team. The launch of the new location will be meticulously planned out by the Management Team.

IV. FINANCIAL IMPACT:

A. Description of Size and Type of Investment:

The proposed investment includes acquisition of a site, construction of a new branch building, and installation of furniture, fixtures and equipment for a new branch location in Beebe, Arkansas. The site under consideration is a 2 acre tract, which is a corner lot at the intersection of DeWitt Henry Drive and McAfee Medical Circle. There is approximately 288 feet of frontage on DeWitt Henry Drive and 317 feet of frontage on McAfee Medical Circle. The author estimates that a 2,000 square foot building should be sufficient. An estimate of cost of each piece of this construction is identified below:

ITEM	ESTIMATED COST	SOURCE
LAND COST	$300,000	Specific site has been offered to Bank for this price
LAND INSPECTION / SURVEY / DESIGN / CLOSING COSTS	$10,000	Author Estimate
CONSTRUCTION	$300,000	2,000 square foot building / estimated at $150 per square foot / Estimated by experienced sources
SIGNAGE	$45,000	Author Estimate based off of recent purchases
FURNITURE	$25,000	Author Estimate based off of recent purchases
COMPUTER/ NETWORK	$40,000	Author Estimate based off of recent purchases
ATM	$50,000	Rough Estimate provided by vendor
SECURITY / VAULTS	$30,000	Rough Estimate provided by vendor
OVERRUNS / MISC	$10,000	
TOTAL COST	$810,000	

It is noted that the Bank recently purchased and renovated a new branch location (Beebe Capps location) in Searcy within the last year. A lot of the assumptions related to capital expenditures were derived from the expenses related to this branch renovation.

As set forth above, the total estimated cost for the physical structure and all infrastructure is $810,000. It is noted that this total cost will immediately be diverted from a potential earning asset to a non-earning asset, which represents a loss of potential earnings. Assuming a net interest margin of 3.50%, the estimated loss of earnings on this investment would be $28,350 annually. This is the immediate opportunity cost of this proposed investment. A more complete analysis of the return on this proposed capital investment follows below.

B. Revenue and Expenses of Investment:

A pro forma is attached to the Appendix as Exhibit 2, identified as **Pro Forma 1**, which illustrates the conclusions of author related to revenue and expenses over a five-year period for the new branch. Included within this pro forma is the annual taxable income and a net cash flow. It is noted that, for purposes of this pro forma, it has been determined that the Bank currently has $2,000,000 in current deposits and $3,000,000 in current loans attributable to the Beebe market. This was the starting point for the pro forma, to which growth rates were applied.

Net Interest Income Projection:

To project Interest Income, it was, first, imperative to determine whether the new market location will produce more deposits or more loans. Based upon experience of management in new markets, particularly the Searcy market, loans will come more quickly than deposits, due to the stickiness of deposits. This assumption is buttressed by the limited experience of Bank in the Beebe market in particular, as the loans obtained in the last 12 months in this market have outnumbered the deposits obtained. For this reason, it has been assumed that the new Beebe branch will be a net loan producer, which will drive the revenue of the branch.

The next step is to approximate the annual growth. The best resource to determine approximate growth in a new market is the relatively recent experience of the Bank in the Searcy market, which it entered in 2012. While there are no records maintained either by regulators or the Bank internally to assess overall loan growth in the Searcy market, the growth of deposits in the Searcy market is an acceptable proxy to illustrate growth of loans.

Growth of deposits in the Searcy market over the years is set forth below:

Year	Searcy Market Deposits	Market Share
2012	$2,660,000	0.25%
2013	$10,399,000	0.95%
2014	$16,688,000	1.57%
2015	$18,512,000	1.69%
2016	$22,379,000	2.03%
2017	$18,018,000	1.51%
2018	$18,158,000	1.51%
2019	$22,578,000	1.93%

To levelize the growth illustrated above, a Compound Annual Growth Rate (CAGR) was calculated. For the full seven-year period examined, the CAGR was 35.73%. For the first five years, the CAGR was 46.61%. It was assumed, therefore, that a 50% CAGR was reasonable for a five-year projection. This CAGR was applied to the existing $2,000,000 in deposits and $3,000,000 in loans attributable to the Beebe market for this five-year period.

For the calculation of Interest Income, the current Weighted Average Yield of Bank (which, as of 9/30/20, was 4.90%) was applied to the projected loan balance of the new location. Interest Expense was calculated similarly; the current Cost of Funds of Bank (which, as of 09/30/2020 was 0.64%) was applied to the deposits necessary to fund the loans. Note that this is more than the interest expense for the deposits attributable to this branch, inasmuch as deposits from other locations will be necessary to fund the loan balance, as this new branch location is anticipated to produce more loans than deposits. The Net Interest Income of each year is calculated as the difference between Interest Income and Interest Expense.

Non-Interest Income Projection:

The 2021 Budget for the Bank projects Non-Interest Income in the amount of $323,500 in deposit related categories, which are more particularly described below:

Service Charges	$46,000
NSF Fees	$110,000
ATM / Interchange	$164,000
Early Redemption / Check Sales	$3,500
Subtotal:	$323,5000

It is assumed that the new Beebe location will have approximately 3% of the deposit share of the Bank at the end of Year 1. This assumption is based on the 2021 Budget of Bank projecting total deposits of Bank at approximately $102,000,000, and the assumption that the new Beebe location will produce $4,500,000 in deposits by the end of Year 1. For purposes of Non-Interest Income, author allocated 3% of deposit related Non-Interest Income to the new Beebe location for Year 1, and, thereafter, applied a CAGR of 50%. It is noted that this does not include Loan Fee Non-Interest Income, but, given the speculative nature of the assumptions related to Non-Interest Income, in general, and the fact that loan-related Not Interest Income contributes a much less amount to total Non-Interest Income, it is assumed that starting with 3% of deposit related Non-Interest Income is a conservative figure encompassing all Non-Interest Income for this new location.

