Simplified Enterprise Risk Analysis – Getting Prepared for the Regulators

Tuesday, June 18, 2013 11:30 AM – 12:30 PM

Presented by:

Kevin Tweddle
President
Fiserv Bank Intelligence Solutions
Agenda

- Survey Results
- Risk Management Framework
- The Enterprise Risk Analysis Approach
- MVSCALE & Scoring
- Risk Measurement Examples
- Summary Thoughts
- Questions
Survey Responses

At your bank, versus 5 years ago, does risk management take:

- More time and resources: 58.4%
- Much more time and resources: 31.2%
- About the same time and resources: 6.4%
- Much less time and resources: 2.5%
- Less time and resources: 1.5%
Survey Responses

In question #1 if you answered that risk management takes more time and resources than it did 5 years ago, how much more do you estimate?

- More than 50%: 15.5%
- 25% to 50%: 33.2%
- 10% to 25%: 42.8%
- 10% or Less: 8.6%
Survey Responses

Does your bank have a Chief Risk Officer whose primary responsibility is risk management?

- **Yes**: 36.7%
- **Plans to**: 18.4%
- **No**: 44.9%
Survey Responses

Does your Board have a Risk Management Committee?

- Yes, separate: 24.6%
- Yes, part of another: 25.7%
- No: 49.7%
Survey Responses

Considering where your bank is right now, what category or type of risk concerns you the most?

- Asset Quality: 22.5%
- Legal/Compliance: 19.4%
- Earnings: 15.7%
- Asset/Liability Management: 12.0%
- Technology: 7.9%
- Transactions: 4.2%
- Economic: 4.2%
- Capital: 3.7%
- Other: 3.1%
- Growth: 3.1%
- Concentrations: 2.1%
- Pricing/Price Level: 1.6%
- Liquidity: 0.5%
Survey Responses

Considering your bank over the next 3 to 5 years, what category of risk concerns you the most?

- Earnings: 19.0%
- Legal/Compliance: 18.5%
- Asset/Liability Management: 11.6%
- Technology: 11.1%
- Asset Quality: 10.1%
- Growth: 9.5%
- Capital: 7.9%
- Economic: 4.8%
- Transactions: 3.7%
- Pricing/Price Level: 2.1%
- Concentrations: 1.1%
- Liquidity: 0.5%
- Other: 0.0%

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The Drivers of Enterprise Risk Management in the Banking Industry

• Banking regulators
  • Increased focus on broad risk management in exams, including expectations of board and management oversight and links to internal audit

• Board members
  • Accountability has increased in the wake of the financial crisis
  • Requesting risk updates and risk monitoring tools

• Bank management teams
  • Looking for tools to make the process easier and give them much earlier warning of risk events

Source: Grant Thornton, ABA Risk Management Forum May 2012
FRB basic framework expectations for banks’ risk committees:

- Risk limitations for each business line
- Establishing systems for identifying and reporting risks, including emerging risks
- Monitoring compliance with the risk limits
- Ensuring effective and timely implementation of corrective actions
- Integrating risk objectives into management’s goals and compensation

Source: Grant Thornton, ABA Risk Management Forum May 2012
The FDIC’s broader view on Effective Communication in connection with The Risk Management Examination:

• “…a constructive dialogue between examiners and bankers can enhance the FDIC’s understanding of an institution’s policies, business strategies, risk management programs, and financial position.”

• “…bankers should not hesitate to proactively request or initiate additional opportunities for communication.”

• “If a bank’s risk management programs and monitoring tools extend beyond the materials requested by the EIC, CEOs should share this information with the EIC during the pre-examination process to ensure all aspects of the bank’s risk management program are appropriately considered.”

Source: FDIC Source: Grant Thornton, ABA Risk Management Forum May 2012
Building a Risk Scorecard – A Simplified Approach to Risk Assessment

So where do we start?

