



# **Risk Appetite in Community Banks – Staying Between the Guardrails**

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Union Bank & Trust

# **Session Focus**

Introduction and Background

## **Risk Appetite in Community Banks**

- ❖ Guardrails – Strategic Plan and Risk Appetite
- ❖ Risk Appetite and Risk Tolerance
- ❖ Oversight and Reporting – Credible Challenge
- ❖ Your Topics, Questions, and Insight

# Successful Merger History

## Guaranty Financial Corporation

Announce Date	12/19/2003
Deal Value (\$mm)	\$54.1
Target Assets (\$mm)	197
Target / PF Assets (%)	14.0 %

## StellarOne Corporation

Announce Date	6/10/2013
Deal Value (\$mm)	\$444.5
Target Assets (\$mm)	3,014
Target / PF Assets (%)	42.7 %

## Northern Neck Bankshares Corp.

Announce Date	1/11/1993
Deal Value (\$mm)	NA
Target Assets (\$mm)	\$112
Target / PF Assets (%)	33.0 %

## Prosperity Bank & Trust Company

Announce Date	10/31/2005
Deal Value (\$mm)	\$36.0
Target Assets (\$mm)	128
Target / PF Assets (%)	6.7 %

1992 1994 1996 1998 2000 2002 2004 2006 2008 2010 2012 2014 2016

## Rappahannock Bankshares, Inc.

Announce Date	2/25/1998
Deal Value (\$mm)	\$6.7
Target Assets (\$mm)	16
Target / PF Assets (%)	2.7 %

## First Market Bank, FSB

Announce Date	3/30/2009
Deal Value (\$mm)	\$105.4
Target Assets (\$mm)	1,301
Target / PF Assets (%)	33.8 %

## King George State Bank, Inc.

Announce Date	3/13/1996
Deal Value (\$mm)	\$6.7
Target Assets (\$mm)	46
Target / PF Assets (%)	9.3 %

# Company Snapshot

## Overview

- Shares listed under “UBSH” on NASDAQ
- Headquartered in Richmond, VA
- 100+ years of banking history
- 113 branches across more than 50 counties and 10 MSAs throughout Virginia
  - Only Virginia-based bank with a statewide footprint
  - Largest community banking organization headquartered in Virginia

## Financial Highlights as of 12/31/2016

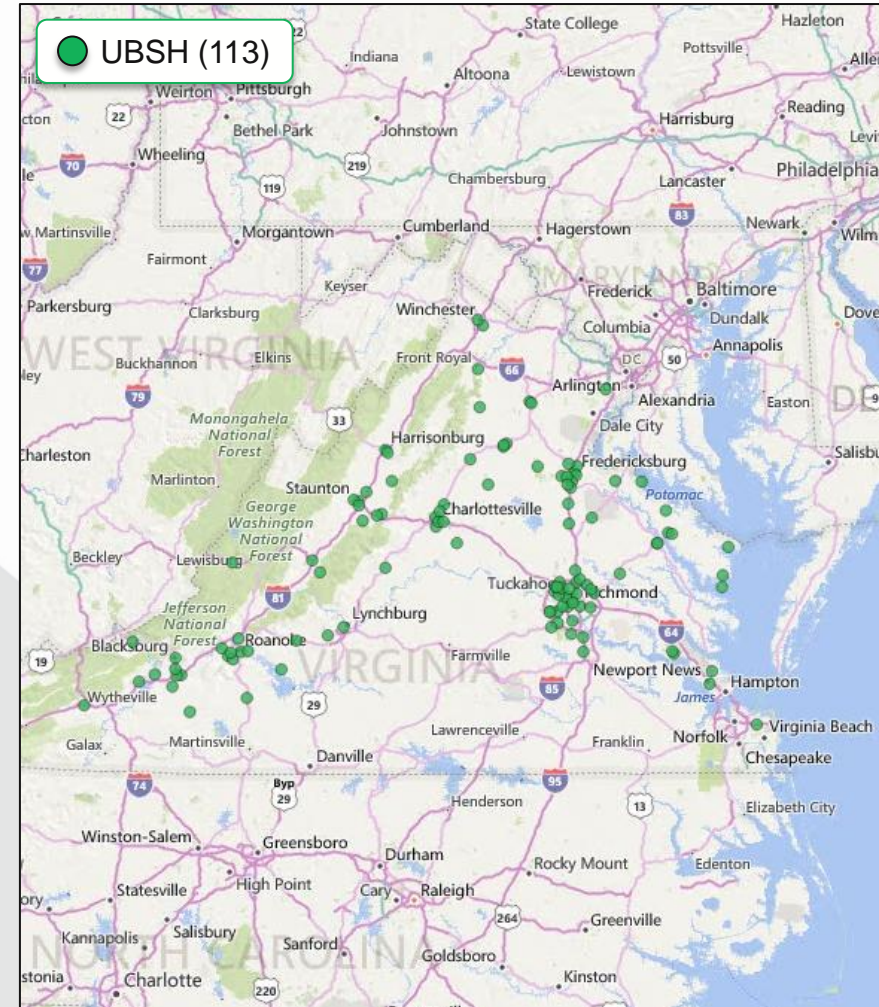
(\$ Millions)