Operating Expenses:

The most significant operating expense for the new Beebe location will be Salaries and Benefits to staff the location. It has been assumed that, when fully staffed, this new location would require four full-time employees, including two tellers, one CSR/Loan Assistant, and one loan officer/branch manager. It has been assumed, based on current payroll, that the cost of these four positions would be $190,000 for Year 1. For the following years, this amount has been increased by 5% each year to account for anticipated pay increases.

The second most significant expense category is the Loan Loss Provision expense. It has been assumed that provisions to Loan Loss Reserve will equal 1% of incremental loan growth. Other operating expenses are more nominal and are based upon experience with other locations and are proportionally allocated to this new branch.

Pre-Tax Cash Flow / Net Cash Flow:

The Pre-Tax Cash Flow for each year of the Pro Forma is the difference in the Total Income and Total Operating Expenses. This reflects profitability of the new branch, or lack thereof, but does not take into account taxes. To calculate Net Cash Flow – which is true cash flow net of taxes – the applicable depreciation of the investment has been included, as set forth below:

Building Expense	$300,000	39 Year Depreciation Schedule
FF&E	$150,000	7 Year Depreciation Schedule
Computers	$40,000	5 Year Depreciation Schedule

The depreciation expense has been deducted from Pre-Tax Cash Flow to derive Taxable Income. The Tax Rate utilized for the Pro Forma was 27.50%, which is the total of the federal tax rate for C Corporations and the AR state income tax. Applying this rate to the Taxable Income yields the Taxes Attributable to Income. The final calculation is the Net Cash Flow which is the difference of Pre-Tax Cash Flow and Taxes Attributable to Income.

Analysis of Net Cash Flows:

According to Pro Forma 1, the new branch location becomes profitable after Year 2, but it is important to note that the recoupment of the initial capital expenditure of $810,000 does not occur until after Year 5, as set forth below:

Net Cash Flow	($39,095.00)	$42,548.68	$136,674.52	$281,117.63	$501,199.36
Cumulative Cash Flow	($39,095.00)	$3,453.68	$140,128.20	$421,245.83	$922,445.19

Assessing this investment from a discounted cash flow perspective, one can compare this overall capital expenditure with other alternative investments. While 5% is less than the traditional Return on Equity of the Bank, this rate was utilized to analyze this investment from a discounted cash flow analysis perspective, as set forth below:

Discount Rate	5%
Period	Cash Flow
Investment	($810,000.00)
Year 1	($39,095.00)
Year 2	$42,548.68
Year 3	$136,674.52
Year 4	$281,117.63
Year 5	$501,199.36
NPV	($66,596.85)

As reflected in the discounted cash flow analysis above, the Net Present Value of the initial investment is a negative number, indicating a non-desirable investment. It is noteworthy that the Internal Rate of Return on this investment is approximately 3%, meaning that the Net Present Value of this investment would be $0 utilizing this rate; or, stated differently, if 3% was an acceptable IRR for the Bank, then this would be an acceptable investment for the Bank.

While 3% IRR is low, it is noteworthy that this is a five year look at this investment, which is a relatively short timeframe to consider such a large investment of capital. More specifically, extending Pro Forma 1 out one additional year, and assuming the same net cash flow for Year 6 as Year 5, the resulting NPV, utilizing a 5% discount rate, would be a positive $307,405.83, and the IRR would be 12.09%. Expanding the scope of the pro forma, therefore, would support this as a viable, profitable capital expenditure. These calculations are set forth below:

Discount Rate	5%
Period	Cash Flow
Investment	($810,000.00)
Year 1	($39,095.00)
Year 2	$42,548.68
Year 3	$136,674.52
Year 4	$281,117.63
Year 5	$501,199.36
Year 6	$501,199.36
NPV	$307,405.83

Period	Cash Flow
Investment	($810,000.00)
Year 1	($39,095.00)
Year 2	$42,548.68
Year 3	$136,674.52
Year 4	$281,117.63
Year 5	$501,199.36
Year 6	$501,199.36
IRR	12.09%

In any plan it is advisable to hope for the best – but plan for the worst. With this in mind, it is instructive to consider what assumptions could be wrong, and, if so, how we might mitigate this risk and what negative impacts could flow from incorrect assumptions or unforeseen risks.

Project Cost: One obvious example of an incorrect assumption is the construction expense of the bank branch, or assumed costs of the furniture, fixtures and equipment, could be incorrect. This could be due to construction overruns or simply poor budgeting. The effect of this would be to negatively skew the discounted cash flow analysis, inasmuch the initial investment would be more than used in the pro forma. This potential is mitigated by the experience of bank management in constructing bank branches and relationships with vendors.

Anticipated Growth: Admittedly, an aggressive growth rate (CAGR of 50%) has been assumed for purposes of the pro forma. Factors supporting this CAGR include the recent growth in deposits and loans from Beebe over the last 12 months, the weakened competition in the market, and the experience of Bank in Searcy. By Year 5, under these assumptions, the Bank would have an approximate 8% share of the Beebe deposit market, assuming the total deposits of the market remained constant. This would, indeed, be tremendous growth in a short period of time.

To consider the ultimate impact of this assumption, and particularly if it were incorrect, author prepared a second pro forma (**Pro Forma 2**) to incorporate a lower growth rate, but also extended the horizon of the pro forma through 10 years. [21] The anticipated growth rate utilized was 25% CAGR for the first five years, with a CAGR of 10% for Years 6-10. This truly would make a significant impact on this proposed investment. In this instance, the new location is not profitable until Year 4, and the ultimate payback of the initial capital expenditure does not occur until after Year 10. This likely would is not a good investment for the Bank. To monitor this risk, the Bank must be diligent in measuring the growth of loans for the new location, and, in the event, loan growth is not occurring at an acceptable rate, Bank should consider alternatives, including potentially hiring a replacement lender.

