

2013 Directors Institute



Lending from a Risk Management Perspective

Presented by:

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Any business decision is about capturing some reward. To capture it, you take certain risks.

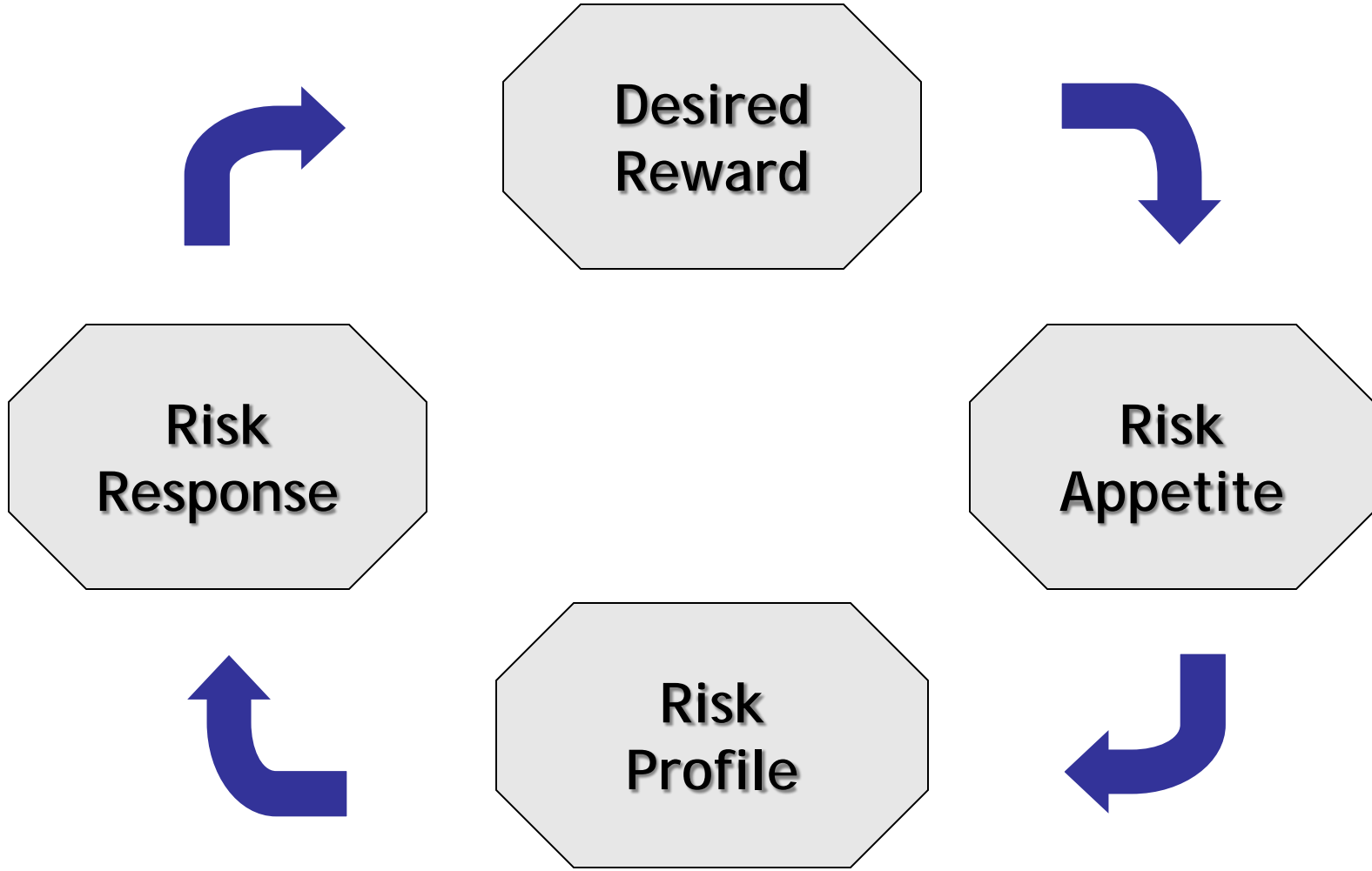
Michael Hoffman, Managing Risk in the New World Order, HBR October 2009.

Enterprise Risk Management

Managing risk is not just about identifying, assessing, and monitoring all the things that *could go wrong*. It also is about understanding all the things that *need to go right* for a bank to achieve its mission and objective of safely and profitably serving its customers and communities.

