Fifth Third Bank

First Line Risk Basics

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First Line Risk Basics

- Begin with developing a Risk Management Framework
  - Specific to your business line
  - Complements or supplements the company's framework

- High level document, useful to examiners, auditors, compliance partners, and business leaders, updated at least annually, organized to include:
  - Business Overviews
  - Framework Purpose
  - Risk Governance
  - Roles and Responsibilities
  - Risk Culture
  - Risk Appetite
  - Risk Management Process
  - Specific Risk Discussions
    - Eight standard risk categories
    - Risks unique to the LOB
      - e.g., Fiduciary risk

Fifth Third Bank

First Line Risk Basics
Framework Purpose

- Describes an integrated framework for managing material risks of all types across all businesses
- Ensures consistent alignment of LOB strategies with the Company's overall risk appetite and its strategic, financial and capital plans
- Core Values and Culture are the foundation of sound risk management practices – conduct and accountability
- Business processes for identifying, monitoring, and reporting risks are supported by a risk governance structure that includes board oversight, risk committees, policies, and risk limits

First Line Risk Basics
Risk Governance

- Framework includes a detailed description of the governance structure that allows for appropriate oversight of risk issues, including escalation options

- Board or Board-level committee has ultimately responsibility for risk management, including fiduciary risk

- Councils and committees monitor activities in Personal Trust, Institutional Trust, Investment Management and Trust Operations

  Risk Programs results
  Key Risk Indicators and related breaches
  Operational losses and root causes
  Customer Complaint Management
  Issues Management
  Third Party/Vendor Risk Management
  Regulatory Change Management

First Line Risk Basics
Risk Management Roles and Responsibilities

- Effective risk management starts with good governance and the delegation of responsibility and authority

- A Board can delegate some responsibility to committees and councils that are part of a formal governance structure:

  Board Risk Committee, Compliance Committee, or a joint committee

  Enterprise Risk Management Committee

  Trust (Fiduciary Risk Management) Committee

  Management Compliance Committee

  Executive and Senior Management

  LOB Management/Business Controls – first line of defense

First Line Risk Basics
First Line Responsibilities

- First line business leaders, or a separate group, such as Fifth Third's Business Controls team, are responsible for overseeing the management of risk in their line of business
  - Own and ensure adoption of key risk programs
  - Partner with process owners to identify, escalate, and report risks
  - Own the inventorying, assessment, monitoring, and reporting of risks
  - Perform control testing
  - Collaborate with other lines of defense. Serve as a liaison for the first line during exams, audits, and testing

First Line Risk Basics
Risk Culture

- Culture is the system of values and behaviors within an organization that shape day-to-day decisions we all make

- An organization's risk culture is continuously developing

- Builds on Core Values, Leadership Competencies, and Code of Business Conduct and Ethics

- Based on common understanding that managing risk is everyone's responsibility and a commitment to "doing the right thing"

- Compensation structures support a strong risk culture
  - Incentive plans designed to prevent excessive risk taking
  - Discourage sales contests or product-specific bonuses
  - Compliance and risk modifiers
  - Sales audit process dissuades gaming

First Line Risk Basics
Risk Appetite

- Risk appetite is set annually in alignment with strategic, financial, and capital plans
    - How much risk are we willing to take to achieve our goals and objectives?