Some Basic Parameters

<table>
<thead>
<tr>
<th>Need to get to a score</th>
<th>Quantitative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need organization</td>
<td>Scope &amp; Hierarchies</td>
</tr>
<tr>
<td>Need disparate measures to roll up</td>
<td>Scoring Conventions</td>
</tr>
<tr>
<td>Need to be able to make comparisons</td>
<td>Benchmarks</td>
</tr>
<tr>
<td>Need to prioritize</td>
<td>Weights</td>
</tr>
<tr>
<td>Need to communicate</td>
<td>Reporting</td>
</tr>
<tr>
<td>Need to track results</td>
<td>Mechanisms</td>
</tr>
<tr>
<td>Need oversight</td>
<td>Responsibility</td>
</tr>
</tbody>
</table>
Risk Management Framework

MVSSCALE

Market Area Risk
Velocity Risk
Strategic Risk
Capital Management
Asset Quality
Liquidity Risk
Earnings Composition

slide 13
# MVSCALE Scoring Conventions

<table>
<thead>
<tr>
<th>Score</th>
<th>Rating</th>
<th>Risk Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.00 to 5.99</td>
<td>Exception</td>
<td>Very Low</td>
</tr>
<tr>
<td>4.00 to 4.99</td>
<td>Strong</td>
<td>Low</td>
</tr>
<tr>
<td>3.00 to 3.99</td>
<td>Moderate</td>
<td>Medium</td>
</tr>
<tr>
<td>2.00 to 2.99</td>
<td>Sub-Optimal</td>
<td>High</td>
</tr>
<tr>
<td>1.00 to 1.99</td>
<td>Weak</td>
<td>Very High</td>
</tr>
</tbody>
</table>
Market Area Risk

- Footprint size, industrial concentration, and location
- Does it matter?
- Concentration versus diversification
- Little direct control, but it can be influential

### Bank Failures by State

<table>
<thead>
<tr>
<th>State</th>
<th>Count</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>GA</td>
<td>62</td>
<td>17.0%</td>
</tr>
<tr>
<td>FL</td>
<td>50</td>
<td>13.7%</td>
</tr>
<tr>
<td>IL</td>
<td>42</td>
<td>11.5%</td>
</tr>
<tr>
<td>CA</td>
<td>37</td>
<td>10.1%</td>
</tr>
<tr>
<td>MN</td>
<td>16</td>
<td>4.4%</td>
</tr>
<tr>
<td>WA</td>
<td>14</td>
<td>3.8%</td>
</tr>
<tr>
<td>MI</td>
<td>12</td>
<td>3.3%</td>
</tr>
<tr>
<td>NV</td>
<td>11</td>
<td>3.0%</td>
</tr>
<tr>
<td>MO</td>
<td>11</td>
<td>3.0%</td>
</tr>
<tr>
<td>AZ</td>
<td>10</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

Source: FDIC
Velocity Risk

- Focuses on balance sheet growth
- Relative growth is a critical diver of risk
- Excess growth adds risk
- Counterintuitive to profitability motives
## Velocity Risk – All Banks
### (1st Quarter, 2013)

<table>
<thead>
<tr>
<th>Size category</th>
<th>Asset Growth</th>
<th>Loan Growth</th>
<th>Deposit Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $75M</td>
<td>3.22%</td>
<td>0.71%</td>
<td>3.68%</td>
</tr>
<tr>
<td>$75M - $150M</td>
<td>3.06%</td>
<td>1.49%</td>
<td>3.33%</td>
</tr>
<tr>
<td>$150M - $300M</td>
<td>3.16%</td>
<td>2.18%</td>
<td>3.48%</td>
</tr>
<tr>
<td>$300M - $1B</td>
<td>2.95%</td>
<td>2.71%</td>
<td>3.33%</td>
</tr>
<tr>
<td>$1B - $3B</td>
<td>2.94%</td>
<td>3.61%</td>
<td>3.65%</td>
</tr>
<tr>
<td>$3B - $10B</td>
<td>2.28%</td>
<td>4.56%</td>
<td>2.70%</td>
</tr>
<tr>
<td>Above $10B</td>
<td>4.83%</td>
<td>6.46%</td>
<td>5.90%</td>
</tr>
<tr>
<td>Note: Over $1B</td>
<td>3.11%</td>
<td>4.26%</td>
<td>3.80%</td>
</tr>
</tbody>
</table>
Strategic Risk

- Lending, Investments, and Funding
- Diversification is key to reducing risk and improving profitability
- Direct control
### Strategic Risk – All Banks
(1st Quarter, 2013)

