

Risk Committee Responsibilities

Expectations of the Bank's Risk Committee



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Introduction

The governance structure of each individual bank may differ, based on its size, strategy or other factors, but many of the duties of directors and board committees are defined by the regulatory bodies or U.S. law. In addition, other responsibilities may be recommended to ensure proper oversight.

Built from consultations with the three major bank regulators – the Federal Deposit Insurance Corp., the Federal Reserve and the Office of the Comptroller of the Currency – as well as input from its own research and members of its training faculty, Bank Director's Board Structure Guidelines provide a bank's board with the knowledge needed to evaluate their overall board structure, as well as directors' individual roles and responsibilities.

These materials will guide your board in evaluating its committee structure, and developing or updating committee charters.

General responsibilities and best practices are included in these descriptions, but your bank's regulators could impose conditions or make recommendations based on their own knowledge or concerns about your organization. In addition, be aware of any state-level requirements, which are not detailed here. Boards should also be advised that every committee should regularly assess its own charter, composition, structure, and performance, and determine its need for education and resources. You'll also want to maintain relationships with relevant bank staff and external advisors, who should report to the board as needed.

Overview

Boards are responsible for oversight of the bank's risk management program, which includes approving policies and procedures, and establishing the bank's risk appetite statement.

The Dodd-Frank Act formerly required the boards of banks above \$10 billion in assets to establish a board-level risk committee to oversee risk, but that changed following the passage of the Economic Growth, Regulatory Relief and Consumer Protection Act (EGRRCPA) in May 2018. Now, banks between \$10 billion and \$50 billion in assets are no longer required to have a board-level risk committee. That said, it's still a valuable practice in use throughout the industry, due to the emphasis bank regulators place on risk management.

The risk committee is responsible for discussing and fully understanding all risks that could affect the bank, including:

Ensuring the bank has policies and procedures in place around risk governance, risk management practices and the risk control infrastructure, and processes to identify and report risks.

Ensuring that the management team can identify, measure, monitor, control and report the risks facing the institution.

Defining the bank's risk appetite, and reviewing and approving the risk appetite statement.

Overseeing the bank's risk-taking activities.

Reviewing the risk profile.

Reviewing, approving and monitoring risk limits.

Ensuring strategic plans and goals are consistent with the bank's risk appetite, and that risks are addressed in strategic plans.

Establishing a risk management system appropriate for the bank.

Ensuring important issues relative to risk are escalated to and addressed by the board.

Risk Governance Function

The risk committee — and ultimately, the board — is also responsible for overseeing the design and implementation of an effective risk governance framework, which establishes the bank's risk culture, addresses adherence to the bank's risk appetite and establishes a risk management system. This includes:

Approving the bank's risk governance framework, including changes to the framework.

Monitoring compliance with the risk governance framework.

Holding management accountable for adhering to the risk governance framework.

The risk committee should meet regularly and independently with the chief risk officer, or the equivalent. The CRO should provide the committee with an appropriate understanding of the risks facing the bank, and will communicate the adequacy of controls, key risk indicators, and other metrics and information that the committee deems appropriate. The committee should oversee and direct the work of the CRO, and should ensure that the risk management function is independent. The CRO may also report directly to the risk committee.

Additional Responsibilities

The risk committee should oversee the bank's compliance risks, and understand and oversee the items and actions expected of the bank by its regulators.

If the bank doesn't have a loan committee, the oversight of credit risk will likely fall under the purview of the risk committee. If the bank has a loan committee, it should work in conjunction with the risk committee for effective oversight of credit risk. For more details on what's expected regarding credit risk, read the Board Structure Guideline on loan committee responsibilities.

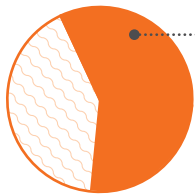
With the passage of the EGRRCPA, stress tests are no longer required of banks under \$50 billion in assets. However, it is still considered to be a healthy practice for the industry. According to Bank Director's 2020 Risk Survey:

Three-quarters of banks conduct an annual stress test.

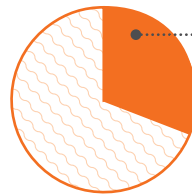
Sixty-seven percent of banks between \$10 billion and \$50 billion in assets have modified their stress test practices; 7% have scaled them back.

Reviewing and approving stress test results are a responsibility of the risk committee.

According to Bank Director's 2019 Risk Survey:



60% say they have a risk expert on the board.



27% primarily handle cybersecurity in the risk committee.

→ All committees are responsible for the following:

Assessing its charter, composition, structure and performance.

Determining its need for education and resources.

Maintaining relationships with relevant bank staff and advisors.

Reporting to the board.

