Aggregate Risk Assessment Overview
Additional Risks

There are two additional risks that an institution is exposed to:

- Legal
- Reputational
Legal Risk

Arises from the potential that unenforceable contracts, lawsuits, or adverse judgments can disrupt or otherwise negatively affect the operations or condition of a banking organization.

-- Regulatory actions and/or fines
-- Monetary penalties
-- Divestiture of product/service
Legal Risk Factors

- Legal counsel has a proven track record of protecting the bank’s interests
  - Identification of policies and procedures
  - Review of contracts, documents and forms
- The bank has limited, if any, history of legal problems
  - Lack of customer/employee complaints
- All new products, markets are fully evaluated for legal risks prior to initiation
Reputational Risk

The potential that negative publicity regarding an institution’s business practices, whether true or not, will cause a decline in the customer base, costly litigation, limit access to capital markets, or revenue reductions.
Reputational Risk Factors

- Market or public perception of the bank’s financial strength
- Effectiveness of internal controls and audit
- Losses from activities are low relative to the number of accounts, the volume of assets under management, and the number of affected transactions
Reputational Risk Factors

- The bank is not subject to any supervisory action
- Complexity of products offered
- Nature and volume of customer complaints
Overall Risk Assessment

- Describe the types of (credit, market, liquidity, reputational, operational, legal), level (high, moderate, low), and direction (increasing, stable, decreasing) of risks.

- Identify all major functions, business lines, activities, products, and legal entities from which risks are found and the key issues that could affect the risk profile.
Overall Risk Assessment

- Consider the relationship between the likelihood of an adverse event and the potential impact on an institution (such as, the likelihood of a computer system failure may be remote, but the financial impact could be significant).
- Consider the institution’s risk management systems.
Overall Risk Assessment

Overall risk assessment should reflect an analysis leading to conclusions regarding the institution’s risk profile, not a reiteration of the facts.
## Risk Matrix – What Do we Do First?

<table>
<thead>
<tr>
<th>Type of Risk</th>
<th>Inherent Risk</th>
<th>Risk Management</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>High</td>
<td>Strong</td>
<td>Stable</td>
</tr>
<tr>
<td>Operational</td>
<td>Low</td>
<td>Acceptable</td>
<td>Increasing</td>
</tr>
<tr>
<td>Market</td>
<td>Moderate</td>
<td>Weak</td>
<td>Increasing</td>
</tr>
<tr>
<td>Liquidity</td>
<td>Moderate</td>
<td>Weak</td>
<td>Increasing</td>
</tr>
<tr>
<td>Legal</td>
<td>Low</td>
<td>Acceptable</td>
<td>Stable</td>
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<td>Stable</td>
</tr>
</tbody>
</table>
Considerations

- Consider impact of risk on revenues, assets, or expected losses
- Evaluate specific product/business line inherent risk or risk management practices
- Consider the residual risk of each of the risk categories
- Consider trend in evaluating growth concerns
- Likely have a mix of concerns from all categories rather than all in a single category