WHITEPAPER

Navigating Growth:

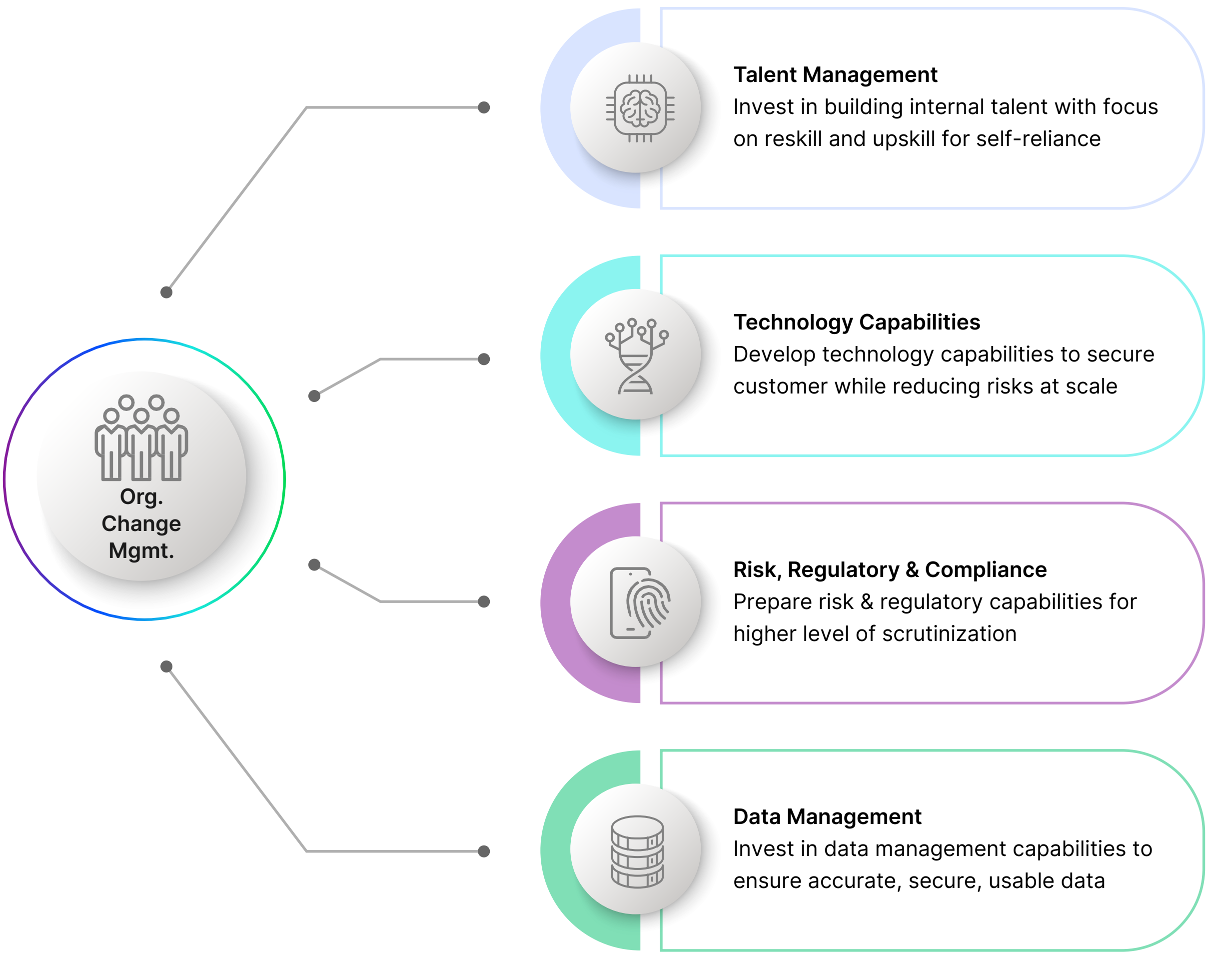
A Guide for Banks Transitioning to a $100 Billion Asset Size

Contents

Executive Summary

In the dynamic landscape of the banking industry, achieving a milestone of $100 billion in assets marks a significant milestone for any financial institution. All financial institutions enjoy a strong foundation, a loyal customer base, and a commitment to serving the community. However, reaching this size also signifies a shift in the competitive landscape and regulatory environment. Banks entering this category need to adapt their strategies and processes to maintain their growth momentum while mitigating potential risks and remaining compliant.

