

# 2020 Risk Survey



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### About Bank Director

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## EXECUTIVE SUMMARY



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**It wasn't uncommon in the latter half of 2019 for bank executives to note the margin pressure faced by the industry, brought on by an inhospitable interest rate environment. And rates dropped even lower in early 2020, with the Federal Reserve cutting rates to zero.**

"In spite of the Fed's yo-yo interest rate, we have a responsibility to manage our assets in a manner that is in the best interest[s] of our shareholders and communities we serve. The key is not to panic, but [to] hold the course," said John Allison, CEO of Conway, Arkansas-based Home Bancshares, in the \$15 billion bank's second quarter 2019 earnings call. "At the end of the day, your management's trying to operate profitably in the middle of this chaos. They say when you're piloting an airplane and there's a major problem, like an engine going out: 'Don't panic. Just fly the airplane.'"

Allison's advice to "just fly the airplane" seems an appropriate way to frame the risks facing the banking industry, which Bank Director explored again in its 2020 Risk Survey, sponsored by Moss Adams. Conducted in January, it includes the views of more than 200 independent directors, CEOs, risk officers and other senior executives of U.S. banks below \$50 billion in assets.

A majority of these industry leaders say they're more worried about interest rate risk amid a competitive environment for deposit growth — 25% report their bank lost deposit share in 2019, and 34% report gains in this area. Looking ahead to 2020, most (73%) say their bank will leverage personal relationships to attract deposits from other institutions. Less than half will leverage digital channels, a strategy that skews toward — but is not exclusive to — larger banks.

In the survey, almost 60% cite increased concerns around credit risk, consistent with the Federal Reserve's Senior Loan Officer Opinion Survey from January, which reports dampened demand for commercial loans and expectations that credit quality will moderately deteriorate.

Interestingly, Bank Director's 2020 Risk Survey finds respondents almost unanimously reporting that their bank's loan standards have remained consistent over the past year. However, the majority (67%) also believe that competing banks and credit unions have eased their underwriting standards over the same time period.

## KEY FINDINGS

### ➔ Scaling Back on Stress Tests

The Economic Growth, Regulatory Relief and Consumer Protection Act, passed in May 2018, freed banks between \$10 billion and \$50 billion in assets from the Dodd-Frank Act (DFAST) stress test requirements. While last year's survey found that 60% of respondents at these banks planned to keep their stress test practices in place, participants this year reveal they have scaled back (7%) or modified (67%) these procedures.

### ➔ Climate Change Overlooked

Despite rising attention from regulators, proxy advisors and shareholders, just 11% say their bank's board discusses climate change at least annually as part of its analysis and understanding of the risks facing the organization. Just 9% say an executive reports to the board annually about the risks and opportunities presented by climate change. More than 20% of respondents say their bank has been impacted by a natural disaster in the past two years.

### ➔ Ready for CECL

More than half of survey respondents say their bank is prepared to comply with the current expected credit loss (CECL) standards; 43% indicate they will be prepared when the standards take effect for their institution.

### ➔ Cyber Anxiety Rising

Eighty-seven percent of respondents say their concerns about cybersecurity threats have risen over the past year. This is the top risk facing the banking industry, according to executives and directors. Further, 77% say their bank has significantly increased its oversight of cybersecurity and data privacy.

### ➔ Board Oversight

Most boards review cybersecurity regularly — either quarterly (46%) or at every board meeting (24%). How the board handles cybersecurity governance varies: 28% handle it within a technology committee, 26% within the risk committee and 19% as a full board. Just one-third have a director with cybersecurity expertise.

# RISE CHALLENGES

## 1. Have your concerns about the following risk categories increased or decreased over the past year?

| Operational             |        |            |             |         |       |
|-------------------------|--------|------------|-------------|---------|-------|
| Bank Asset Size         | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
| Increased significantly | -      | 4%         | 4%          | 3%      | 3%    |
| Increased somewhat      | 72%    | 59%        | 35%         | 26%     | 48%   |
| No change               | 28%    | 34%        | 55%         | 66%     | 44%   |
| Decreased somewhat      | -      | 2%         | 4%          | 5%      | 3%    |
| Decreased significantly | -      | 1%         | 2%          | -       | 1%    |

| Cybersecurity           |        |            |             |         |       |
|-------------------------|--------|------------|-------------|---------|-------|
| Bank Asset Size         | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
| Increased significantly | 28%    | 42%        | 39%         | 31%     | 38%   |
| Increased somewhat      | 50%    | 43%        | 51%         | 62%     | 49%   |
| No change               | 22%    | 14%        | 6%          | 8%      | 12%   |
| Decreased somewhat      | -      | 2%         | 4%          | -       | 2%    |
| Decreased significantly | -      | -          | -           | -       | -     |

## Credit

| Bank Asset Size         | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|-------------------------|--------|------------|-------------|---------|-------|
| Increased significantly | -      | 3%         | 2%          | 5%      | 3%    |
| Increased somewhat      | 50%    | 60%        | 59%         | 44%     | 56%   |
| No change               | 50%    | 31%        | 33%         | 49%     | 36%   |
| Decreased somewhat      | -      | 6%         | 6%          | 3%      | 5%    |
| Decreased significantly | -      | -          | -           | -       | -     |

## Interest rate risk

| Bank Asset Size         | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|-------------------------|--------|------------|-------------|---------|-------|
| Increased significantly | 17%    | 11%        | 6%          | 10%     | 10%   |
| Increased somewhat      | 33%    | 43%        | 44%         | 51%     | 44%   |
| No change               | 50%    | 40%        | 40%         | 23%     | 38%   |
| Decreased somewhat      | -      | 7%         | 10%         | 15%     | 9%    |
| Decreased significantly | -      | -          | -           | -       | -     |

## Compliance

| Bank Asset Size         | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|-------------------------|--------|------------|-------------|---------|-------|
| Increased significantly | -      | 7%         | 6%          | 3%      | 5%    |
| Increased somewhat      | 33%    | 35%        | 43%         | 26%     | 35%   |
| No change               | 56%    | 52%        | 45%         | 59%     | 52%   |
| Decreased somewhat      | 11%    | 7%         | 6%          | 13%     | 8%    |
| Decreased significantly | -      | -          | -           | -       | -     |

## Strategic

| Bank Asset Size         | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|-------------------------|--------|------------|-------------|---------|-------|
| Increased significantly | 17%    | 12%        | 10%         | 5%      | 11%   |
| Increased somewhat      | 44%    | 42%        | 63%         | 62%     | 51%   |
| No change               | 33%    | 47%        | 27%         | 26%     | 37%   |
| Decreased somewhat      | 6%     | -          | -           | 8%      | 2%    |
| Decreased significantly | -      | -          | -           | -       | -     |

| <b>Legal</b>            |                  |                   |                    |                   |              |
|-------------------------|------------------|-------------------|--------------------|-------------------|--------------|
| <b>Bank Asset Size</b>  | <b>&gt;\$10B</b> | <b>\$1B-\$10B</b> | <b>\$500M-\$1B</b> | <b>&lt;\$500M</b> | <b>Total</b> |
| Increased significantly | -                | 1%                | -                  | -                 | 1%           |
| Increased somewhat      | 11%              | 15%               | 18%                | 23%               | 17%          |
| No change               | 83%              | 78%               | 78%                | 72%               | 77%          |
| Decreased somewhat      | 6%               | 7%                | 4%                 | 5%                | 6%           |
| Decreased significantly | -                | -                 | -                  | -                 | -            |

| <b>Reputational</b>     |                  |                   |                    |                   |              |
|-------------------------|------------------|-------------------|--------------------|-------------------|--------------|
| <b>Bank Asset Size</b>  | <b>&gt;\$10B</b> | <b>\$1B-\$10B</b> | <b>\$500M-\$1B</b> | <b>&lt;\$500M</b> | <b>Total</b> |
| Increased significantly | -                | -                 | -                  | 3%                | 1%           |
| Increased somewhat      | 22%              | 15%               | 22%                | 15%               | 17%          |
| No change               | 78%              | 81%               | 67%                | 69%               | 75%          |
| Decreased somewhat      | -                | 5%                | 6%                 | 13%               | 6%           |
| Decreased significantly | -                | -                 | 4%                 | -                 | 1%           |



## Consumer

| Bank Asset Size         | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|-------------------------|--------|------------|-------------|---------|-------|
| Increased significantly | -      | 2%         | -           | -       | 1%    |
| Increased somewhat      | 33%    | 15%        | 22%         | 23%     | 20%   |
| No change               | 56%    | 77%        | 71%         | 69%     | 72%   |
| Decreased somewhat      | 11%    | 7%         | 6%          | 8%      | 7%    |
| Decreased significantly | -      | -          | -           | -       | -     |

## Liquidity

| Bank Asset Size         | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|-------------------------|--------|------------|-------------|---------|-------|
| Increased significantly | 6%     | 2%         | 2%          | 5%      | 3%    |
| Increased somewhat      | 17%    | 32%        | 22%         | 33%     | 29%   |
| No change               | 61%    | 52%        | 57%         | 39%     | 51%   |
| Decreased somewhat      | 17%    | 14%        | 18%         | 21%     | 16%   |
| Decreased significantly | -      | 1%         | -           | 3%      | 1%    |

| <b>Environmental/climate risk</b> |                  |                   |                    |                   |              |
|-----------------------------------|------------------|-------------------|--------------------|-------------------|--------------|
| <b>Bank Asset Size</b>            | <b>&gt;\$10B</b> | <b>\$1B-\$10B</b> | <b>\$500M-\$1B</b> | <b>&lt;\$500M</b> | <b>Total</b> |
| Increased significantly           | 6%               | 4%                | -                  | 5%                | 3%           |
| Increased somewhat                | 28%              | 22%               | 18%                | 21%               | 22%          |
| No change                         | 56%              | 68%               | 71%                | 69%               | 68%          |
| Decreased somewhat                | 11%              | 5%                | 8%                 | 5%                | 6%           |
| Decreased significantly           | -                | 1%                | 2%                 | -                 | 1%           |

# INTEREST RATES & DEPOSIT GROWTH

## 2. In considering changes to the interest rate environment, do you consider your bank to be more asset sensitive or liability sensitive?

