



Regulatory & Risk Management Indicator

U.S. Banking Industry
December 2017

An Overview

Wolters Kluwer's *Regulatory & Risk Management Indicator* measures 10 critical factors that help illustrate the overall level of regulatory and risk management pressures that U.S. banks and credit unions face.

These factors include bank and credit union concerns about:

- Their ability to track regulatory changes.
- Complying with new and existing requirements.
- Proving compliance to federal regulators.
- Measuring the impact of the Home Mortgage Disclosure Act (HMDA) rules.
- Assessing overall compliance challenges and obstacles to their institutions.

The survey also looks at several risk management factors including:

- Evaluating the risk effectiveness of current measures in place.
- Assessing risk challenges facing their institutions.

For the final three factors used in calculating the Indicator formula, Wolters Kluwer measures and compares:

- The number of significant new U.S. banking regulations.
- The number of enforcement actions taken against banks and credit unions by federal regulators.
- The total dollar amount of federal regulatory fines levied against banks and credit unions.

What follows in this report are the overall metrics of the Indicator, as well as highlights of our findings.

Indicator Methodology

To compile the *Indicator*, Wolters Kluwer tracks 10 main factors, seven of which revolve around direct survey input from banks and credit unions on their top compliance and risk management concerns, and three of which are based on regulatory data compiled over the past 12 months by Wolters Kluwer.

About Wolters Kluwer

Whether complying with regulatory requirements or managing financial transactions, addressing a single key risk, or working toward a holistic enterprise risk management strategy, Wolters Kluwer works with customers worldwide to help them successfully navigate regulatory complexity, optimize risk and financial performance, and manage data to support critical decisions. Wolters Kluwer Governance, Risk & Compliance (GRC) is a division of Wolters Kluwer, which provides legal, finance, risk and compliance professionals and small business owners with a broad spectrum of solutions, services and expertise needed to help manage myriad governance, risk and compliance needs in dynamic markets and regulatory environments.

Wolters Kluwer N.V. is a global leader information services and solutions for professionals in the health, tax and accounting, risk and compliance, finance and legal sectors with annual revenues (2016) of €4.3 billion and approximately 19,000 employees worldwide. Please visit www.wolterskluwerfs.com for more information. For more information about our Regulatory and Risk Management Indicator, please contact us at GRC-CorporateCommunications@wolterskluwer.com.

Regulatory and Risk Management Concerns Inch Upward in 2017 Survey.

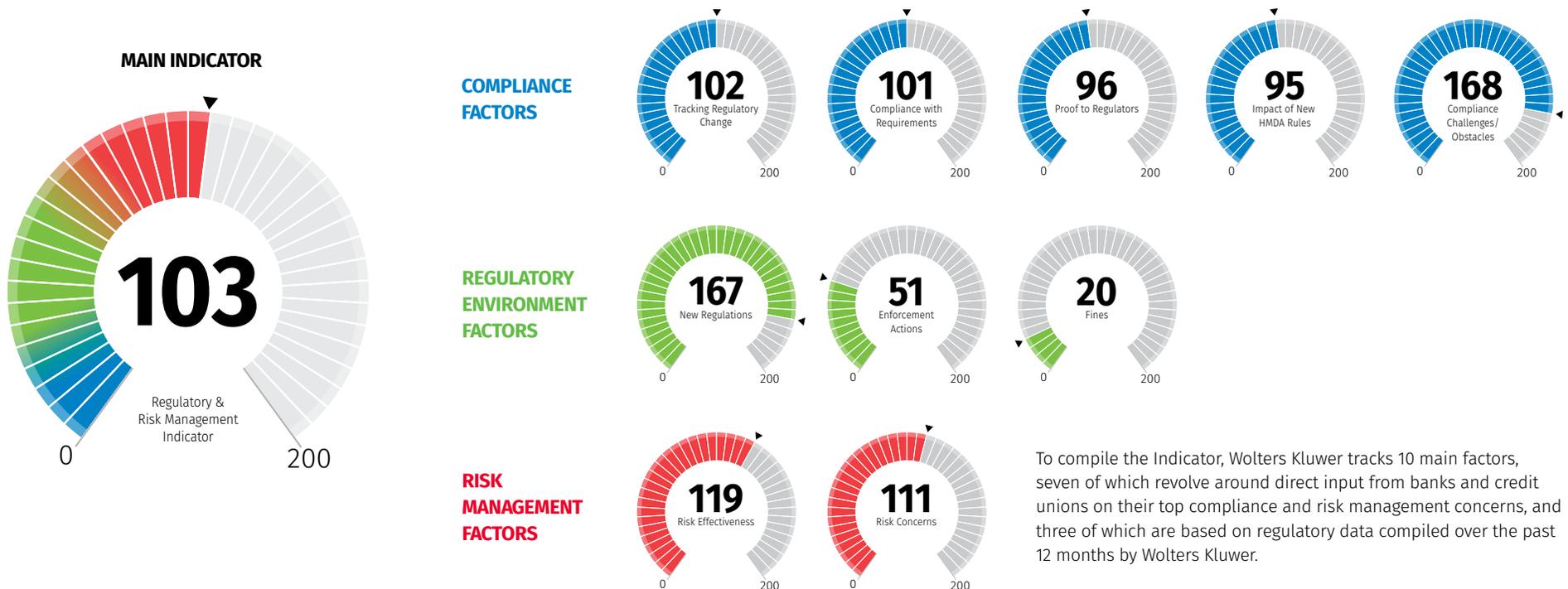
The latest Regulatory & Risk Management Indicator report conducted by Wolters Kluwer shows a slight increase in the anxiety levels of U.S. banks and credit unions, particularly in the area of managing risk, as compared to survey findings from recent years.