This white paper aims to provide a high-level, comprehensive guidance to banks embarking on this journey and explores the key considerations for banks transitioning to this size category. It outlines critical areas to focus on, including risk management, talent management, data management and technological capabilities. By proactively addressing these elements, banks can ensure smooth navigation through the complexities of scaling up and position themselves for continued success.



Understanding the Regulatory Landscape

At the heart of the banking sector lies a complex web of regulatory requirements enforced by agencies such as the Federal Reserve, OCC, and FDIC. Banks growing to a $100 billion asset size must grasp the regulatory implications of this size. Compliance with regulations such as the Bank Secrecy Act (BSA), Dodd-Frank Act, and KYC/AML requirements becomes more stringent at this level. It is imperative for banks to align their operations with these regulations to ensure seamless compliance and regulatory adherence. The Fed specifies applicable regulations and categorizes banks based on their asset size. Banks exceeding $ 100 billion in asset size.

Regulatory Requirements

	Category I U.S. GSIBs	Category II ≥ $700b Total Assets or ≥ $75b in CrossJurisdictional Activity	Category III ≥ $250b Total Assets or ≥ $75b in nonbank assets, wSTWF, or off-balance sheet exposure	Category IV Other firms with $100b to $250b Total Assets	Other Firms $50b to $100b Total Assets
Capital	**TLAC/Long-term debt**				
Capital	**Stress Testing** • Annual company-run stress testing • Annual supervisory stress testing • Annual capital plan submission	**Stress Testing** • Annual company-run stress testing • Annual supervisory stress testing • Annual capital plan submission	**Stress Testing** • Company-run stress testing every other year • Annual supervisory stress testing • Annual capital plan submission	**Stress Testing** • Supervisory stress testing (two-year cycle) • Annual capital plan submission	
Capital	**Risk-Based Capital** • GSIB surcharge • Advanced approaches • Countercyclical Buffer • No opt-out of AOCI capital impact	**Risk-Based Capital** • Advanced approaches • Countercyclical Buffer • No opt-out of AOCI capital impact	**Risk-Based Capital** • Countercyclical Buffer • Allow opt-out of AOCI capital impact	**Risk-Based Capital** • Allow opt-out of AOCI capital impact	**Risk-Based Capital** • Allow opt-out of AOCI capital impact
Capital	**Leverage capital** Enhanced supplementary leverage ratio	**Leverage capital** Supplementary leverage Ratio	**Leverage capital** Supplementary leverage Ratio	**Leverage capital**	**Leverage capital**
SCCL	**SCCL** (Single-counterparty credit limits) • BHC/IHC level SCCL • FBOs: Meet home country requirement	**SCCL** (Single-counterparty credit limits) • BHC/IHC level SCCL • FBOs: Meet home country requirement	**SCCL** (Single-counterparty credit limits) • BHC/IHC level SCCL • FBOs: Meet home country requirement	**SCCL** (Single-counterparty credit limits) • FBOs: Meet home country requirement if global assets≥$250B	**SCCL** (Single-counterparty credit limits) • FBOs: Meet home country requirement if global assets≥$250B
Liquidity (Holding Company)	**Standardized** • Full daily LCR (100%) • Proposed full daily NSFR† (100%)	**Standardized** • Full daily LCR (100%) • Proposed full daily NSFR† (100%)	**Standardized** • If wSTWF < $75b: Reduced daily LCR and NSFR† (85%) • If wSTWF ≥ $75b: Full daily LCR and proposed NSFR† (100%)	**Standardized** • If wSTWF < $50b: No LCR • If wSTWF ≥ $50b: Reduced monthly LCR and proposed NSFR† (70%)	
Liquidity (Combined U.S. Operation)	**Reporting** • Report FR 2052a daily	**Reporting** • Report FR 2052a daily	**Reporting** • If wSTWF < $75b: Report FR 2052a monthly • If wSFWF ≥ $75b: Report FR 2052a daily	**Reporting** • Report FR 2052a monthly	
Liquidity (Combined U.S. Operation)	**Internal** • Liquidity stress tests (monthly) • Liquidity risk management	**Internal** • Liquidity stress tests (monthly) • Liquidity risk management	**Internal** • Liquidity stress tests (monthly) • Liquidity risk management	**Internal** • Liquidity stress tests (quarterly) • Tailored liquidity risk management	
Holding Company	U.S. IHC Requirement				

