Strategic Credit Risk Management Visual

Stated Priorities/ Culture	Implemented Risk Controls	Observed Risk Strategy

CONTINUUM

Asset Quality/ Soundness/ Values Driven

Immediate Earnings

Growth/ Mkt. Share/ Production Driven

No Clear Priorities

CONTINUUM

Behavior Influencing

Behavior Directing

Behavior Controlling

?

Conservative

Managed

Aggressive

Varies/ Various
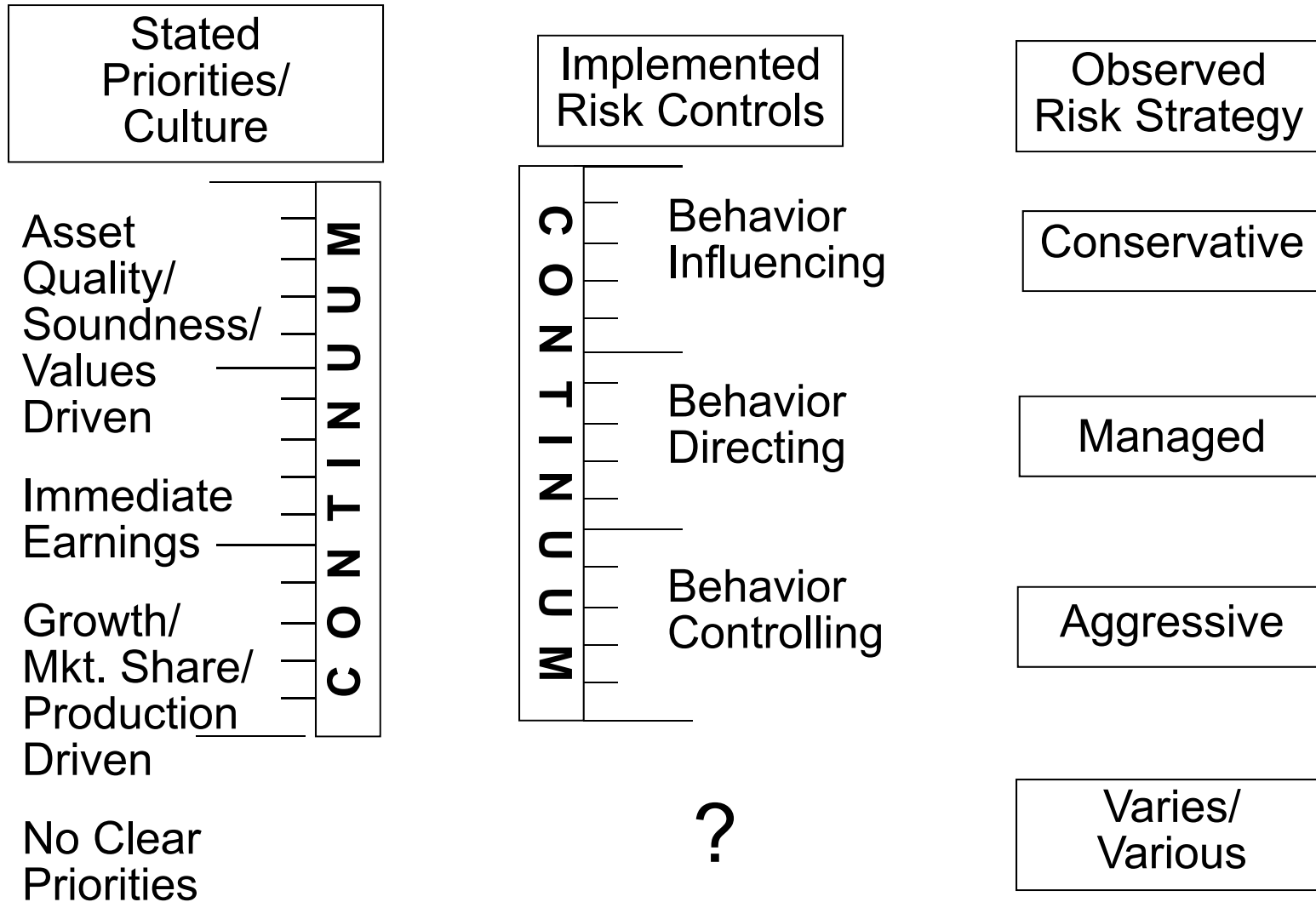
Aggregate Risk Determination