With 608 responses, this year's survey generated a Main Indicator Score of 103. This key index reflects a three percent increase over 2016 survey results. The ability to maintain compliance in an environment of heightened regulatory oversight—highlighted by a spike in the number of major new regulations—remained the biggest overall compliance concern, as cited by 67 percent of

respondents.

Concerns over fair lending regulatory exams increased by five percent to 46 percent, and concerns jumped 13 percent in measuring the ability to manage risk across all lines of business. While overall concern about implementing the new HMDA rules effective January 2018 has dropped from 73% in the 2014 Indicator to 56% in this latest survey, HMDA was cited as the “most pressing” regulatory challenge facing lenders in the coming 12 months.

For more information, visit www.wolterskluwerFS.com/Indicator.



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Top Regulatory & Risk Management Challenges

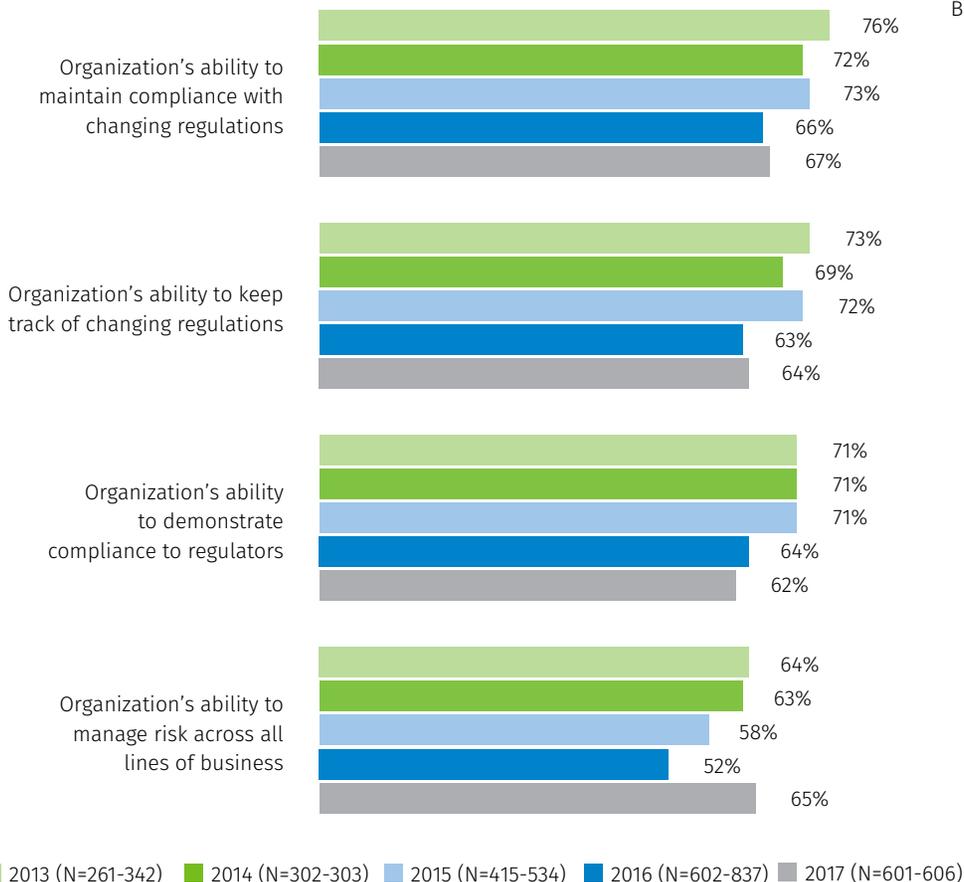
Overall compliance concern levels remained fairly steady when compared to 2016—and remain well under the levels found when first conducting this survey in 2013.