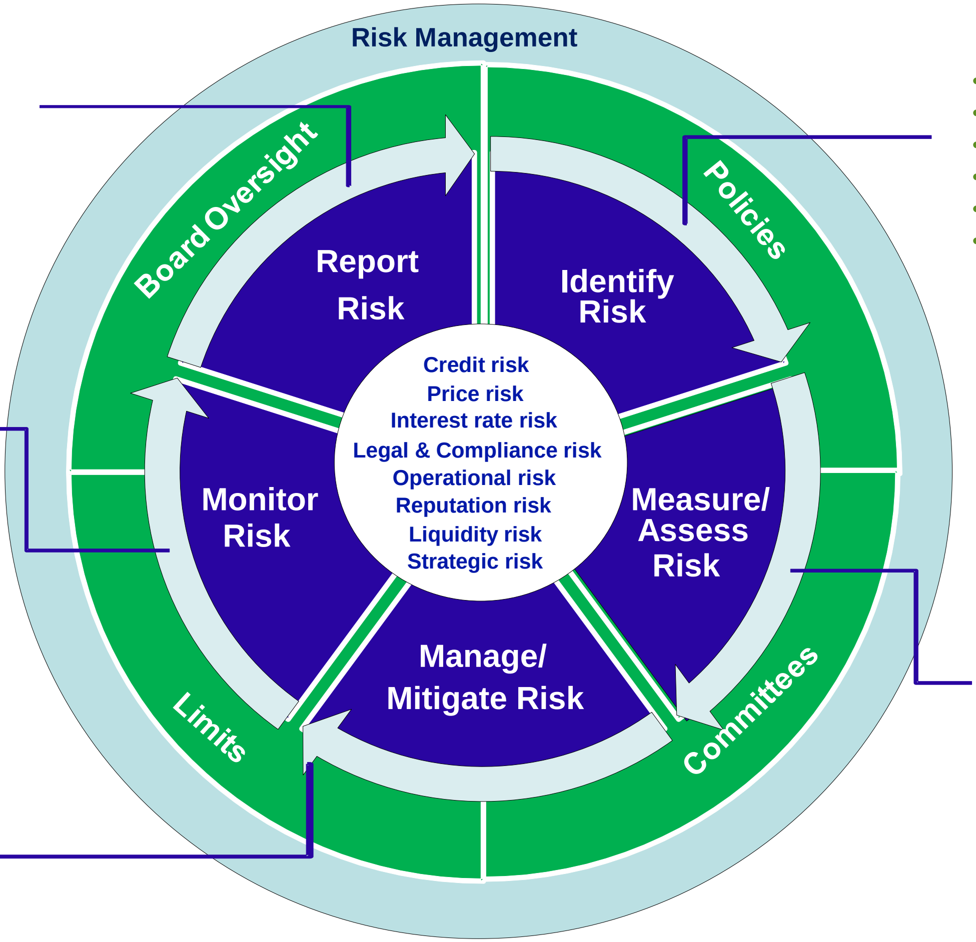
- Core principals that define an organization's risk culture include:

    - Act with integrity
    - Understand the risks you take
    - Avoid risks you don't understand
    - Provide transparency of risks and escalate as necessary
    - Ensure products and services provide value and benefit to customers
    - Focus on operational excellence
    - Maintain a strong financial position
    - Protect the organizations reputation
    - Conduct business in compliance with laws, rules, and regulations

First Line Risk Basics
Risk Management Process

- Risk Committee reporting
- ERM Dashboards
- LOB Risk Dashboards
- Credit and Asset Quality Reporting
- Model validation reporting
- Strategic Planning
- Business and Financial Planning

- Industry fraud trends
- New product risks
- Regulatory changes
- High risk industries
- Risk Based Process Mapping
- Self-identified issues



- Key Risk Indicators
- Operational loss tracking
- Policy exception tracking
- Complaint management
- Ongoing model monitoring

- Stress tests
- Risk & Control Assessments
- Business Change Risk Assessments
- Scenario analyses
- Concentrations of risk

- Policies and Procedures
- Fraud detection & prevention
- Insurance
- Loss mitigation

First Line Risk Basics
Risk Management Process

- Five components for effective risk management: identifying, assessing, managing, monitoring, and reporting

- Risks are identified through a variety of risk programs:
    - Risk and Control Self- Assessment (RCSA)
    - Risk Based Process Management (RBPM)
    - Business Change Risk Assessments (BCRA)
    - Key Risk Indicators (KRIs)
    - Operational Loss Program
    - Regulatory Change Management

- For top risks, analyze the severity, probability, and direction of inherent risk and the direction of residual risk for each risk type

- For increasing risks, determine need for enhanced controls or adjust strategy to limit risks until mitigated

First Line Risk Basics
Specific Risk Discussions

- Last section of the Framework document. Covers major risks that a financial institution faces and how those risks are measured, monitored, managed, and reported
    - Credit risk
    - Operational risks
    - Legal and Regulatory Compliance risks
    - Interest Rate and Price risks
    - Liquidity risk
    - Reputation risk
    - Strategic risk

- Note risk appetite (residual risk) for each risk type, with explanations

- Include specific KRIs and related thresholds and escalation processes

- Framework is a roadmap, so no conclusions needed

First Line Risk Basics
Summary – pulling it all together

- **Risk management** is the identification, evaluation, and prioritization of risks followed by the coordinated and economical application of resources to minimize, monitor, and control the probability or impact of unfortunate events or to maximize the realization of opportunities.

- Sounds easy, but it's not

- In many ways, risk management is as much art as it is science

- A Risk Management Framework is a way to describe, in one document, an organization's risk philosophy, culture, appetite, and processes

Questions?

Thank you