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March 2024
Research

2024 Risk Survey

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About Moss Adams LLP

At Moss Adams, we believe in the power of possible. A business and personal advisory firm with more than 100 years of experience and 4,750 professionals across 30+ markets, including over 450 financial institutions, we work with clients to rise above challenges and seize emerging opportunities. Discover how we can help you go where you want to be next. Upward. For more information visit **www.mossadams.com/fs**.

EXECUTIVE SUMMARY

A deluge of new and updated regulations, along with enhanced pressures from bank supervisors, has more bank directors and executives worried about regulatory compliance.

Bank Director's 2024 Risk Survey, sponsored by Moss Adams LLP, finds rising concerns around regulatory and compliance risk, as well as unease about specific areas, like the Community Reinvestment Act and scrutiny on fee income.

More than three-quarters of the executives and directors who took part in the survey say they are more concerned about regulatory risk, compared with 66% who said as much last year. Additionally, 39% cite evolving regulatory compliance requirements as a strategic challenge, up from 28% last year.

Banks continued to scale back their reliance on fee income as the Consumer Financial Protection Bureau and the White House have indicated an intent to crack down on fees, particularly overdraft fees. Forty percent of respondents say they've adjusted their bank's fee structure in anticipation of regulatory pressure, up from 32% who said as much a year ago. Another 10% have adjusted fees in response to direct regulatory pressure.

Craig Sanders, a partner with Moss Adams, believes many banks are changing their fee structures voluntarily, also due to competitive pressures from big banks like Citigroup, which eliminated overdraft fees, and neobanks like Chime. "That will have a cascading effect," he says.

In October, the three federal banking regulators issued long-awaited updates to the 1977 Community Reinvestment Act. Intended to better reflect the rise of digital financial services, the rule outlines new types of assessment areas based on lending done inside and outside a bank's physical branch footprint.

Nearly half of bank leaders surveyed say they believe the changes will make compliance with the CRA slightly harder for their bank. Eleven percent say that compliance will be significantly harder, while 35% believe the changes will have no effect.

A majority of respondents (65%) say their bank has undergone a regulatory exam since the March 2023 failure of Silicon Valley Bank. They report that examiners paid particular attention to liquidity planning and strategy (77%) in their most recent exam, followed by interest rate sensitivity (50%) and capital planning and strategy (46%).

But while most executives and directors express heightened concerns about the evolving regulatory climate, almost two-thirds name deposit pricing as their bank's top strategic challenge. Deposit costs climbed in 2023, according to an analysis by S&P Global Market Intelligence, as more customers migrated to interest-bearing and higher rate deposit accounts.

Laura Alix is the director of research for Bank Director, an information resource for directors and officers of financial companies. You can connect with her on LinkedIn.

KEY FINDINGS

Margin Pressures Soar

The percentage of bank leaders reporting a tighter net interest margin jumped to 78% from 26% last year, while 14% say NIM has improved as a result of rising interest rates.

Deposit Retention

More than half (59%) of respondents say they have experienced some deposit loss, with minimal to moderate effects to the bank's funding base, as a result of rising interest rates. Another 9% have experienced significant impacts on their funding base.

Liquidity Management Challenges

The percentage of respondents who report higher concerns around liquidity risk increased to 76%, from 71% last year. When asked about liquidity management strategies, 59% say their bank would borrow funds from a Federal Home Loan Bank this year, while 49% would raise interest rates offered on deposits.

Stress Test Results

A majority (78%) say their bank conducts an annual stress test. Fifty-eight percent say they've adjusted their liquidity plan based on the results of that stress test, and 52% are keeping a close eye on loans set to renew in the next six to 12 months.

Vendor Risk Oversight

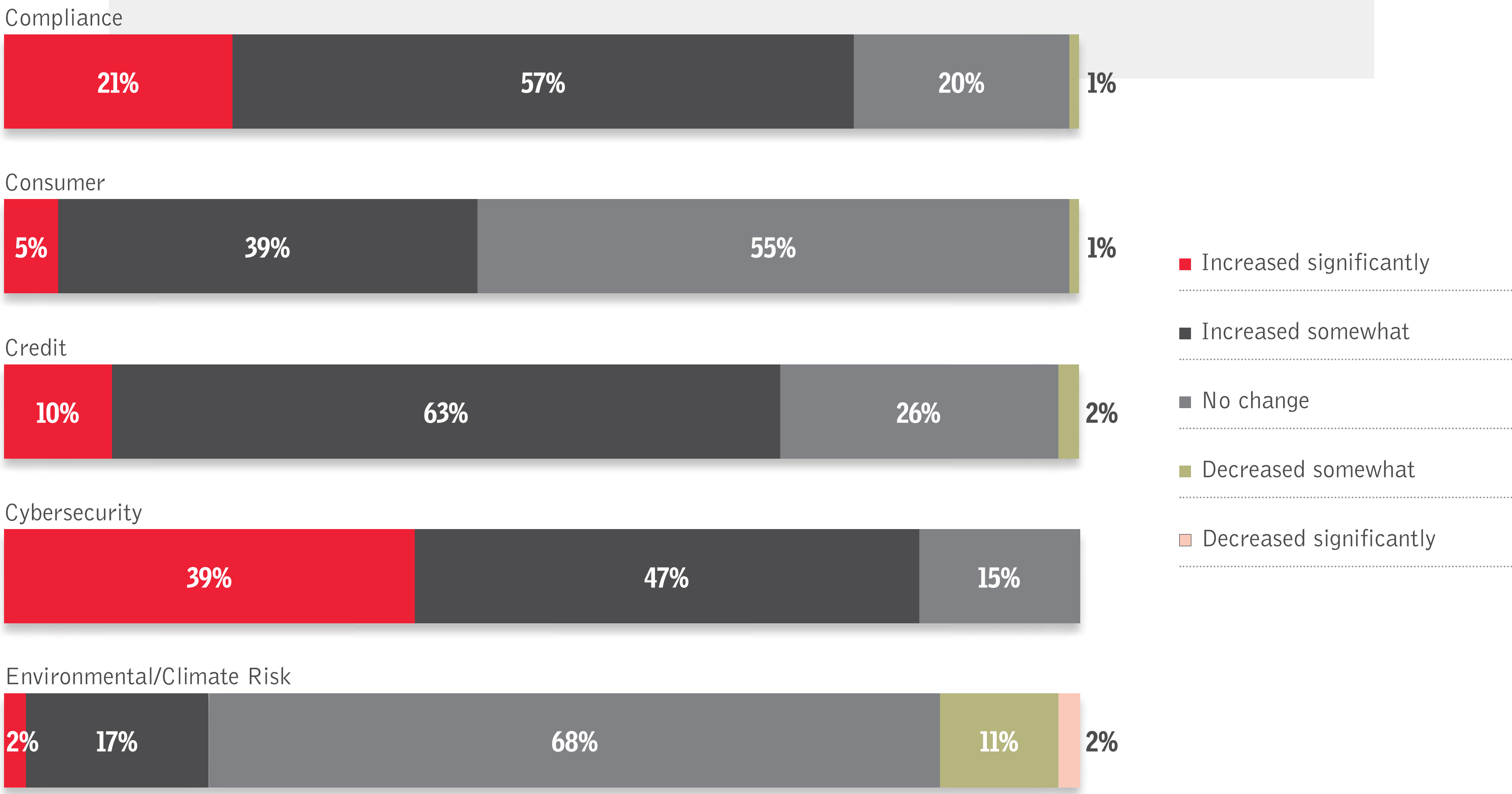
Ninety-five percent of respondents say they assess the cybersecurity practices of the bank's third-party vendors, while just 40% assess cybersecurity practices for fourth-party vendors. Just 12% say they have faced greater scrutiny by regulators around this issue.