Skills Needed

Risk committee members should be independent, and the committee should contain at least one member who is identified as an expert on risk management. Committee members should understand — or learn to understand — the bank's risk appetite, as well as systemic and emerging issues that could put the bank at risk.

Effective May 2018, only banks above \$50 billion in assets are required to have a board-level risk committee.

Forty-two percent of banks have a risk committee, according to Bank Director's 2020 Compensation Survey.

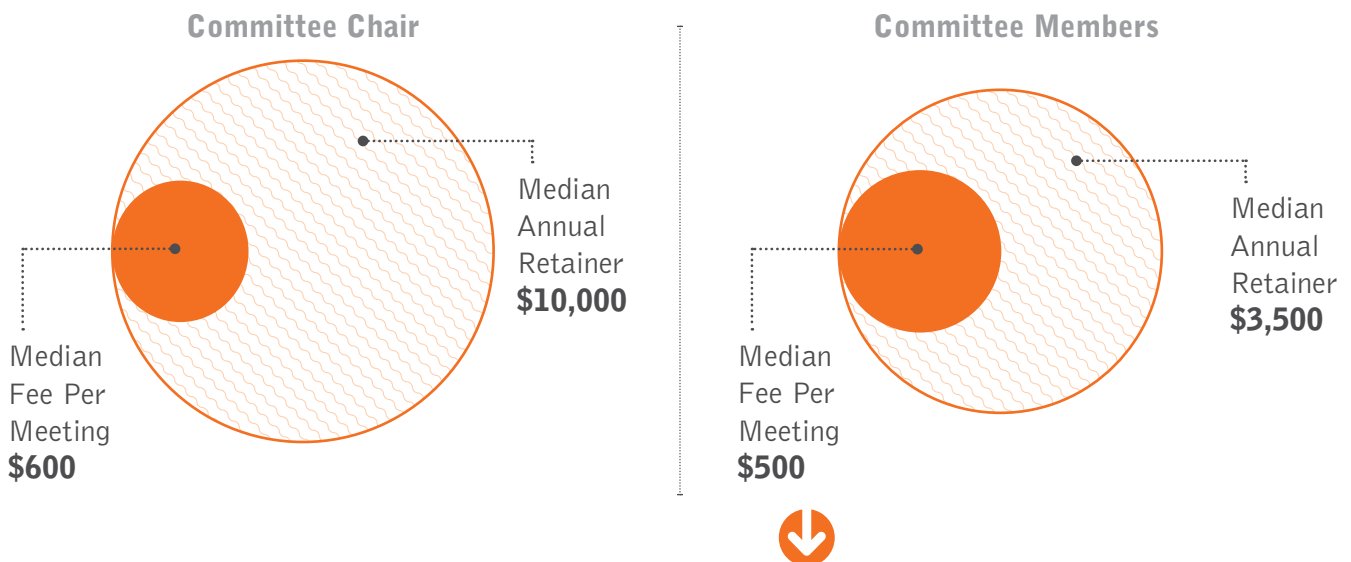
Risk committees are more prevalent at larger institutions above \$10 billion in assets.

Compensation & Structure

Bank boards without a risk committee often handle these issues through the audit committee. However, while their responsibilities and skill sets are similar, the audit committee examines different issues and is often overburdened. Depending on the size and complexity of your bank, having a board-level risk committee is considered by many to be a best practice.

The risk committee meets a median of four times a year and has five members, according to the 2020 Compensation Survey.

Compensation



The payment of committee meeting fees is a more common form of compensation than an annual committee retainer.

Sample Charter

The following is the risk committee charter of Simmons First National Corp., a \$17.8 billion asset financial holding company based in Pine Bluff, Arkansas.

Simmons First National Corporation Risk Committee Charter

As Adopted by the Board of Directors on September 20, 2018

General

This Charter identifies the Purpose, Authority, Composition, Meeting Requirements, Responsibilities, and Duties of the Risk Committee (the "Committee") of the Board of Directors (the "Board") of Simmons First National Corporation (the "Corporation"). This Charter is intended to serve as a key component of a flexible framework within which the Board, assisted by its various committees, oversees and directs the business and affairs of the Corporation. It will be reviewed at least annually.

Purpose

The Committee is appointed by the Board to assist the Board in fulfilling its responsibility to the Corporation's shareholders with respect to its oversight of the Corporation's enterprise-wide risk management function ("ERM Function"), including, among other things, the identification, assessment, measurement, monitoring, and management of key risks to the Corporation and its subsidiaries.