Staffing: One of the most critical assumptions, and one that very much will dictate whether the desired growth rate can be achieved, is that the Bank has adequate staffing for this location. In order for this investment to be successful, the correct hires must be made – from a loan officer to the tellers. The Bank will be marketing its difference from other institutions in the area, and its difference is the proactive, personal service of a small community bank. Without competent, if not exceptional, staff, this cannot be achieved. This issue merits immediate attention, and the Bank

[21] See Exhibit 3 -- Pro Forma 2

should start recruitment immediately of potential staff members. Surveying known stakeholders in the Beebe market for employee suggestions should also be utilized to mitigate some of the risks of hiring unknown individuals for an unknown market.

Local Stakeholders: One of the assumptions underlying this entire proposal is that the Beebe market will be accepting of Bank. This assumption is based upon our recent success in this market and other market indications (i.e., weakening of competitors and closing of banks), but, prior to making this investment, it would be wise to survey known stakeholders in the area to better inform some of the assumptions. In this regard, it should also be considered how relationships can be strengthened with these stakeholders, in the form of advisory committees or other types of relationships.

Higher Loan and Deposit Costs: It has been assumed that loan rates and deposit rates, similar to what are being offered in our current markets, will be successful in obtaining both loans and deposits in the new market. It is possible, given that we are a challenger in a new market, that more competitive rates may be required in order to obtain the desired market share.

Higher Credit Risks: With a move to a new market, there might be a risk of inadequate knowledge of the market and customers to appropriately identify risk. This may have the effect of increasing chargeoffs and losses, which would negatively impact this investment. One of the strategies intended to address this possibility is to identify a strong lender with ties to the area, and to potentially enlist other stakeholders from the community – either through stock ownership or the creation of an advisory board – who can advise the Bank with respect to credit decisions.

All of the foregoing assumptions, and other assumptions not discussed (e.g., higher than expected operating expenses, increased need for operational overhead, etc.) will be monitored by management, and strategies will be developed to address incorrect assumptions.

D. Why the Investment is Worthwhile:

So far, two separate pro formas have been discussed in this analysis. Pro Forma 1 reflects a positive Net Present Value of the investment by Year 6, but it also assumed a large growth rate, which might be considered too aggressive of a growth rate. Pro Forma 2 reflects a negative Net Present Value of this investment after Year 10, indicating that this may not be a prudent investment of funds. The growth rate used in this second projection is likely too conservative, however.

To better analyze the proposal, author prepared a third pro forma (**Pro Forma 3**) to act as a conservative middle ground between the previous two pro formas.[22] Pro Forma 3 utilizes a 40% CAGR for the first five years, with a 10% CAGR for Years 6 – 10, recognizing that growth may start to slow over time and also recognizing that a 10 year view of this investment is likely more realistic than a 5 year view. In Pro Forma 3, the new location is profitable in Year 2 – with a total Pre-Tax Cash Flow of $8,075, and a payback of the initial capital investment by Year 6.

A few other noteworthy observations from Pro Forma 3 are as follows:

1. $26mm Loan Portfolio: The total loan portfolio for the new location is approximately $26mm by the end of Year 10. This seems very reasonable to expect a loan officer, in a small market, to produce a loan portfolio of this amount over this horizon.
2. $541K Branch Profitability: By the end of Year 10, the new location is projected to produce $541K of net income.
3. Discounted Cash Flow Analysis: Using a 5% discount rate, the initial investment has a NPV of approximately $1,047,587.39 over a 10-year period, and the IRR is 17.80%.

The growth rate assumptions of Pro Form 3 are achievable, in the opinion of the author, and, inasmuch as the third pro forma reflects a positive NPV at the end of the ten-year period and

[22] See Exhibit 4 – Pro Forma 3

a very desirable 17.80% IRR, the author is ultimately of the opinion that this investment is advisable for the Bank. This capital investment will assist the Bank in its continued efforts to scale the size of the Bank while also increasing profitability.

The success of this investment, as illustrated in the various pro formas, is dependent upon the ability of the Bank to consistently grow its loan portfolio over an extended period of time. Given the experience of the Bank in successfully growing its loan portfolio in the Searcy market, author is of the opinion that the Bank is capable of this growth rate. It will take an extreme amount of focus and discipline in order to achieve the desired growth, and the most critical part of this investment will be in the hiring of a lender with the resources and relationships necessary to achieve this goal. It will also be imperative to track the progress of the new location very closely.

V. NON-FINANCIAL IMPACT:

A. Logistical and Organizational Hurdles:

Not all points of concern regarding a significant proposal, such as an expansion of the Bank into a new market, can be quantified or calculated with spreadsheets and formulas. However, the inability to quantify the impact of these "Non-Financial" factors does not render them inconsequential. A discussion of some of these factors follows below.

As stated previously, the Bank made a move to a new market (the Searcy Market) less than ten years ago. It has been observed, at times, a slight "Us versus Them" mentality among employees following this new market expansion. For instance, a dollar spent in one market was a dollar not spent in the other market and with some employees bred jealousy. This is damaging to the overall culture of the Bank if left unchecked. If employees from either the Searcy or Augusta market feel overlooked, or less valued than the Beebe market, the bottom-line financials of the new market expansion, and likely the overall bank, will be impacted negatively.

In a slightly different variation of the "Us versus Them" challenge, it was observed, following the move to Searcy, that some of the local customers of Augusta had a feeling that the Bank was leaving its roots. This feeling was prevalent when the name of the Bank changed from The Bank of Augusta to RiverWind Bank. Long-time customers were offended by this change, and also took offense to some of the Bank officers spending more time in the new market. Perception is reality, and, if customers of Augusta or Searcy perceive that the Bank is diverting time or resources away from them, the Bank will experience customer complaints and potentially the loss of long-term customers.