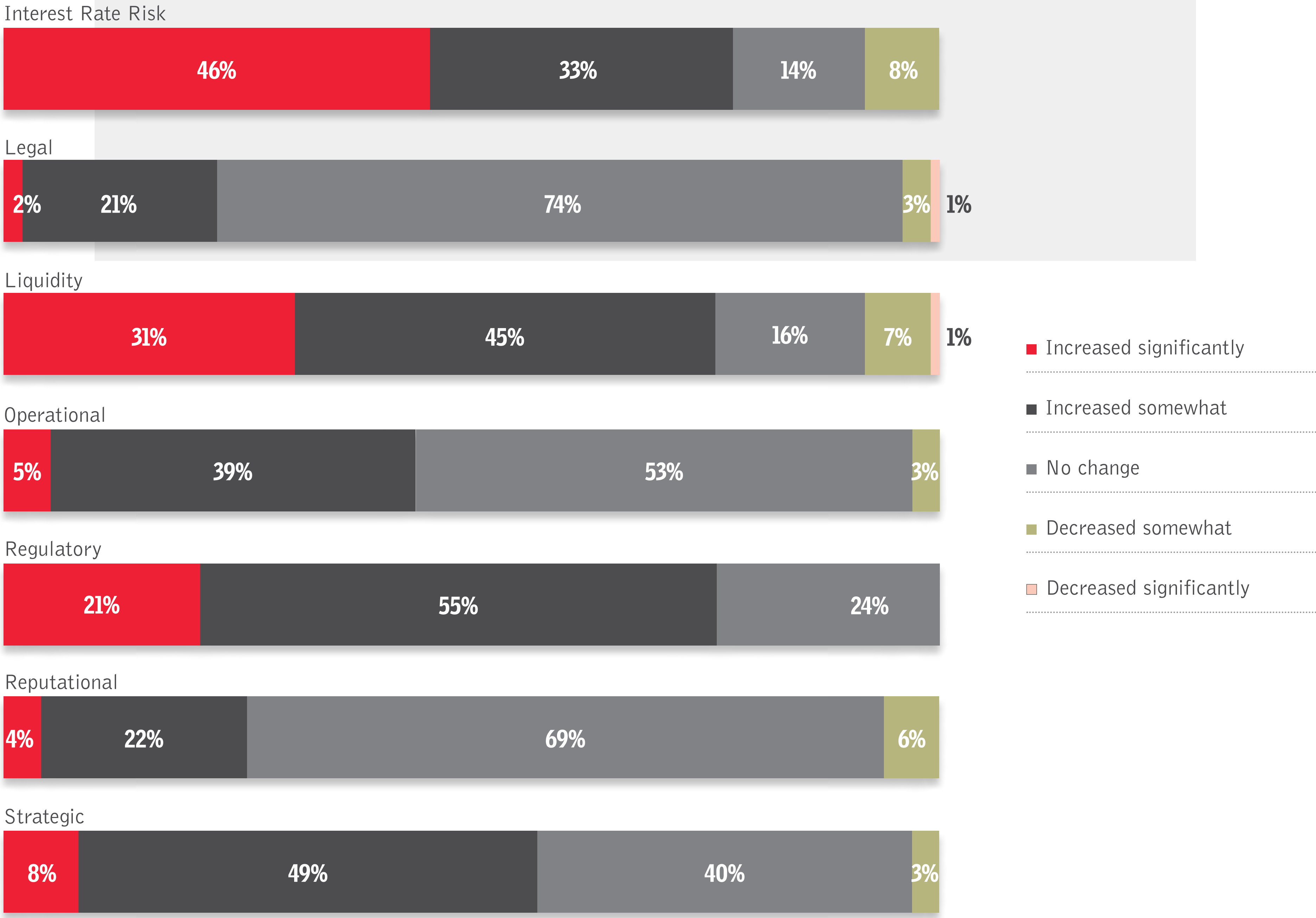
AI & Fraud

Ninety percent of bank leaders would be open to using artificial intelligence technologies for fraud prevention and alerts, and 81% would use AI for cyberattack prevention and detection.

RISK HEATMAP

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




Interest Rate Risk
46%
33%
14%
8%
Legal
2%
21%
74%
3%
1%
Liquidity
31%
45%
16%
7%
1%
Operational
5%
39%
53%
3%
Regulatory
21%
55%
24%
Reputational
4%
22%
69%
6%
Strategic
8%
49%
40%
3%
Increased significantly
Increased somewhat
No change
Decreased somewhat
Decreased significantly

KEY CHALLENGES

2. What do you see as the three most significant strategic challenges for your organization over the next 18 months?

Respondents were asked to select no more than three options.

64%
Deposit pricing

40%
Attracting and/or retaining talent

39%
Evolving regulatory or compliance requirements

32%
Liquidity management

21%
Generating revenue

20%
Slowing credit demand

17%
CEO and/or senior management succession

16%
Attracting customers under the age of 40

14%
Inability to keep pace with technological advances in banking

9%
Differentiating our brand in the marketplace

9%
Augmenting staff with technology/automation

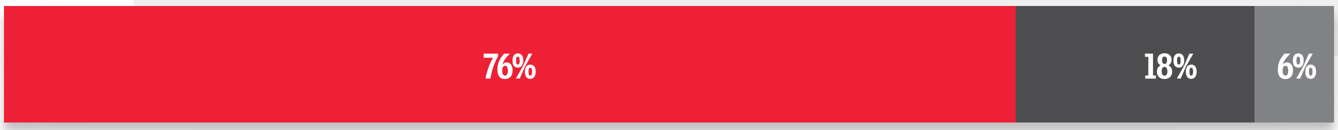
9%
Declining asset quality

6%
Raising capital

3. How would you characterize the impact of inflation and/or economic uncertainty on your bank's business customers?

Question not asked of CISOs, CIOs or CTOs.