<table>
<thead>
<tr>
<th>Size category</th>
<th>Loan Diversity</th>
<th>CRE Concentration</th>
<th>Investment Diversity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $75M</td>
<td>35.40</td>
<td>59.66%</td>
<td>4.32</td>
</tr>
<tr>
<td>$75M &lt; $150M</td>
<td>32.70</td>
<td>100.77%</td>
<td>4.15</td>
</tr>
<tr>
<td>$150M &lt; $300M</td>
<td>31.60</td>
<td>129.05%</td>
<td>4.09</td>
</tr>
<tr>
<td>$300M &lt; $1B</td>
<td>31.30</td>
<td>153.87%</td>
<td>3.95</td>
</tr>
<tr>
<td>$1B &lt; $3B</td>
<td>30.90</td>
<td>171.51%</td>
<td>3.93</td>
</tr>
<tr>
<td>$3B &lt; $10B</td>
<td>29.80</td>
<td>166.49%</td>
<td>3.44</td>
</tr>
<tr>
<td>Above $10B</td>
<td>35.30</td>
<td>84.86%</td>
<td>3.69</td>
</tr>
<tr>
<td>Note: Over $1B</td>
<td>31.30</td>
<td>156.27%</td>
<td>3.79</td>
</tr>
</tbody>
</table>
Capital Management Risk

- Well defined regulatory requirements
- Capital adequacy, generation and exposure
- Risk and return must be balanced; too much of one will negatively impact the other
Capital Management Risk – Basel III
(as proposed/before amending)

- Capital Conservation Buffer (new) 0.0% going to 2.5%
- Leverage Ratio 4.0% going to 4.0% 6.5%
- Common Equity Ratio (new) 3.5% going to 4.5% 7.0%
- Tier 1 Capital Ratio 4.5% going to 6.0% 8.5%
- Total Capital Ratio 8.0% going to 8.0% 10.5%

w/Buffer
## Capital Management Risk – All Banks

(1st Quarter, 2013)

<table>
<thead>
<tr>
<th>Size category</th>
<th>Leverage</th>
<th>Tier 1 RBC</th>
<th>Total RBC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $75M</td>
<td>10.93%</td>
<td>20.10%</td>
<td>21.20%</td>
</tr>
<tr>
<td>$75M &lt; $150M</td>
<td>10.62%</td>
<td>17.71%</td>
<td>18.85%</td>
</tr>
<tr>
<td>$150M &lt; $300M</td>
<td>10.32%</td>
<td>16.76%</td>
<td>17.92%</td>
</tr>
<tr>
<td>$300M &lt; $1B</td>
<td>10.30%</td>
<td>16.09%</td>
<td>17.29%</td>
</tr>
<tr>
<td>$1B &lt; $3B</td>
<td>10.04%</td>
<td>15.51%</td>
<td>16.70%</td>
</tr>
<tr>
<td>$3B &lt; $10B</td>
<td>10.22%</td>
<td>15.27%</td>
<td>16.56%</td>
</tr>
<tr>
<td>Above $10B</td>
<td>10.06%</td>
<td>14.99%</td>
<td>16.51%</td>
</tr>
<tr>
<td>Note: Over $1B</td>
<td>10.08%</td>
<td>15.37%</td>
<td>16.64%</td>
</tr>
</tbody>
</table>
Asset Quality Risk

- Asset loss rate, exposure and coverage
- Some established standard metrics
- Need a comprehensive view to drive understanding
# Asset Quality Risk – All Banks

(1st Quarter, 2013)

<table>
<thead>
<tr>
<th>Size category</th>
<th>Loss Rate</th>
<th>Loss Exposure</th>
<th>Loss Coverage</th>
<th>LLR/Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $75M</td>
<td>0.09%</td>
<td>1.48%</td>
<td>2.68</td>
<td>1.72%</td>
</tr>
<tr>
<td>$75M &lt; $150M</td>
<td>0.14%</td>
<td>1.88%</td>
<td>2.52</td>
<td>1.73%</td>
</tr>
<tr>
<td>$150M &lt; $300M</td>
<td>0.17%</td>
<td>1.98%</td>
<td>2.46</td>
<td>1.78%</td>
</tr>
<tr>
<td>$300M &lt; $1B</td>
<td>0.20%</td>
<td>2.01%</td>
<td>2.04</td>
<td>1.71%</td>
</tr>
<tr>
<td>$1B &lt; $3B</td>
<td>0.21%</td>
<td>1.87%</td>
<td>1.68</td>
<td>1.74%</td>
</tr>
<tr>
<td>$3B &lt; $10B</td>
<td>0.30%</td>
<td>1.80%</td>
<td>1.29</td>
<td>1.76%</td>
</tr>
<tr>
<td>Above $10B</td>
<td>0.35%</td>
<td>1.69%</td>
<td>1.98</td>
<td>1.67%</td>
</tr>
<tr>
<td>Note: Over $1B</td>
<td>0.25%</td>
<td>1.83%</td>
<td>1.65</td>
<td>1.73%</td>
</tr>
</tbody>
</table>
BancAnalyst Risk Management