However, concerns jumped 13 percent for the ability to manage risk across all lines of business.

Maintaining compliance with changing regulations remained the highest concern.

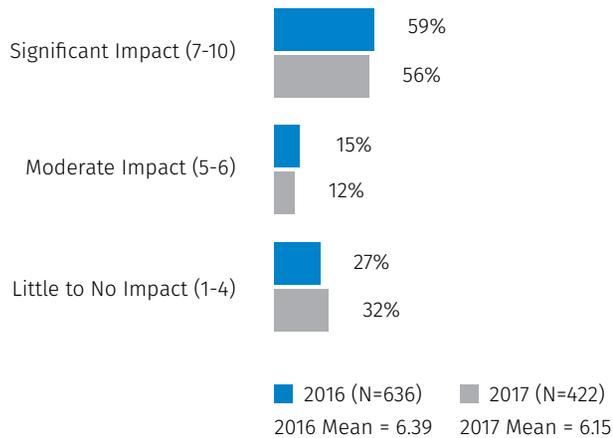
Respondents told in their own words what they believe will be their organizations' top regulatory or risk management challenges over the next 12 months.

Not surprisingly, topping the list of key challenges is complying with the new HMDA requirements.



Impact of HMDA Data Collection Requirements and Trends

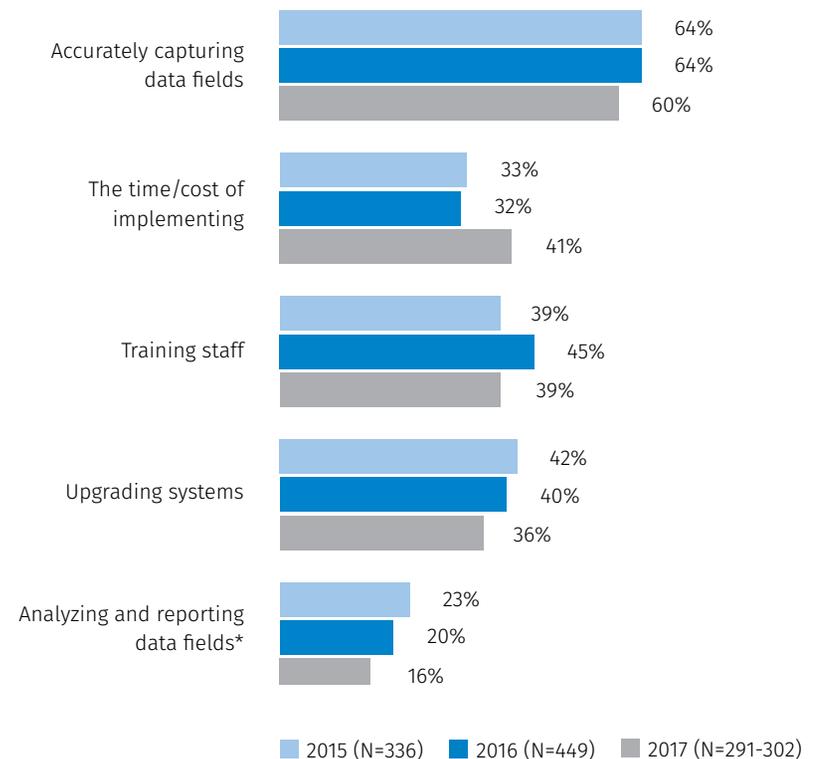
Overall levels of concern for the HMDA data collection requirements are moderate, with 56 percent of respondents indicating that the new requirements will have a significant impact on their organization.



