

SRA'S CAPITAL MANAGEMENT SERVICES - 2025

Supporting Your Bank's Journey to Capital Safety and Soundness

SRA's Capital Management Program: Three Step Journey to “Well Managed”

Capital Risk Framework

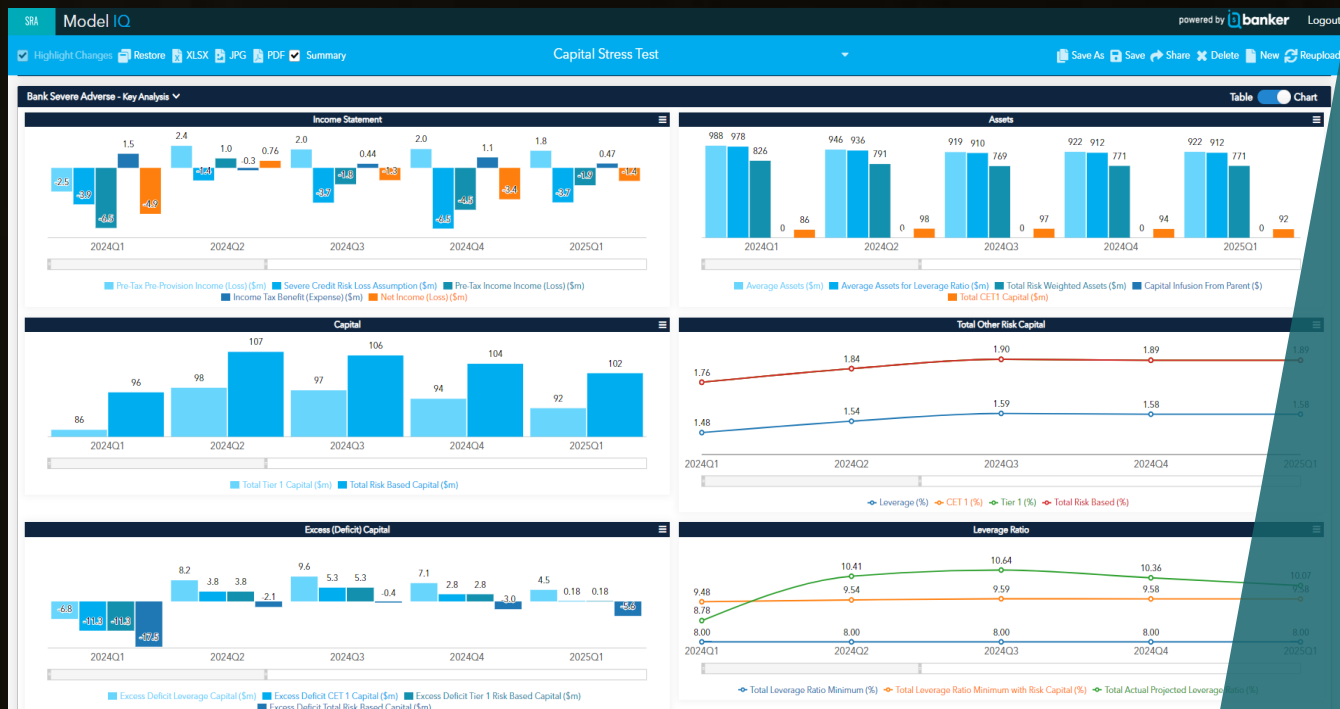
- A proprietary **Capital Risk Framework** to enable financial institutions to identify their level of maturity (and gaps) based on their size and complexity. This allows the bank to align practices to the Board's Risk Appetite and regulatory guidance on capital management (OCC 2018 Capital Adequacy Handbook and SR Letter 12-7.)

Capital Stress Test

- Stress scenarios for the Bank and Holding Company to evaluate Base Case (Strategic Plan), Severe Adverse and Reverse Stress Scenarios.
- Development of a monetized **Risk Capital Buffer** for Credit, Liquidity, IRR, Operational, Compliance, Strategic, and Reputations Risks.