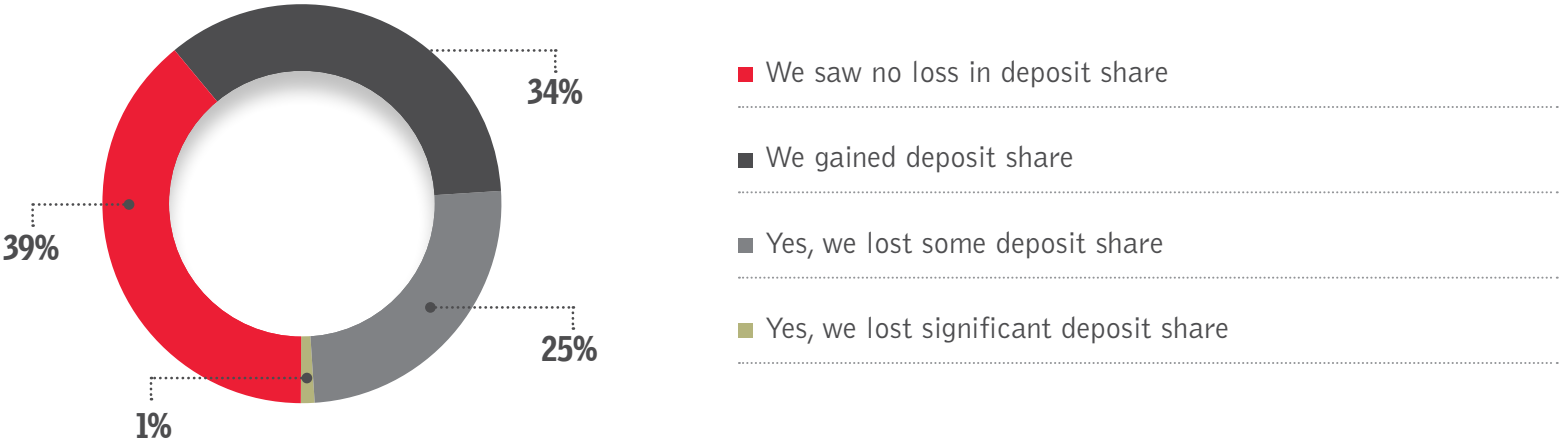
Chief information officers and chief information security officers were not asked this question.



| Bank Asset Size  | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|--|--------|------------|-------------|---------|-------|
| Asset sensitive (loans are more sensitive to changes in interest rates)        | 77%    | 69%        | 69%         | 66%     | 69%   |
| Liability sensitive (deposits are more sensitive to changes in interest rates) | 24%    | 31%        | 31%         | 34%     | 31%   |

### 3. Has your bank lost deposit share as a result of rate competition in 2019?

Numbers don't add up to 100% due to rounding. CIOs and CISOs were not asked this question.



| Bank Asset Size                        | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|--|--------|------------|-------------|---------|-------|
| We saw no loss in deposit share        | 47%    | 41%        | 27%         | 47%     | 39%   |
| We gained deposit share                | 35%    | 32%        | 44%         | 29%     | 34%   |
| Yes, we lost some deposit share        | 18%    | 26%        | 29%         | 24%     | 25%   |
| Yes, we lost significant deposit share | -      | 2%         | -           | -       | 1%    |

## 4. What tactics will your bank use to gain deposits in 2020?

Respondents were asked to select all that apply. CIOs and CISOs were not asked this question.

73%



Leverage personal relationships to gain deposits from other banks

43%



Build/leverage digital channels to gain deposits within and/or outside core markets

35%



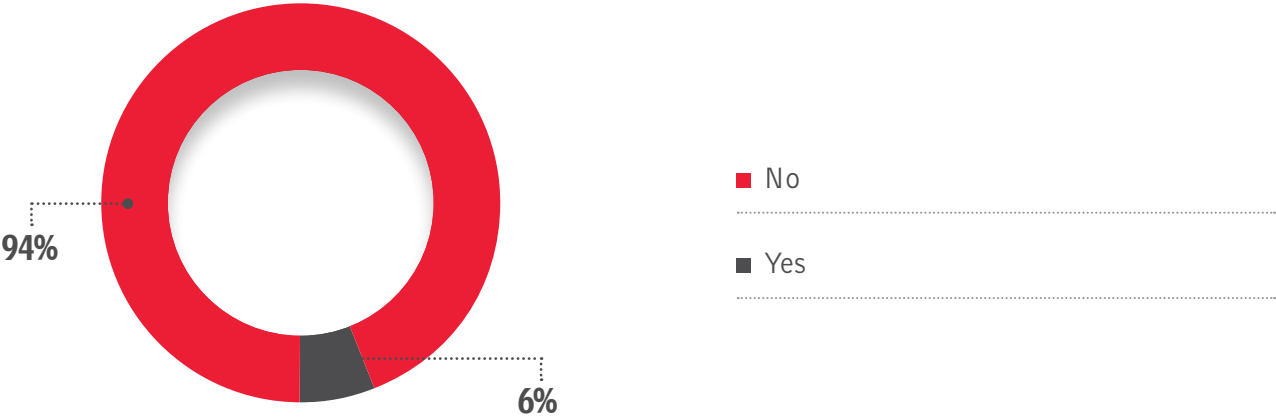
Gain deposits via branch or whole bank acquisitions

| Bank Asset Size   | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|---|--------|------------|-------------|---------|-------|
| Leverage personal relationships to gain deposits from other banks                   | 71%    | 69%        | 73%         | 82%     | 73%   |
| Build/leverage digital channels to gain deposits within and/or outside core markets | 71%    | 45%        | 31%         | 40%     | 43%   |
| Gain deposits via branch or whole bank acquisitions                                 | 47%    | 43%        | 24%         | 24%     | 35%   |
| Purchase brokerage/wholesale deposits   | 12%    | 29%        | 22%         | 34%     | 27%   |
| Offer above-market/competitive interest rates to large depositors                   | 24%    | 22%        | 27%         | 40%     | 26%   |
| De novo expansion into new markets  | 6%     | 18%        | 11%         | 24%     | 16%   |
| None of the above   | 6%     | 8%         | 7%          | 3%      | 6%    |
| Other   | -      | 5%         | 4%          | 13%     | 6%    |

# CREDIT RISK & STRESS TESTING

## 5. In the past year, has your bank eased underwriting standards on certain types of loans?

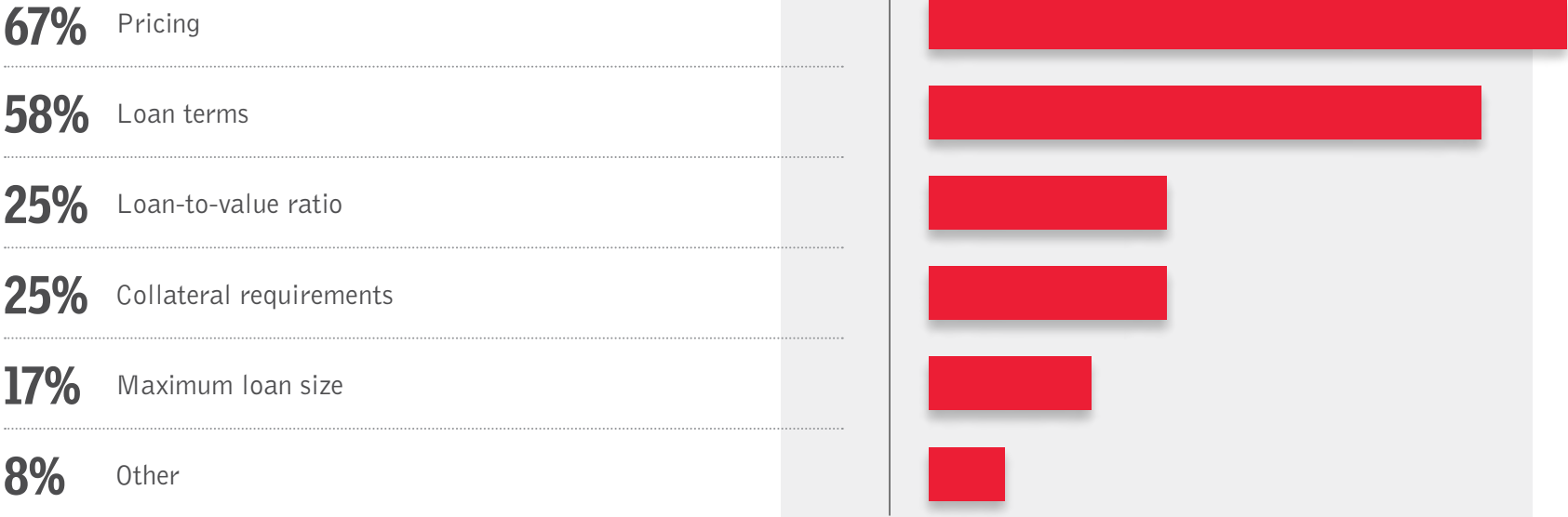
CIOs and CISOs were not asked this question.



| Bank Asset Size | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|-----------------|--------|------------|-------------|---------|-------|
| No              | 100%   | 95%        | 95%         | 87%     | 94%   |
| Yes             | -      | 5%         | 5%          | 13%     | 6%    |

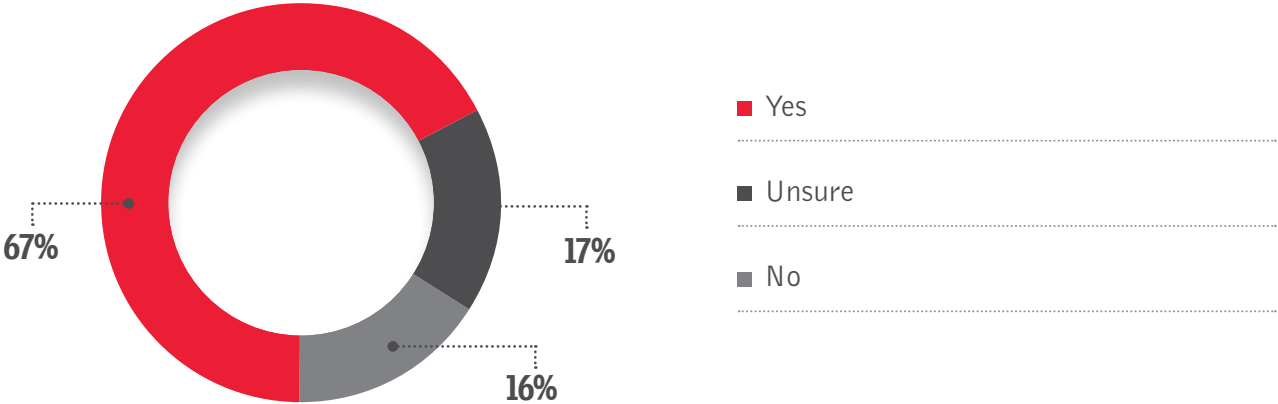
## 6. In which areas have your bank's underwriting standards eased in the past year?