Authority

The Committee is established pursuant to Article IV, Section 6 of the amended and restated By-Laws of the Corporation. The Committee will have the resources and authority necessary to perform its responsibilities and duties as enumerated in Section VI of this Charter, including the authority to:

- Obtain advice and assistance from internal or external legal counsel, accountants, consultants, or other advisors, at the Corporation's expense, to assist the Committee in performing its prescribed responsibilities and duties under this Charter;
- Obtain any information it requires from Management, officers, or other associates of the Corporation and its subsidiaries, all of whom are directed to cooperate with the Committee's requests;
- Delegate its authority to subcommittees established by the Committee from time to time, which subcommittees will consist of one or more members of the Committee and will report to the Committee; and
- Meet in joint session with any of the Board's other standing committees for the review of any information it deems necessary to perform its prescribed responsibilities and duties under this Charter.

Composition

The Committee will be comprised of three or more directors. The Committee will include at least one member who has experience in identifying, assessing, and managing risk exposures of large, complex firms (a "risk management expert").

The Committee's members will be appointed annually by the majority vote of the Board on the recommendation of the Board's Nominating and Corporate Governance Committee (the "NCGC"), and may be replaced in the Board's discretion. Likewise, the Committee Chairman will be appointed annually by the majority vote of the Board on the recommendation of the NCGC, and may be replaced in the Board's discretion. The Committee Chairman must satisfy all applicable independence and qualification requirements of the securities exchange(s) on which the Corporation's securities are listed, the Securities and Exchange Act of 1934, as amended, and the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC"), and the Board of Governors of the Federal Reserve.

The members will serve for such term or terms as the Board may determine or until the earliest of their resignation, retirement, or removal by the Board. In determining whether an independent director is eligible to serve on the Committee, the Board must consider whether the director is affiliated with the Corporation, or a subsidiary or affiliate of the Corporation, to determine whether such affiliation would impair the director's judgment as a member of the Committee. No independent member of the Committee will receive any compensation from the Corporation or its subsidiaries that would impair his or her independence.

Meeting Requirements

The Committee will endeavor to meet at least quarterly, with the authority to convene additional meetings as circumstances require. All Committee members are expected to attend each meeting in person or via teleconference or videoconference. A majority of the members of the Committee will constitute a quorum. If the Committee Chairman is not present, the members of the Committee may designate one of its members as temporary Chair by majority vote of the Committee members in attendance.

The Committee Chairman, with input from the Chief Audit Executive and the Director of Enterprise Risk Management ("ERM"), will prepare and/or approve an agenda, along with appropriate briefing materials, in advance of each meeting. The agenda for each Committee meeting will provide time during which the Committee can meet without the presence of Management (i.e., Executive Session) to discuss any matters that the Committee deems necessary to perform its prescribed responsibilities and duties under this Charter. Executive Sessions of the Committee will be held at the end of each regular Committee meeting or on the call of the Committee Chairman. A record of all matters to be reported to the Board and all actions taken in Executive Session will be recorded by the Committee Chairman or his or her designee and will be retained by the Corporate Secretary, who will preserve, to the extent reasonably possible, the confidentiality of such minutes.

The Committee will appoint a Secretary, who need not be a Director. The Secretary will keep detailed minutes of each Committee meeting and fully document and maintain records of the Committee's proceedings. The minutes of the Committee meetings will reflect whether an Executive Session was held and if there were any actions or matters to discuss with the Board.

The Committee may request any officer or associate of the Corporation and its subsidiaries, independent counsel, accountants, consultants, or other advisors to attend Committee meetings and provide pertinent information as the Committee deems necessary to perform its prescribed responsibilities and duties under this Charter.

Responsibilities and Duties

In addition to the specific responsibilities and duties enumerated in this Charter, the Committee may take such other actions that are consistent with the general scope of its authority set forth in this Charter, the Corporation's By-Laws or Corporate Governance Principles, or as directed by the Board. The Committee will have the following responsibilities and duties in carrying out its stated purposes.