Overall bandwidth overload is a potential issue. Stated differently, the operations department and management team are currently operating, in the opinion of the author, at maximum levels. Adding a new location will add new staff members, new processes, more volume, and, essentially, more projects. The ability of management and operations to implement this new market expansion, while managing existing tasks and duties, is an area of non-financial concern. Failures could be catastrophic and could significantly impact the financial operations of the Bank. Even without a failure, the stretching and pulling of the already stretched time and attention of management and leaders could negatively impact employee morale.

Other non-financial concerns include infrastructure concerns, such as the increased demand on the IT Network and Operations Department. Additionally, expanding the footprint of the Bank will also add complexity, and time demands, on physically moving items between locations.

Another non-financial concern is the identification and employment of staff for the new Beebe market. The City of Beebe, while growing, is still a small town with a lot of community identity. Finding staff, particularly a branch manager or lender, that integrates into the community well enough to be accepted is a potential hurdle to the success of this project. This will be a critical part of implementation of this project.

B. Plan to Overcome Hurdles:

One method to address the cultural issues noted above is to implement the employee engagement action plan recently proposed by Author to management. The proposed action plan outlines intangible attributes and actions of employees, the purpose of which is to set a baseline for how employees interact with customers, coworkers, and the communities served by the Bank. Implementation of this action plan, if successful, should increase interpersonal relationships within the Bank and thwart tribalism that can result from the expansion of the Bank into a new market.

Additionally, the proposed employee engagement action plan focuses on the communities served by the Bank. Specifically, the action plan notes that the "Bank is a product of the communities it serves" and directs that "we will actively engage in activities to benefit our communities'. Again, if this engagement action plan can be successfully implemented, the "leaving our roots" concern, which was evident in prior moves, might be mitigated, inasmuch as employee engagement within the community (particularly Augusta) will be stressed, and heightened, at the same time this market expansion is occurring. The lift in that community might offset the feeling that the Bank is leaving its home.

Additionally, Bank management must completely buy-in to this new market expansion and the successful implementation of it. To do so, there must be short-term commitment to clearing the schedule of discretionary projects and replacing those projects with mission-critical projects – particularly those projects needed to assess current infrastructure and processes to determine if changes are needed. Essentially, the focus will need to be on streamlining processes to increase efficiencies, which will allow current processes and staff to handle additional loads. It will be incumbent upon the author, and the management team, to vigilantly guard against taking on unnecessary projects during implementation and immediately thereafter. If the appropriate focus, and restraint on discretionary projects, can be attained, management of the Bank will ensure a more seamless implementation of this project while also avoiding the bandwidth/morale issues discussed above.

It is possible that marketing can be used to meld these markets together and to proactively address some of the concerns regarding perception of this move within existing markets. For example, the Bank has, in the past, used "employee highlights" in its social media marketing, which included a picture of the employee and a short story about that employee and what they do for the Bank. These social media posts typically prove to be the most engaging to the public. Utilizing these "employee highlight" posts would allow us to introduce new market employees to existing markets – in essence, humanize them to current customers.

One project that was recently thrust upon the Bank, following the death of a critical employee of our operations department, was a reorganization of our operations area. New employees were moved into this area, and duties have been reassigned as a part of this process. The Bank is still in the process of this reorganization. It is critical that this process continue and that the operations area is fully staffed, cross-trained with appropriate redundancies, prior to undertaking this new market expansion.

While this paper has assessed the number of staff needed to operate the new branch location, it has not addressed the potential need for new staff in other areas of the Bank, as a result of this expansion. It is likely advisable to consider hiring a new lender (for the Searcy market) and/or a new operations team member (someone with an IT foundation) prior to this new market expansion. Assessing our employment needs, and either hiring or training current staff to help with areas of deficiency, should commence immediately, inasmuch as these personnel moves take time.

The Bank has built a good network of customer relationships in the Beebe Market. To ensure appropriate staffing with employees with acceptable ties to the community, this network of individuals should be included in the potential identification and recruitment of employees. This process also has the positive side effect of creating buy-in with these individuals in the new market.

Prior to the COVID-19 pandemic, the Bank regularly had personnel meetings that included a meal, announcements and presentations by management and, most importantly, in-person interaction between staff outside of work hours. Camaraderie is forged in these meetings that is vital to workplace synergy. Virtual meetings have been utilized in lieu of these in-person meetings, but they leave much to be desired. Assuming vaccines are effective in the fight against COVID-19, it is crucial that in-person staff meetings occur prior to, and after, the implementation of this proposal. Conducting these meetings prior to the launch can provide current employees with information prior to the launch, help them understand how they are important to this new investment, and, ultimately, create buy-in with all employees going into implementation. In-person meetings subsequent to the opening of the new location will allow the current employees and new-market employees to bond, which will assist in overcoming some of the cultural concerns noted above.

C. Measures to Evaluate Non-Financial Impact of Change:

It is imperative, in terms of monitoring the effect of this move on culture to provide employees with a means of providing anonymous feedback. If management is not aware of resentment, work overload, or other issues detrimental to employee morale and overall culture, we are powerless to adjust actions. There must be a means by which employees on the frontlines can access a "suggestion box" or be able to ring the proverbial bell. Equally important, in the opinion of the author, is that the employee must trust that they will not be punished for comments – thus, the need for the anonymity. Various methods exist to provide this – email inboxes that do not record the sender, online survey services (e.g., Survey Monkey), and the tried and true "suggestion boxes". Author is agnostic on the method, but it is imperative that a feedback loop be established.

Another means by which the Bank can continue to monitor some of the non-financial concerns identified above, and whether the mitigation tactics are working, is to create employee groups (consisting of non-management employees) that are tasked with assessing areas of particular concern or simply tasked with providing feedback to the management team on any areas of stress or strain created or amplified by this move. Allowing employees to voice concerns in surveys provides value, but it assumes management is asking the right questions, at the right times. Proactively tasking a group of employees to regularly meet and assess all non-financial aspects of this move, before and after the move is made, might provide management with more timely and relevant information, thereby avoiding potential blindspots.