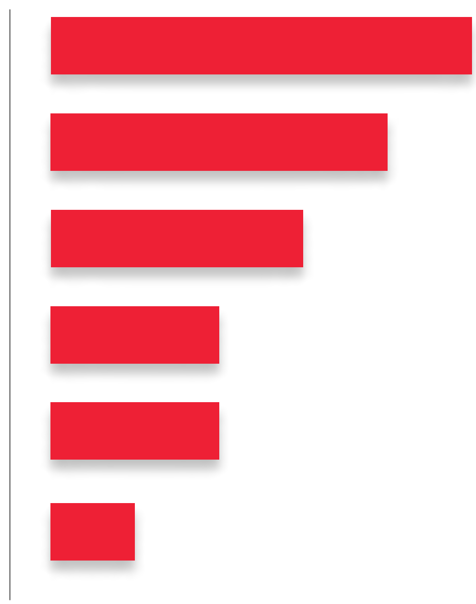
- Businesses remain stable, but some are pausing growth plans
- Businesses are generally strong and growing despite economic pressures
- Business clients are increasingly stressed



4. How has stress on business clients impacted your bank over the past year?

Respondents were asked to select all that apply. Question only asked of respondents who indicated that their business clients were more stressed by inflation and economic uncertainty. Question not asked of CISOs, CIOs or CTOs.

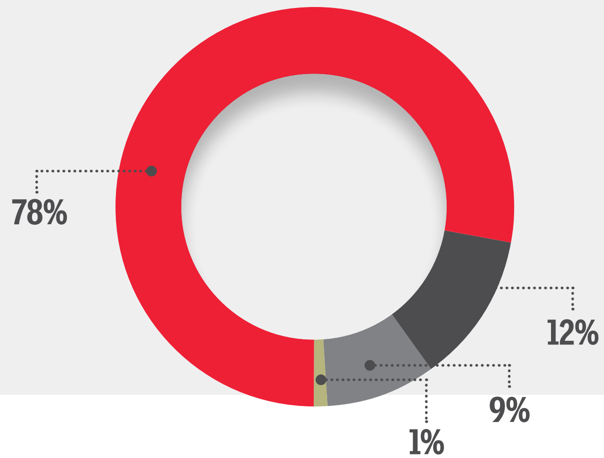
50%	We've seen lower demand for commercial and industrial loans
40%	We've had more loan workouts
30%	Other
20%	We've seen lower demand for construction loans
20%	Businesses are paying off loans sooner
10%	We've charged off higher levels of non-performing credits



LIQUIDITY & INTEREST RATES

5. Does your bank conduct an annual stress test?

Question not asked of CISOs, CIOs or CTOs.

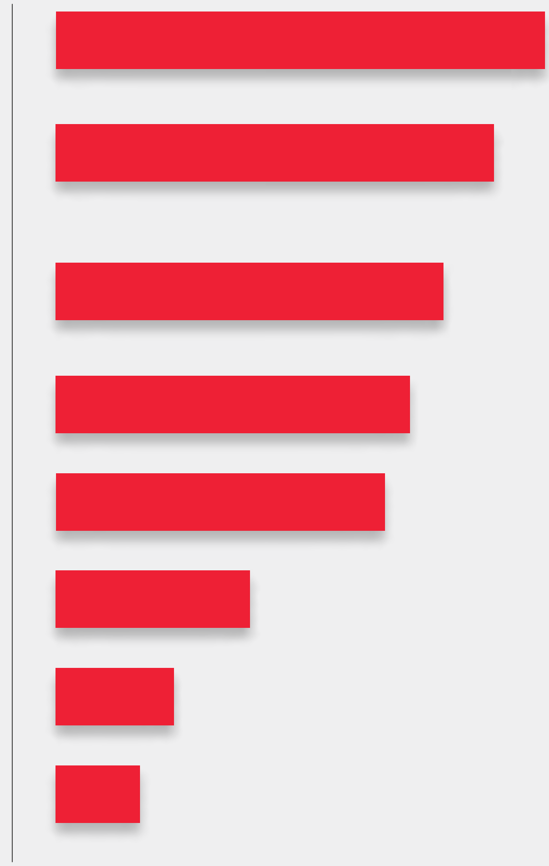


- Yes
- No
- We conduct a stress test, but it is infrequent
- Unsure

6. How has your bank used the results of that stress test over the past year?

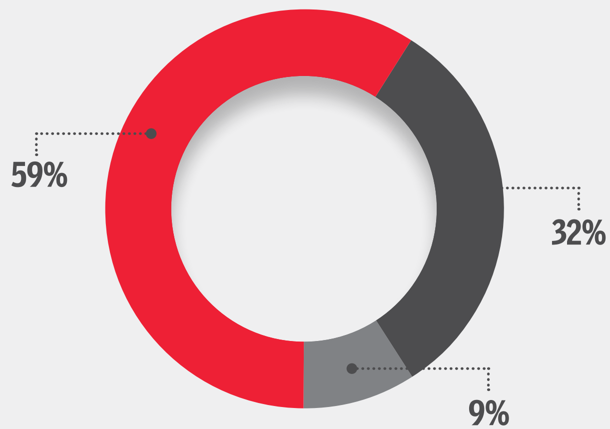
Question only asked of respondents who indicate their bank performs a stress test. Respondents were asked to select all that apply. Question not asked of CISOs, CIOs or CTOs.

58%	We've adjusted our liquidity plan and/or policy
52%	We're taking a careful look at loans set to renew in the next six to 12 months
46%	We're proactively managing certain commercial real estate credits
42%	We've adjusted our asset/liability management strategy
39%	We've adjusted our capital plan and/or policy
23%	We've rebalanced our securities portfolio
14%	We're planning for elevated credit losses in certain categories
10%	We're proactively managing certain agricultural credits



7. Considering the continued rise in interest rates in 2023, what has been the impact so far on deposit retention at your bank?

