



Managing & Mitigating Risk

**A Simple, Proven Program for
Community Banks**



Transforming Risks into Opportunities

Our nationally recognized, comprehensive approach to enterprise risk management links strategy and risk management to achieve a balance of Risk and Reward.

Our consulting services have been proven to improve efficiency, reduce risk, and generate future profitability for clients. We meet face-to-face in order to help you develop and institute a realistic plan for success.



Snodgrass ERM

ERM is a management model that leads to action.

A common misperception is that ERM is just about measuring and managing risk. ERM should also support the leadership of the risk and reward dynamic throughout the organization. The risk tolerances must be compared with financial return expectations to dial in the appropriate nature and levels of risk-taking.

ABOUT 70% of large organizations, public companies, and financial services entities perceive the volume and complexities of risks have increased “mostly” or “extensively” in the past 5 years.

Ask yourself these questions to gauge a potential risk:

- Does taking this risk align with our strategy?
- Would a negative outcome harm the Bank’s reputation?
- How conservative (or large) is the size, scale, or scope of the risk?
- Can the risk and its outcomes be understood, measured, and managed?
- Do I understand the risk and if not, is this something that should be elevated at the Bank?



Roles and Responsibilities

Ultimately, risk oversight begins with the Chief Executive Officer (CEO) who is charged by the Board. Responsibilities include the authority concerning risk and the oversight of established relevant committees. The Board authorizes the CEO to define the risk committee structure and to override decisions to mitigate a given risk exposure. All areas of the Bank participate in appropriate aspects of risk management. Required elements of effective risk management include individual responsibility, ownership of risk management within each business unit, and Bank-wide structures for risk governance and oversight.

| | | Inherent Risk | | | | |
|---------------------|--------------|---------------|----------|----------|--------|----------|
| | | Insignificant | Low | Moderate | High | Critical |
| Control Environment | Weak | Low-3 | Mod-5 | Mod-6 | High-8 | High-10 |
| | Marginal | Low-2 | Low-4 | Mod-5 | Mod-7 | High-9 |
| | Adequate | Insign-1 | Low-2 | Low-4 | Mod-6 | Mod-7 |
| | Considerable | Insign-1 | Insign-1 | Low-3 | Low-4 | Mod-6 |
| | Strong | Insign-1 | Insign-1 | Low-2 | Low-3 | Mod-5 |

■ High ■ Moderate ■ Low

Accountability - We All Manage RISK

As an accountable employee, what does it mean to do the right thing? How important is it that you raise your hand or understand your job? There is an art to evaluating whether something is a prudent risk to take or if it would be reckless.

“CNB Bank & Trust, N.A. is committed to determining risk and deploying the appropriate number of controls to minimize the residual risk to shareholders and employees.”

-Tom DeRobertis, Controller



A Holistic Risk Management Approach for Banks

Each of us has a duty to immediately communicate concerns about potential risks. We want to ensure all employees are focused on the task at hand, open to proper and constructive feedback, and when problems exist fix them as quickly as possible.

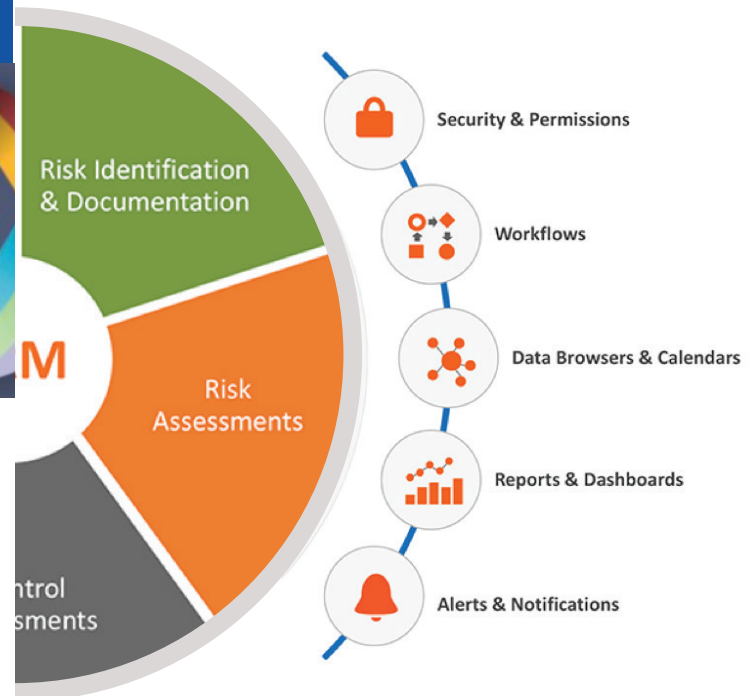
- If a material concern exists, speak with your supervisor immediately
- Pay attention to details to obtain operational excellence
- Understand Bank policy and procedure
- Ensure sound internal controls are in place
- Always have systems of checks and balances
- Response to customer needs or employee needs are a priority
- Mistakes do not define you, not learning from them does