Loss Coverage

Texas Ratio - NPF + OREO to Tangible Equity + LLR

<table>
<thead>
<tr>
<th>Qtr</th>
<th>Mar-11</th>
<th>Qtr</th>
<th>Jun-11</th>
<th>Qtr</th>
<th>Sept-11</th>
<th>Qtr</th>
<th>Dec-11</th>
<th>Qtr</th>
<th>Mar-12</th>
<th>National Percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>78.07%</td>
<td>Qtr</td>
<td>77.50%</td>
<td>Qtr</td>
<td>77.04%</td>
<td>Qtr</td>
<td>65.96%</td>
<td>Qtr</td>
<td>61.77%</td>
<td>12th</td>
</tr>
<tr>
<td>BancAnalyst Risk Group</td>
<td>$100 Million - $500 Million</td>
<td>35.39%</td>
<td>25th</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Select Peer Group</td>
<td>BancAnalyst Peer Group</td>
<td>27.05%</td>
<td>33rd</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic Class</td>
<td>CRE - WHO - LOBS</td>
<td>34.88%</td>
<td>25th</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High Performance</td>
<td>Southeastern Metro Area</td>
<td>32.59%</td>
<td>27th</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Impact Summary

- Classification: Weak
- Differential: 26.38%
- Direction: Stable
- Percentile Chg: 3
Liquidity Risk

- Relative short term funds generation capacity
- Liquidity buys time to work out problems
- Liquidity is a function of customer confidence
## Liquidity Risk – All Banks

(1st Quarter, 2013)

<table>
<thead>
<tr>
<th>Size category</th>
<th>Loan Volume</th>
<th>Liquid Assets</th>
<th>Large Liab Dep</th>
<th>Loans to Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $75M</td>
<td>56.66%</td>
<td>31.34%</td>
<td>-16.25%</td>
<td>62.77%</td>
</tr>
<tr>
<td>$75M &lt; $150M</td>
<td>61.97%</td>
<td>27.21%</td>
<td>-9.54%</td>
<td>69.11%</td>
</tr>
<tr>
<td>$150M &lt; $300M</td>
<td>63.45%</td>
<td>24.94%</td>
<td>-7.16%</td>
<td>71.71%</td>
</tr>
<tr>
<td>$300M &lt; $1B</td>
<td>65.33%</td>
<td>22.00%</td>
<td>-3.87%</td>
<td>75.16%</td>
</tr>
<tr>
<td>$1B &lt; $3B</td>
<td>66.25%</td>
<td>19.83%</td>
<td>-2.06%</td>
<td>76.77%</td>
</tr>
<tr>
<td>$3B &lt; $10B</td>
<td>67.58%</td>
<td>16.07%</td>
<td>-0.03%</td>
<td>79.12%</td>
</tr>
<tr>
<td>Above $10B</td>
<td>66.24%</td>
<td>20.52%</td>
<td>-3.22%</td>
<td>77.36%</td>
</tr>
<tr>
<td>Note: Over $1B</td>
<td>66.52%</td>
<td>19.18%</td>
<td>-1.84%</td>
<td>77.32%</td>
</tr>
</tbody>
</table>
Loan Volume
Earning Loans to Earning Assets

<table>
<thead>
<tr>
<th>Quarter</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-11</td>
<td>90.12%</td>
</tr>
<tr>
<td>Jun-11</td>
<td>91.12%</td>
</tr>
<tr>
<td>Sept-11</td>
<td>91.91%</td>
</tr>
<tr>
<td>Dec-11</td>
<td>89.90%</td>
</tr>
<tr>
<td>Mar-12</td>
<td>85.66%</td>
</tr>
</tbody>
</table>

Impact Summary
Classification: Weak
Differential: 21.80%
Direction: Stable
Percentile Chg: 3
Earnings Risk

- Volatility and sustainability of earnings
- Diversification is again critical to both risk and profitability
- Focus is on core earnings as non-core items typically involve more risk
### Earnings Risk – All Banks

(1st Quarter, 2013)