Question only asked of respondents who believe their bank has eased underwriting standards in the past year. Respondents were asked to select all that apply. CIOs and CISOs were not asked this question.



# 7. Do you believe that competing banks or credit unions have eased their underwriting standards in the past year?

*CIOs and CISOs were not asked this question.*

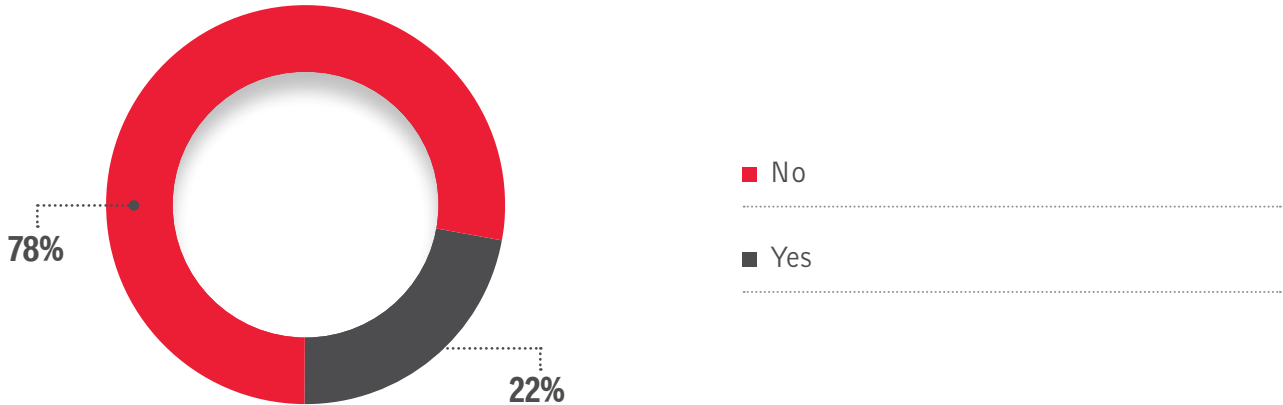


| Bank Asset Size | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|-----------------|--------|------------|-------------|---------|-------|
| Yes             | 69%    | 74%        | 57%         | 61%     | 67%   |
| Unsure          | 25%    | 15%        | 14%         | 21%     | 17%   |
| No              | 6%     | 11%        | 30%         | 18%     | 16%   |



# 8. Are you concerned that your bank’s loan portfolio is overly concentrated in a certain type(s) of loans?

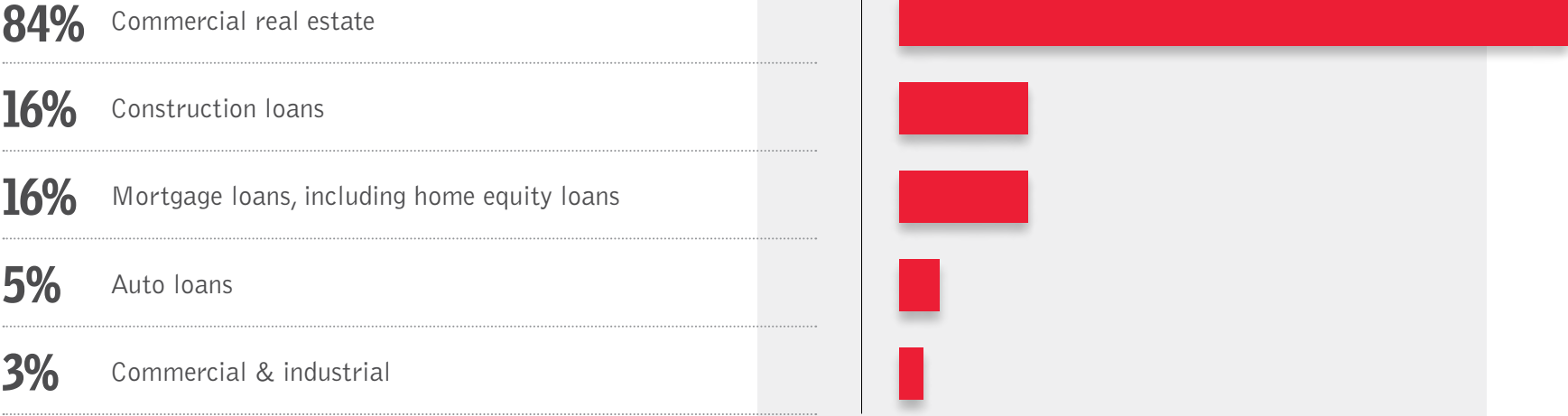
*CIOs and CISOs were not asked this question.*



| Bank Asset Size | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|-----------------|--------|------------|-------------|---------|-------|
| No              | 69%    | 78%        | 77%         | 84%     | 78%   |
| Yes             | 31%    | 22%        | 23%         | 16%     | 22%   |

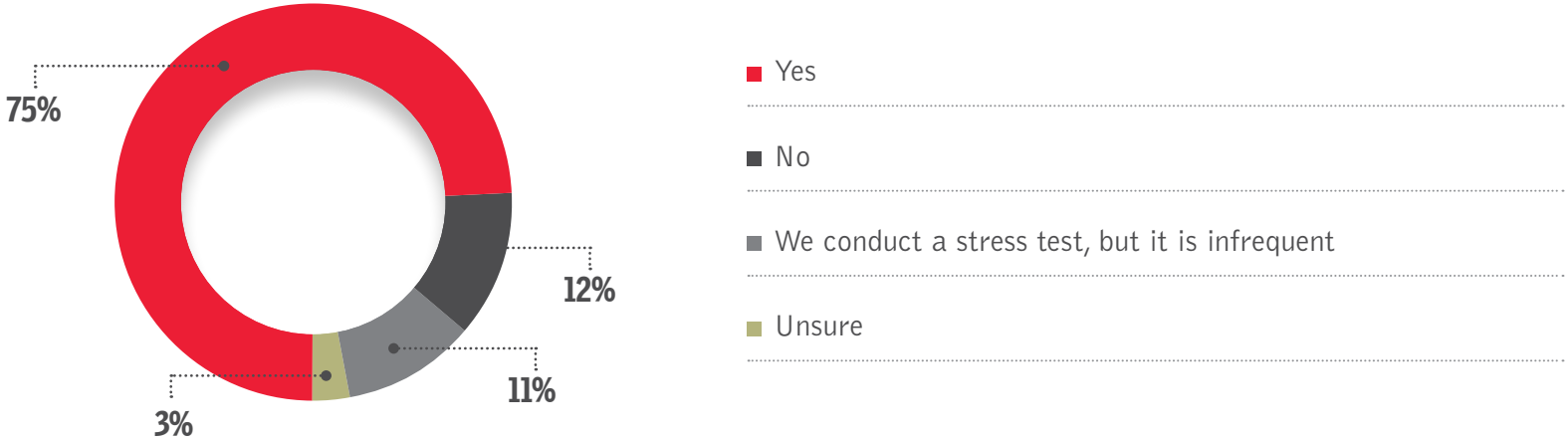
# 9. In which areas do you believe your bank's loan portfolio is overly concentrated?

*Question asked of respondents who express concern that the bank's loan portfolio is overly concentrated in certain loan types. Respondents were asked to select no more than two types of loans. CIOs and CISOs were not asked this question.*



# 10. Does your bank conduct an annual stress test?

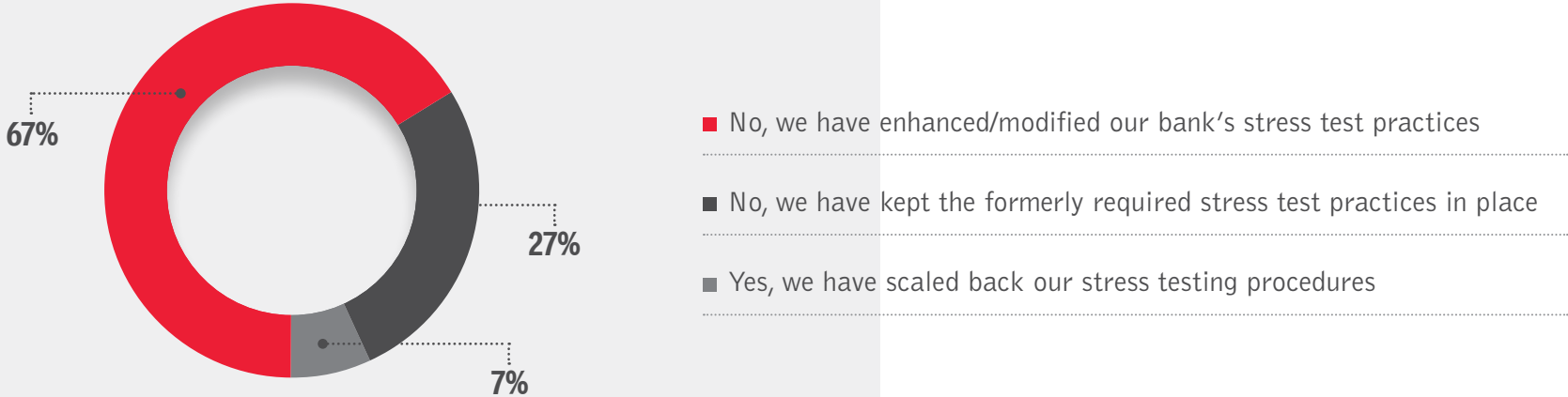
Numbers don't add up to 100% due to rounding. CIOs and CISOs were not asked this question.



| Bank Asset Size                                | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|--|--------|------------|-------------|---------|-------|
| Yes  | 94%    | 76%        | 80%         | 61%     | 75%   |
| No   | -      | 8%         | 14%         | 24%     | 12%   |
| We conduct a stress test, but it is infrequent | 6%     | 11%        | 7%          | 16%     | 11%   |
| Unsure   | -      | 5%         | -           | -       | 3%    |

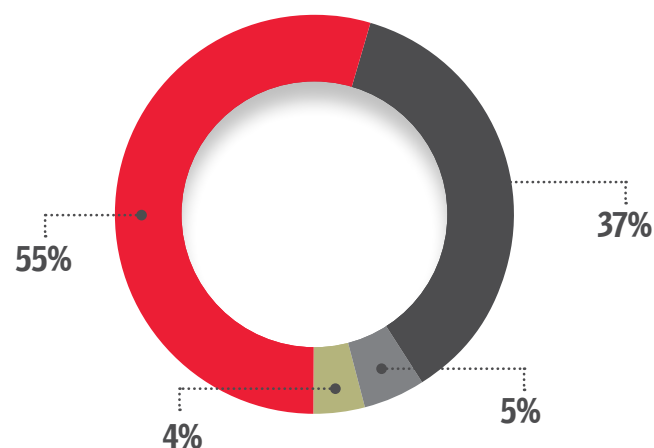
# 11. Since the passage of the Economic Growth, Regulatory Relief and Consumer Protection Act in May 2018, has your bank scaled back its approach to stress testing?