- Oversee and receive periodic reports concerning the Corporation's ERM function, including management's design, implementation, and maintenance thereof.
- Review and discuss with management the Corporation's ERM Framework and Risk Appetite Statement, which review shall include, among other things, the relationship of the Corporation's risk appetite to the Corporation's strategic objectives, and make recommendations to the Board concerning their approval.
- Review and discuss with management significant ERM policies, procedures, and practices of the Corporation and its subsidiaries.
- Monitor, in conjunction with other Board committees, the Corporation's risk profile and exposures, and risk management capabilities, specifically regarding the Corporation's aggregate strategic, compliance, interest rate, liquidity, reputation, credit, price, and operational risks.
- As appropriate, consider and discuss with management the risks associated with new, modified, or expanded products, services, and lines of business.
- Review and discuss with management the Corporation's periodic Enterprise Risk Assessment and accompanying reports.
- As necessary, work with and assist other committees of the Board, as well as the boards of the Corporation's subsidiaries and their respective committees, that oversee specific risk-related issues, such as issues related to credit or information security risk.
- Review and discuss with management the ERM Department's structure, budget, staffing levels, and resource needs.
- Review and approve, on an annual basis, the Corporation's Contingency Funding Plan and Capital Plan, including any revisions thereto.
- Oversee the stress testing activities of the Corporation and its subsidiaries.
- Maintain and publish to the Board minutes of each Committee meeting.
- Regularly report to the Board on (i) the matters addressed at all meetings of the Committee and (ii) such other matters as are relevant to the Committee's discharge of its responsibilities and duties under this Charter. The Committee will recommend action by the Board as the Committee deems appropriate or necessary. The report to the Board may take the form of an oral report by the Committee Chairman or any other member of the Committee designated by the Committee to make such report.
- Publicly disclose this Charter and any such amendments at the times and in the manner required by law, and in all events post this Charter and amendments to the Corporation's investor relations website.
- Perform any functions or activities required to be performed by it or otherwise appropriate under applicable law, rules or regulations, by the Corporation's By-Laws, and the resolutions or other directives of the Board.
- Periodically, but at least annually, meet with the Chief Executive Officer, the Chief Audit Executive, and the General Counsel in separate Executive Sessions.
- Perform an annual review and evaluation of the effectiveness of the Committee and its members, and provide to the Board for review.
- Perform an annual review and evaluation of the effectiveness of, and its compliance with, this Charter, and request Board approval for proposed changes.
- Participate in pertinent continuing education and training opportunities.

Limitations of the Committee's Responsibilities

While the Committee has the authority, responsibilities, and duties set forth in this Charter, its core function is oversight. It is not the duty of the Committee to design, implement, and maintain an effective ERM Function, which is the responsibility of management.

Each member of the Committee will be entitled to rely, to the fullest extent permitted by law, upon (i) the integrity of those persons or organizations within and outside the Corporation from whom the member receives information, (ii) the accuracy and completeness of the other information provided to the Committee by such persons or organizations, absent actual knowledge to the contrary, and (iii) representations made by management and the Corporation's outside advisors.

Last amended July 26, 2017.

Additional Resources

Bank Director's Online Training Series

Stay on top of industry trends and regulations when and where you want. Through a series of easy-to-access 25-minute videos presented by an industry expert, Bank Director covers such important topics as the role of the board, risk management, key audit, compensation and governance issues, cybersecurity, and advice on growing the bank. With new videos added annually, the content for the Online Training Series is organized into separate units, beginning with the Role of the Board. Some units have been divided into two parts. Part A provides a foundational overview of the topic, and Part B looks at the most recent developments and offers a number of best practice recommendations for boards to consider.

As part of the Online Training Series, there is a two-part video on risk committee issues, and videos on interest rate risk, strategic risk and cybersecurity, as well as a shorter video on understanding today's risks.

For more information on the Online Training Series, please email or call our bank services department at bankservices@bankdirector.com or 615.777.8461.

Bank Director Research

Throughout the year, Bank Director asks officers and directors of financial institutions to share their thoughts on board-specific issues like mergers & acquisitions, compensation, managing risk, growth and technology. Our reputation for qualified, independent research studies and data analysis provides a bank's board members with unparalleled insight and information. We invite you to explore our research on BankDirector.com.

BankDirector.com

Designed around the informational needs of senior executives and members of a board, BankDirector.com provides high-level analysis and perspectives on emerging trends and key issues.

Updated daily with original articles, videos and research studies, BankDirector.com contains timely and insightful information on topics that range from organic growth to risk management, from mergers & acquisition activity to new regulatory expectations, and from technology trends to legal challenges.

All content is categorized by committees and issues facing today's financial institutions – so you can easily find content based on your board responsibilities.

Bank Director Conferences

Bank Audit & Risk Committees Conference

Held each year in early June, Bank Director's annual Bank Audit & Risk Committees Conference focuses on governance, risk, compliance and accounting issues challenging financial institutions today. Be it data security, emerging technology, fraud, crisis management or the effectiveness of internal controls, each year this event covers the key issues that all bank officers and directors must know. On the day prior to the main event, Bank Director offers three pre-conference events: the Bank Audit & Risk Peer Exchanges, the Bank Audit & Risk Committees Boot Camp and a Cybersecurity Incident Response Planning Workshop.

Bank Board Training Forum

Designed for both inside and outside bank directors, chairmen, CEOs and senior management who regularly interact with the board, the Bank Board Training Forum provides bank leaders with the latest and most critical education and training needed to address the issues and challenges facing them in today's ever competitive, highly regulated and rapidly evolving banking and financial services industry. Regardless of whether you have served on the board for years or are just starting out, bank directors today have an extraordinary need for information and education about this increasingly complex industry.

For more information on Bank Director events, please visit BankDirector.com or call our bank services department at 615.777.8461.

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