*The largest organizations are significantly more likely to anticipate a larger impact from HMDA than the smallest organizations.

^The compliance respondents are significantly more likely to anticipate a larger impact from HMDA than the executives.

The 2017 rankings fell slightly for most HMDA data collection activities, with only a slight increase in the time and cost of implementing the HMDA changes. Notably, 41 percent of 2017 responses ranked implementation challenges as one of the top two challenges, compared with 32 percent in 2016.

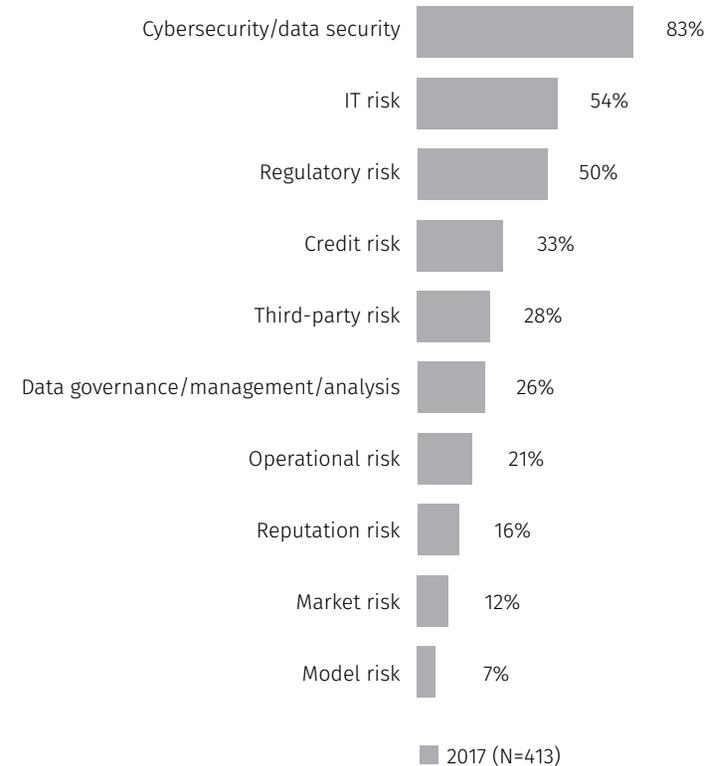
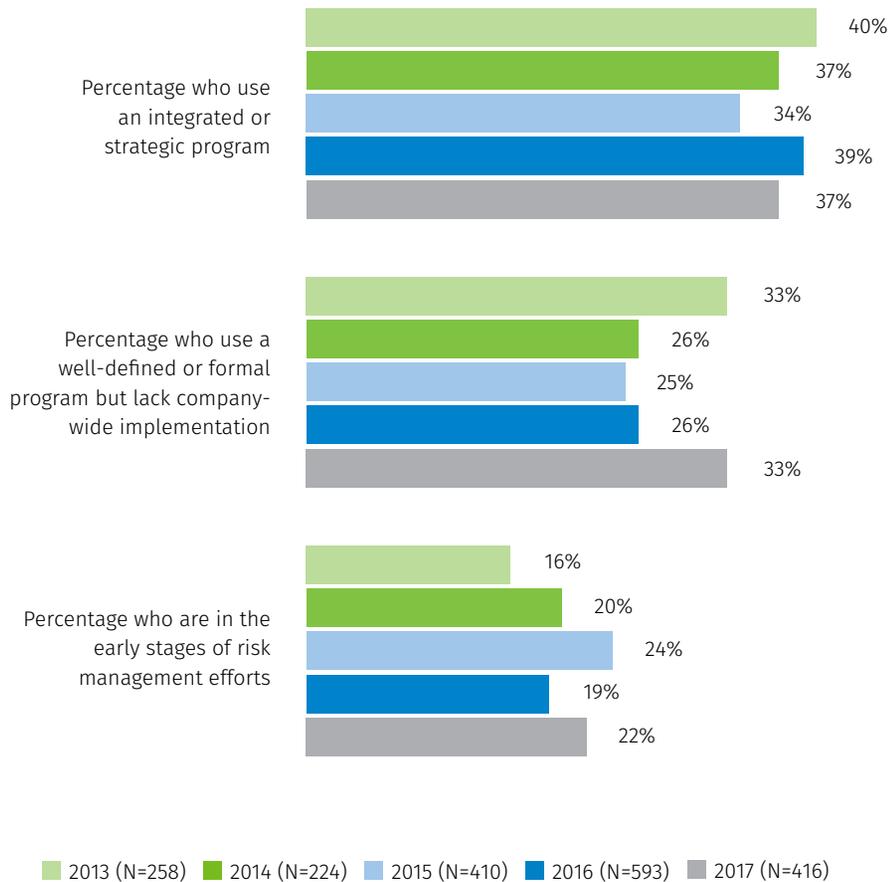