Numbers don't add up to 100% due to rounding. Question asked of respondents representing banks above \$10 billion in assets who also indicate their bank conducts an annual stress test. CIOs and CISOs were not asked this question.



## 12. Regarding your bank's capital position, how would you expect your bank to perform in a severe global recession?

Numbers don't add up to 100% due to rounding. Respondents were asked to answer based on the severely adverse scenario outlined by the Federal Reserve in February 2019: a more than six-point rise in the unemployment rate, to 10%; elevated stress in corporate loan and commercial real estate markets; an 8% drop in real GDP from its pre-recession peak; and a mildly steeper yield curve. CIOs and CISOs were not asked this question.



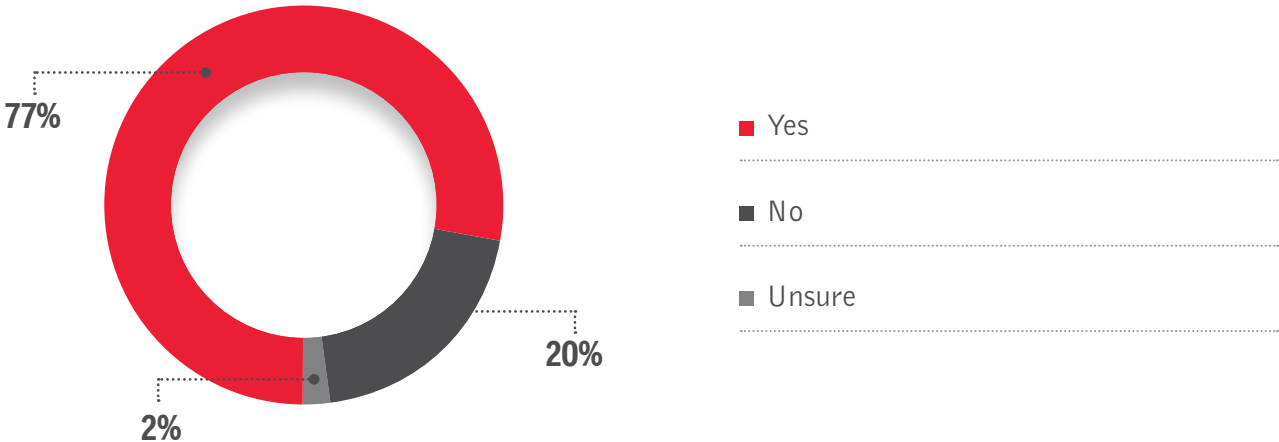
- Moderate impact on the bank's capital — tier 1 ratio between 7% and 9.9%
- Capital position would be strong, with a minimum common equity tier 1 ratio above 10%
- I'm unsure how my bank would perform in such a severe economic downturn
- Significant impact on the bank's capital — tier 1 ratio between 4% and 6.9%

| Bank Asset Size   | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|---|--------|------------|-------------|---------|-------|
| Moderate impact on the bank's capital — tier 1 ratio between 7% and 9.9%              | 63%    | 55%        | 61%         | 45%     | 55%   |
| Capital position would be strong, with a minimum common equity tier 1 ratio above 10% | 31%    | 34%        | 34%         | 50%     | 37%   |
| I'm unsure how my bank would perform in such a severe economic downturn               | -      | 7%         | 2%          | 5%      | 5%    |
| Significant impact on the bank's capital — tier 1 ratio between 4% and 6.9%           | 6%     | 5%         | 2%          | -       | 4%    |

# CYBERSECURITY

## 13. Given the increase in cyberattacks in the financial space – including the data breach at Capital One Financial Corp. in early 2019 – has your bank significantly increased its oversight of cybersecurity and data privacy?

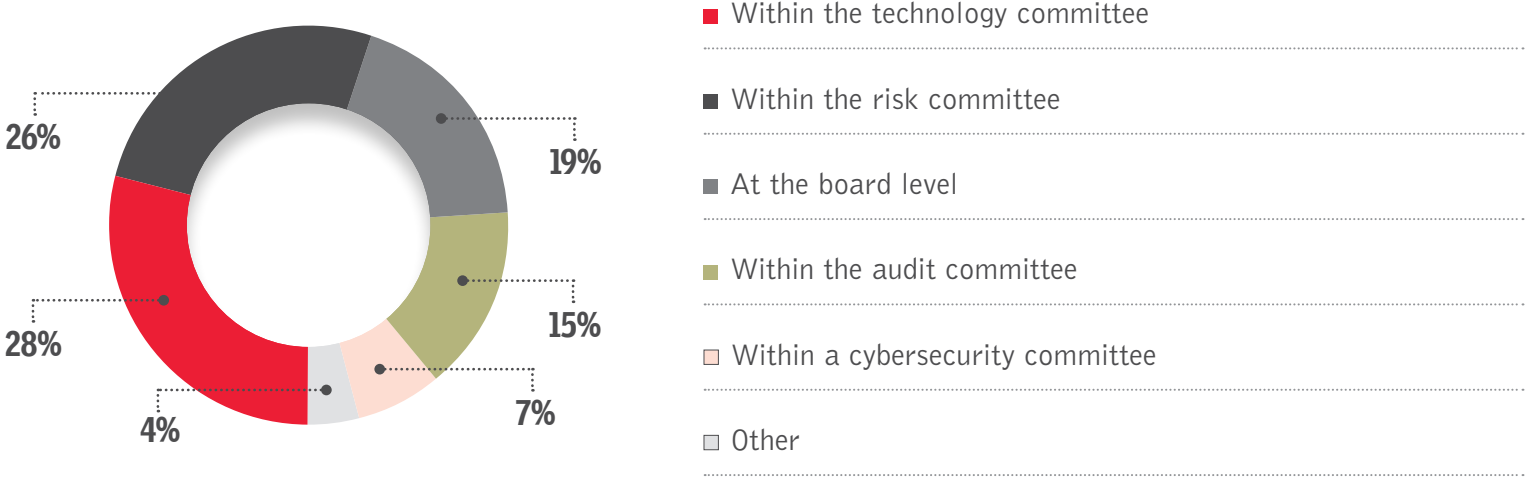
Numbers don't add up to 100% due to rounding. Chief credit officers and chief lending officers were not asked this question.



| Bank Asset Size | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|-----------------|--------|------------|-------------|---------|-------|
| Yes             | 73%    | 77%        | 78%         | 79%     | 77%   |
| No              | 27%    | 21%        | 20%         | 18%     | 20%   |
| Unsure          | -      | 2%         | 3%          | 3%      | 2%    |

# 14. How does the board primarily handle cybersecurity governance?

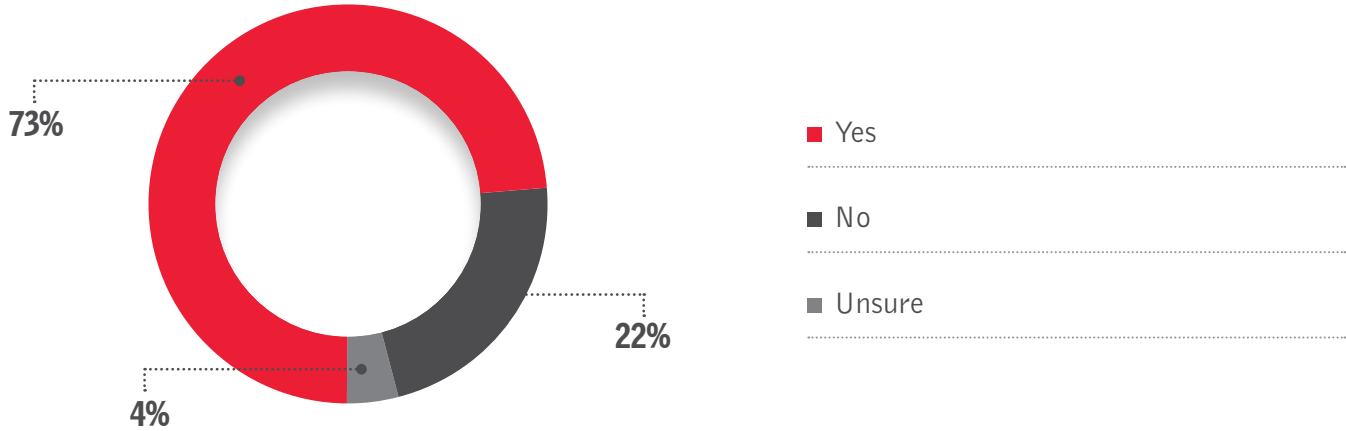
Numbers don't add up to 100% due to rounding. Chief credit officers and CLOs were not asked this question.



| Bank Asset Size                  | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|----------------------------------|--------|------------|-------------|---------|-------|
| Within the technology committee  | 13%    | 30%        | 25%         | 37%     | 28%   |
| Within the risk committee        | 60%    | 26%        | 23%         | 15%     | 26%   |
| At the board level               | 13%    | 17%        | 30%         | 15%     | 19%   |
| Within the audit committee       | 13%    | 16%        | 10%         | 18%     | 15%   |
| Within a cybersecurity committee | -      | 5%         | 10%         | 15%     | 7%    |
| Other                            | -      | 7%         | 3%          | -       | 4%    |

# 15. Does the committee tasked with cybersecurity governance review cybersecurity at every committee meeting?

Numbers don't add up to 100% due to rounding. Question only asked of respondents who indicate their board governs cybersecurity within a risk, audit, technology or cybersecurity committee. Chief credit officers and CLOs were not asked this question.