The Bank continually evaluates risks that we are facing. We frequently assess the inherent risks the Bank takes versus our ability to control or respond to them. The chart to the right is a simplified representation of how we manage risk.

A Holistic Risk Management Approach for Banks

Snodgrass believes in a true business partnership: a combination of industry expertise and close working relationships with our clients. We strive to become an essential part of your organization, bringing you the benefits of our extensive experience and knowledge of best practices.

To better serve you, we encourage ongoing communication and provide additional insights through our articles, white papers, and videos. We value the reward of maintaining clients (we've retained some for over 40 years) and seeing them prosper.



A Truly Collaborative Approach

- Get where you want to go while avoiding surprises
- Risk vs. opportunity
- Uncertainty
- Build value
- Align risk appetite and strategy
- Seize opportunities
- Ongoing process
- Effected by people at every level in the organization
- Combination of quantitative and qualitative risk assessment methodologies
- A strong system of internal control is essential to effective enterprise risk management

Risk Appetite

We take RISK when:

It fits our strategy

- Suits our goals as a Community Bank
- Promotes growth and opportunity
- Protects and preserves capital base
- Provides an opportunity to earn “repeat business”

It doesn't harm the Bank's reputation

- Weighs “would” versus “could” when developing business strategy, product, or process
- Directly influences reputation
- Employees' integrity is our strongest risk-management asset
- Everyone is a risk manager and must be an informed risk-taker

It is conservative in its degree or magnitude

- Manages market risk to maintain a strong balance sheet as well as a stable and predictable earnings stream that is responsive to market changes
- Accepts credit risk consistent with community needs and our risk appetite
- Management respects limits and rationally addresses guidelines

It can be understood, measured, and managed

- Governance process ensures that risks are evaluated and risk appetite is well understood
- Operational excellence mitigates risks to the fullest possible extent
- Measures, analyzes, reports, and acts on specific risks
- An open environment that values learning from internal and external sources

Looking Ahead - Risk and Strategy

As a bank, we tend to focus on last month's financial performance, previous audits, and various and numerous reports from month-end, quarter-end, and year-end. While these are important to the Bank, it is equally as important to have a focus towards the roads ahead as the Bank continues to grow and excel. When we talk about risk and strategy, they coincide and are truly items in front of us. Our appetite for certain risks has to be aligned with strategic objectives.

Risk is not necessarily bad; however, we need to understand what level of risk we are willing to accept to achieve opportunities and have the tools in place to measure, monitor, and mitigate. We want to take risks that are aligned with what is important to our customers, employees, community, and shareholders. We always want to have a focus on the past, the here and the now, and also what lies ahead.

You can always ask, is there a better way to service our customer? We do this well; can we do it great? Can I develop my skills to improve myself along with the Bank? Can we make more of a difference in the community we serve? Challenge yourself and ask these questions and think about the following:

Risk Controls

Strategic
Decisions

Proactive

Training

Best Interest
of Department

Risk Insurance

Transactional
Decision

Reactive

Lessons Learned

Best Interest of
Bank

VS.