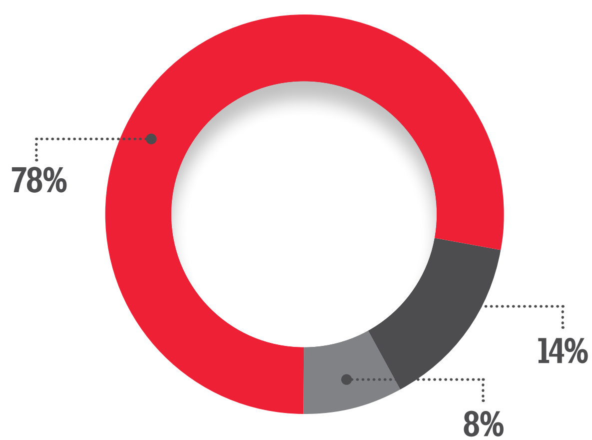
Question not asked of CISOs, CIOs or CTOs. Respondents were asked to select the statement that best aligns with your experience.



- We have experienced some deposit loss, with minimal to moderate impacts on our funding base
- We have experienced little to no deposit loss as a result of rising interest rates
- We have already experienced significant deposit loss that could affect our funding base

8. How did rising interest rates affect your bank's net interest margin by the end of 2023?

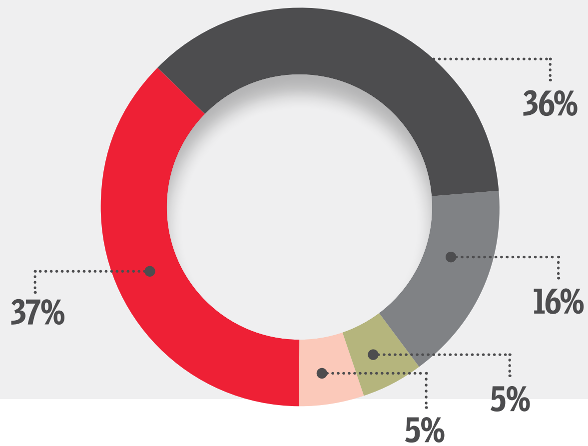
Question not asked of CISOs, CIOs or CTOs.



- NIM has contracted
- NIM has improved
- Rising interest rates had little impact on the bank's NIM

9. Based on interest rate increases in 2023 and projections by the Federal Open Markets Committee, how do you expect your bank's net interest margin to change in 2024?

Question not asked of CISOs, CIOs or CTOs. Numbers don't add up to 100% due to rounding.

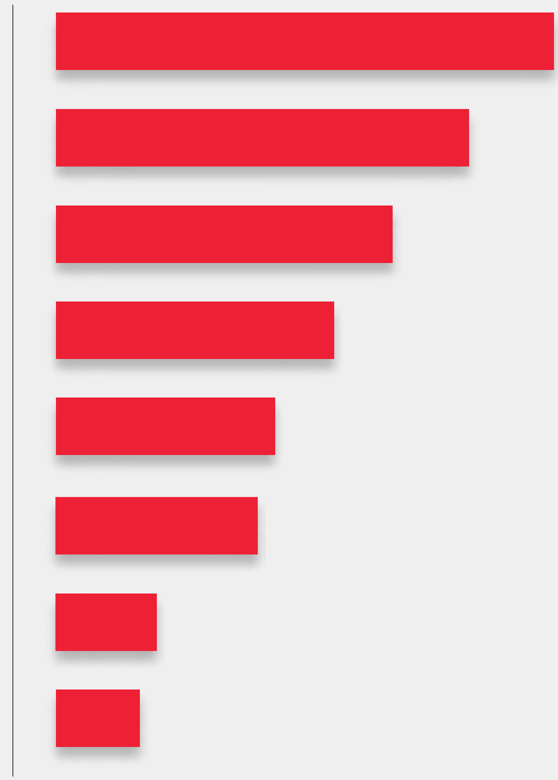


- Contract slightly (12-24 basis points)
- Improve slightly (12-24 basis points)
- We do not expect NIM to meaningfully change this year
- Contract significantly (over 24 basis points)
- Improve significantly (over 24 basis points)

10. What actions do you see your organization taking to manage liquidity in 2024?

Question not asked of CISOs, CTOs, CIOs. Respondents were asked to select all that apply.

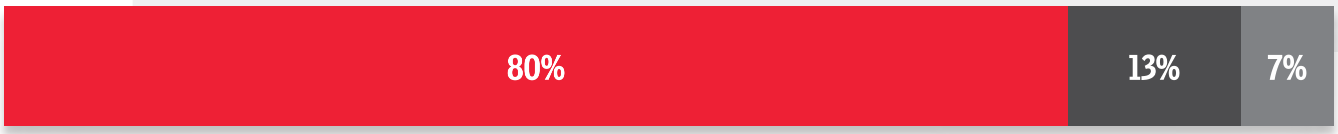
59%	Borrow funds from a Federal Home Loan Bank
49%	Raise interest rates offered on deposits
40%	Raise brokered deposits
33%	Tighten credit standards or slow lending
26%	Use participation loans
24%	Offer other incentives to depositors
12%	None of the above
10%	Securitize and sell loans



11. Did your bank engage in any hedging to offset the impact of higher interest rates in 2023?

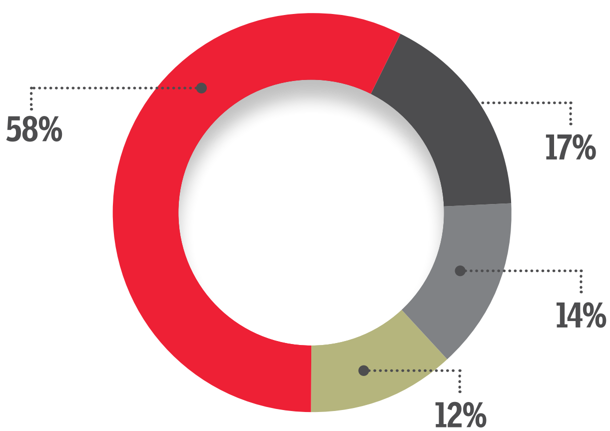
Question not asked of CISOs, CTOs or CIOs.

- No
- Yes, before the bank failures in March 2023
- Yes, in response to the March 2023 bank failures



12. Does your bank have a hedging strategy for 2024 that you believe is neutral to changes in interest rates?

Question not asked of CISOs, CTOs, CIOs. Numbers don't add up to 100% due to rounding.