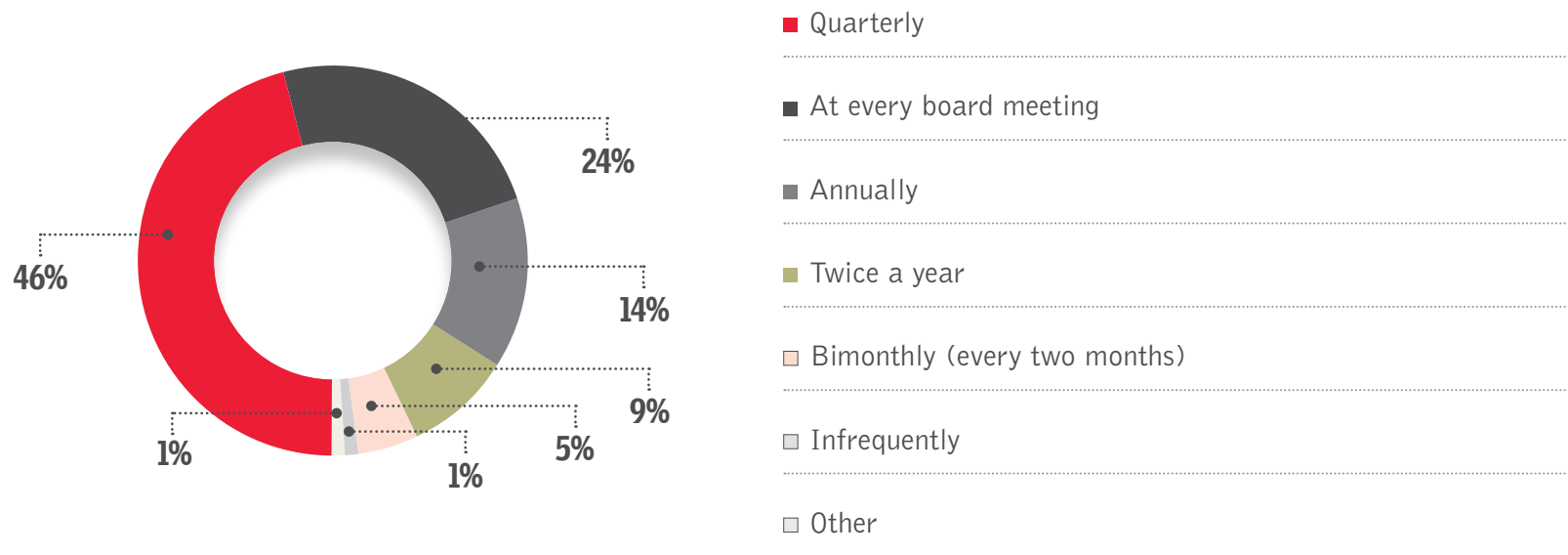


| Bank Asset Size | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|-----------------|--------|------------|-------------|---------|-------|
| Yes             | 69%    | 69%        | 85%         | 75%     | 73%   |
| No              | 31%    | 27%        | 12%         | 18%     | 22%   |
| Unsure          | -      | 5%         | 4%          | 7%      | 4%    |



## 16. How frequently does the board as a whole review cybersecurity?

Chief credit officers and CLOs were not asked this question.



| Bank Asset Size              | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|------------------------------|--------|------------|-------------|---------|-------|
| Quarterly                    | 27%    | 46%        | 50%         | 52%     | 46%   |
| At every board meeting       | 27%    | 23%        | 25%         | 27%     | 24%   |
| Annually                     | 13%    | 16%        | 10%         | 12%     | 14%   |
| Twice a year                 | 33%    | 10%        | 5%          | -       | 9%    |
| Bimonthly (every two months) | -      | 5%         | 5%          | 6%      | 5%    |
| Infrequently                 | -      | -          | 3%          | 3%      | 1%    |
| Other                        | -      | 1%         | 3%          | -       | 1%    |

# 17. Are any of the following activities part of the board’s oversight of the bank’s cybersecurity risk management program – either as the full board or through a committee?

Respondents were asked to select all that apply. Chief credit officers and CLOs were not asked this question.

- 78%** Ensures management continually works to improve the cybersecurity program

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- 74%** Participates in board-level training to understand the cyber risks facing the bank

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- 63%** Understands and is apprised of deficiencies in the bank’s cybersecurity risk program

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- 63%** Reviews current and needed resources and tools as part of the budget process

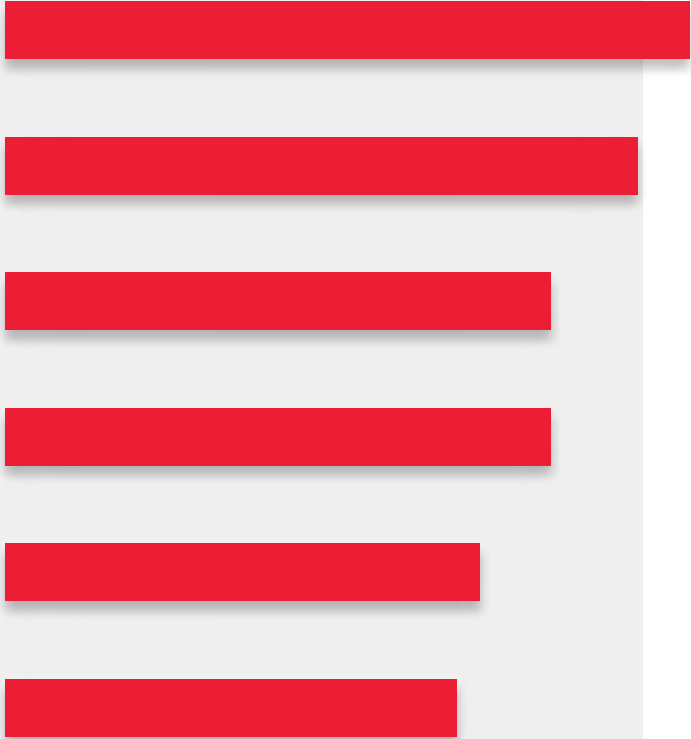
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- 55%** Incorporates cyber threat analysis as part of the enterprise risk management function

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- 52%** Understands the impact a cyber incident would have on the bank’s financial position

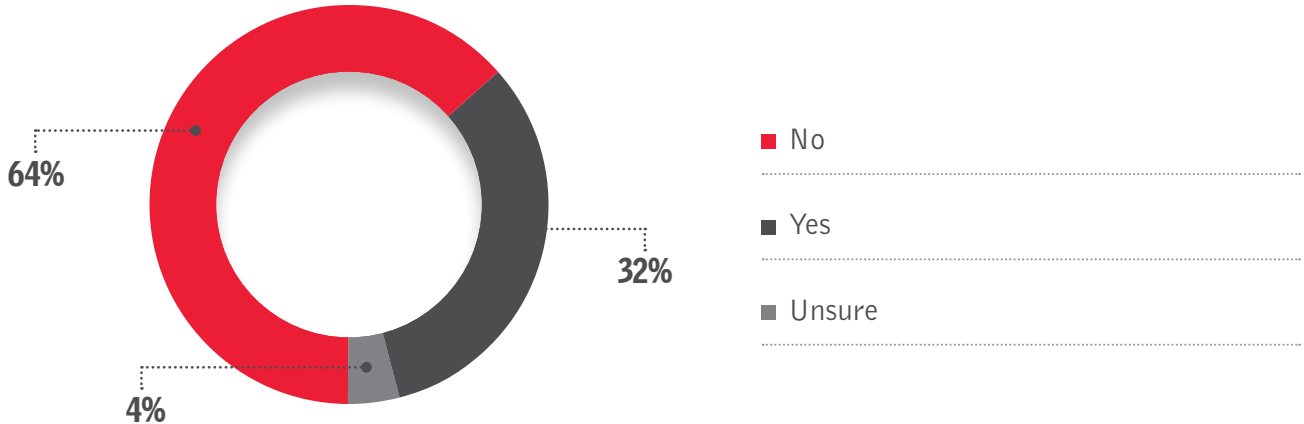
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| Bank Asset Size   | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|---|--------|------------|-------------|---------|-------|
| Ensures management continually works to improve the cybersecurity program                         | 80%    | 88%        | 68%         | 67%     | 78%   |
| Participates in board-level training to understand the cyber risks facing the bank                | 67%    | 80%        | 65%         | 73%     | 74%   |
| Understands and is apprised of deficiencies in the bank's cybersecurity risk program              | 67%    | 65%        | 65%         | 55%     | 63%   |
| Reviews current and needed resources and tools as part of the budget process                      | 40%    | 66%        | 68%         | 58%     | 63%   |
| Incorporates cyber threat analysis as part of the enterprise risk management function             | 87%    | 57%        | 53%         | 40%     | 55%   |
| Understands the impact a cyber incident would have on the bank's financial position               | 40%    | 57%        | 53%         | 43%     | 52%   |
| Considers short and long-term perspectives when developing its cybersecurity strategy             | 53%    | 48%        | 45%         | 33%     | 45%   |
| Reviews/approves a cyber risk appetite statement (as part of the overall risk appetite statement) | 53%    | 48%        | 35%         | 33%     | 43%   |
| Reviews detailed metrics or scorecards that outline cyber incidents                               | 47%    | 28%        | 25%         | 24%     | 28%   |
| Holds business units accountable for managing related cyber risks                                 | 27%    | 34%        | 18%         | 21%     | 27%   |
| Considers the impact of the bank's cyber risks to other critical entities                         | 27%    | 27%        | 23%         | 30%     | 27%   |
| Uses data and relevant metrics to facilitate strategic decisions and monitor cyber risk           | 40%    | 31%        | 20%         | 21%     | 27%   |
| Benchmarks cybersecurity staffing against peer institutions                                       | 40%    | 9%         | 5%          | 3%      | 10%   |
| None of the above   | 7%     | 1%         | 3%          | -       | 2%    |

# 18. Does your board have at least one member who you would consider to be an expert on cybersecurity?

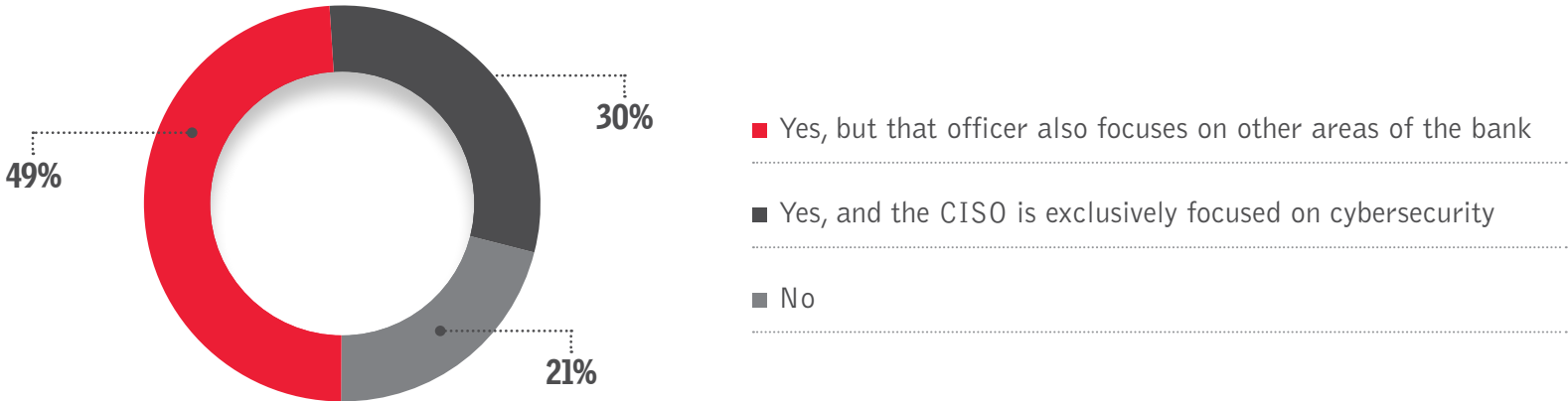
Chief credit officers and CLOs were not asked this question.