One of the concerns with this move is the potential disenfranchisement of current customers. The best defense to this is a good offense, by being as present and visible in current markets with community service and advertising, but the Bank must also monitor the customer sentiment. Examples of ways to accomplish this include monitoring social media for complaints, holding targeted customer meetings to discuss the move, and establishing a customer sounding board to provide the Bank with feedback on customer perception. Ideal participants of this customer committee might include retired Bank employees who still live in the market.

It is also wise to consider assembling some current or potential customers from the Beebe market to advise the Bank on staffing of the new location, to ensure acceptance of the staff by locals, and other issues related to this move. It would be significantly beneficial for the Bank to obtain local advice on what community activities the Bank should be involved in (e.g., chamber events or other non-profits of importance), how the Bank may engage different segments of customers (e.g., students of the local community college), whether the products and services of the Bank are appropriate for the customers of this new Market, and, after opening, whether the culture of the new bank branch is consistent with the ideal culture of the Bank.

Aside from ensuring an appropriate launch of the new bank location, the attention placed on the Non-Financial factors noted herein will also provide long-term, financial benefits for the Bank. For some time, management of the Bank has discussed the need for culture-focused training, in addition to training for employee engagement, but has yet to devote the time and attention necessary to this endeavor. Moving to another market will be the catalyst needed to make culture and employee engagement training a priority. Provided this training is done correctly, and continuously hereafter, it will provide the basis, in the opinion of the author, for increased employee satisfaction/morale, a more efficient workplace, better customer service, and more visibility of the Bank in community affairs. The attention given to seeking out feedback, from employee surveys and focus groups, should also provide boosts to employee morale and buy-in. This could result in a paradigm shift that will provide the Bank with a more recognizable brand, leading to more business, the ability to transcend into future markets or the recognition of other financial institutions seeking strategic mergers or acquisitions. All of these can have a positive impact on the financial status of the Bank.

In addition to providing the spark that will ignite the culture/employee engagement brand of the Bank, the move will allow the Bank to recognize more benefit from economies of scale in the long-term, resulting in increasing margins. The streamlining of operations and processes, that will necessarily result from this move, will make the Bank more efficient and more profitable long-term. Additionally, building a foundation now of operational efficiency and appropriate redundancies will enable the Bank to potentially add another location in another market, thereby taking advantage of additional economies of scale, which would positively impact profitability long-term.

It is also likely that, with an increased focus on customers and communities, the Bank will endear itself even more to the existing markets. This should have the effect of cementing current relationships and providing future sources of referrals.

VI. CONCLUSION:

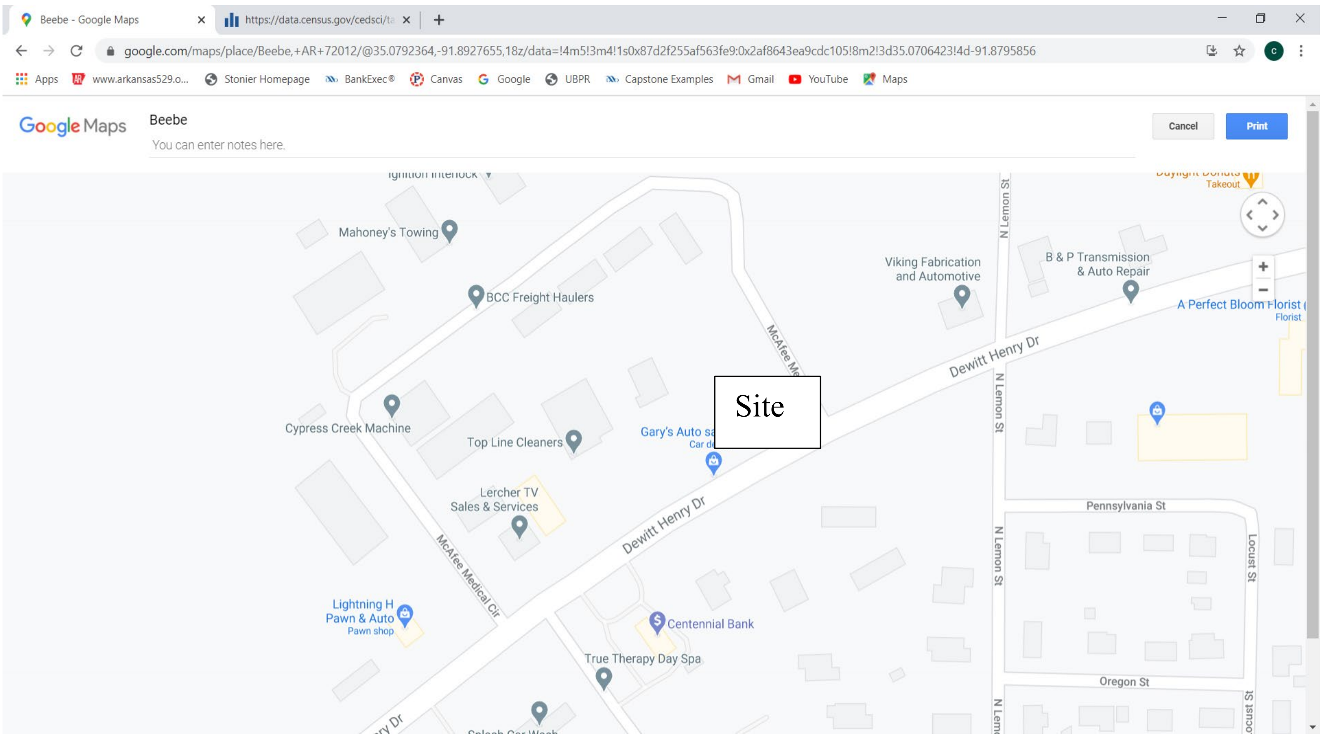
The Bank is uniquely positioned to capitalize on the opportunity that is Beebe. The residents of Beebe have been accustomed to small bank service, and they perceive they have lost this type of service from their local institutions. The Bank has been providing this small town, small bank service since it began in 1935, and, with this type of customer service, the Bank has recently acquired a slight market share in Beebe. Placing a branch in this market now will solidify these relationships, provide opportunities for core deposit and loan growth, enhance the profitability of the Bank, and provide future expansion opportunities towards the larger, growing markets of central Arkansas.