Low

High

Quantity of Risk

Strong

Quality of Risk Management

Weak
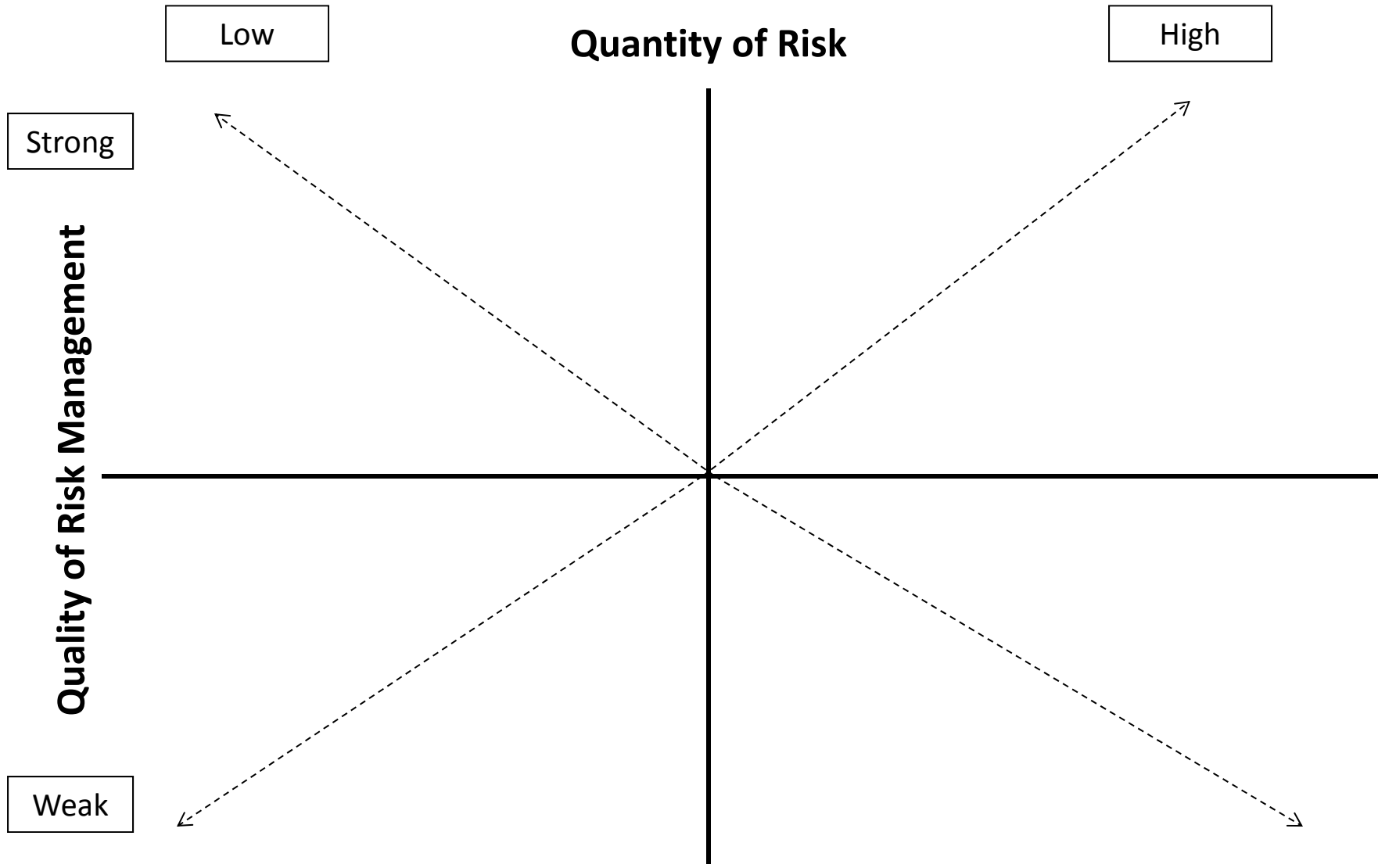
Credit Risk Management Template Completion Instructions

NOTE: There are 6 Tabs below:

CRM Template Instructions; Transaction Risk Scales; Intrinsic Risk; Intrinsic Risk Example: Concentration Risk Profile; Concentration Matrix

Transaction Risk:

1 Provide the Bank name
2 Provide your name
3 Provide the date
4 Four possible scales are provided (remember there is not a category for 'Loss')
  Use the scale that most closely resembles the Risk Rating scale used in your institution
  Notice that the Weighting increases as the Risk Rating increases.
  The Weight Result is a product of the Weight times the Portfolio Outstanding Percentage.
  NOTE: If your bank utilizes Commitments for the Risk Rating system versus Outstandings
  then use Commitments for the percentages. This will not skew the results of the exercise.
  The total Portfolion % should be 100%.
  GOAL: The goal for this exercise is to determine the relative Transaction Risk in the
  loan portfolio. You will note for each scale that all Risk Ratings that are considered 'Average'
  have a weight of '1.00'. When the WARR is calculated, compare the result to 1.00
  to conclude if the Transaction Risk is Low; Moderately Low; Moderate; Moderately High;
  or High.

Intrinsic Risk:

1 One Intrinsic Risk Scoring Worksheet is provided in this template package.
  Remember that a Risk Scoring Worksheet is needed for each Industry that has
  outstandings (or commitments if you measure that way) that is =>20% of capital.
  One Risk Scoring Worksheet is also required for each Line of Business (excluding the
  Industries already captured)
  This means that you will need to prepare multiple Risk Scoring Worksheets. This may
  be done in a couple of ways. One way is to prepare the Worksheet in the template
  and then print it. The next one can then be prepared over the first one in the template, etc.
  This will not allow for saving all of the templates but will allow you to complete the exercise.
  The other way is to add additional Tabs fror Intrinsic Risk.
2 Also included in the Template is a Tab titled Intrinsic Risk Example. This tab provides a sample
  completed form.
  To complete the form you will need the total dollar of Outstandings (or commitments) for
  the Industry or Line of Business in question. You will also need the total Tier 1 + ALLL
  for your bank (see page 11A from the UPBR to add Net Tier 1 plus ALLL to determine
  total Capital).
  The process is simple. Simply assess the relative level of risk in three major categories
  (Historic Risk Elements; Predictive Risk Elements; and Lending Risk Elements) and their
  respective 10 sub-categories.   Simply mark an X in the appropriate box.
  Total the number of Low, Moderate, and High for each column. Use that total along with
  the % of Tier 1 + ALLL to conclude an overall Intrinsic Risk assessment taking into account
  all of the Intrinsic Risk Worksheets completed.
  GOAL: As with Transaction Risk, the goal is to come to an overall assessment of Intrinsic
  risk on a relative scale of: Low, Moderately Low, Moderate, Moderately High, or High.

Concentration Risk:

1 Concentration Risk is measured in 4 Categories: Borrower; Geography; Lines of Business;
  and Industry. You should have prepared a table in the body of the Intersession Project
  that will aid in completing this section for all but Geographic Concentration.
2 For Borrower; Lines of Business; and Industry, simply copy the information from the
  body of the Intersession Project to the Concentration Template.
3 For Geographic Concentration assessment, use the Concentration Matrix to determine the relative level of risk
  Example: If your bank operates in a Multi County Area and has an economy that is 50-75% dependent on a few
  employers or industry, the assigned relative risk is: High Moderate
4 Once you have determined the relative % of Capital for Borrower, Lines of Business, and Industry as well
  as Geographic risk, you will need to assign a relative rating for each of the categories on the bottom of the Template.
  For example: If the % of Capital for the 10 largest Borrowers is 200%, you may elect to declare that relative
  risk as Moderately High. Repeat this for each of the four categories.
5 **GOAL:** Once you have assessed each of the four categories, you will then need to conclude an overall
  Concentration Risk Composite Assessment. As with Transaction and Intrinsic Risk, you will assign a
  Composite in one of 5 ranges: Low; Moderately Low; Moderate; Moderately High; or High.

BANK: _____   NAME: _____

Date: _____

Transaction Risk Profile
(Directional Assessment)

7 Point Scale

Risk Rating	Weighting	X	Portfolio Outstandings Percent	=	Weighted Result
1 Minimal	0.90		0.00%		0.00
2 Modest	0.95		0.00%		0.00
3 Average	1.00		0.00%		0.00
4 Marginally Acceptable	1.05		0.00%		0.00
5 Special Mention	1.15		0.00%		0.00
6 Substandard	1.25		0.00%		0.00
7 Doubtful	1.50		0.00%		0.00
			0.00%		0.00