| Bank Asset Size | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|-----------------|--------|------------|-------------|---------|-------|
| No              | 43%    | 64%        | 63%         | 75%     | 64%   |
| Yes             | 29%    | 36%        | 35%         | 22%     | 32%   |
| Unsure          | 29%    | -          | 3%          | 3%      | 4%    |

# 19. Does your bank employ a full-time chief information security officer (CISO)?

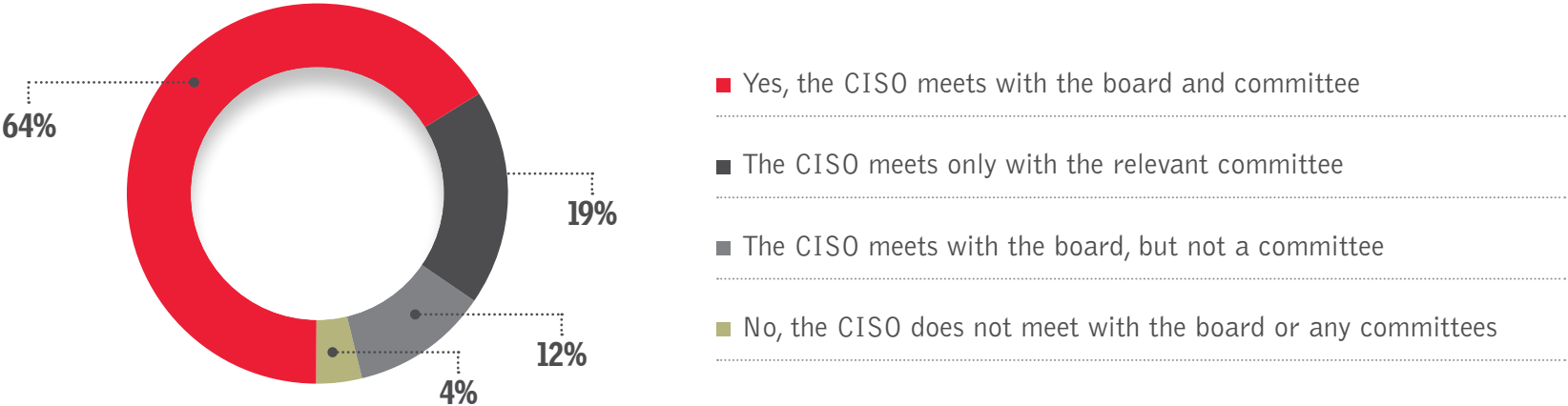
Chief credit officers and CLOs were not asked this question.



| Bank Asset Size   | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|---|--------|------------|-------------|---------|-------|
| Yes, but that officer also focuses on other areas of the bank | 29%    | 49%        | 53%         | 53%     | 49%   |
| Yes, and the CISO is exclusively focused on cybersecurity     | 71%    | 38%        | 15%         | 9%      | 30%   |
| No  | -      | 13%        | 33%         | 38%     | 21%   |

## 20. Does your bank’s CISO meet regularly with the board and/or the committee that governs cybersecurity?

Numbers don’t add up to 100% due to rounding. Question only asked of respondents who indicated that the bank employs a CISO. Chief credit officers and CLOs were not asked this question.



| Bank Asset Size   | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|---|--------|------------|-------------|---------|-------|
| Yes, the CISO meets with the board and committee            | 64%    | 62%        | 67%         | 70%     | 64%   |
| The CISO meets only with the relevant committee             | 21%    | 21%        | 15%         | 20%     | 19%   |
| The CISO meets with the board, but not a committee          | -      | 14%        | 19%         | 5%      | 12%   |
| No, the CISO does not meet with the board or any committees | 14%    | 4%         | -           | 5%      | 4%    |

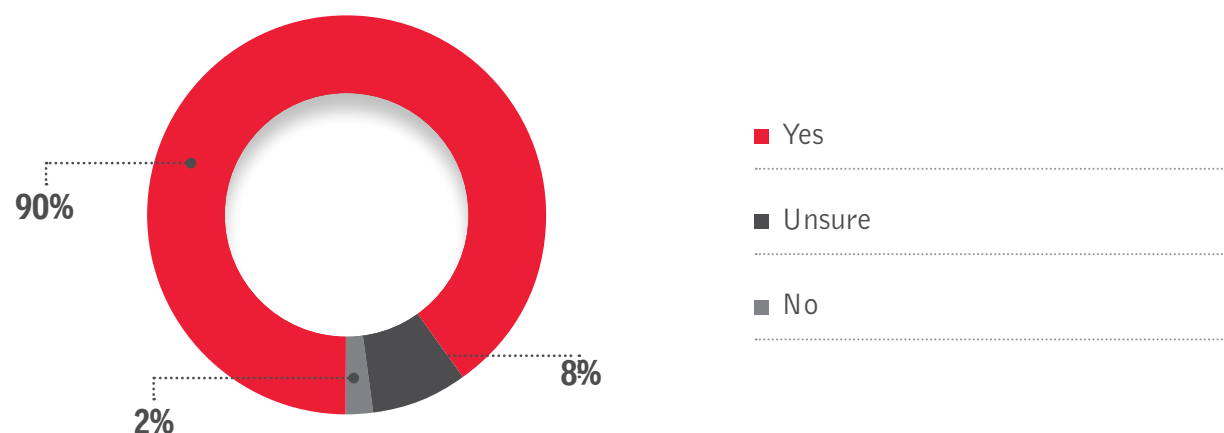
## 21. How much has your bank budgeted for cybersecurity expenses, including personnel and technology, for fiscal year 2020?

Median values reported. Chief credit officers and CLOs were not asked this question. \*Indicates a count of less than 10 within a category.

| Bank Asset Size | >\$10B*     | \$1B-\$10B | \$500M-\$1B | <\$500M  | Total     |
|-----------------|-------------|------------|-------------|----------|-----------|
| Median          | \$1,000,000 | \$250,000  | \$125,000   | \$50,000 | \$200,000 |

## 22. Does your bank have a cyber insurance policy?

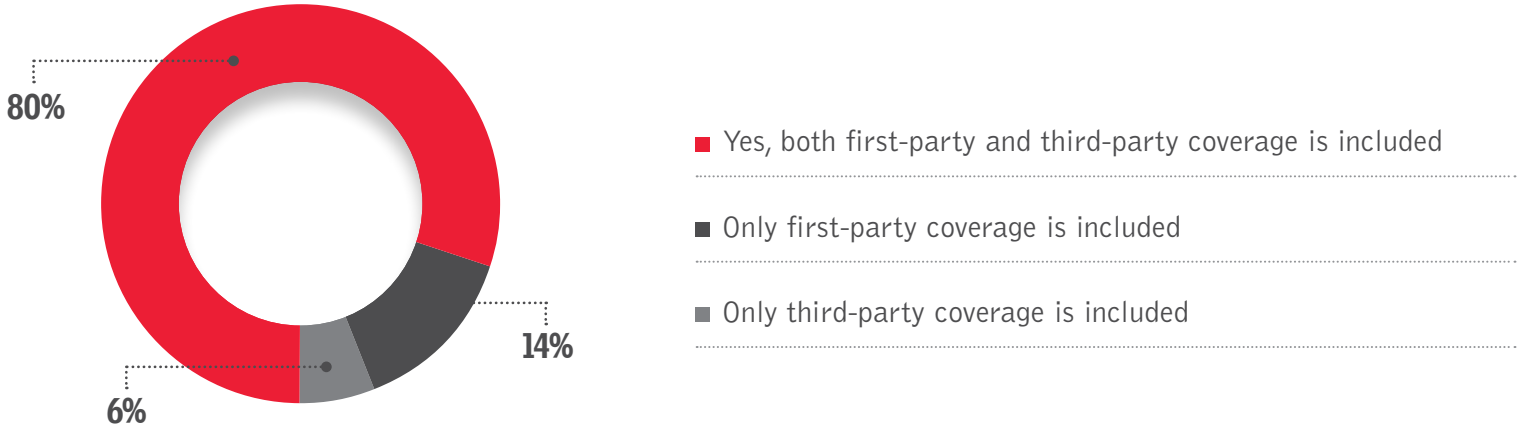
Chief credit officers and CLOs were not asked this question.



| Bank Asset Size | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|-----------------|--------|------------|-------------|---------|-------|
| Yes             | 93%    | 89%        | 90%         | 91%     | 90%   |
| Unsure          | 7%     | 8%         | 8%          | 6%      | 8%    |
| No              | -      | 2%         | 3%          | 3%      | 2%    |

### 23. Does the cyber insurance policy offer first-party coverage (covering costs to the bank like customer notification, event management, business interruption and cyber extortion) and/or third-party coverage (claims made by the bank’s customers, partners or vendors due to a cyber incident)?

Questions only asked of respondents who indicate the bank has a cyber insurance policy. Chief credit officers and CLOs were not asked this question.