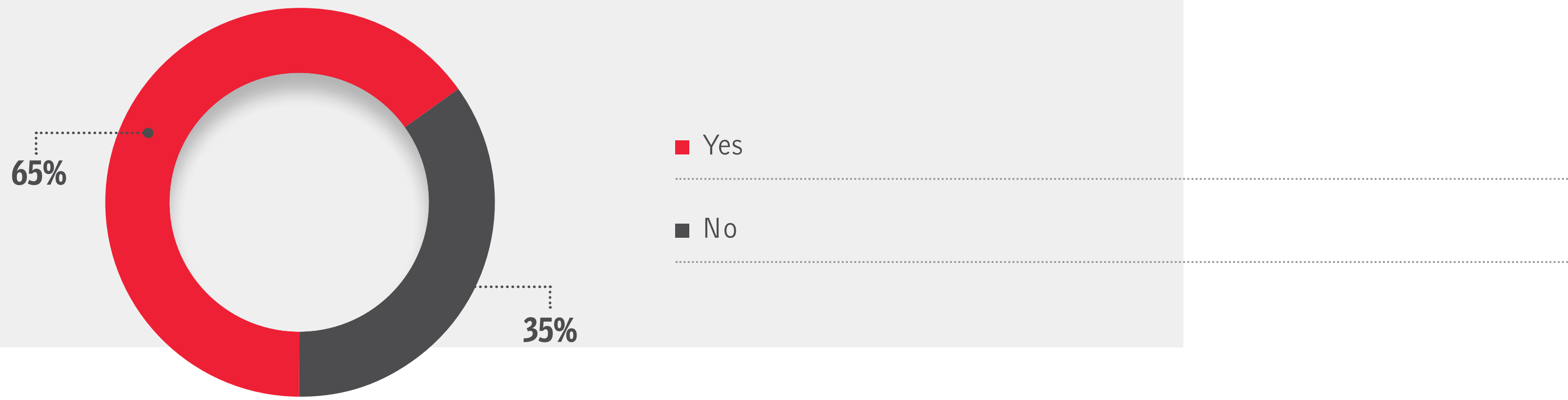


- No, we don't have a hedging strategy
- No, we have a hedging strategy but I don't believe it is rate-neutral
- Yes
- Not sure

REGULATORY PRESSURE

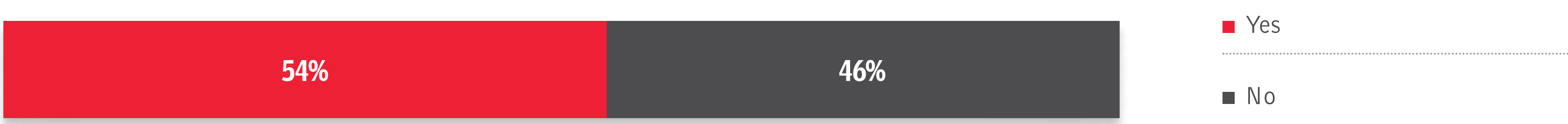
13. Has your bank undergone a regulatory exam since the March 2023 failure of Silicon Valley Bank?

Question only asked of CEOs, CFOs, chief risk officers, chief compliance officers, board chairs and independent directors.



14. Was your most recent exam more stringent than prior exams?

Question only asked of respondents who indicated their bank had undergone an exam since March 2023.



15. Where did you see heightened attention from your regulators on your last exam?

Question only asked of respondents who indicated their bank had undergone a regulatory exam since March 2023. Question only asked of CEOs, CFOs, chief risk officers, chief compliance officers, board chairs and independent directors. Respondents were asked to select all that apply.

77% Liquidity planning/strategy

50% Interest rate sensitivity

46% Capital planning/strategy

38% Asset/liability management

32% Market risk sensitivity

30% Cybersecurity

28% Asset quality

24% Management

20% Bank Secrecy Act/anti-money laundering regulations

19% Earnings

12% Vendor oversight of third and/or fourth parties

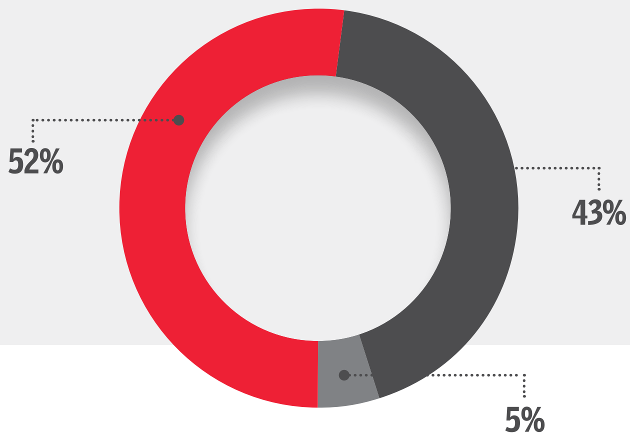
11% Overdraft or other consumer fees

7% Community Reinvestment Act compliance

7% Other

16. In its semiannual risk perspective issued in December 2023, the Office of the Comptroller of the Currency flagged the increased use of artificial intelligence as an emerging risk. Which of the following options best describes your bank's stance toward regulatory risk on this issue?

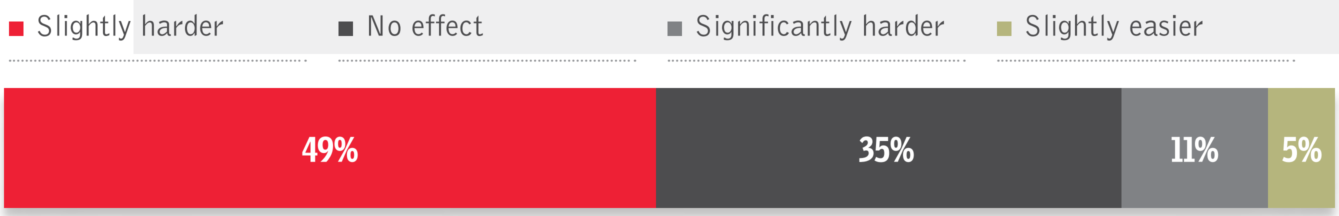
Question only asked of CEOs, CFOs, CISOs, CIOs, CTOs and chief risk officers.