Weighted Average Risk Rating (WARR):   0.00

8 Point Scale

Risk Rating	Weighting	X	Portfolio Outstandings Percent	=	Weighted Result
1 Minimal	0.90		0.00%		0.00
2 Modest	0.95		0.00%		0.00
3 Average	1.00		0.00%		0.00
4 Acceptable	1.00		0.00%		0.00
5 Marginally Acceptable	1.05		0.00%		0.00
6 Special Mention	1.15		0.00%		0.00
7 Substandard	1.25		0.00%		0.00
8 Doubtful	1.50		0.00%		0.00
			0.00%		0.00

Weighted Average Risk Rating (WARR):   0.00

9 Point Scale

Risk Rating	Weighting	X	Portfolio Outstandings Percent	=	Weighted Result
1 Substantially Risk Free	0.90		0.00%		0.00
2 Minimal	0.90		0.00%		0.00
3 Modest	0.95		0.00%		0.00
4 Average	1.00		0.00%		0.00
5 Acceptable	1.00		0.00%		0.00
6 Marginally Acceptable	1.05		0.00%		0.00
7 Special Mention	1.15		0.00%		0.00
8 Substandard	1.25		0.00%		0.00
9 Doubtful	1.50		0.00%		0.00
			0.00%		0.00

Weighted Average Risk Rating (WARR):   0.00

15 Point Scale

Risk Rating	Weighting	X	Portfolio Outstandings Percent	=	Weighted Result
1 Substantially Risk Free	0.90		0.00%		0.00
2 Minimal	0.90		0.00%		0.00
3 Various	0.90		0.00%		0.00
4 Various	0.95		0.00%		0.00
5 Various	0.95		0.00%		0.00
6 Various	0.95		0.00%		0.00
7 Various	1.00		0.00%		0.00
8 Various	1.00		0.00%		0.00
9 Various	1.00		0.00%		0.00
10 Various	1.05		0.00%		0.00
11 Various	1.05		0.00%		0.00
12 Marginally Acceptable	1.05		0.00%		0.00
13 Special Mention	1.15		0.00%		0.00
14 Substandard	1.25		0.00%		0.00
15 Doubtful	1.50		0.00%		0.00
					0.00

Weighted Average Risk Rating (WARR):   0.00

Intrinsic Risk Scoring Worksheet
(Create one for each LOB or Industry)

Line of Business _____

Industry: _____

HISTORIC RISK ELEMENTS	NA	LOW	MOD	HIGH
1) CREDIT PERFORMANCE				
--- Past Levels of delinquencies, losses, nonperforming assets				
--- Degree of volatility in credit performance				
2) LINE OF BUSINESS STABILITY/LONGEVITY				
--- Growth characteristics (high, low, moderate, uneven)				
--- Duration and stability of LOB track record				
--- Degree of change in LOB lending practices/procedures				
PREDICTIVE RISK ELEMENTS				
3) CUSTOMER RISK/PROFILE				
--- Diversity/financial strength of customer base				
--- Payment histories, bankruptcy levels				
4) ECONOMIC VULNERABILITY				
--- Susceptibility to economic swings				
--- Effect of recession, interest rates, localized weakness				
5) COMPETITIVE FACTORS				
--- Pressure to make accommodations on terms,				
advance rates, documentation, pricing, etc.				
6) POLITICAL/REGULATORY/TAX ISSUES				
--- Degree of impact from EPA, deregulation, tax laws, etc.				
--- Vulnerability to changes in political policies (defense)				
7) COVARIANCE				
--- Impact from a single employer/industry/external factor				
(i.e., reliance on oil industry, military base, auto industry)				
8) NATURAL/ENVIRONMENTAL IMPACT				
--- Susceptability to drought, freeze, flood, etc.				
LENDING RISK ELEMENTS				
9) COLLATERAL				
--- Liquidity of Collateral, breadth of market				
--- Carrying costs, ease of identifying and locating collateral				
--- Stability of collateral value, vulnerability to disputes				
--- Ease of collateral conversion (i.e., WIP inventory)				
10) TERM/TYPE				
--- Long, medium, short term				
--- Balloons, bullets				
--- Monitoring requirements				
--- Documentary risk (SBA, FCIA, participations, etc.)				
	NA	LOW	MOD	HIGH

Industry Outstandings   [_____] | | | |

As of: _____

Tier 1 Capital + ALLL*   [_____]

Percent of Tier 1 Capital + ALLL   [#DIV/0!]