*In 2017 we separated this question into two. The scores for analyzing and reporting data fields were merged to show the comparison over time.

Risk Management Efforts—and Top Priorities in Next 12 Months

Over time, the risk management efforts have remained fairly steady, without significant movement in the usage of well-defined, integrated, or strategic risk management programs. This could indicate that organizations should be focusing more resources on managing risk.

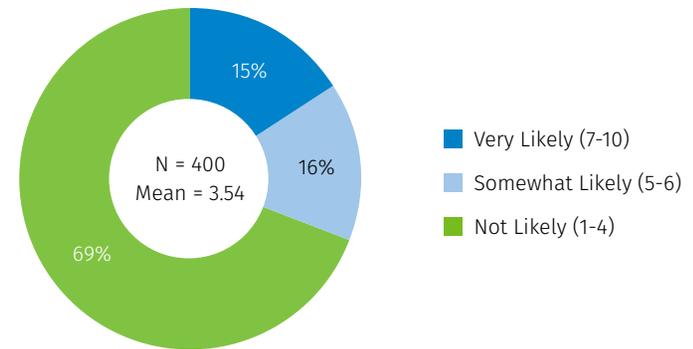
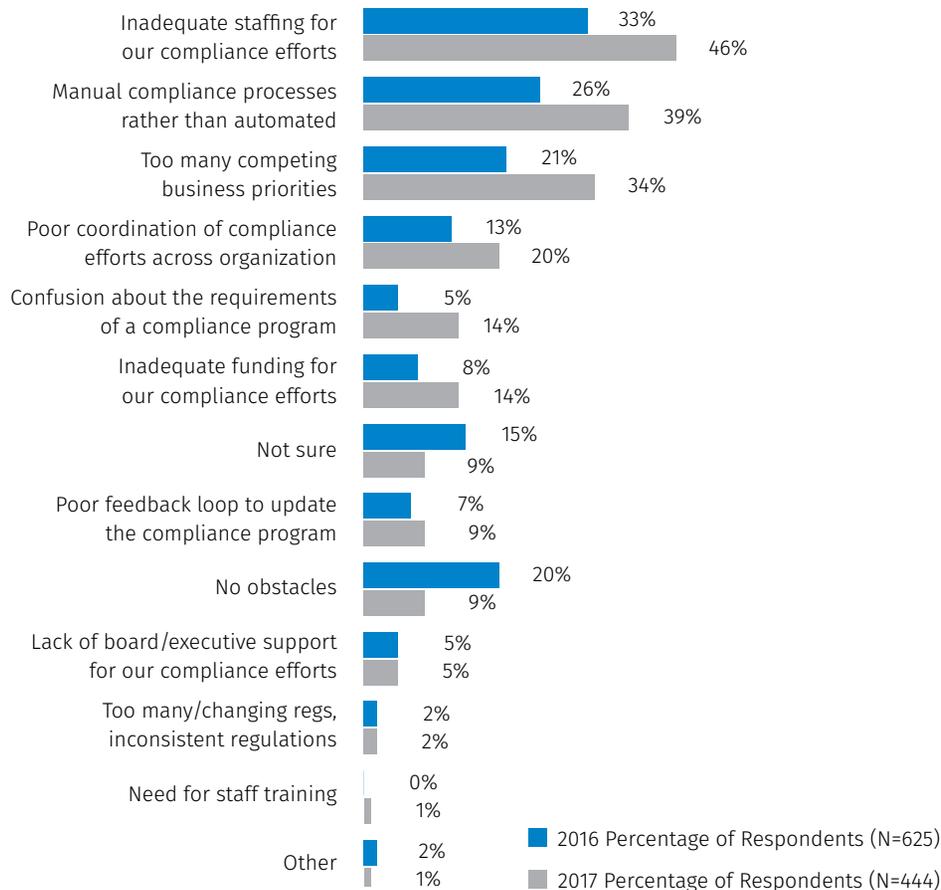
Focus continues to be heavy on cybersecurity, with 83 percent of respondents indicating their organization will focus on cybersecurity over the next 12 months, up from 70 percent in 2016.