Total Assets	\$8,426.8
Total Loans Held for Investment	6,307.1
Total Deposits	6,379.5
Shareholders' Equity	1,001.0
Market Capitalization	1,558.6

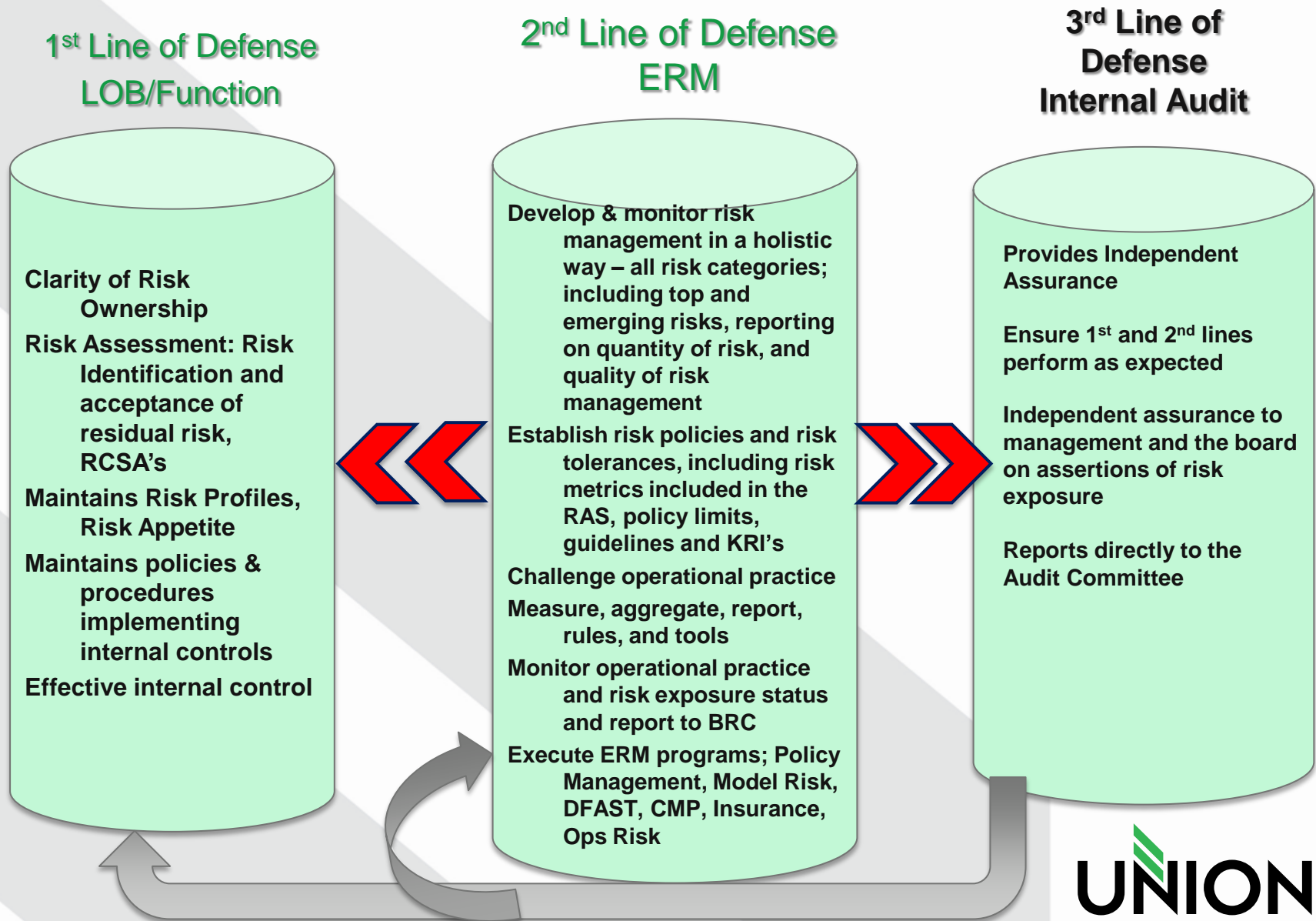
### Assets Under Management

Trust and Broker	\$2,069
Old Dominion Capital Management	\$316
Total AUM	\$2,385

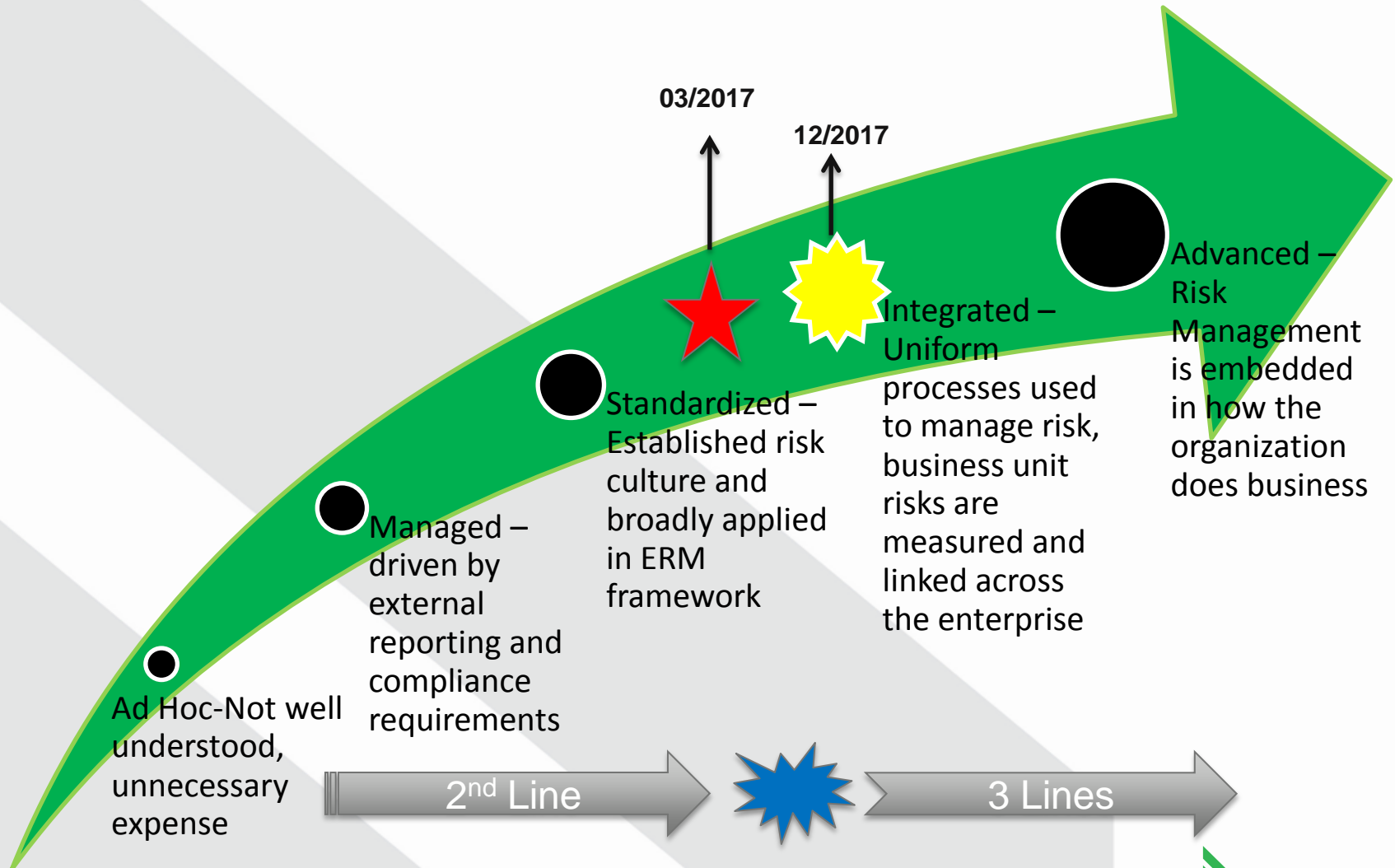
## Branch Map



# Three Lines of Defense

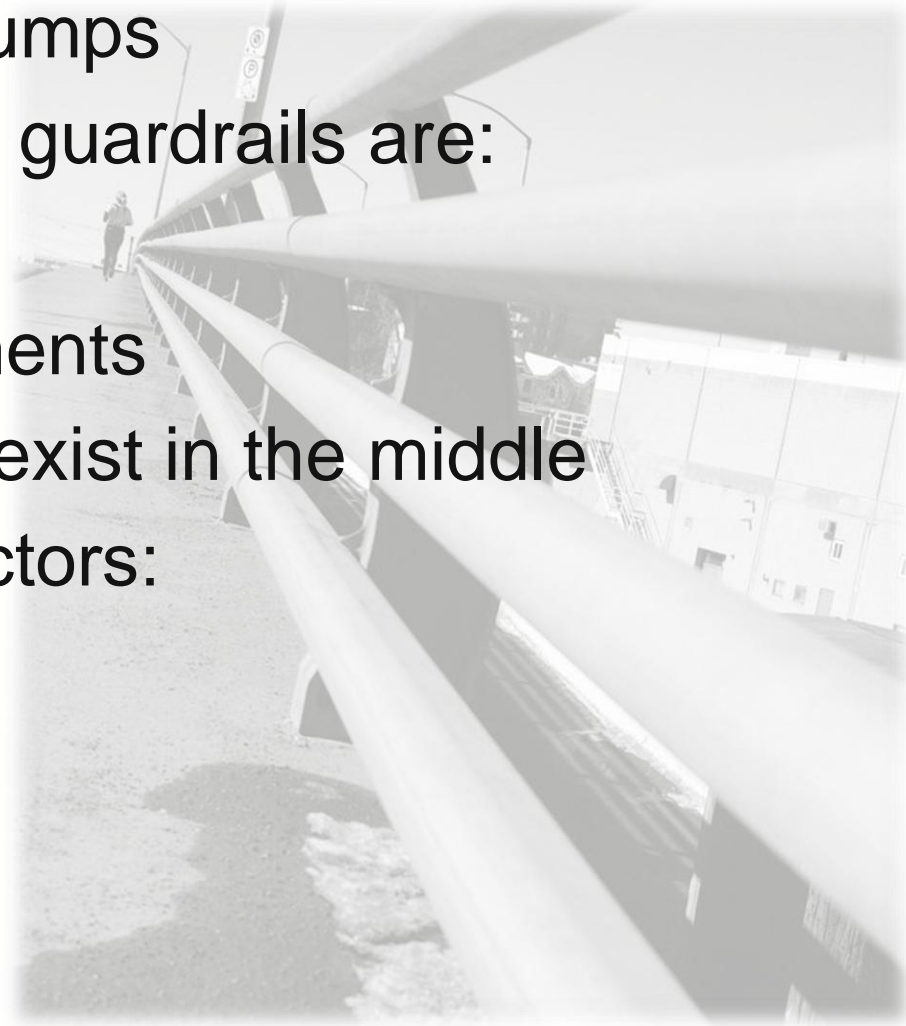


# ERM Maturity Curve



# THE GUARDRAILS

- Effective risk management is about establishing guardrails, not speed bumps
- The two most important guardrails are:
  - The Strategic Plan
  - Risk Appetite Statements
- Everything else should exist in the middle
- The “make or break” factors:
  - Clarity
  - Consensus
  - Communication





# Risk Appetite Truths

- ❖ Establishing and articulating risk appetite is an important risk management tool
- ❖ Clear risk appetite and risk tolerance statements should provide context for everything the bank does, strategically and operationally, at all levels
- ❖ Reaching a consensus on statements forces you to address issues about culture, tolerance and capacity



# Definitions

## Yours Can Be Different

- ❖ Risk Appetite: General statements about the level of risk that is considered acceptable within a given risk category or type. These should serve as guiding principles to be used when developing strategic plans, operational processes and business continuity plans.
- ❖ Risk Tolerance: Tangible risk limits designed to set specific boundaries in which the business must operate. These must be measurable, realistic and capable of being monitored.