*Net Tier 1 from UBPR Capital Analysis-B (PG 11A)
*ALLL from UBPR Balance Sheet $ (PG 4)

Intrinsic Risk Scoring Worksheet
(Create one for each LOB or Industry)

Line of Business *Commercial CRE*

Industry: *Residential AD&C*

HISTORIC RISK ELEMENTS	NA	LOW	MOD	HIGH
1) CREDIT PERFORMANCE				
--- Past Levels of delinquencies, losses, nonperforming assets				X
--- Degree of volatility in credit performance				
2) LINE OF BUSINESS STABILITY/LONGEVITY				
--- Growth characteristics (high, low, moderate, uneven)				X
--- Duration and stability of LOB track record				
--- Degree of change in LOB lending practices/procedures				
PREDICTIVE RISK ELEMENTS				
3) CUSTOMER RISK/PROFILE				
--- Diversity/financial strength of customer base				X
--- Payment histories, bankruptcy levels				
4) ECONOMIC VULNERABILITY				
--- Susceptibility to economic swings				X
--- Effect of recession, interest rates, localized weakness				
5) COMPETITIVE FACTORS				
--- Pressure to make accommodations on terms,		X		
advance rates, documentation, pricing, etc.				
6) POLITICAL/REGULATORY/TAX ISSUES				
--- Degree of impact from EPA, deregulation, tax laws, etc.		X		
--- Vulnerability to changes in political policies (defense)				
7) COVARIANCE				
--- Impact from a single employer/industry/external factor				X
(i.e., reliance on oil industry, military base, auto industry)				
8) NATURAL/ENVIRONMENTAL IMPACT		X		
--- Susceptability to drought, freeze, flood, etc.				
LENDING RISK ELEMENTS				
9) COLLATERAL				
--- Liquidity of Collateral, breadth of market				
--- Carrying costs, ease of identifying and locating collateral				X
--- Stability of collateral value, vulnerability to disputes				
--- Ease of collateral conversion (i.e., WIP inventory)				
10) TERM/TYPE				
--- Long, medium, short term				
--- Balloons, bullets			X	
--- Monitoring requirements				
--- Documentary risk (SBA, FCIA, participations, etc.)				

	NA	LOW	MOD	HIGH
Industry Outstandings $ 150,000,000		3	1	6

As of: 6/30/2012

Tier 1 Capital + ALLL* $ 100,000,000

Percent of Tier 1 Capital + ALLL   150.00%

*Net Tier 1 and ALLL from UBPR Capital Analysis-B (PG 11A)

CONCENTRATION RISK ASSESSMENT

A. BORROWER

Outstandings (largest borrowers) *	$0	=	#DIV/0!
Tier 1 Capital + ALLL	$0		

* Include your bank's ten largest borrowers. If more than ten borrowers individually have outstandings in excess of 10%

of the bank's capital, include all in excess of 10%.

B. GEOGRAPHY

Input **general risk** from Geographic Concentration Risk Matrix:

C. LINES OF BUSINESS

Largest Concentration	$0	=	#DIV/0!
Tier 1 Capital + ALLL	$0		

Do not include the C&I, Ag, or CRE portfolio.

D. INDUSTRY

Highest Concentration	$0	=	#DIV/0!
Tier 1 Capital + ALLL	$0		

Input the largest industry, property type, or type of ag.

If actual outstandings are not available, input an estimate.

Composite Concentration Risk

Borrower	
Geography	
Lines of Business	
Industry	
Composite	

GEOGRAPHIC CONCENTRATION MATRIX

Determine the point on the concentration scale based on the percent of concentration and the economic diversity of the geographic entity.

"Size" should relate to both size and diversity of the economy.

* % of the local economy dependent on a few employers and/or industry.

	25 - 50% *	50 - 75% *	75 - 100 *
Town County Small City	High Moderate	Low High	High
Med-Large City Multi County Area Minor State Very Small Country	Moderate	High Moderate	Low High
Large Metro Area Large Multi County Region Small-Medium Sized Country Medium Sized State	Low Moderate	Moderate	High Moderate
Major State Medium Sized Country Multi-Small/Med Countries Multi-State	High Low	Low Moderate	Moderate
Major County National (US) Multi-Med-Large Countries	Low to High For this group depending on the size and strength of the economy		
Multi Major Countries	Very Low to Low Depending on mix of countries		