Obstacles to Implementing an Effective Compliance Program

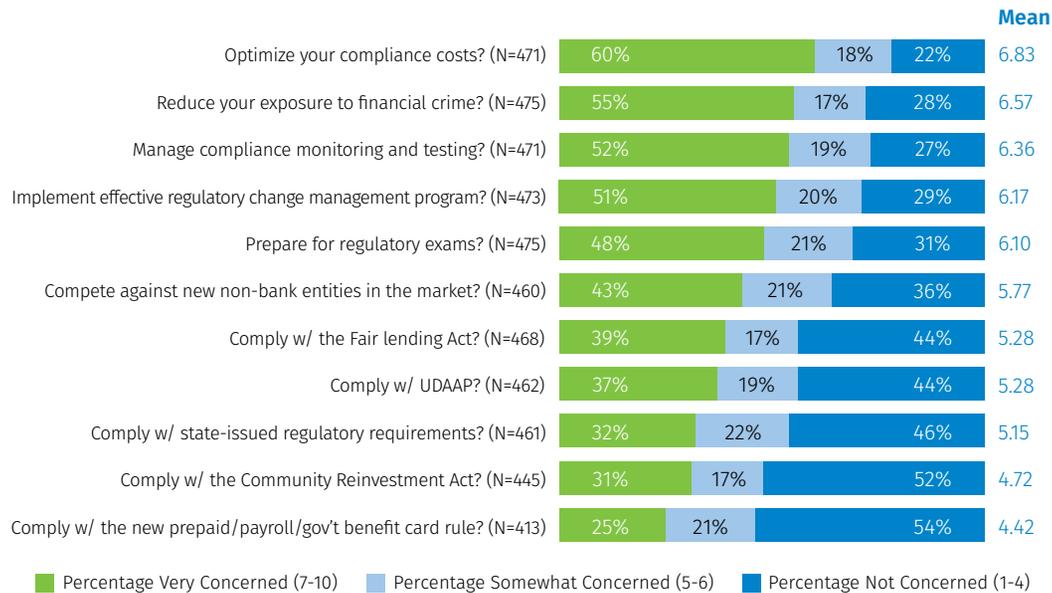
Among the many obstacles respondents cited in managing an effective compliance program, lack of staff and a reliance on manual processes topped the list. Too many competing priorities also ranked high. Note the significant year-over-year differences in the first half-dozen categories below, input that helped drive overall concern level metrics.

Only a small portion of the respondents—15 percent—believe we are very likely to see a measurable reduction in regulatory burden over the next two years.



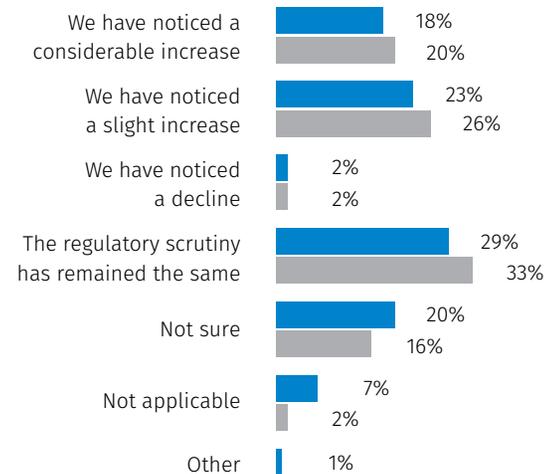
Concern with Key Requirements/Challenges

In rating their level of concern with a variety of other regulatory requirements and organizational challenges, most are concerned with optimizing their compliance costs, reducing their exposure to financial crime, and managing compliance monitoring and testing.



Forty-six percent of respondents indicated they have seen an increase in examiners' scrutiny of their fair lending program during their most recent exam. This compares to 41 percent in 2016.

However, 33 percent indicated that oversight has remained the same. Only two percent indicated they noticed a decline in scrutiny of their fair lending program.



■ 2016 Percentage of Respondents (N=617) ■ 2017 Percentage of Respondents (N=413)