- We have not discussed AI with our regulator and aren't currently concerned about regulatory clarity
- We are awaiting regulatory clarity before applying AI to significant functions within our bank
- We have discussed using AI in significant areas of our business with our primary regulator, and have no concerns about regulatory risk

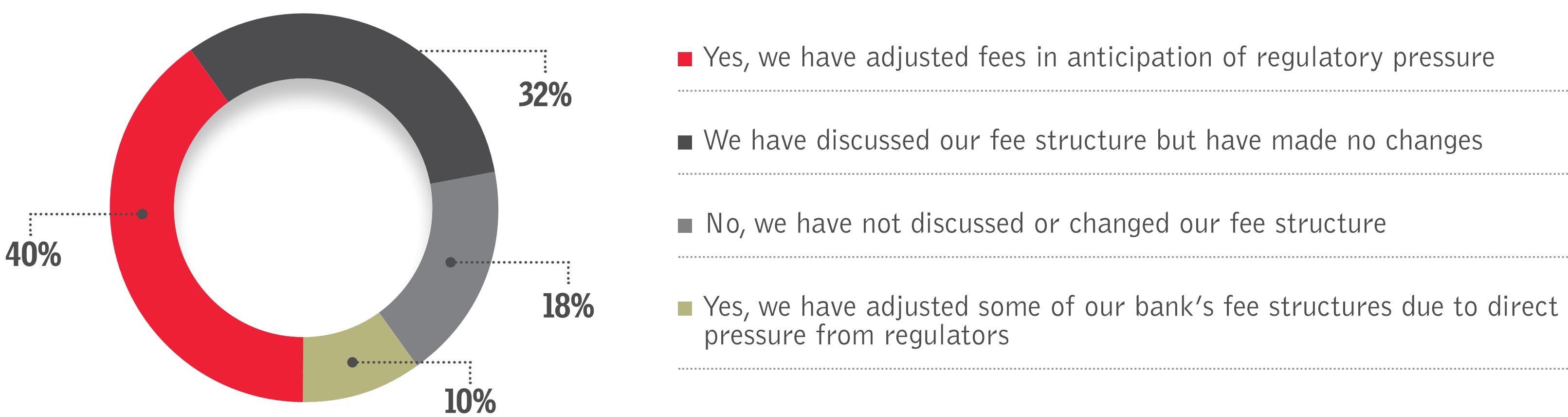
17. In October 2023, federal regulators released updates to the Community Reinvestment Act, including new assessment areas for banks that lend a certain amount outside of their branch networks. Do you believe that these updates will make it easier or harder for your institution to comply with the CRA?

Question only asked of CEOs, CFOs, chief risk officers, chief compliance officers, board chairs and independent directors.



18. Has your bank reduced its reliance on fee income, particularly overdraft fees, due to regulatory pressure?

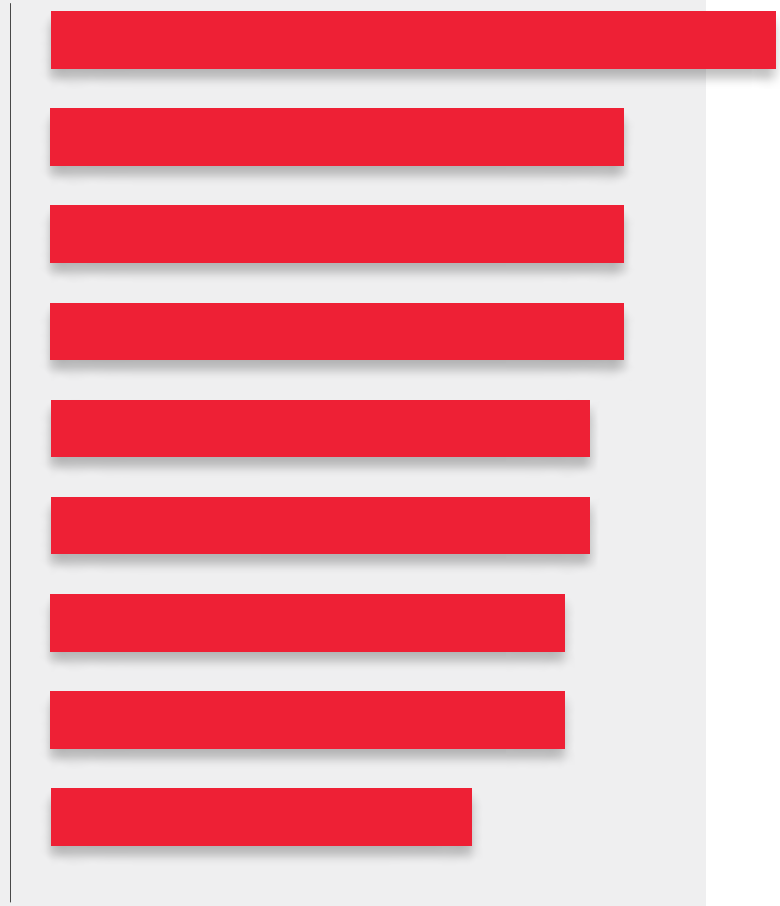
Question not asked of CISOs, CIOs or CTOs.



19. What kinds of changes has your bank made to its cybersecurity program in response to regulatory concerns?

Question only asked of respondents who indicated increased regulatory scrutiny around cybersecurity in their bank's latest regulatory exam. Question not asked of chief credit officers or chief lending officers. Respondents were asked to select all that apply.

86%	Improved training for bank staff
68%	Increased governance/oversight by the board
68%	Internal controls
68%	Additional investments in technology to combat cyber threats
64%	Training for bank staff
64%	Enhanced vendor due diligence
61%	More board expertise/training
61%	Adding quality cybersecurity personnel
50%	Increased scope or frequency of social engineering activities



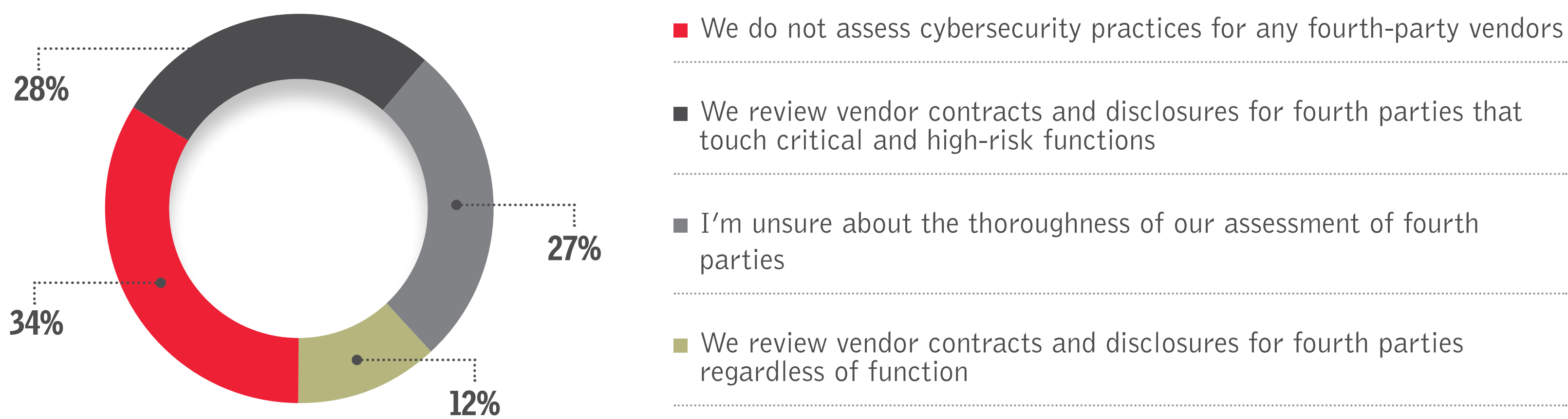
CYBERSECURITY & RELATED RISKS

20. Has your bank undertaken any independent measures to assess the cybersecurity practices of your vendors (i.e. third parties)?