wSTWF: Weighted short-term wholesale funding | **IHCs:** Intermediate holding company | **AOCI:** Accumulated other comprehensive income | **NSFR:** Net stable funding ratio | **SCCL:** Single counterparty credit limits | **CCAR:** Comprehensive capital analysis and review | **DFAST:** Dodd-frank act stress test | **NSFR:** Net stable funding ratio | **SLR:** Supplementary leverage ratio

Additionally, existing regulations and guidelines need to be understood, assessed, and implemented in accordance with the scale of growth.

- **Anti Money Laundering:** BSA AML, KYC, US Patriot Act, CDD Final Rule, FINCEN Advisories & guidance, OFAC, Sanctions, FATCA
- **Fraud Management:** OCC Guidance on Fraud Risk Management, FINCEN Advisories & guidance, Realtime Fraud detection
- **Governance Risk & Compliance:** OCC Corporate & Risk Governance Handbook, OCC TPRM Guideline
- **Other Regulations:** REGCC, REG E, REGD, TRID, FDIC DI
- **Information & Cyber Security:** ISO 27001. ISO 22301:2012, NIST SP 800-53, FISAP AUP, FFIEC Cyber security assessment guideline,
- **Data Privacy:** CCPA, PII, PCI, GDPR
- **FASB:** CECL
- **Geography Specific Compliance**

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Overhauling Risk Management and Risk Organization With a Systematic and Independent Organization

With growth comes increased exposure to various risks, including credit risk, market risk, and operational risk. Banks must adopt a systematic multi-layered approach to address increased exposure to risks, including functioning of the risk organization, assessing newer risks via thorough risk assessments to identify potential vulnerabilities and develop robust risk management strategies. A suggested 3 forked approach banks may adopt:

Re-structure / Review the Risk Organization

A stronger and independent risk organization, with direct reporting to senior management, plays a vital role. Banks must identify CRO (Chief Risk Officer) as an empowered role with independent reporting lines to ensure unbiased and transparent reporting.

The CRO office must be supported by stronger, more experienced LOB Risk Officers with the ability identify, assess, and monitor enterprise-wide risks, including interconnected threats across the financial system. By proactively analyzing these risks, they advise on mitigation strategies and ensure the bank's long-term stability.

An additional layer of scrutiny by qualified directors on risk committees ensures a robust organization for risk management.

Establish organization structure and framework to bring the required focus for the change

Independent Risk Organization

Create Chief Risk Officer, Risk Management Committees to independently monitor & manage risks across enterprise

Enterprise Data Office

Establish Chief Data Officer organization to drive data foundation & governance needs across enterprise

Shared Services Group

Create Center of Excellence / Shared Services Group to improve expertise and deliver repeatable processes

Enhanced Risk Focus

As banks undergo the transformative journey of reaching a $100 billion asset size, several key focus areas emerge to ensure sustained success and resilience.

Heightened attention must be placed on **managing third-party relationships**, including the rationalization of fourth and fifth-party relationships. As the complexity of these relationships increases with growth, banks must prioritize due diligence and risk assessment to mitigate potential vulnerabilities.

There is a renewed emphasis on **cyber security risk management.** With the proliferation of digital channels and increasing cyber threats, banks must bolster their defenses to safeguard customer data and protect against cyber-attacks.