For these reasons, the Bank should expand into the Beebe market in the very near future. By implementing the strategies outlined in this proposal, the Bank can make this investment in a new market, reap the rewards associated with this investment and avoid some of the potential strains on current operations of the Bank.

Appendix

1. Exhibit 1 – Map of Proposed Site (attached)
2. Exhibit 2 – Pro Forma 1 (attached)
3. Exhibit 3 – Pro Forma 2 (attached)
4. Exhibit 4 – Pro Forma 3 (attached)

<u>Exhibit 1 – Map of Proposed Site</u>



Pro Forma 1

Beebe Branch 5 Year Pro Forma

Starting Loan Balance	$ 3,000,000.00
Starting Deposit Balance	$ 2,000,000.00

	Year 1	Year 2	Year 3	Year 4	Year 5
Total Loans	$4,500,000.00	$6,750,000.00	$10,125,000.00	$15,187,500.00	$22,781,250.00
Total Deposits	$3,000,000.00	$4,500,000.00	$6,750,000.00	$10,125,000.00	$15,187,500.00
Interest Income	$220,500.00	$330,750.00	$496,125.00	$744,187.50	$1,116,281.25
Interest Expense	($28,800.00)	($43,200.00)	($64,800.00)	($97,200.00)	($145,800.00)
Income					
Net Interest Income	$191,700.00	$287,550.00	$431,325.00	$646,987.50	$970,481.25
Non Interest Income	$9,705.00	$14,557.50	$21,836.25	$32,754.38	$49,131.56
Total Income	$201,405.00	$302,107.50	$453,161.25	$679,741.88	$1,019,612.81
Operating Expense					
Salaries & Benefits	($190,000.00)	($199,500.00)	($209,475.00)	($219,948.75)	($230,946.19)
Maintenance	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)
Supplies & Furnishings	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)
Marketing	($5,000.00)	($5,000.00)	($5,000.00)	($5,000.00)	($5,000.00)
Loan Loss Provision	($15,000.00)	($22,500.00)	($33,750.00)	($50,625.00)	($75,937.50)
Utilities	($2,000.00)	($2,000.00)	($2,000.00)	($2,000.00)	($2,000.00)
Insurance	($2,500.00)	($2,500.00)	($2,500.00)	($2,500.00)	($2,500.00)
Kalmer/Tech	($1,000.00)	($1,000.00)	($1,000.00)	($1,000.00)	($1,000.00)
Miscellaneous	($10,000.00)	($10,000.00)	($10,000.00)	($10,000.00)	($10,000.00)
Total Operating Expense	($240,500.00)	($257,500.00)	($278,725.00)	($306,073.75)	($342,383.69)
Pre-Tax Cash Flow	($39,095.00)	$44,607.50	$174,436.25	$373,668.13	$677,229.13
Depreciation Expense					
Building & Improvements	($7,692.31)	($7,692.31)	($7,692.31)	($7,692.31)	($7,692.31)
Furniture / Fixtures / Equipment	($21,428.57)	($21,428.57)	($21,428.57)	($21,428.57)	($21,428.57)
Computers / Tech	($8,000.00)	($8,000.00)	($8,000.00)	($8,000.00)	($8,000.00)
Total Depreciation Expense	($37,120.88)	($37,120.88)	($37,120.88)	($37,120.88)	($37,120.88)
Taxable Income	($76,215.88)	$7,486.62	$137,315.37	$336,547.25	$640,108.25
Taxes Attibutable to Income	0	($2,058.82)	($37,761.73)	($92,550.49)	($176,029.77)

Net Cash Flow	($39,095.00)	$42,548.68	$136,674.52	$281,117.63	$501,199.36
Cumulative Cash Flow	($39,095.00)	$3,453.68	$140,128.20	$421,245.83	$922,445.19

Discount Rate	5%
Period	Cash Flow
Investment	($810,000.00)
Year 1	($39,095.00)
Year 2	$42,548.68
Year 3	$136,674.52
Year 4	$281,117.63
Year 5	$501,199.36
Year 6	$501,199.36
NPV	$307,405.83

Discount Rate	5%
Period	Cash Flow
Investment	($810,000.00)
Year 1	($39,095.00)
Year 2	$42,548.68
Year 3	$136,674.52
Year 4	$281,117.63
Year 5	$501,199.36
NPV	($66,596.85)

Period	Cash Flow
Investment	($810,000.00)
Year 1	($39,095.00)
Year 2	$42,548.68
Year 3	$136,674.52
Year 4	$281,117.63
Year 5	$501,199.36
Year 6	$501,199.36
IRR	12.09%

Pro Forma 2

Beebe Branch 10 Year Pro Forma -- 25% and 10% CAGR - 10 Year

Starting Loan Balance	$ 3,000,000.00	
Starting Deposit Balance	$ 2,000,000.00	
Compound Annual Growth Rate -- 5 Years	1.25	This is used for Years 1-5
Compound Annual Growth Rate -- 5-10 Years	1.1	This is used for Years 6-10