<table>
<thead>
<tr>
<th>Size category</th>
<th>ROA</th>
<th>Eff ratio</th>
<th>Yield Dep</th>
<th>ROA-Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $75M</td>
<td>0.54%</td>
<td>77.03%</td>
<td>88.13%</td>
<td>0.62%</td>
</tr>
<tr>
<td>$75M &lt; $150M</td>
<td>0.67%</td>
<td>72.95%</td>
<td>86.72%</td>
<td>0.58%</td>
</tr>
<tr>
<td>$150M &lt; $300M</td>
<td>0.70%</td>
<td>71.12%</td>
<td>85.31%</td>
<td>0.50%</td>
</tr>
<tr>
<td>$300M &lt; $1B</td>
<td>0.76%</td>
<td>69.17%</td>
<td>83.46%</td>
<td>0.52%</td>
</tr>
<tr>
<td>$1B &lt; $3B</td>
<td>0.82%</td>
<td>67.07%</td>
<td>79.76%</td>
<td>0.60%</td>
</tr>
<tr>
<td>$3B &lt; $10B</td>
<td>0.92%</td>
<td>63.38%</td>
<td>79.35%</td>
<td>0.55%</td>
</tr>
<tr>
<td>Above $10B</td>
<td>0.99%</td>
<td>60.86%</td>
<td>76.51%</td>
<td>0.42%</td>
</tr>
<tr>
<td>Note: Over $1B</td>
<td>0.87%</td>
<td>65.37%</td>
<td>79.18%</td>
<td>0.56%</td>
</tr>
</tbody>
</table>
BancAnalyst®

Home Profit Growth Risk

Enterprise Risk Score

Earnings Risk

Macro Profitability

Operating Profitability

Earnings Composition

Earnings Volatility

Efficiency Ratio

Operating Yield

ROA Deviation

Return on Assets

Return on Equity

Fee Generation

Core Earnings Level

Yield Dependence

Return on Equity

Annualized Net Income to Avg. Equity

<table>
<thead>
<tr>
<th>Qtr</th>
<th>Mar-11</th>
<th>Qtr</th>
<th>Jun-11</th>
<th>Qtr</th>
<th>Sept-11</th>
<th>Qtr</th>
<th>Dec-11</th>
<th>Qtr</th>
<th>Mar-12</th>
<th>National Percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.10%</td>
<td></td>
<td>1.04%</td>
<td></td>
<td>12.02%</td>
<td></td>
<td>27.50%</td>
<td></td>
<td>2.43%</td>
<td>8th</td>
</tr>
</tbody>
</table>

Impact Summary

Classification: Weak

Differential: -7.93%

Direction: Declining

Percentile Chg: -22

Select Peer Group

Strategic Class

High Performance

BancAnalyst Risk Group

$100 Million - $500 Million

5.50%

42nd

BancAnalyst Peer Group

9.52%

73rd

CRE - WHO - LOBS

8.56%

66th

Southeastern Metro Area

12.59%

89th

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slide 40
BancAnalyst®

Enterprise Risk Score

- Identify
- Quantify
- Prioritize
- Remediate

ROA Deviation
Standard Deviation of ROA

- Qtr Mar-11
  - 0.30%
- Qtr Jun-11
  - 0.29%
- Qtr Sept-11
  - 0.63%
- Qtr Dec-11
  - 1.35%
- Qtr Mar-12
  - 1.33%