Question not asked of chief credit officers or chief lending officers.

21. Does your bank take any independent measures to assess the cybersecurity practices of your vendors' vendors (i.e. fourth parties)?

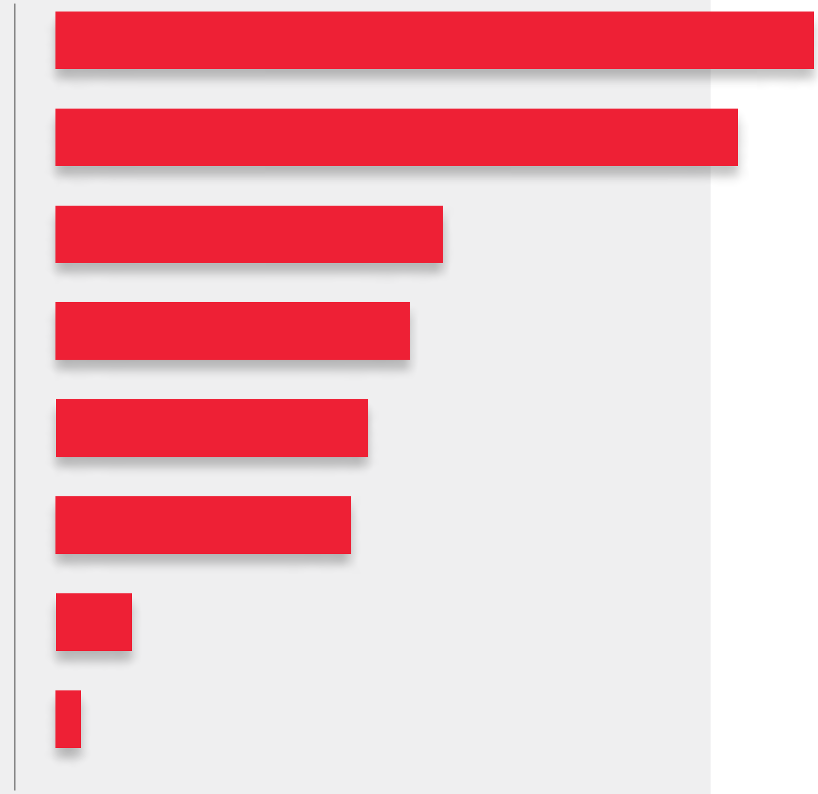
Question not asked of chief credit officers or chief lending officers. Numbers don't add up to 100% due to rounding.



22. Would your bank be open to applying artificial intelligence technology to any of the following risk areas to enhance detection and compliance?

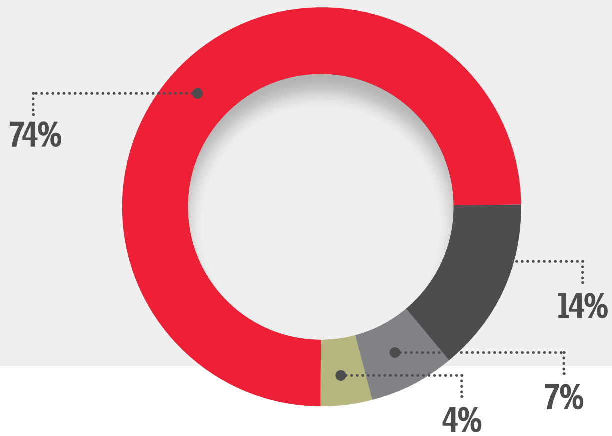
Question only asked of CEOs, CFOs, CISOs, CIOs, CTOs and chief risk officers. Respondents were asked to select all that apply.

90%	Fraud prevention and alerts
81%	Cyberattack detection and prevention
46%	Back office document management
42%	Regulatory compliance
37%	Credit risk assessment
35%	Customer service support
9%	None of the above
3%	Other



23. In May 2023, a ransomware gang exploited a vulnerability in the file transfer service MoveIT and stole data from thousands of businesses and governmental organizations, including dozens of banks. To your knowledge, was your bank affected by the MoveIT breach?

Question not asked of chief credit officers or chief lending officers. Numbers don't add up to 100% due to rounding.



- No, we were not affected by the MoveIT breach
- Yes, our customers' data was compromised through a third- or fourth-party relationship
- Unsure
- Yes, our bank was directly compromised, and some of our customers' data was affected

24. How much has your bank budgeted for cybersecurity expenses, including personnel and technology, for fiscal year 2024?

Median value reported. Respondents were asked to enter a number greater than zero or leave the field blank. Chief lending officers and chief credit officers were not asked this question.