Capital Plan & Policy

- Enhancement to your Capital Policy to include/refine Capital Triggers and regulatory compliant content.
- Development of a Capital Plan that triangulates the Strategic Plan, Risk Appetite, and Risk Profiles with Capital Management.
- Ongoing Capital Reporting



CAPITAL RISK FRAMEWORK

The Starting Point

Capital Risk Framework – The Starting Point

The SRA Consulting developed a proprietary **Capital Risk Framework** to enable financial institutions to identify their capital risk management maturity and align management practices to the Board's risk appetite. SRA created this framework to help institutions continuously evaluate their capital maturity and efficiently implement capital stress testing.

Being both diagnostic and prescriptive, the **Capital Risk Maturity Framework** evaluation identifies and prioritizes areas of improvement to ensure regulatory compliance. This framework will become your key standard to measure ongoing maturity development.

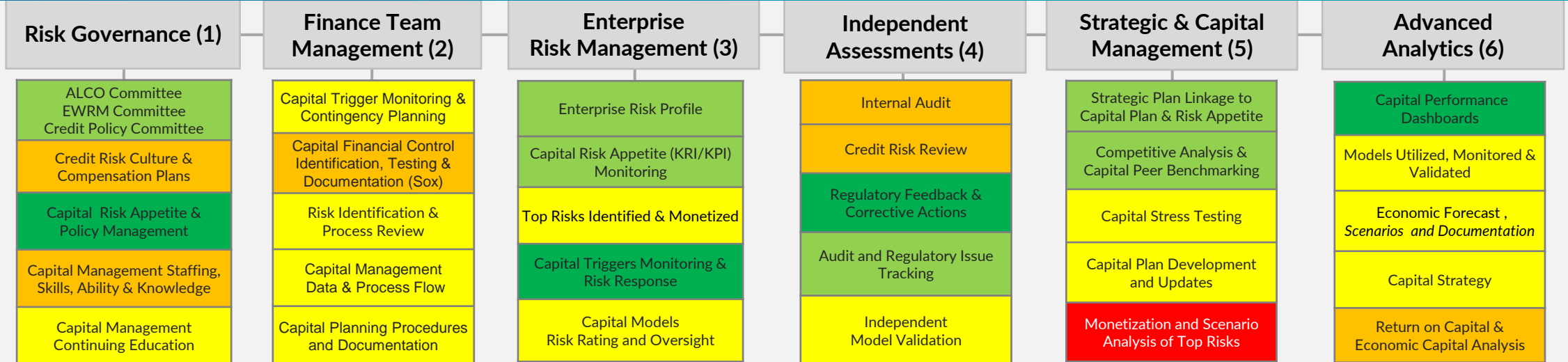


CAPITAL RISK FRAMEWORK

Capital Risk Framework – Tracking Your Maturity Growth

Executive & Board Risk Communication (7)

Realtime & Periodic Reporting | Data Visualization | Alerts & Notifications | Risk Escalation



Transformation – Unified Capital Information (8)

Data Lineage | Aggregation | Normalization | Unified Resultant Data Storage | Ingestion

Data Management (9)

Data Quality | Governance of Capital Data | Data Storage & Usage | Data Architecture | Capital Data Steward

Legend:

Advanced

Managed

Basic

Ad Hoc

Nonexistent

Objectives & Benefits of Completing the Capital Risk Evaluation

The objective of the Capital Risk Maturity Framework is to measure the effectiveness of each bank's capital risk management program against industry standards, regulatory guidance, and company objectives.