Carolyn G. DuChene, Deputy Comptroller Operational Risk, OCC

Balancing Risk & Reward



Enterprise Risk Management

An effective ERM process answers four key questions:

1. Do we understand the risks we are taking across the company (enterprise)?
2. What is the reward?
3. Is the risk acceptable?
4. Is the reward great enough?

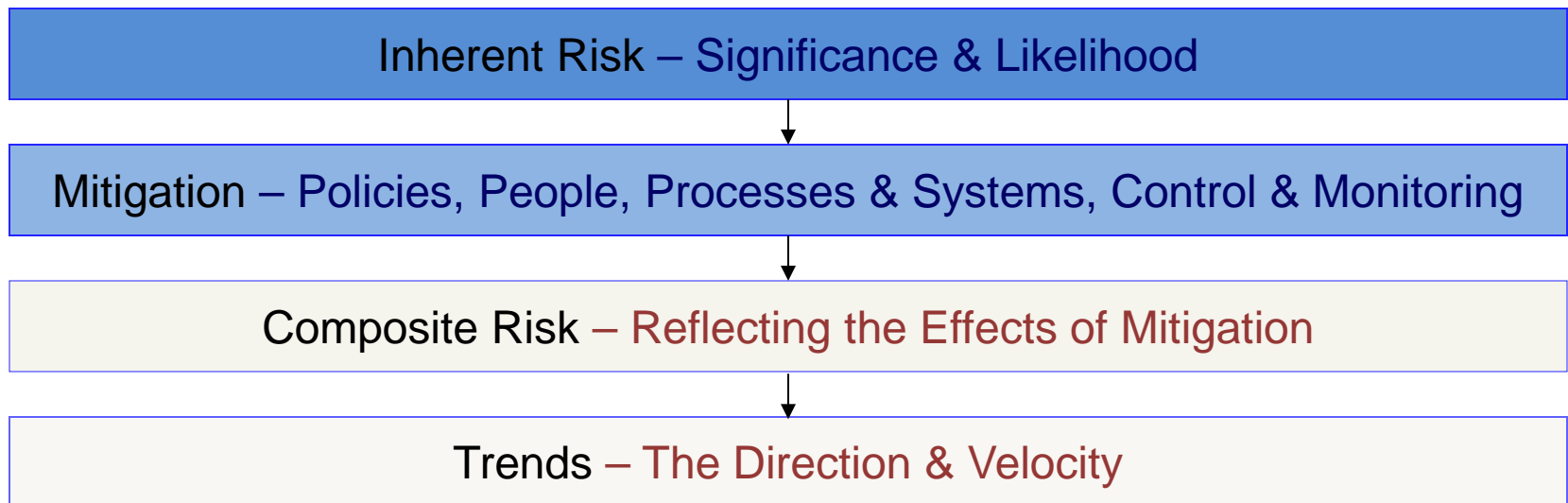
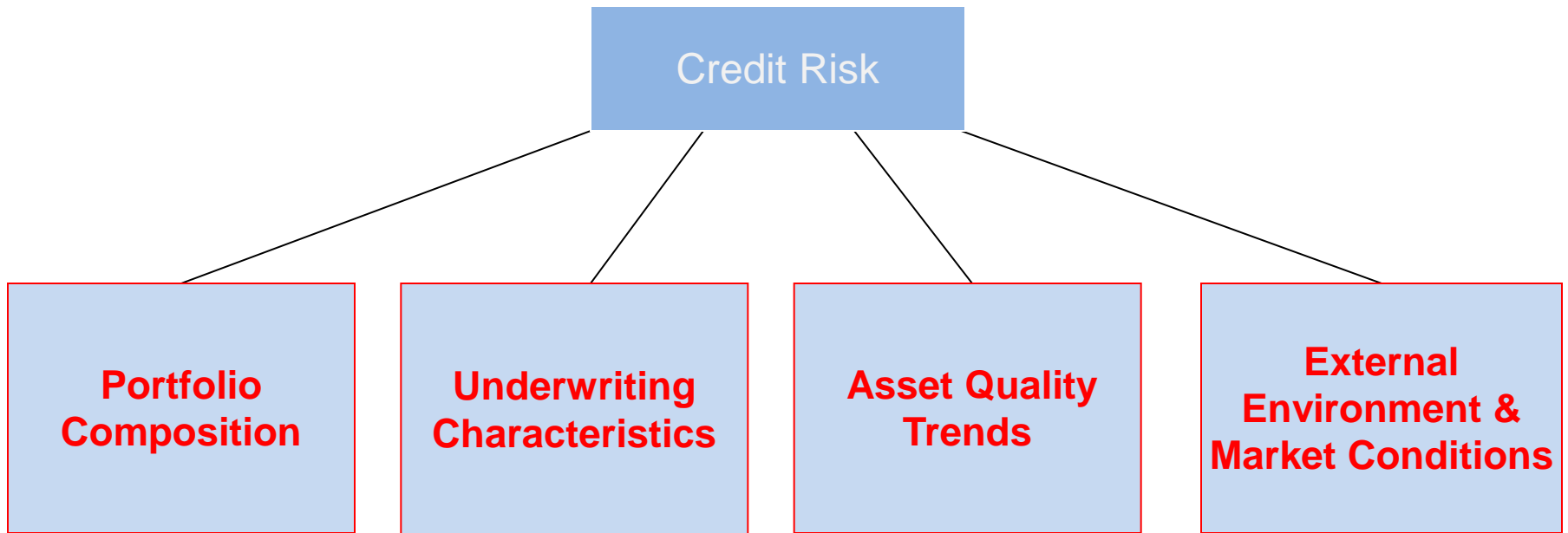
ERM RISKS

