

Post-Pandemic Pitfalls

Risk Management Considerations for New Activities

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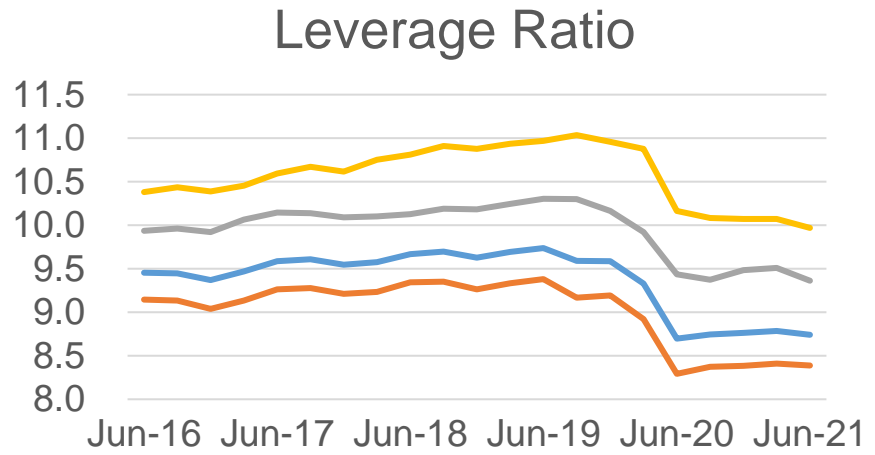
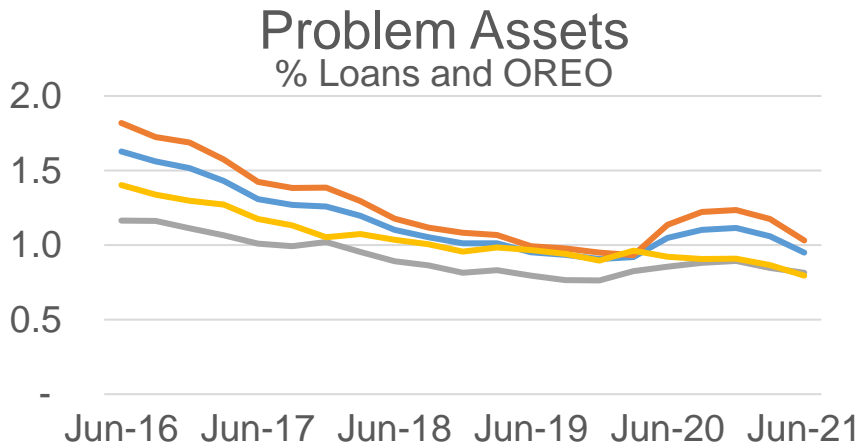
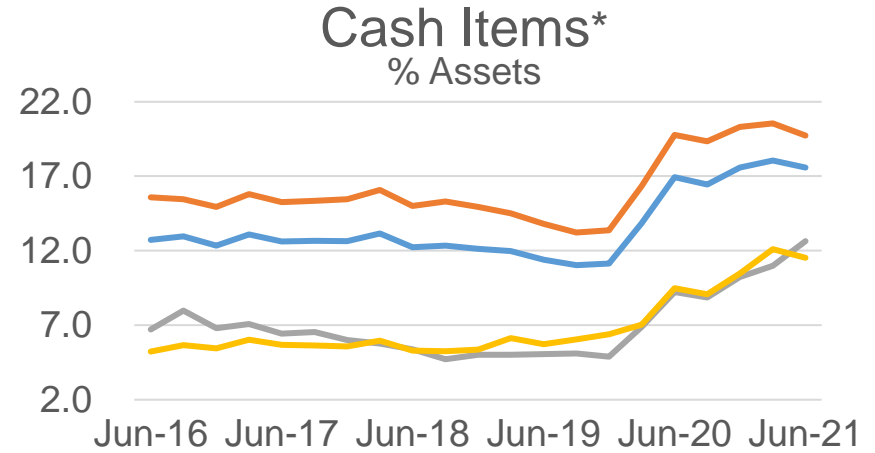
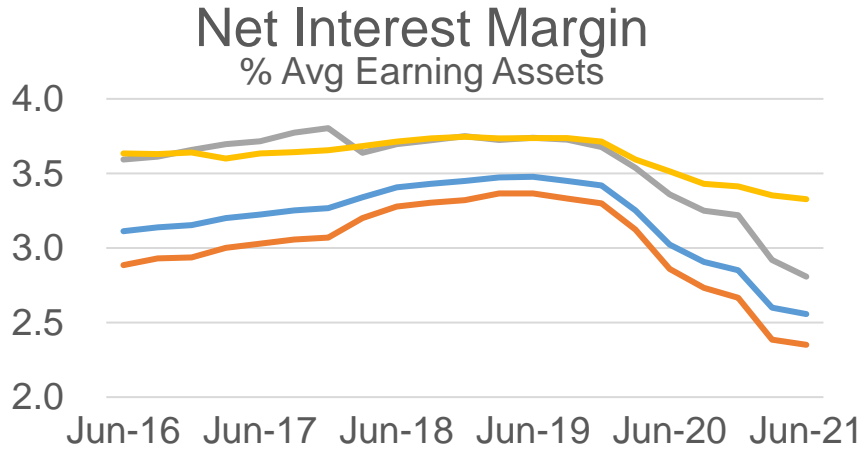
**BANKING &
SUPERVISION FORUM 2023**
FEDERAL RESERVE BANK OF KANSAS CITY