Informs regulators on the institution's capital risk maturity progress and supports regulatory compliance



Educate the Board and executive team on the institution's current capital risk maturity level



Facilitates conversation on the expected future risk maturity level at the Board level



Helps facilitate the development of a risk roadmap



Accommodates management of risk reporting and risk improvement activities

Director’s Risk Committee – Capital Risk Appetite Recommendation

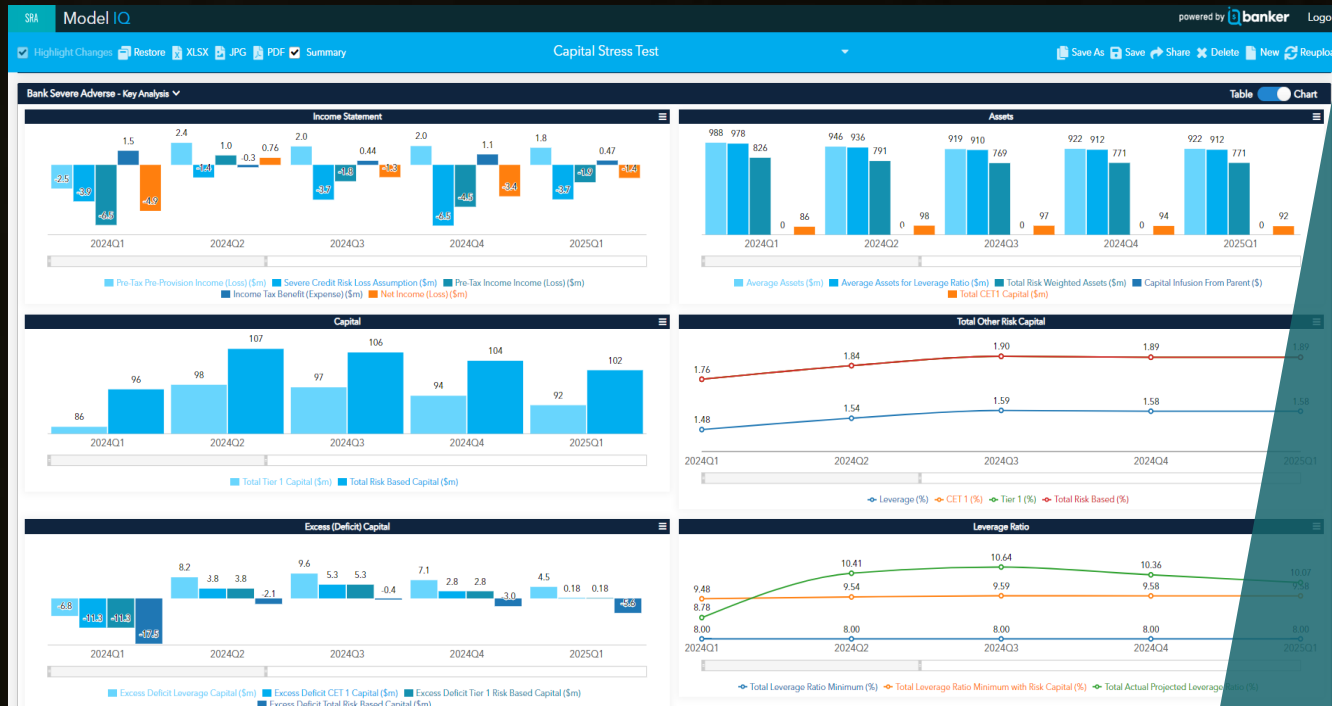
What are your risk adjustment factors for your bank?

High Complexity	An institution that executes on a strategy for cutting edge products and services and/or offers products and services with complex regulatory requirements.
High Growth	An institution that has or plans to have year over year growth exceeding 10% or more over a three-year period.
High Risk	An institution that operates in geographic regions with elevated risk and/or operates across a disparate footprint. Complexity considerations also contemplate serving a customer base that is deemed to be elevated in risk. The institution is focused on high-risk products such as concentrations in ADC and CRE lending, banking customers in the marijuana industry, and/or launching a large number of new products and services.

What is the Board’s Approved Capital Risk Appetite Maturity level?

This guide helps Board of Directors identify the level of maturity that the Bank should be targeting in their Capital Risk Management Program. Through discussion with Executive Leadership, the Board’s Appetite for their maturity level should be reviewed, discussed and agreed upon for each of the Nine Pillars in the Capital Risk Maturity Framework.