The risk to earnings or capital arising from:

| <i>Risks</i> | <i>Definitions</i> |
|------------------------------------|--|
| Credit Risk | An obligor's (e.g., borrower or counterparty) failure to meet the terms of any contract or otherwise fail to perform as agreed. |
| Market Risk | Movements in interest rates (repricing risk; basis risk; yield curve risk; options risk). Changes in the value of <u>traded</u> portfolios of financial instruments. |
| Liquidity Risk | The inability to meet obligations when they come due without incurring unacceptable losses. Changes in funding sources or market values. |
| Operational Risk | Inadequate or failed internal processes, people, systems, or external events. |
| Compliance & Legal Risk | Violations of, or nonconformance with, laws, rules, regulations, prescribed practices, internal policies and procedures, or ethical standards. |
| Reputational Risk | Negative public opinion. |
| Strategic Risk | Adverse business decisions, improperly implemented business decisions, or lack of responsiveness to industry changes. |

Strategic Planning

Strategic Planning creates a **consensus** view of the future, based on a **realistic** assessment of environmental **conditions** and corporate **capabilities**. The result is a clear understanding of the business model, creating a **context** for decision making in accomplishing the **enterprise** goals and objectives.



Jack R. Salvetti



Jack is a Principal with S.R. Snodgrass, a regional accounting and consulting firm specializing in service to financial institutions. As a consultant to the financial services industry, Jack has led management and director teams in the achievement of high performance in the areas of strategy, enterprise risk management, process improvement and earnings growth. Jack has gained a national industry perspective assisting hundreds of organizations located throughout the country. He combines his background as a CPA with business experiences gained over a career that has spanned four decades, as well as his role leading the firm as President and CEO.

Jack's contributions to the financial services industry include his participation on the faculties of ABA Stonier National Graduate School of Banking and the Pennsylvania Bankers Association Advanced School of Banking. He is recognized nationally as an expert to the financial services industry, has authored several articles on bank performance-related topics, and is a frequent speaker at financial management conferences.

Nancy D. Schell



Nancy is a Senior Vice President with S.R. Snodgrass and is the Director of the Firm's Financial Services Consulting Group. In this role, Nancy leads the Firm's Enterprise Risk Management group, helping companies identify risk and achieve a balance of risk and reward. Nancy also directs the Strategic Planning, Organizational Design, Profit Enhancement, and Process Improvement consulting services working with financial institutions to develop effective business strategies to achieve higher levels of performance and profitability.

Prior to joining S.R. Snodgrass, Nancy was a vice president of risk management for a multibillion-dollar financial institution and led the internal audit and compliance functions. The combination of Nancy's strategic planning experience and background in risk management provides a unique view of ERM focused on risk and opportunity. Nancy has authored several articles on bank performance-related topics and is a frequent speaker at financial management conferences.