The **optimization of enterprise data and product management processes** becomes paramount. As banks expand, managing data efficiently and effectively becomes more challenging. Implementing robust data governance frameworks and enhancing product management processes are essential to drive operational efficiency and innovation in a rapidly evolving market landscape. By focusing on these critical areas, banks can navigate the challenges of growth while maintaining regulatory compliance and delivering value to stakeholders.

Enhanced Risk Management Framework

As banks transition to a $100 billion asset size, refining their risk framework becomes imperative to effectively manage the heightened complexities and exposures that accompany growth. A comprehensive risk management framework, tailored to the specific needs of a $100 billion asset-size institution is paramount to safeguarding financial stability and maintaining investor confidence.

It is crucial that the Bank revisits and revises the risk appetite statement aligning to the risk-taking activities with strategic objectives and ensuring consistency across the organization. This entails a comprehensive review of risk tolerances and thresholds to reflect the changing risk profile of the institution.

Implementing robust mitigation strategies is essential to proactively address emerging risks and vulnerabilities. This involves identifying potential threats, developing contingency plans, and allocating resources to mitigate risks effectively. By adopting a proactive approach to risk management, banks can enhance their resilience and safeguard against potential adverse impacts.

Furthermore, fostering transparent communications is paramount to promoting a risk-aware culture and enhancing stakeholder confidence. Clear and open communication channels facilitate the dissemination of risk-related information, enabling stakeholders to make informed decisions and better understand the organization's risk exposure. By prioritizing transparency and accountability, banks can strengthen trust and credibility, positioning themselves for sustained success in a dynamic and evolving financial landscape.

Strengthen Data Foundation & Modernize Data Management

As a bank surpasses the $100 billion mark in asset size, augmenting data management practices becomes imperative for sustaining growth and ensuring regulatory compliance. Establishing a robust data foundation serves as the bedrock upon which the institution can build its operations, innovate its services, and fortify its risk management strategies.

Fostering a culture of data literacy across the organization is essential. Empowering employees with the skills to understand, interpret, and leverage data effectively fosters innovation and agility. This helps in addressing data quality issues at source and every step of data transition. This coupled with collaboration between IT, data science, and business units ensures alignment on data requirements and integrity, promotes reuse, and develops a single source of truth, aligned to the strategic objectives.

Implementing stringent data governance frameworks becomes crucial to maintain data integrity, privacy, and security. Compliance with evolving regulations such as GDPR and CCPA not only safeguards customer trust but also shields the bank from potential legal ramifications.

In essence, as a bank expands beyond $100 billion in assets, prioritizing data management practices and laying a strong data foundation are indispensable for sustaining growth, enhancing operational efficiency, and mitigating risks in an increasingly complex financial landscape.

Invest in capabilities in data foundations, governance and management practices

Master Data Mgmt.

Invest in Customer Master Data and Product Hierarchy Management

Data Stewardship

Identify data owners (stakeholders) mapping to identify and correct the data to improve its quality

Critical Data Element Mgmt.

Identify and Manage Critical Data Elements that are crucial for Risk and compliance

Data Governance Framework

Establish policy & framework manage data quality, data lineage, and metadata mgmt.

SAY:	BEHAVE:	OPERATE:
Communicate the importance of data	Adjust behavior to be consistent with data first culture	Manage process, policy and structure to support data first culture

Invest in Technology Capabilities

Develop safe and secure software engineering practices for consistency

Banks should invest in cutting-edge technologies to automate business processes, strengthen cybersecurity measures, and leverage data analytics for predictive risk modeling and early detection of potential threats. By embracing innovation, banks can stay ahead of evolving regulatory requirements and emerging risks in the digital era.

Scaling data management practices involves investing in advanced technologies like machine learning and artificial intelligence to enhance data processing capabilities. This facilitates quicker insights extraction, improves customer profiling, and enables predictive analytics for better decision-making.

Developing safe and secure software engineering practices is paramount to manage the scale of growth. Implementing robust protocols ensures consistency, mitigates cybersecurity risks, and safeguards customer data. This involves adhering to industry standards, conducting regular security audits, and fostering a culture of vigilance among developers. Prioritizing secure coding practices, encryption, and access controls fortifies the bank's digital infrastructure against potential threats. By proactively addressing security concerns, the bank can uphold trust, compliance, and operational continuity amidst its growth trajectory.