Maturity Level	Optimized	Managed	Basic/Developing	Ad Hoc/Informal	Does Not Exist
Bank Size					
Total Consolidated Assets (Low to Moderate: Complexity, Growth and Risk Profile)	Over \$100 Billion	\$10 to \$100 Billion	\$1 to \$10 Billion	Under \$1 Billion	
Maturity Adjustment Factors: Complexity, Growth and Risk Profile					
"Highly Complex" or "High Growth" or "High Risk Profile"					
One of the Above Maturity Adjustment Factors	Over \$75 Billion	\$5B to \$75 Billion	\$500M to \$5 Billion	Under \$500 Million	
Two or more of the Maturity Adjustment Factors	Over \$25 Billion	\$1B to \$25 Billion	Under \$1 Billion		



CAPITAL STRESS TESTING

Step Two: Scenario & Sensitivity Analysis

Principles When Designing a Stress Testing Framework (SR Letter 12-7)

Principal 1

- A banking organization's stress testing framework should include activities and exercises that are tailored to, and sufficiently capture, the organization's exposures, activities and key risks.

Principal 2

- An effective stress testing framework employs multiple conceptually sound stress testing activities and approaches.

Principal 3

- An effective stress testing framework is forward-looking, flexible and allows scenario analysis.

Principal 4

- Stress testing results should be clear, actionable, well supported, and inform decision making.

Principal 5

- An organization's **Stress Testing Framework** should include strong governance, risk management and effective internal controls. This framework should be documented, and compliance measured over time.

SRA's Five Key Steps in the Capital Stress Process

Step 1

- Send a comprehensive request list to the Bank including: Three Year Financial Forecasts for Base and Stress Scenarios, Strategic Plan, last Capital Plan and Policy, Risk Appetite Statement, Risk Profile and Key Risks for all Risk Categories

Step 2

- Review methodology with Bank and gain agreement on the number of stress scenarios, Risk Categories, Risk Buffer calculation methodology, and stress aggregation methodology.

Step 3

- Obtain and review current credit stress test (*recommend loan level credit stress*), IRR stress, and liquidity stress scenarios. Identify if gaps exist. Evaluate data quality and data aggregation process. Load data into SRA's Golden Copy Workbook.

Step 4

- Monetize and stress each Key Risk and Risk Category. Update industry research with “severe adverse” scenarios and drivers for each key risk stressed. Risk adjust results and review with Bank. Review final stress results with bank for feedback.

Step 5

- Update Model IQ and validate results. Develop updated Capital Plan with new stress results. Review Capital Policy for suggested changes.
- Review final product with CRO and CFO. Support reviews with the Management Risk Committee and Board Risk Committee. Update documents with feedback.

Capital Scenario and Sensitivity Analysis

Develop Scenarios

- Develop number of stress scenarios required for the Bank and Holding Company separately. Normally bank develop a Base Case (based on the Strategic Plan), Severe Adverse and Reverse Case Scenarios.
- Create other scenarios when needed.

Create Assumptions

- Document stress assumptions for each scenario for the Bank and Holding Company to evaluate. Evaluate the sensitivity to those assumptions.

