RISK-FOCUSED DOCUMENTATION
Institutional Overview
Institutional Overview

Should provide for:

- a summary that communicates, in one document, information demonstrating an understanding of the institution’s present condition and its current and prospective risk profile

- highlights key issues and past supervisory findings.
Institutional Overview

- Description of organizational structure, including business units, and changes through merger, acquisition, divestitures, consolidations since the prior review.
- Summary of the organization’s business, key business lines, product mix, marketing emphasis, growth areas, acquisition or divestiture plans, and new products since the previous review.
Institutional Overview

- Key business issues for the organization, either from external or internal factors (for example, difficulties in keeping pace with competition, poorly performing business lines)
- Overview of management, commenting on the level of board oversight, leadership strengths or weaknesses, policy formulation, and the adequacy of management information systems
Institutional Overview

- Analysis of financial condition and trends, including earnings, capital, and return on investment by business line.
- Description of the future prospects, expectations or strategic forecasts for key performance areas, and budget projections.
- Description of internal and external audit, including any special work performed.
Institutional Overview

- Summary of supervisory activity performed since the prior review, including examinations, supervisory actions and the degree of compliance by the institution.
- Considerations for conducting future examinations.
Sources of Information

**INTERNAL SOURCES**
- Examination reports and work papers
- Correspondence and memoranda
- Surveillance and monitoring material
- Regulatory reports and System databases
- Bank prepared business line analyses

**EXTERNAL SOURCES**
- Rating agency reports
- Investment firm analyst reports
- Newspapers, journals, and industry periodicals
- Economic and accounting studies, as appropriate
- Internet and other automated news sources
Sources of Information

Communication with Management

- Internal Influences
  - Functional changes
  - Operational changes

- External Influences
  - Economy
  - Competition
Risk Assessment
Risk Assessment

Highlights both the strengths and vulnerabilities of an institution and provides a foundation for determining the supervisory activities to be conducted.
Risk Assessment

Assessment should apply to the entire spectrum of risks including:

– Credit
– Market
– Liquidity
– Operational
– Legal
– Reputational
Risk Assessment

- Major functions or business lines for key risks and issues
- Relationship between likelihood of event happening and the potential impact
- Risk management system:
  - Adequacy of Board oversight
  - Policies, procedures and practices
  - Management information systems
  - Internal controls and audit
Risk Matrix

Used to identify significant activities, the type and level of inherent risks in these activities and the adequacy of risk management over these activities.

<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>
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<td>Legal</td>
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</tr>
</tbody>
</table>
Supervisory Plan
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Supervisory plan represents a bridge between the institution’s risk assessment, which identifies significant risks and supervisory concerns, and the supervisory activities to be conducted.
Supervisory Plan

Plan should be developed annually and updated as appropriate.
Plan should address:

– All supervisory activities to be conducted and specific concerns regarding those activities
– General logistical information (examination time table, participants, expected requirements)
– Extent to which internal and external audit, loan review and other risk management systems will be tested and relied upon.
Examination Program
Examination Program

The program provides a comprehensive listing of all examination activities to be conducted at an institution for the given planning horizon.
Examination Program

Generally incorporates the following elements:

- Schedule of activities, duration of time and estimated resources
- Planned product for communicating findings (formal report or supervisory memo)
- Need for special examiner skills
Scope Memorandum
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Memorandum identifies the key objectives of the on-site examination. The focus of the on-site activities should include a review of the organization’s internal risk management systems and an appropriate amount of on-site transaction testing.
Scope Memorandum

The memorandum should define the objectives of the examination and generally should include:

- Overview of activities and risks to be evaluated
- Rational of why areas need to be reviewed
- Identification of procedures that are expected to be performed on-site
- Description of procedures to be performed on-site, including transaction testing
Entry Letter
Entry Letter

Should be tailored to fit the specific profile of the institution to be examined and the scope of activities to be performed.
Entry Letter

Following guidelines should be followed:

- Reflect risk-focused supervision objectives
- Limit requests for special management reports
- Minimize number of requested items and avoid duplication
- Distinguish between information to be reviewed off-site versus on-site
- Allow management sufficient lead time to prepare information
Examination Modules
Examination Modules

- Work Program
- Modules establish a tiered approach for reviewing the institution’s activities;
  - Tier 1 – Core Analysis
  - Tier 2 – Expanded Analysis
  - Tier 3 – Impact Analysis
Reporting the Findings
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Content of the report should clearly communicate to the institution’s management any supervisory issues, problems, or concerns related to the institution, as well as disclose the assigned supervisory rating.

Report should also include comments regarding deficiencies noted in the risk management systems.