National Percentile
- 17th

Impact Summary
Classification:
- Sub-Optimal

Differential:
- 0.56%

Direction:
- Major Decline

Percentile Chg:
- -51

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## Quantification

<table>
<thead>
<tr>
<th>Enterprise Risk Score</th>
<th>Weight</th>
<th>Score</th>
<th>Classification</th>
<th>Direction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Quality</td>
<td>14.29%</td>
<td>4.41</td>
<td>Strong</td>
<td>Stable</td>
</tr>
<tr>
<td>Loss Rate</td>
<td>33.33%</td>
<td>5.34</td>
<td>Exceptional</td>
<td>Stable</td>
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<tr>
<td>Loss Exposure</td>
<td>33.33%</td>
<td>5.85</td>
<td>Exceptional</td>
<td>Stable</td>
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<tr>
<td>Loss Coverage</td>
<td>33.33%</td>
<td>5.81</td>
<td>Exceptional</td>
<td>Stable</td>
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<tr>
<td>Liquidity Risk</td>
<td>14.29%</td>
<td>5.06</td>
<td>Exceptional</td>
<td>Major Improvement</td>
</tr>
<tr>
<td>Asset Management</td>
<td>33.33%</td>
<td>5.01</td>
<td>Exceptional</td>
<td>Major Improvement</td>
</tr>
<tr>
<td>Loan Volume</td>
<td>33.33%</td>
<td>4.67</td>
<td>Strong</td>
<td>Improvement</td>
</tr>
<tr>
<td>Liquid Assets</td>
<td>33.33%</td>
<td>5.11</td>
<td>Exceptional</td>
<td>Major Improvement</td>
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<tr>
<td>Asset Flexibility</td>
<td>33.33%</td>
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<td>Exceptional</td>
<td>Improvement</td>
</tr>
<tr>
<td>Liability Management</td>
<td>33.33%</td>
<td>4.98</td>
<td>Strong</td>
<td>Improvement</td>
</tr>
<tr>
<td>Large Liability Dependence</td>
<td>33.33%</td>
<td>3.06</td>
<td>Moderate</td>
<td>Improvement</td>
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<tr>
<td>Deposit Composition</td>
<td>33.33%</td>
<td>5.53</td>
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<td>Improvement</td>
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<tr>
<td>Deposit Pricing</td>
<td>33.33%</td>
<td>5.12</td>
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<td>Improvement</td>
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<tr>
<td>Asset-Liability Risk</td>
<td>33.33%</td>
<td>5.58</td>
<td>Exceptional</td>
<td>Major Improvement</td>
</tr>
<tr>
<td>Net Liquid Assets</td>
<td>100.00%</td>
<td>5.58</td>
<td>Exceptional</td>
<td>Major Improvement</td>
</tr>
<tr>
<td>Capital Management Risk</td>
<td>14.29%</td>
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<td>Exceptional</td>
<td>Stable</td>
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<tr>
<td>Capital Adequacy</td>
<td>100.00%</td>
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<td>Exceptional</td>
<td>Stable</td>
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</tbody>
</table>
### Quantification

#### Enterprise Risk Score
- **Weight**: 14.29%
- **Score**: 4.41
- **Classification**: Strong
- **Direction**: Declining

#### Asset Quality
- **Loss Rate**: 33.33%
- **Loss Exposure**: 33.33%
- **Loss Coverage**: 33.33%
- **Weight**: 14.29%
- **Score**: 4.41
- **Classification**: Exceptional
- **Direction**: Stable

#### Liquidity Risk
- **Asset Management**: 33.33%
- **Loan Volume**: 33.33%
- **Liquid Assets**: 33.33%
- **Asset Flexibility**: 33.33%
- **Liability Management**: 33.33%
- **Large Liability Dependence**: 33.33%
- **Deposit Composition**: 33.33%
- **Deposit Pricing Advantage**: 33.33%
- **Asset-Liability Management**: 33.33%
- **Net Liquid Assets**: 100.00%
- **Capital Management Risk**: 14.29%
- **Capital Adequacy**: 100.00%
- **Weight**: 14.29%
- **Score**: 5.99
- **Classification**: Exceptional
- **Direction**: Stable

**Quarter**: Annual
Summary and Final Thoughts

- Risk management is not only a regulatory mandate; it is an essential component to your institution’s franchise value and sustained financial performance.
- A macro, executive level view of risk can define and align the institution’s risk tolerance
- Regular analysis of major risk drivers will provide insight into the priorities that merit resource allocation
- No risk measurement system, no risk management program
- Many different risks; some are categorical and some are elements
- If it truly a risk, there must be a way to assess/measure it
- Impact potential can be measured:
  - Points in time
  - Trends over time (short and long)
  - Benchmarks
Questions
About Us

• Online Advisory Solution
  – Established in 2000 and was privately capitalized
  – Acquired by Fiserv in October 2007
  – Banking industry’s only Online Advisory Solution
  – Cost-effective delivery to institutions of any size

• Bank Validation
  – Over 400 subscribing client financial institutions
  – Client banks range from $32 million to $26 billion in total assets
  – More than 1,500 planning sessions each year

• Partner Validation
  – ICBA Preferred Service Provider
  – State and Regional Associations
  – Association for Financial Technology (AFT)

“….however, just 10 minutes into the session, I realized that in my 35 years in banking, I had never seen anything like this. The analysis of Bank Intelligence immediately pointed out our key strengths, weaknesses and areas for profitability improvements. The strategies for growth that they hit on in an hour and a half had taken us months to figure out! This complimentary web conference alone provided value well beyond my expectations. Our management and presidents now use this tool to fine tune our ten community banks as well as look for opportunities to grow.”

F. Scott Dueser
President and CEO
First Financial Bankshares, Inc.
Abilene, TX