



WIB Annual CFO, Investments & Operational Risk Conference

Risk Management Corporate Governance

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Risk Exams

- “Name-of-the-Game” =
Manage & Control Risk
- Informed Board
- Risk tolerance
- Monitoring and Exception Reports
- Capable management and staff



Risk Management Committee

- Membership
 - Risk Manager, CFO, Sr. Lending Officer, Compliance Officer, Operations Officer
- Quarterly Meetings
 - Minutes
 - Divide responsibilities
 - Risk Self-assessment
 - Risk management “newsletter”
 - Ongoing monitoring



Management Must...

- Keep the Board Informed
- Strategic direction
- Develop strong policies
- Have MIS you can rely upon!
- Strategic direction = risk tolerances



Risk Management Based On:

- Size of Bank
- Complexity
- Geographic Diversity
- + + + Strategic Direction



Key Buzzwords

- Identifying Risk
 - Discussions
 - Communication with Management
 - Transaction and portfolio level
- Measuring Risk
 - Reports
 - Reviews
 - Risk-based schedule
 - Findings should be risk-based
 - Corrective Action
 - Root Cause



Key Buzzwords.....more

- Controlling Risk
 - Policies and standards
 - Procedures

- Monitoring Risk
 - Follow-up to Corrective Action
 - Audit
 - Monitoring Reports



Evaluating Risk

- Policies
 - Train on policies
 - Attach forms to policy
 - Signed acknowledgement by employee
- Processes
 - Bottlenecks
 - Checklists
 - Checks and balances



Evaluating Risk

- Personnel
 - “Right” people in the “Right” places
 - Ongoing training
 - Job description (should contain BSA responsibility)
- Control
 - Policies & procedures
 - Review and audit follow-up



Credit Risk

- Underwriting standards
- Level, distribution, severity and TREND of problem loans
- ALLL
- Off-balance sheet items
- Diversification & quality of loan and investment portfolios
- Securities underwriting activities



Credit Risk.....more

- Asset concentrations
- Loan & investment policies
- Ability of management to properly administer
- Internal controls & MIS
- Volume and nature of credit documentation exceptions



Interest Rate Risk

- Size and stability of NIM and Fee Income
- S-T and L-T interest rate risk
- Price sensitivity of various products
- Low-cost, stable funding sources
- Independently measuring using a variety of scenarios (interest rate shocking)



Liquidity Risk

- Liquidity sources (present & future needs)
- Assets readily convertible to cash
- Money markets and other sources
- Diversification of funding sources
- Short-term, volatile sources
- Trend and stability of deposits
- Securitize and sell certain pools of assets
- Capability of management



Price Risk

- Timing of rate changes (re-pricing risk)
- Different yield curves (basis risk)
- Yield curve risk
- Interest-related options
- Sensitivity of earnings to adverse changes
- Ability of management



Foreign Exchange Risk

Risk to earnings or capital arising from movement of foreign exchange rates

Foreign exchange risk is not a factor that would affect most community banks.



Transaction Risk

- Volume of transaction in relation to systems development & capacity
- Complexity of processing transactions and delivering services
- Volume of administrative and account control exceptions
- Potential for financial loss



Transaction risk.....more

- History of litigation
- Controls over outsourcing
- Policies are approved by board
- Policies are communicated to staff
- MIS
- Level and skill of management
- Proper control mechanisms



Compliance Risk

- Volume and significance of violations
- History of complaints
- Policies approved by board
- Policies are communicated
- MIS
- Level and skill of management
- Independent and effective feedback



Strategic Risk

- Oversight and support of board
- Changing business conditions, new activities or products
- Conformance with policies and controls
- MIS
- Audits and internal controls
- Compliance !!



Strategic Risk...more

- Corrective action (auditor, examiners)
- Management depth and succession
- Dominant influence
- Compensation policies
- Serve legitimate banking needs
- Overall performance



Reputation Risk

- Perception of management and bank
- Public perception of products/services
- Management's ability to adjust strategies
- New services, policies, due diligence
- Plans for new services
- Assets under management/adminis.



Reputation Risk...more

- Customer complaints
- Litigation
- Historical losses
- Regulatory reviews / ability to respond
- Appropriate fiduciary or liability insurance



Risk Assessment...to summarize

Written self-assessment report

- Risk Identification
 - Risk Measurement
 - Risk Monitoring
 - Risk Control
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- Strengths
 - Weaknesses
 - Corrective Action Plan



Conclusion

Have a Great Day!

**If you have any further questions,
please call**

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