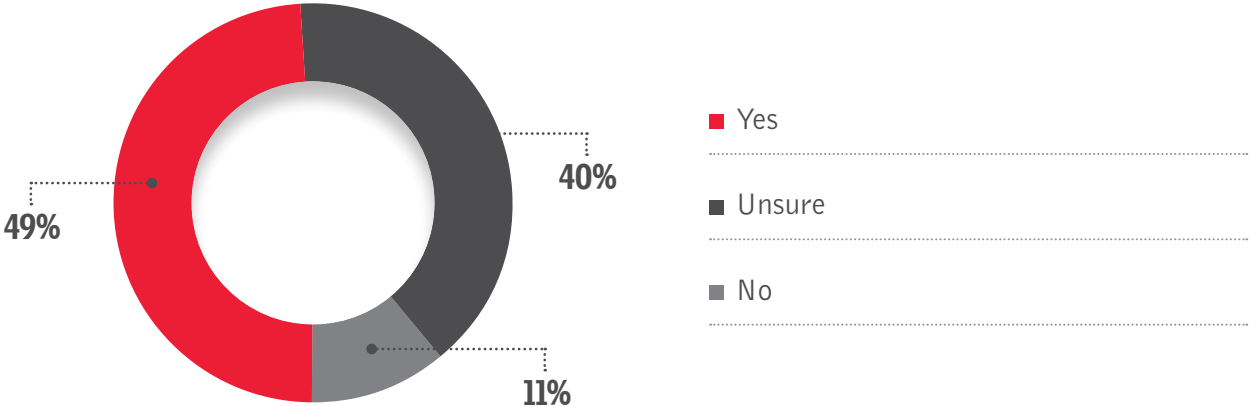


| Bank Asset Size  | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|--|--------|------------|-------------|---------|-------|
| Yes, both first-party and third-party coverage is included | 82%    | 82%        | 77%         | 79%     | 80%   |
| Only first-party coverage is included                      | 18%    | 13%        | 12%         | 17%     | 14%   |
| Only third-party coverage is included                      | -      | 4%         | 12%         | 3%      | 6%    |



## 24. Does the institution’s cyber insurance policy offer a concierge service and breach support as part of the policy?

Questions only asked of respondents who indicate the bank has a cyber insurance policy. Chief credit officers and CLOs were not asked this question.



| Bank Asset Size | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|-----------------|--------|------------|-------------|---------|-------|
| Yes             | 39%    | 47%        | 53%         | 55%     | 49%   |
| Unsure          | 62%    | 40%        | 35%         | 35%     | 40%   |
| No              | -      | 14%        | 12%         | 10%     | 11%   |

# COMPLIANCE

## 25. How much has your bank budgeted for compliance, including personnel and technology, for FY 2020?

Median values reported. Chief credit officers, CLOs and CISOs were not asked this question. \*Indicates a count of less than 10 within a category.

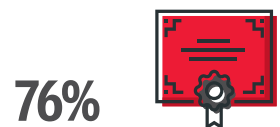
**\$300,000**

**Median amount budgeted for compliance**

| Bank Asset Size | >\$10B*     | \$1B-\$10B | \$500M-\$1B | <\$500M   | Total     |
|-----------------|-------------|------------|-------------|-----------|-----------|
| Median          | \$2,000,000 | \$425,000  | \$312,500   | \$135,000 | \$300,000 |

## 26. In which of the following areas do you see room for technology to further improve your bank's compliance function?

Respondents were asked to select all that apply. Chief credit officers, CLOs and CISOs were not asked this question.



Bank Secrecy Act (BSA)/  
Anti-money laundering (AML)



Vendor management



Know Your Customer (KYC)

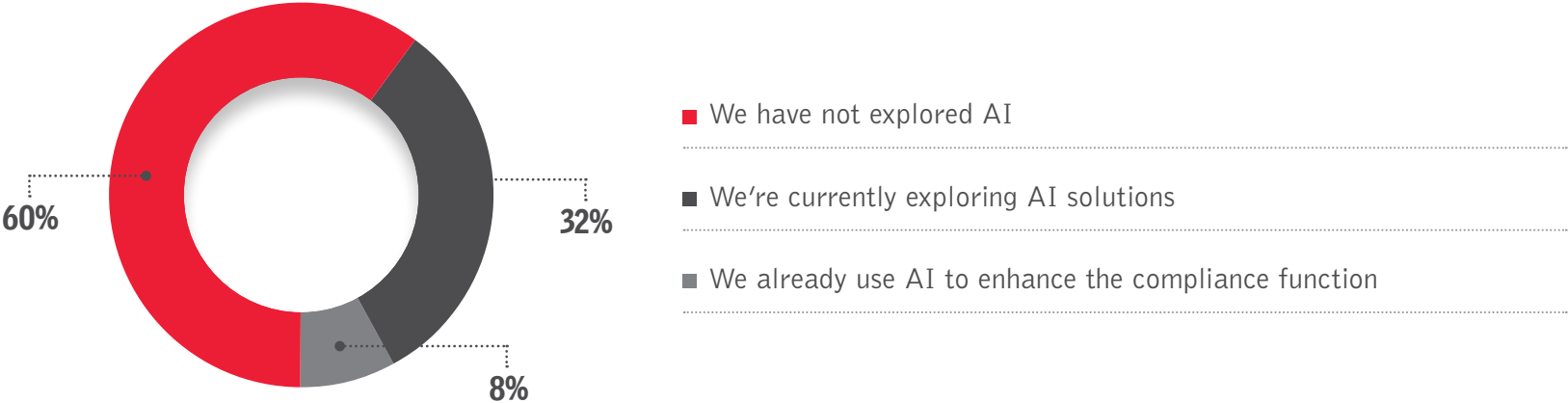


Consumer compliance

| Bank Asset Size                                    | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|--|--------|------------|-------------|---------|-------|
| Bank Secrecy Act (BSA)/Anti-money laundering (AML) | 85%    | 77%        | 78%         | 69%     | 76%   |
| Vendor management                                  | 77%    | 77%        | 70%         | 62%     | 73%   |
| Know Your Customer (KYC)                           | 92%    | 54%        | 38%         | 38%     | 50%   |
| Consumer compliance                                | 46%    | 51%        | 41%         | 45%     | 47%   |
| Community Reinvestment Act (CRA)                   | 46%    | 47%        | 32%         | 31%     | 41%   |
| Other  | -      | 1%         | -           | -       | 1%    |

# 27. Is your bank’s board and management team exploring the use of artificial intelligence (AI) technology to improve the compliance function?

Chief credit officers, CLOs and CISOs were not asked this question.



| Bank Asset Size                                      | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|--|--------|------------|-------------|---------|-------|
| We have not explored AI                              | 23%    | 57%        | 64%         | 80%     | 60%   |
| We’re currently exploring AI solutions               | 62%    | 33%        | 28%         | 20%     | 32%   |
| We already use AI to enhance the compliance function | 15%    | 10%        | 8%          | -       | 8%    |

# 28. What are the biggest barriers to enhancing your bank’s use of technology to improve the compliance function?

Respondents were asked to select all that apply. Chief credit officers, CLOs and CISOs were not asked this question.

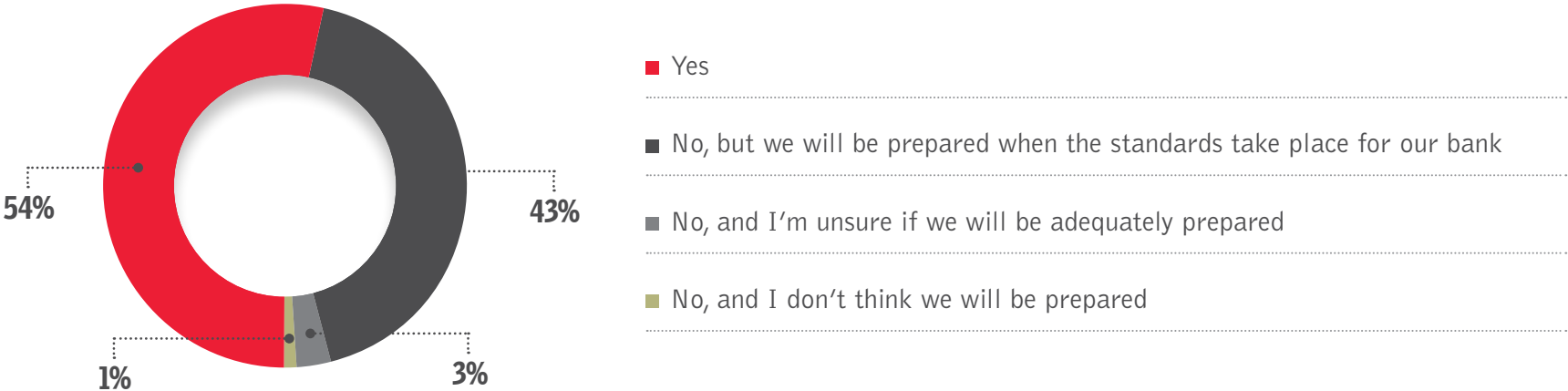


| Bank Asset Size                               | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|---|--------|------------|-------------|---------|-------|
| Unable to identify the right solution(s)      | 36%    | 41%        | 47%         | 52%     | 44%   |
| Lack of viable solution(s) in the marketplace | 55%    | 37%        | 38%         | 19%     | 35%   |
| Difficult to vet vendors                      | 36%    | 18%        | 18%         | 26%     | 21%   |
| Other   | 18%    | 16%        | 27%         | 19%     | 19%   |
| Hesitation on the part of bank leadership     | -      | 11%        | 6%          | 15%     | 10%   |

# EMERGING RISKS

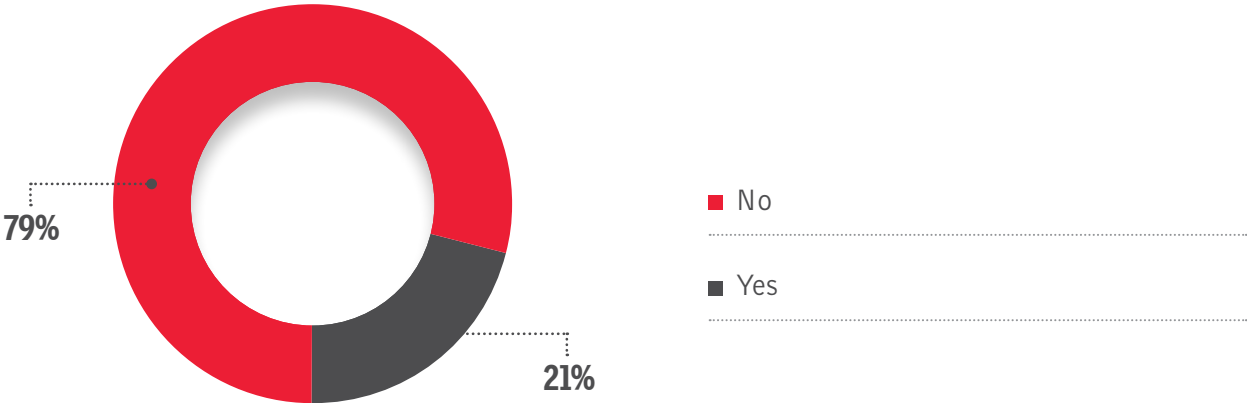
## 29. Is your bank prepared to comply with the current expected credit loss (CECL) standards?