Develop Capital Risk Buffers

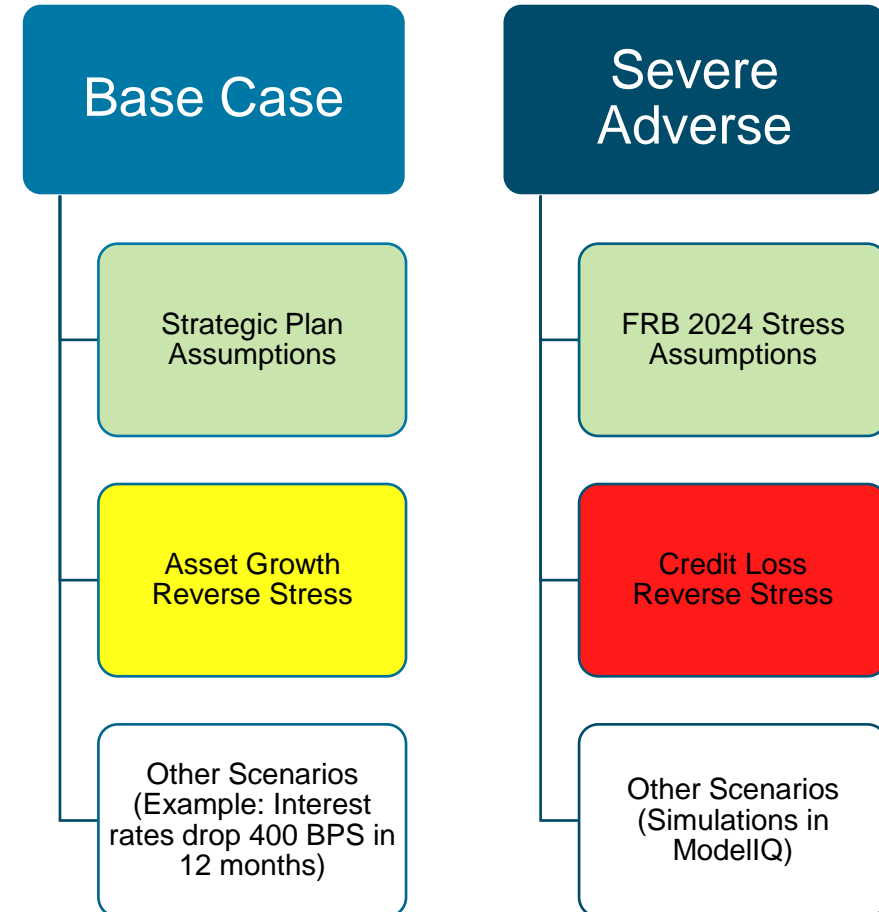
- Develop a monetized and stressed **Risk Capital Buffer** for each risk category: Credit, Liquidity, IRR, Operational, Compliance and Strategic Risks.
- Analyze if an adequate level of capital exists for each scenario and related period.

Stress Scenarios for Bank and Holding Company

Evaluating resilience in banks involves stress scenarios including Base Case, Severe Adverse, and Reverse Stress scenarios, assessing the impact of economic downturns, potential financial distress, operational failures, and other critical events.

- Base Case Scenarios - assessing expected performance
- Severe Adverse Scenarios - testing impact of economic crises
- Reverse Stress Scenarios – sizing potential failure events

Tailored scenarios target specific risks and exposures, enabling banks to fortify risk management, optimize capital planning, and make informed strategic decisions



Monetization and Stressing of Credit and Non-Credit Risks

Compliance & Legal Loss Events

- AML/BSA Fine & Remediation Costs – percent of net interest income
- UDAAP Fine – percent of noninterest income
- Major Lawsuit – Percent of base case Tier 1 Capital
- Three years of new expenses related to complying with new regulations
- Consent order driven by under-capitalization event

Operational Loss Events

- Extended vendor failure – percent of noninterest expense
- External or internal fraud loss – percent of noninterest expense
- Operating expense growth exceed plan per year for two years
- Increased OREO expenses in recessionary environment (captured under credit loss forecast)
- AI loss risk

Strategic and Reputational Loss Events

- Net margin compression over next two years
- Cybersecurity and customer information breach event including, cost of remediation and deposit run off

Market Risk

- Interest rate risk shock
- Pricing risk
- Foreign exchange risk
- Investment portfolio risk

Liquidity Risk

- Liquidity stress test
- Deposit run-off scenario
- Off balance sheet funding sources disruption

February 2024 FRB Economic Assumptions for Severe Adverse Stress Test

By necessity due to their size, most banks over \$100 billion in assets use macroeconomic models to complete their stress tests. It would be cumbersome for them to directly stress a sufficient number of individual loans and other assets. The Federal Reserve issues assumptions to be used in large bank stress models. Some key February 2024 Federal Reserve stress test economic metrics are shown in the chart immediately below.