1

Capabilities driven model IT investment

- Establish Enterprise Architecture Practices to IT Portfolio Management
- Leverage Business Capabilities driven model to invest in technologies capabilities

2

Invest in Software Engineering Practices

- Adopt DevOps capabilities to ensure safe and secure software development
- Promote automated testing, observability and monitoring practices

3

Establish Secure Data usage across SDLC phases

- Invest in test data management platform to create data set for lower environments
- Create framework and models to secure PII and PCI data

4

Invest in next gen cyber security platforms

- Establish IdP & Entitlement framework for customers, associates & partners for authentication & authorization
- Deploy next gen tools for firewall, data loss detection, muti cloud security, SaaS Risk Assessment, etc.

Talent Development

As a bank surpasses the $100 billion asset milestone, talent management practices become pivotal in driving sustained growth and maintaining competitiveness in the global financial landscape as the bank needs to figure out how to scale their organization. Augmenting capabilities through strategic talent management involves several key initiatives.

Investing in continuous upskilling and reskilling programs ensures that employees possess the necessary skills to adapt to evolving market trends, technological advancements, and regulatory changes. This empowers the workforce to remain agile and innovative amidst dynamic industry shifts.

As growth brings in newer challenging, equipping the workforce with fostering a diverse and inclusive work environment not only enhances employee morale and engagement but also brings a spectrum of perspectives crucial for effective problem-solving and decision-making in a global context.

Focusing on talent analytics can facilitate informed talent acquisition, development, and retention strategies. Identifying and nurturing high-potential talent ensures a pipeline of future leaders capable of steering the bank through its growth trajectory.

Establishing global talent networks and mobility programs enables the bank to tap into diverse skill sets and cultural insights across geographies, fostering collaboration and innovation on a global scale.

As the bank expands beyond $100 billion in assets, prioritizing talent management practices is essential for augmenting capabilities, fostering innovation, and positioning the institution for sustained success in an increasingly competitive and dynamic financial landscape.

Invest in local and remote workforces to be self reliant and mitigate risks

Talent Upskill

- Invest in talent acquisition & management
- Upskill existing resources for future requirements
- Build Robust Training and Development Programs

Global Workforce

- Establish Global Workforce strategy
- Stand up remote delivery centers to seamless operations
- Leverage vendors to manage burst and bandwidth

Future Planning

- Establish data driven talent acquisition & retention framework
- Invest in inclusion and diversity to promote creativity & innovation
- Identify critical roles & plan succession

Conclusion

Transitioning to a $100 billion asset size represents a significant milestone for banks, accompanied by both opportunities and challenges. By prioritizing regulatory compliance, risk management, and governance practices, banks can navigate this transition successfully and sustain long-term growth and profitability. It is imperative for banks to remain vigilant, adaptive, transparent, and proactive in addressing regulatory requirements and emerging risks in an ever-evolving banking landscape. With a strategic approach and a commitment to excellence, banks can position themselves for continued success and resilience in the dynamic financial marketplace.

SLK has extensive experience with banks of various asset sizes, primarily over $10 Billion. Our Consulting Group is equipped to play a pivotal role in assisting your bank's growth phase by providing tailored expertise and strategic guidance. Through thorough analysis, we can help identify inefficiencies, recommend optimized processes, and streamline operations to accommodate the bank's expanding scale. Additionally, we can offer technological advice on regulatory reporting ensuring alignment with industry best practices.

About Us

SLK is a global technology services provider focused on bringing AI, intelligent automation, and analytics together to create leading-edge technology solutions for our customers through a culture of partnership, led by an evolutionary mindset. For over 20 years, we've helped organizations across diverse industries - insurance providers, financial service organizations, investment management companies, and manufacturers - reimagine their business and solve their present and future needs. Being A Great Place To Work Certified, we encourage an approach of constructively challenging the status quo in all that we do to enable peak business performance for our customers and for ourselves, through disruptive technologies, applied innovation, and purposeful automation. Find out how we help leading organizations reimagine their business at https://www.slksoftware.com/