Numbers don't add up to 100% due to rounding. CIOs and CISOs were not asked this question.



| Bank Asset Size  | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|--|--------|------------|-------------|---------|-------|
| Yes  | 93%    | 59%        | 42%         | 37%     | 54%   |
| No, but we will be prepared when the standards take place for our bank | 7%     | 39%        | 56%         | 54%     | 43%   |
| No, and I'm unsure if we will be adequately prepared                   | -      | 1%         | 2%          | 9%      | 3%    |
| No, and I don't think we will be prepared                              | -      | 1%         | -           | -       | 1%    |

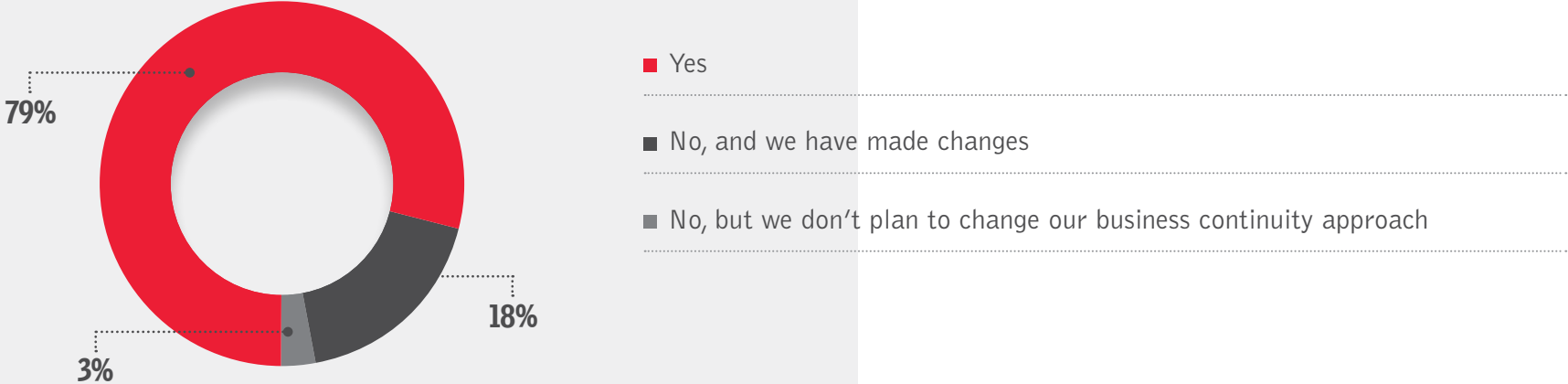
**30. Has a natural disaster, such as a hurricane, tornado, flood or fire, impacted part of your bank’s geographic footprint within the past two years?**



| Bank Asset Size | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|-----------------|--------|------------|-------------|---------|-------|
| No              | 64%    | 76%        | 89%         | 80%     | 79%   |
| Yes             | 36%    | 25%        | 11%         | 20%     | 21%   |

### 31. Based on that experience, were you satisfied with all aspects of your bank’s business continuity plan?

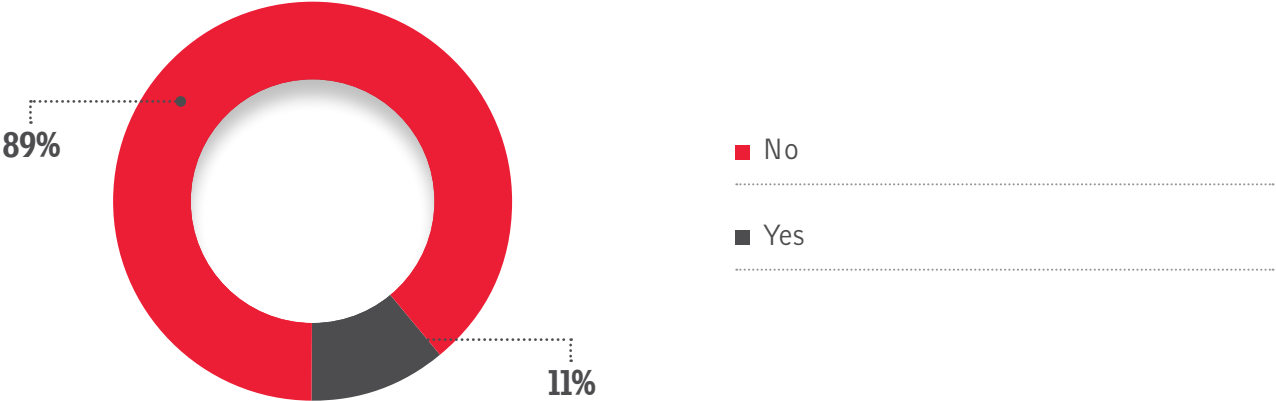
*Question was only asked of respondents who indicated that a natural disaster has impacted their bank’s geographic footprint.*





### 32. At least annually, does the board discuss climate change as part of its analysis and understanding of the risks facing the institution?

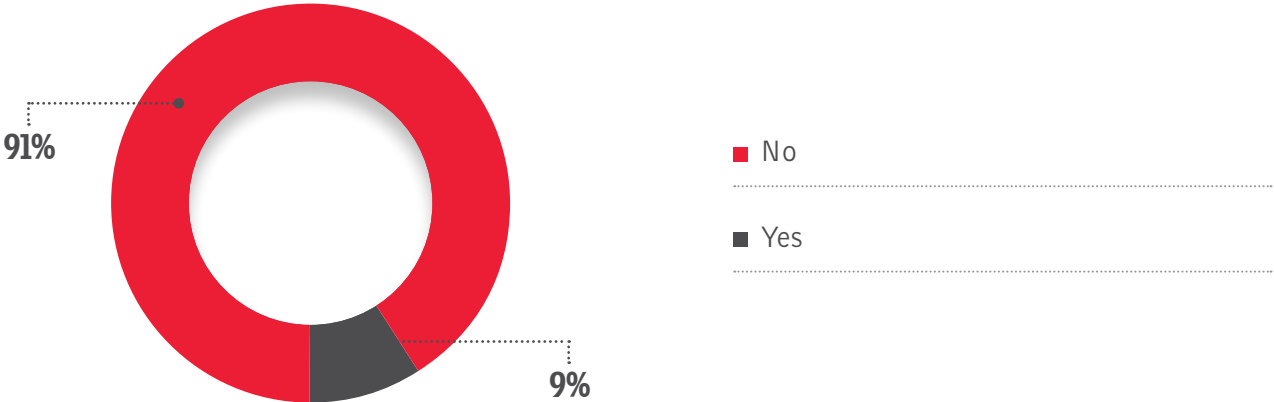
Chief credit officers, CLOs, CIOs and CISOs were not asked this question.



| Bank Asset Size | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|-----------------|--------|------------|-------------|---------|-------|
| No              | 85%    | 86%        | 90%         | 97%     | 89%   |
| Yes             | 15%    | 14%        | 11%         | 3%      | 11%   |

### 33. Does an executive report to the board at least annually about the risks and opportunities that climate change presents to the institution?

Chief credit officers, CLOs, CIOs and CISOs were not asked this question.

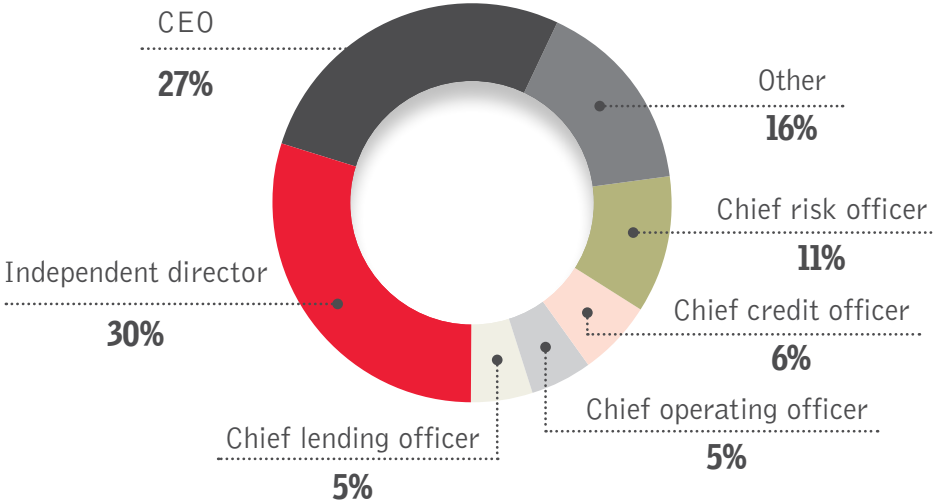


| Bank Asset Size | >\$10B | \$1B-\$10B | \$500M-\$1B | <\$500M | Total |
|-----------------|--------|------------|-------------|---------|-------|
| No              | 85%    | 93%        | 92%         | 90%     | 91%   |
| Yes             | 15%    | 7%         | 8%          | 10%     | 9%    |

# ABOUT THE SURVEY

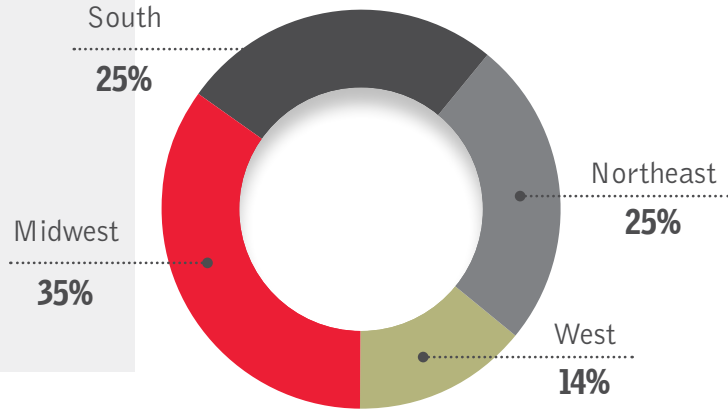
Bank Director’s 2020 Risk Survey, sponsored by Moss Adams, surveyed 217 independent directors, chief executive officers, chief risk officers and other senior executives of U.S. banks less than \$50 billion in assets. The survey was conducted January 2020 and focused on the top risks facing financial institutions today. More than one-quarter serve as CEO, and 34% as an independent director or chair. More than half represent a bank over \$1 billion in assets.

## TITLE



## REGION

Numbers don't add up to 100% due to rounding.



## ASSET SIZE

Numbers don't add up to 100% due to rounding.