Metric	Severe Adverse	Base Case
Real Quarterly GDP - Trough (Worst) Quarter	-11.6%	0.7%
Average Real Quarterly GDP over the Stress Test Period	-2.2%	1.6%
Unemployment Rate - Peak Level	10.0%	4.3%
Unemployment Rate - Average over the Stress Test Period	8.6%	4.2%
Home Prices - Current to Trough*	-36.0%	3.1%
Commercial Real Estate Prices - Current to Trough*	-40.0%	3.4%
Dow Jones Total Stock Market Index - Current to Trough*	-55.0%	0.0%
10-Year Treasury Yield -Trough*	0.8%	4.1%

* - Base Case measurements are Current to Peak

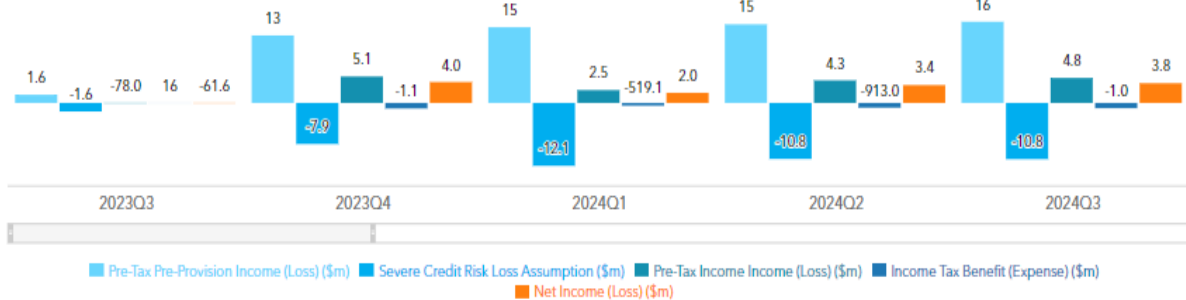
Bank Base Case Scenario (SRA's Scenario Platform)