# Risk Appetite Statement

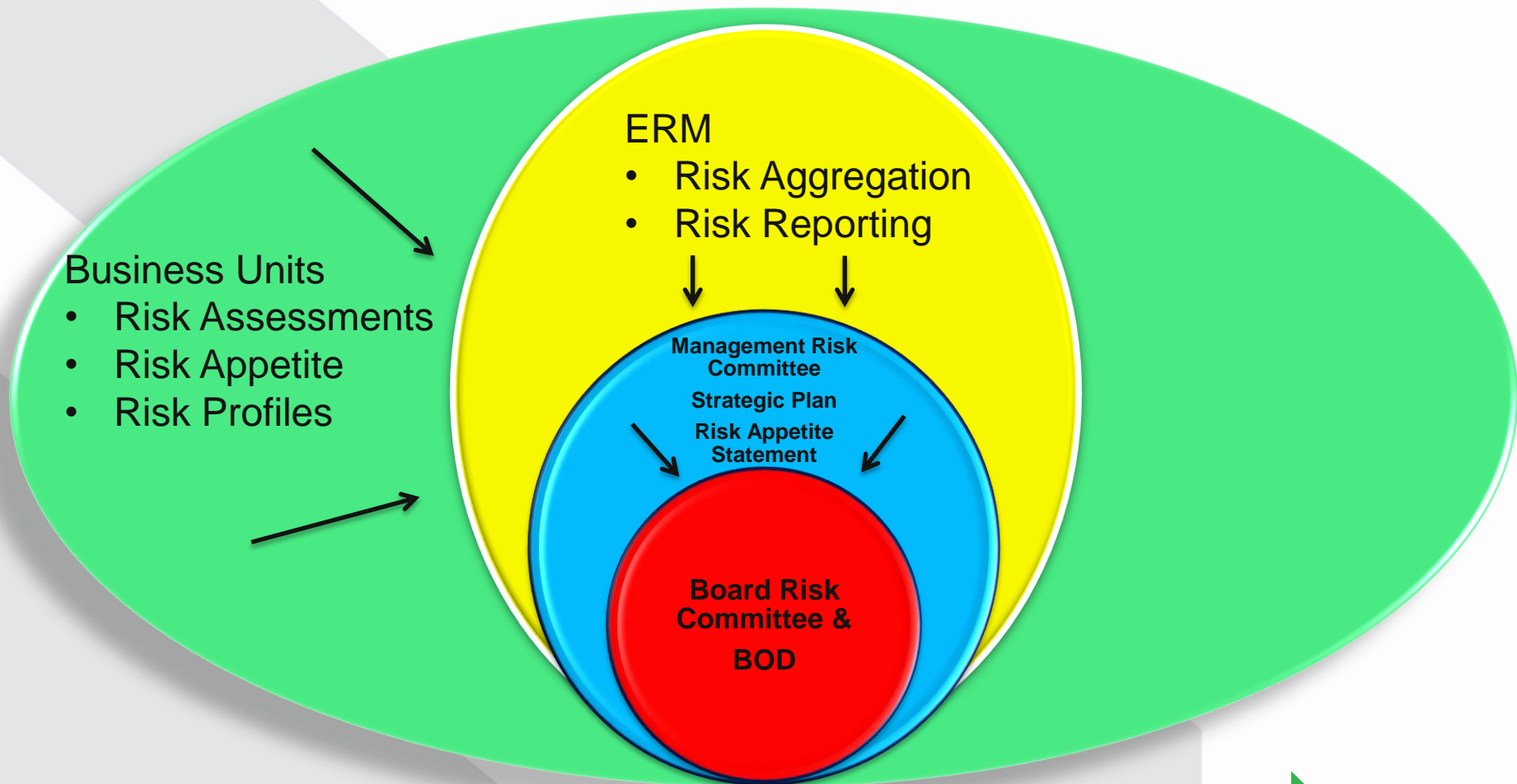
## Example From The RAS

❖ **Risk Appetite** – manage capital to maintain adequate levels of capital components that protect against the risks inherent on the Bank’s balance sheet and provide sufficient resiliency to withstand potential stressed losses. As such, the Bank intends to manage capital levels to ensure a “Well Capitalized” designation as defined by the Federal Reserve. **Moderate risk appetite for Capital Risk.**

❖ **Risk Tolerance**

Capital	Risk Target	Low	Moderate	High
Total Risk Based Capital	12.0%	> 12%	10.5% - 12%	< 10.5%
Tangible Common Equity	8.5%	> 9%	8% - 9%	< 8%