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Total Loans	$3,750,000.00	$4,687,500.00	$5,859,375.00	$7,324,218.75	$9,155,273.44	$10,070,800.78	$11,077,880.86	$12,185,668.95	$13,404,235.84	$14,744,659.42
Total Deposits	$2,500,000.00	$3,125,000.00	$3,906,250.00	$4,882,812.50	$6,103,515.63	$6,713,867.19	$7,385,253.91	$8,123,779.30	$8,936,157.23	$9,829,772.95
Interest Income	$183,750.00	$229,687.50	$287,109.38	$358,886.72	$448,608.40	$493,469.24	$542,816.16	$597,097.78	$656,807.56	$722,488.31
Interest Expense	($24,000.00)	($30,000.00)	($37,500.00)	($46,875.00)	($58,593.75)	($64,453.13)	($70,898.44)	($77,988.28)	($85,787.11)	($94,365.82)
Income										
Net Interest Income	$159,750.00	$199,687.50	$249,609.38	$312,011.72	$390,014.65	$429,016.11	$471,917.72	$519,109.50	$571,020.45	$628,122.49
Non Interest Income	$9,705.00	$12,131.25	$15,164.06	$18,955.08	$23,693.85	$26,063.23	$28,669.56	$31,536.51	$34,690.16	$38,159.18
Total Income	$169,455.00	$211,818.75	$264,773.44	$330,966.80	$413,708.50	$455,079.35	$500,587.28	$550,646.01	$605,710.61	$666,281.67
Operating Expense										
Salaries & Benefits	($190,000.00)	($199,500.00)	($209,475.00)	($219,948.75)	($230,946.19)	($242,493.50)	($254,618.17)	($267,349.08)	($280,716.53)	($294,752.36)
Maintenance	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)
Supplies & Furnishings	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)
Marketing	($5,000.00)	($5,000.00)	($5,000.00)	($5,000.00)	($5,000.00)	($5,000.00)	($5,000.00)	($5,000.00)	($5,000.00)	($5,000.00)
Loan Loss Provision	($15,000.00)	($18,750.00)	($23,437.50)	($29,296.88)	($36,621.09)	($40,283.20)	($44,311.52)	($48,742.68)	($53,616.94)	($58,978.64)
Utilities	($2,000.00)	($2,000.00)	($2,000.00)	($2,000.00)	($2,000.00)	($2,000.00)	($2,000.00)	($2,000.00)	($2,000.00)	($2,000.00)
Insurance	($2,500.00)	($2,500.00)	($2,500.00)	($2,500.00)	($2,500.00)	($2,500.00)	($2,500.00)	($2,500.00)	($2,500.00)	($2,500.00)
Kalmer/Tech	($1,000.00)	($1,000.00)	($1,000.00)	($1,000.00)	($1,000.00)	($1,000.00)	($1,000.00)	($1,000.00)	($1,000.00)	($1,000.00)
Miscellaneous	($10,000.00)	($10,000.00)	($10,000.00)	($10,000.00)	($10,000.00)	($10,000.00)	($10,000.00)	($10,000.00)	($10,000.00)	($10,000.00)
Total Operating Expense	($240,500.00)	($253,750.00)	($268,412.50)	($284,745.63)	($303,067.28)	($318,276.70)	($334,429.70)	($351,591.76)	($369,833.48)	($389,231.00)
Pre-Tax Cash Flow	($71,045.00)	($41,931.25)	($3,639.06)	$46,221.17	$110,641.21	$136,802.65	$166,157.59	$199,054.25	$235,877.13	$277,050.67
Depreciation Expense										
Building & Improvements	($7,692.31)	($7,692.31)	($7,692.31)	($7,692.31)	($7,692.31)	($7,692.31)	($7,692.31)	($7,692.31)	($7,692.31)	($7,692.31)
Furniture / Fixtures / Equipment	($21,428.57)	($21,428.57)	($21,428.57)	($21,428.57)	($21,428.57)	($21,428.57)	($21,428.57)	$0.00	$0.00	$0.00
Computers / Tech	($8,000.00)	($8,000.00)	($8,000.00)	($8,000.00)	($8,000.00)	$0.00	$0.00	$0.00	$0.00	$0.00

Total Depreciation Expense	($37,120.88)	($37,120.88)	($37,120.88)	($37,120.88)	($37,120.88)	($29,120.88)	($29,120.88)	($7,692.31)	($7,692.31)	($7,692.31)
Taxable Income	($108,165.88)	($79,052.13)	($40,759.94)	$9,100.29	$73,520.34	$107,681.77	$137,036.71	$191,361.94	$228,184.82	$269,358.36
Taxes Attibutable to Income	0	$0.00	$0.00	($2,502.58)	($20,218.09)	($29,612.49)	($37,685.09)	($52,624.53)	($62,750.83)	($74,073.55)
Net Cash Flow	($71,045.00)	($41,931.25)	($3,639.06)	$43,718.59	$90,423.12	$107,190.16	$128,472.49	$146,429.72	$173,126.30	$202,977.12
Cumulative Cash Flow	($71,045.00)	($112,976.25)	($116,615.31)	($72,896.72)	$17,526.40	$124,716.56	$253,189.05	$399,618.77	$572,745.07	$775,722.20

Discount Rate	5%
Period	Cash Flow
Investment	($810,000.00)
Year 1	($71,045.00)
Year 2	($41,931.25)
Year 3	($3,639.06)
Year 4	$43,718.59
Year 5	$90,423.12
Year 6	$107,190.16
Year 7	$128,472.49
Year 8	$146,429.72
Year 9	$173,126.30
Year 10	$202,977.12
NPV	($305,413.62)

Period	Cash Flow
Investment	($810,000.00)
Year 1	($71,045.00)
Year 2	($41,931.25)
Year 3	($3,639.06)
Year 4	$43,718.59
Year 5	$90,423.12
Year 6	$107,190.16
Year 7	$128,472.49
Year 8	$146,429.72
Year 9	$173,126.30
Year 10	$202,977.12
IRR	-0.50%

Pro Forma 3

Beebe Branch 10 Year Pro Forma -- 40% and 10% CAGR - 10 Year

Starting Loan Balance	$ 3,000,000.00	
Starting Deposit Balance	$ 2,000,000.00	
Compound Annual Growth Rate -- 5 Years	1.4	This is used for Years 1-5
Compound Annual Growth Rate -- 5-10 Years	1.1	This is used for Years 6-10