Bank Severe Adverse - Key Analysis

Table Chart

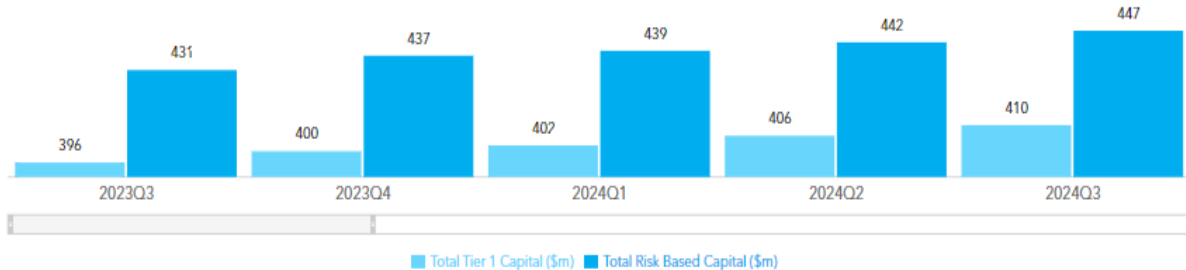
Income Statement



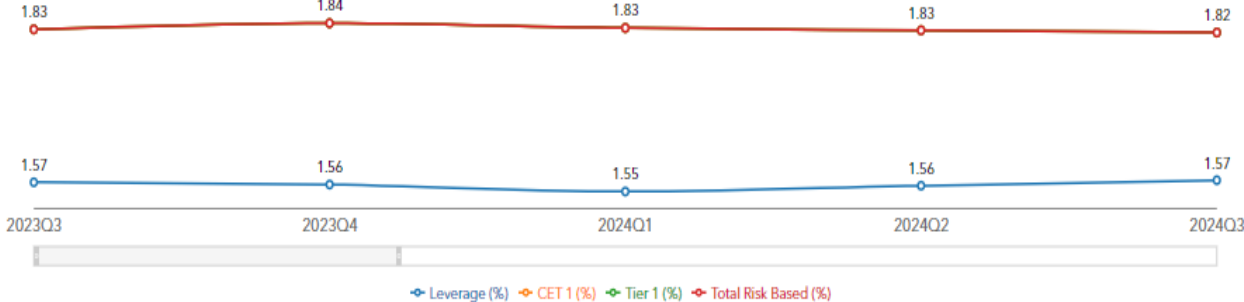
Assets



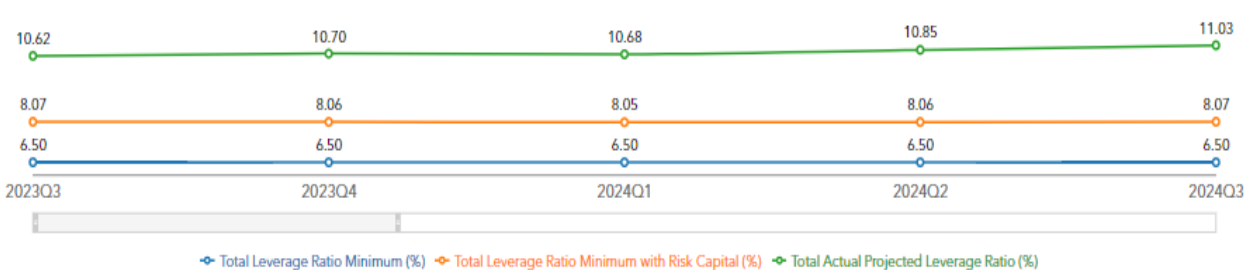
Capital



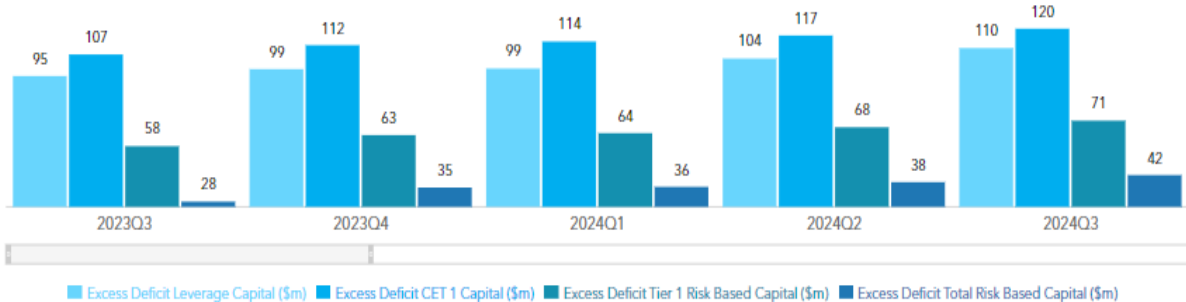
Total Other Risk Capital

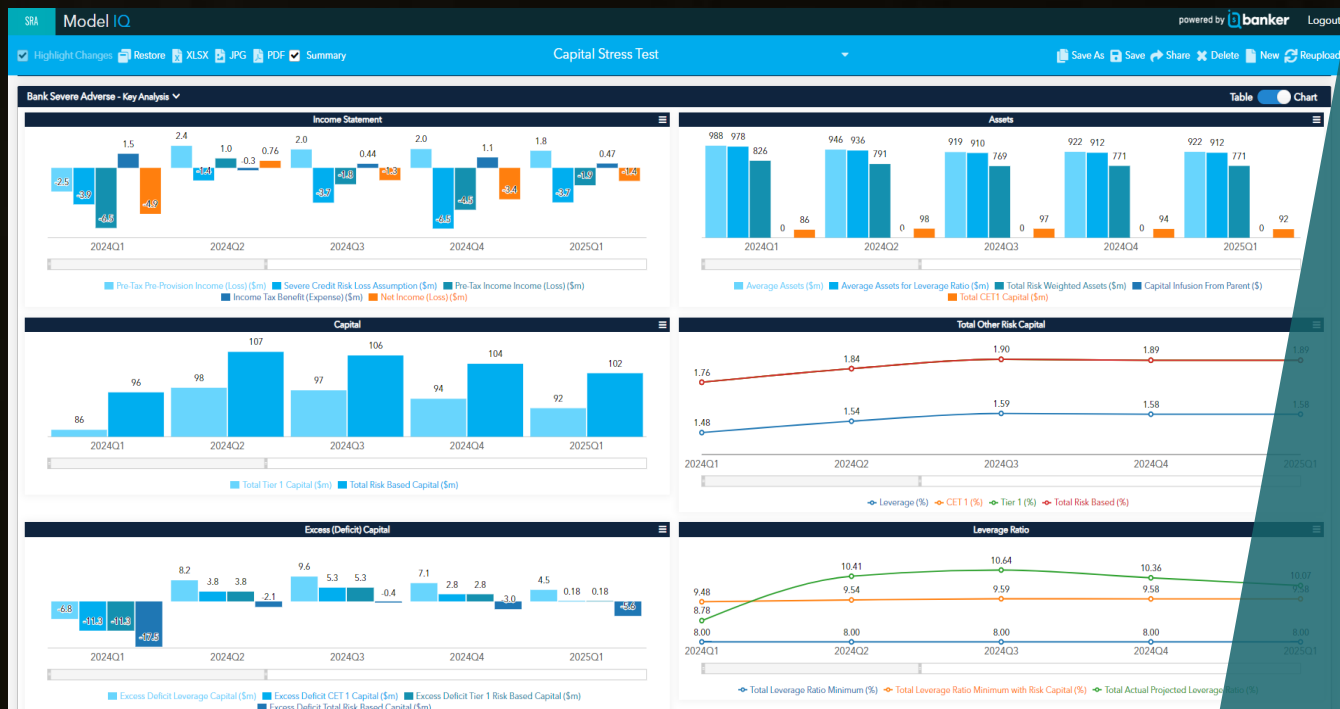


Leverage Ratio



Excess (Deficit) Capital





CAPITAL PLAN AND POLICY UPDATES

Final Step: Summarize Stress Results for Executive & Board Decision Making and Oversight

Capital Policy, Capital Plan and Ongoing Capital Reporting

Capital Policy

- Update Capital Policy to include Capital Triggers and monitoring. Ensure regulatory compliant content and appropriate capital minimum.
- Establish Capital Risk Appetite and monitor quarterly

Capital Plan

- Development of a Capital Plan that triangulates the Strategic Plan, Risk Appetite, Risk Profiles with Capital Management. Present to the Board Risk Committee at least annually.
- Document outcome of each scenario and capital contingency plans

Capital Reporting

- Develop standard monthly and quarterly capital reporting for the ALCO Committee and Board Risk Committee
- Update the results of new scenarios

Michael B. Glotz, CEO and Co-Founder

Michael Glotz is the Chief Executive Officer and Co-Founder of SRA Consulting and is the firm's practice leader for governance, risk management, M&A, capital management, and A.I. risk services. He has led dozens of high-profile engagements for national, regional and community financial organizations.

Michael served as Strategic Financial Officer (SFO) for Crestar Bank and later SunTrust Bank through acquisition. During Michael's tenure with SunTrust Bank, he held various senior financial positions including head of Strategic Cost Management. Immediately before SRA's founding, Michael was a Managing Vice President with Capital One Financial and held senior positions including Head of Corporate Audit and Credit Review Services, which included the oversight and development of over 100 audit and risk professionals. Michael also supported the implementation of Enterprise Risk Management and bank acquisition and integration activities for large-scale mergers.

Michael was Risk-Reward Co-Chair of the American Association of Bank Directors and is a faculty member of the Institute of Bank Director Education. He delivered training for many State Banking Associations, and individually for several bank boards. Michael received a BBA in Business from the University of Wisconsin, an MBA with the University of Richmond and completed the Executive Development Program at Wharton, University of Pennsylvania, and is a Certified Risk Professional.