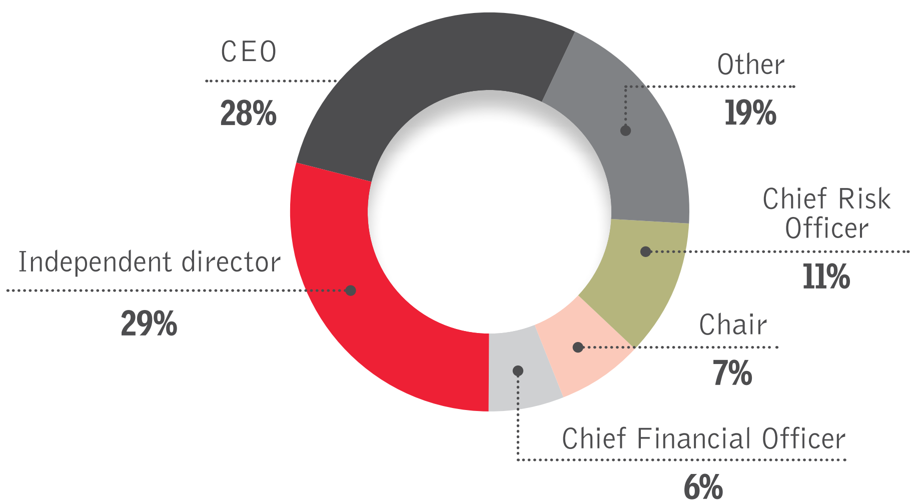
$150,000

Median Cybersecurity Budget

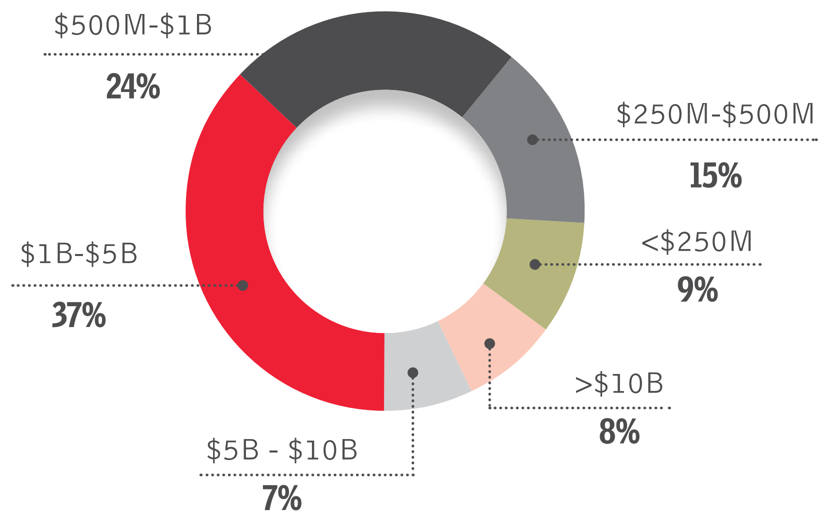
ABOUT THE SURVEY

Bank Director's 2024 Risk Survey, sponsored by Moss Adams, surveyed 192 independent directors, chief executive officers, chief risk officers and other senior executives of U.S. banks below $100 billion of assets to gauge their sentiments on key risk areas, including regulatory scrutiny, cybersecurity and balance sheet risks. The survey was conducted in January 2024.

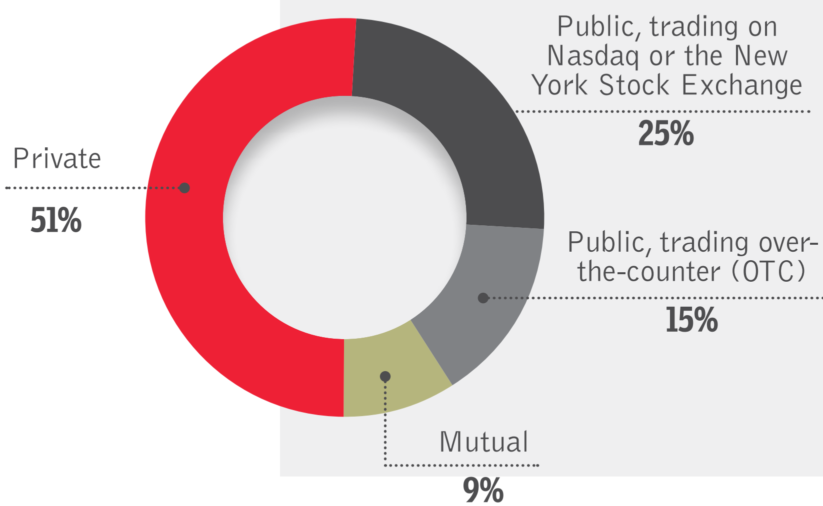
TITLE



ASSET SIZE

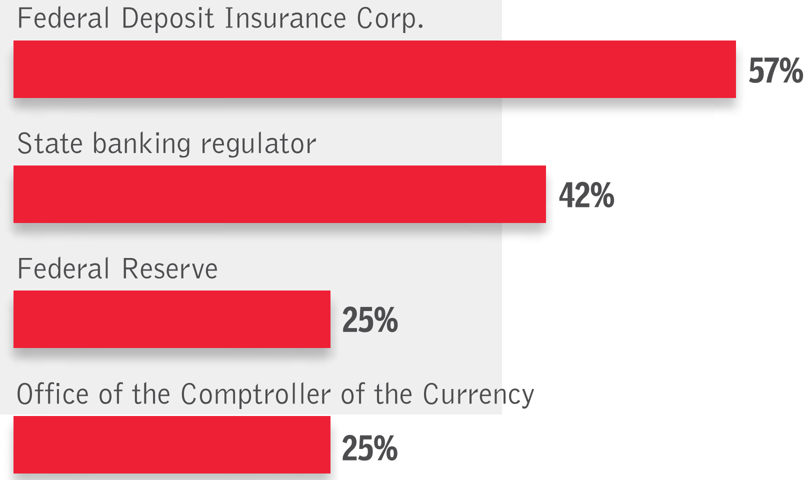


OWNERSHIP STRUCTURE

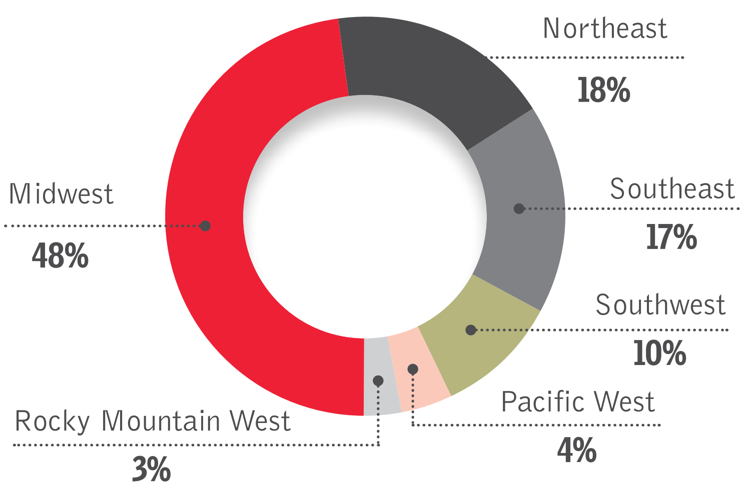


PRIMARY REGULATOR

Respondents were asked to select all that apply.



REGION*



**Regions defined as follows: Midwest (IL, IN, IA, KS, MI, MN, MO, NE, ND, OH, SD, WI); Northeast (CT, ME, MA, NH, NJ, NY, PA, RI, VT); Pacific West (AK, CA, HI, OR, WA); Rocky Mountain West (CO, ID, MT, NV, UT, WY); Southeast (AL, AR, DE, DC, FL, GA, KY, LA, MD, MS, NC, SC, TN, VA, WV); Southwest (AZ, NM, OK, TX)*