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Total Loans	$4,200,000.00	$5,880,000.00	$8,232,000.00	$11,524,800.00	$16,134,720.00	$17,748,192.00	$19,523,011.20	$21,475,312.32	$23,622,843.55	$25,985,127.91
Total Deposits	$2,800,000.00	$3,920,000.00	$5,488,000.00	$7,683,200.00	$10,756,480.00	$11,832,128.00	$13,015,340.80	$14,316,874.88	$15,748,562.37	$17,323,418.60
Interest Income	$205,800.00	$288,120.00	$403,368.00	$564,715.20	$790,601.28	$869,661.41	$956,627.55	$1,052,290.30	$1,157,519.33	$1,273,271.27
Interest Expense	($26,880.00)	($37,632.00)	($52,684.80)	($73,758.72)	($103,262.21)	($113,588.43)	($124,947.27)	($137,442.00)	($151,186.20)	($166,304.82)
Income										
Net Interest Income	$178,920.00	$250,488.00	$350,683.20	$490,956.48	$687,339.07	$756,072.98	$831,680.28	$914,848.30	$1,006,333.14	$1,106,966.45
Non Interest Income	$9,705.00	$13,587.00	$19,021.80	$26,630.52	$37,282.73	$41,011.00	$45,112.10	$49,623.31	$54,585.64	$60,044.21
Total Income	$188,625.00	$264,075.00	$369,705.00	$517,587.00	$724,621.80	$797,083.98	$876,792.38	$964,471.62	$1,060,918.78	$1,167,010.66
Operating Expense										
Salaries & Benefits	($190,000.00)	($199,500.00)	($209,475.00)	($219,948.75)	($230,946.19)	($242,493.50)	($254,618.17)	($267,349.08)	($280,716.53)	($294,752.36)
Maintenance	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)
Supplies & Furnishings	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)	($7,500.00)
Marketing	($5,000.00)	($5,000.00)	($5,000.00)	($5,000.00)	($5,000.00)	($5,000.00)	($5,000.00)	($5,000.00)	($5,000.00)	($5,000.00)
Loan Loss Provision	($15,000.00)	($21,000.00)	($29,400.00)	($41,160.00)	($57,624.00)	($63,386.40)	($69,725.04)	($76,697.54)	($84,367.30)	($92,804.03)
Utilities	($2,000.00)	($2,000.00)	($2,000.00)	($2,000.00)	($2,000.00)	($2,000.00)	($2,000.00)	($2,000.00)	($2,000.00)	($2,000.00)
Insurance	($2,500.00)	($2,500.00)	($2,500.00)	($2,500.00)	($2,500.00)	($2,500.00)	($2,500.00)	($2,500.00)	($2,500.00)	($2,500.00)
Kalmer/Tech	($1,000.00)	($1,000.00)	($1,000.00)	($1,000.00)	($1,000.00)	($1,000.00)	($1,000.00)	($1,000.00)	($1,000.00)	($1,000.00)
Miscellaneous	($10,000.00)	($10,000.00)	($10,000.00)	($10,000.00)	($10,000.00)	($10,000.00)	($10,000.00)	($10,000.00)	($10,000.00)	($10,000.00)
Total Operating Expense	($240,500.00)	($256,000.00)	($274,375.00)	($296,608.75)	($324,070.19)	($341,379.90)	($359,843.21)	($379,546.62)	($400,583.83)	($423,056.39)
Pre-Tax Cash Flow	($51,875.00)	$8,075.00	$95,330.00	$220,978.25	$400,551.61	$455,704.08	$516,949.17	$584,924.99	$660,334.94	$743,954.27
Depreciation Expense										
Building & Improvements	($7,692.31)	($7,692.31)	($7,692.31)	($7,692.31)	($7,692.31)	($7,692.31)	($7,692.31)	($7,692.31)	($7,692.31)	($7,692.31)
Furniture / Fixtures / Equipment	($21,428.57)	($21,428.57)	($21,428.57)	($21,428.57)	($21,428.57)	($21,428.57)	($21,428.57)	$0.00	$0.00	$0.00
Computers / Tech	($8,000.00)	($8,000.00)	($8,000.00)	($8,000.00)	($8,000.00)	$0.00	$0.00	$0.00	$0.00	$0.00

Total Depreciation Expense	($37,120.88)	($37,120.88)	($37,120.88)	($37,120.88)	($37,120.88)	($29,120.88)	($29,120.88)	($7,692.31)	($7,692.31)	($7,692.31)
Taxable Income	($88,995.88)	($29,045.88)	$58,209.12	$183,857.37	$363,430.73	$426,583.20	$487,828.29	$577,232.68	$652,642.64	$736,261.96
Taxes Attibutable to Income	0	$0.00	($16,007.51)	($50,560.78)	($99,943.45)	($117,310.38)	($134,152.78)	($158,738.99)	($179,476.73)	($202,472.04)
Net Cash Flow	($51,875.00)	$8,075.00	$79,322.49	$170,417.47	$300,608.16	$338,393.70	$382,796.39	$426,186.00	$480,858.22	$541,482.23
Cumulative Cash Flow	($51,875.00)	($43,800.00)	$35,522.49	$205,939.96	$506,548.13	$844,941.83	$1,227,738.21	$1,653,924.22	$2,134,782.44	$2,676,264.67

Discount Rate	5%
Period	Cash Flow
Investment	($810,000.00)
Year 1	($51,875.00)
Year 2	$8,075.00
Year 3	$79,322.49
Year 4	$170,417.47
Year 5	$300,608.16
Year 6	$338,393.70
Year 7	$382,796.39
Year 8	$426,186.00
Year 9	$480,858.22
Year 10	$541,482.23
NPV	$1,047,587.39

Period	Cash Flow
Investment	($810,000.00)
Year 1	($51,875.00)
Year 2	$8,075.00
Year 3	$79,322.49
Year 4	$170,417.47
Year 5	$300,608.16
Year 6	$338,393.70
Year 7	$382,796.39
Year 8	$426,186.00
Year 9	$480,858.22
Year 10	$541,482.23
IRR	17.80%