In This Session, We'll Discuss:

- Conditions that led to financial institutions entering new activities, investments, and markets
- Problems that banks have experience when rapidly growing or implementing new activities
- Risk management considerations that are needed to prevent pitfalls from significantly impacting the bank

Banks Were Positioned To Act

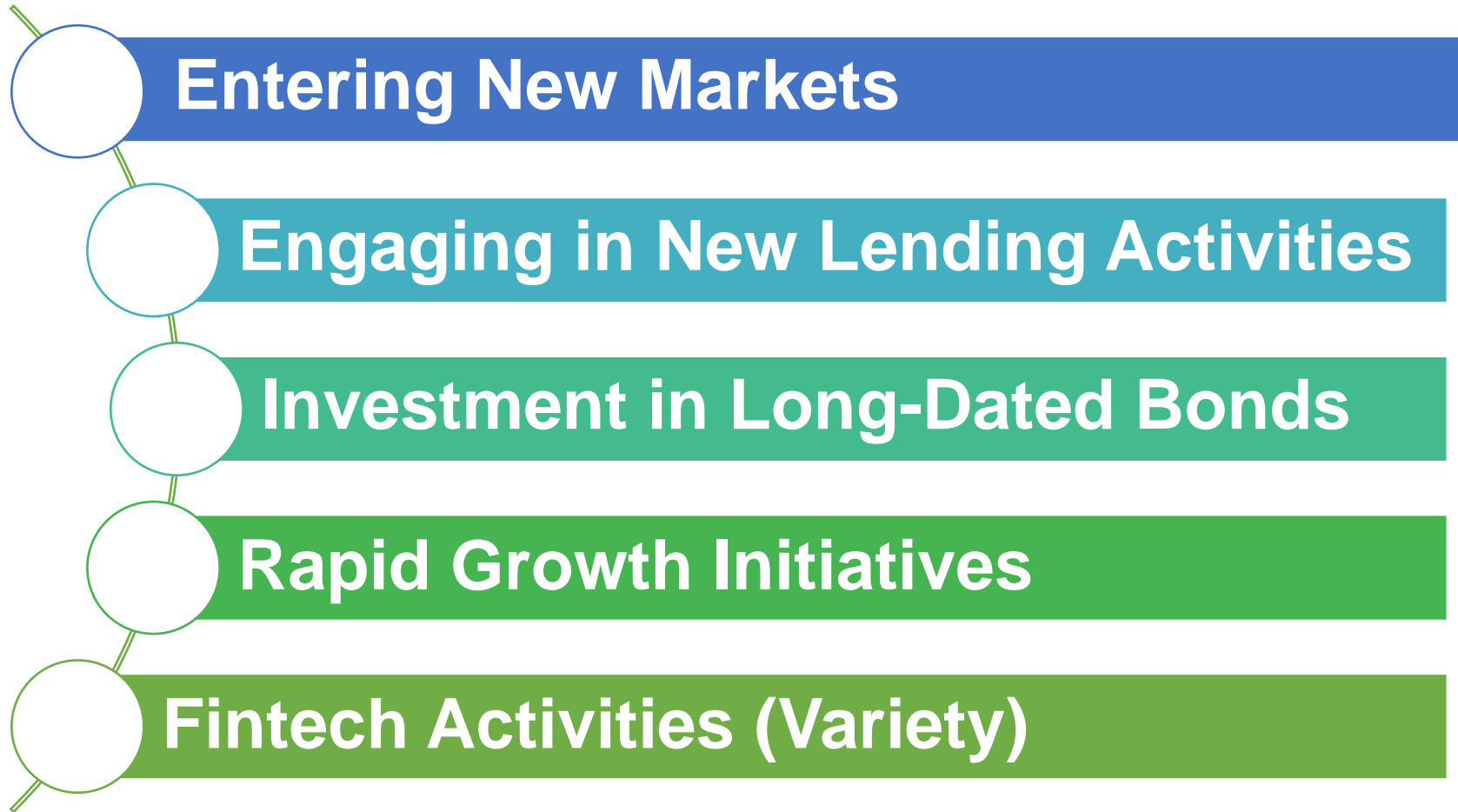
Trended Banking Conditions 2017 - 2021



— All US Banks — Banks Over \$100B — Banks \$10 - \$100B — Banks Under \$10B

*Interest-Bearing Bank Balances, Fed Funds Sold and Resales

Several Moved In New Directions



New Activities Bring Potential Pitfalls

New Markets/Lending/Growth Initiatives

- Balance sheet expansion and reduction of capital ratios
- Exhaustion of pandemic era liquidity growth
- Increased delinquencies/collections expenses
- FDICIA compliance challenges
- Inadequate staffing – both volume and skill
- Consumer compliance challenges

Long-Dated Securities

- Significant increase in Unrealized Losses
- Elevated risk to liquidity, earnings, and capital

Fintech/Crypto-related Activities

- Unanticipated vendor expenses and risk
- Elevated reputational, operational, liquidity, and legal risks

Sound Risk Management Is Needed



What Should I Do Right Now?

- If you've engaged in new activities or markets without the necessary risk management framework in place, pause and focus on developing the requisite framework.
- If you're considering engaging in new activities or markets, take the time to develop proper risk management elements before engaging in these activities.
- Include the Reserve Bank and State in your due diligence process – we often hear of other banks trying the activities you are considering and can tell you where potential pitfalls may lie.