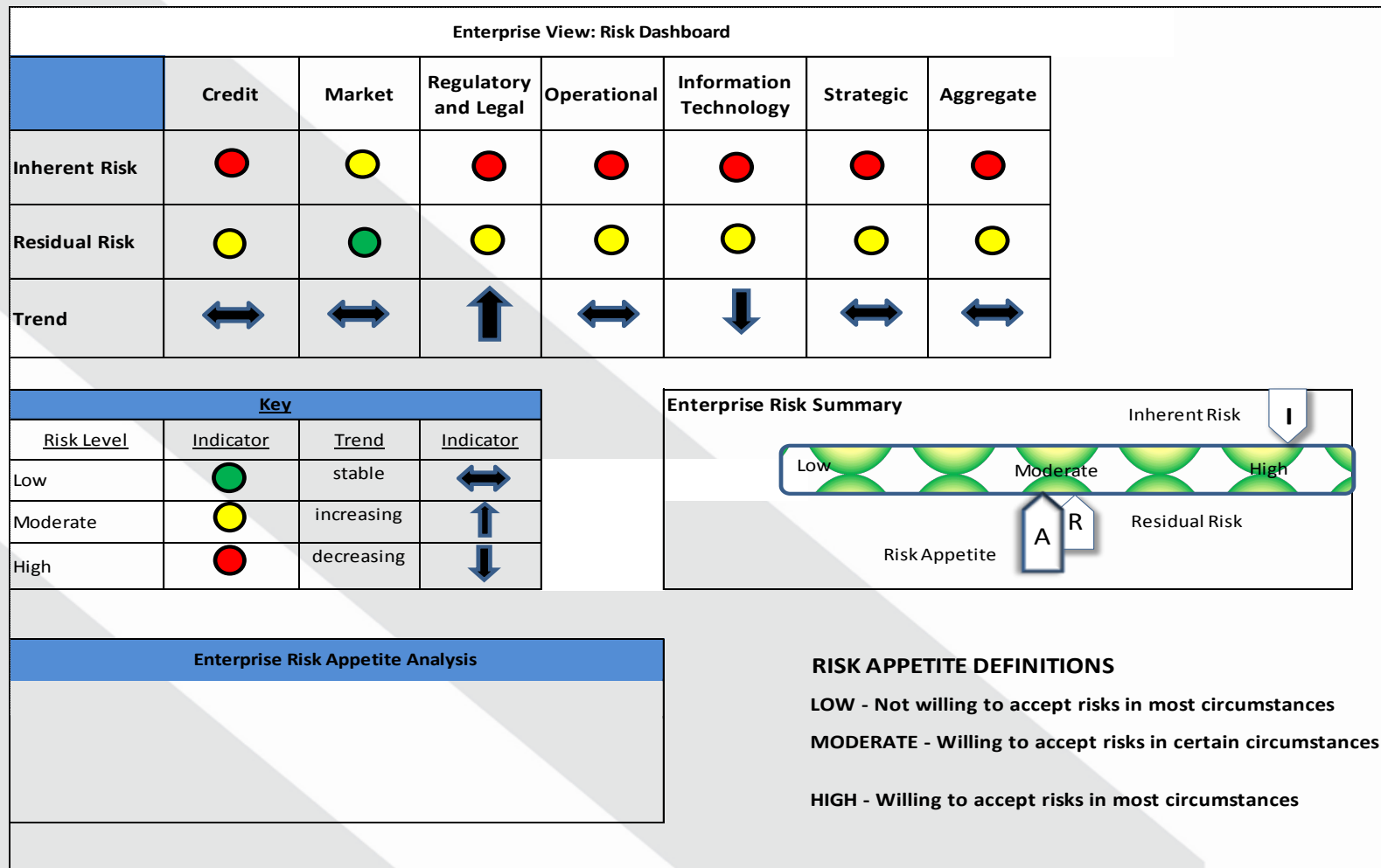
# Oversight & Reporting



# Dashboard Report

Risk Category:		Inherent Risk			Residual Risk			Trend
		High	Mod	Low	High	Mod	Low	Decreasing/Stable/Increasing
Credit Risk								
Risk Metrics:		12/31/2016	Risk Target	Low	Moderate	High	9/30/2016	12/31/2015
Quantitative	Past Dues - Total (excl N/As)		0.75%	<0.50%	0.50% - 1.50%	>1.50%		
	Commercial (excl N/As)		0.40%	<0.27%	0.27% - 0.80%	>0.80%		
	Consumer (excl N/As)		1.70%	<1.15%	1.15% - 3.40%	>3.40%		
	NCOs/Avg Gross Loans (rolling 12 mo)		0.35%	<0.25%	0.25% - 0.75%	>0.75%		
	NPL/Gross Loans		0.70%	<0.50%	0.50% - 1.00%	>1.00%		
	NPA/Gross Loans + OREO		1.00%	<1.00%	1.00% - 2.00%	>2.00%		
	ALLL to NPL Coverage		100%	>125%	125% - 70%	<70%		
	CRE as a Percentage of Total Bank Capital		300%	<200%	200% - 300%	>300%		
	CLD as a Percentage of Total Bank Capital		100%	<75%	75% - 100%	>100%		
	Credit Exposures as a % of Total Bank Capital	See Attached Range Limits Report						
Va Unemployment Rate (BLS-SAAR) 12/31/16 prelim		4.1%					4.0%	4.2%
Qualitative Current Period								
Qualitative Prior Period								
Risk Appetite Status								
Credit risk appetite is trending towards MODERATE with more acceptance of risk in certain sectors.								
		<div>Credit Risk Summary</div> <div><div></div><div></div><div></div><div></div><div></div></div> <div><div></div><div></div><div></div><div></div><div></div></div>						

# Risk Aggregation View



# Additional Considerations

- Strategy and Risk Appetite should be applied at all levels of the organization
- Culture is important
- 1<sup>st</sup> Line must be committed
- 2<sup>nd</sup> Line must communicate and challenge

**Your Perspectives and Questions!**

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