
Enhancing the Risk Assessment Process

ABA Stonier Graduate School of Banking
2019 Traditional Capstone Project

Brian J. Pinkerton
SVP, Corporate Governance & Risk Officer
First Mutual Holding Company
March 1, 2019



First Mutual Holding Co.

Contents

Executive Summary i

Introduction & Background 1

 History 1

 Business Model 3

 Overall Strategy 3

 Market Share Competition 4

 Financial Highlights 6

 Regulatory Agency Oversight 6

Capstone Introduction 6

Strategy & Implementation 7

 Overview of Opportunity 7

 Current Risk Assessment Process 8

 Project Objectives 9

 Central Risk Management Platform 10

 Workflow Management 10

 Strengthen Ownership and Accountability 10

 Aggregation / Automation 11

 Real-Time Reporting 11

 Key Decision Factors 11

 Ease of Use 11

 Functionality / Flexibility 12

 Technology 12

 Price 12

 Ncontracts 12

 Risk Taxonomy 14

 Strategic Fit 15

 Process Improvements 16

 Future Opportunities 17

 Implementation Schedule 17

Financial Impact 18

 Start Up & Implementation Costs 18

 Annual Operating Costs 23

Benefits and Cost Savings	25
Constraints.....	25
Summary.....	26
Non-Financial Impact	26
Organizational Hurdles	27
Resistance to Change	27
Insufficient Resources	28
Measures to Evaluate	29
Key Risk & Performance Indicators	29
Employee Productivity	30
Company's Reputation	31
Organizational Impact	31
Conclusion	32
Bibliography	34

Executive Summary

First Mutual Holding Co. is the largest depositor-owned, no-stock mutual holding company of its kind in the Midwest, with affiliate banks including First Federal Lakewood and First Mutual Bank, FSB. The Company, formed in 2015, is built on the belief that mutual community banks are essential to every community. The Company seeks to provide sustainable diversified financial solutions benefiting its customers and communities through perpetuation of the mutual ownership model. As of December 31, 2017, the Company accounts for \$1.83 billion in total assets, of which the loan portfolio attributes \$1.38 billion.

The Enterprise Risk team has discussed the need for a Governance, Risk and Compliance system that has the potential to dynamically improve the way the Company manages risk. The goals for this project are to install a value-add, cost effective system and to establish a risk taxonomy that is proportionate to the size and complexity of the Company while being able to support future growth.

After review and consideration, the Enterprise Risk team recommends moving forward with the investment and engage with Ncontracts as it is believed to be the best fit for the Company providing the most user-friendly, integrated solution for the best value.

The following results are expected to be achieved:

- Centralize risk management platform;

- Improve workflow management;
- Strengthen ownership and accountability;
- Data aggregation and automation; and
- Real-time reporting.

The Capstone will illustrate how the system can help the Company become more effective and proactive risk managers while relying less on subjectivity, which would be viewed favorably by the Company's regulators and build trust with its customers. The Capstone will cover the history of the organization, the challenges with the current processes, and the financial and non-financial impacts that are likely to occur.

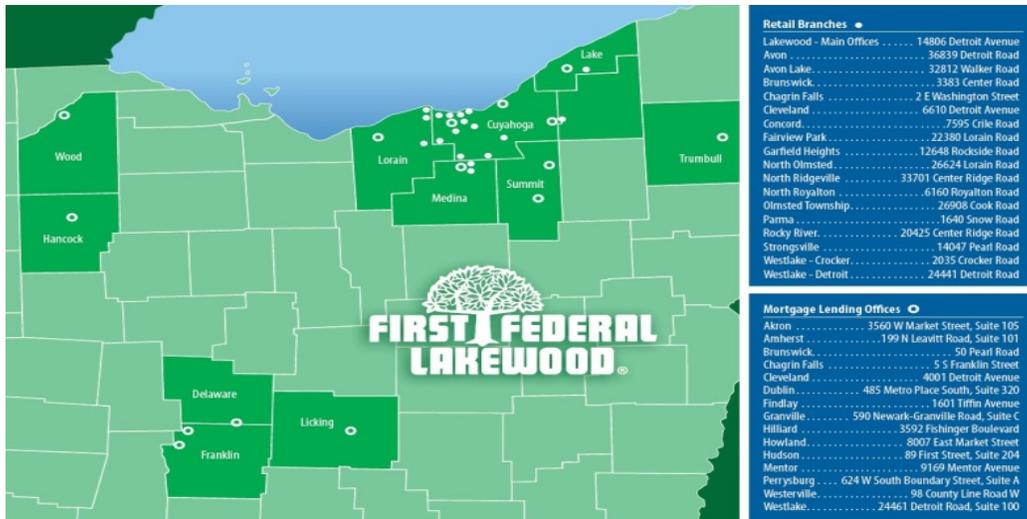
Introduction & Background

History

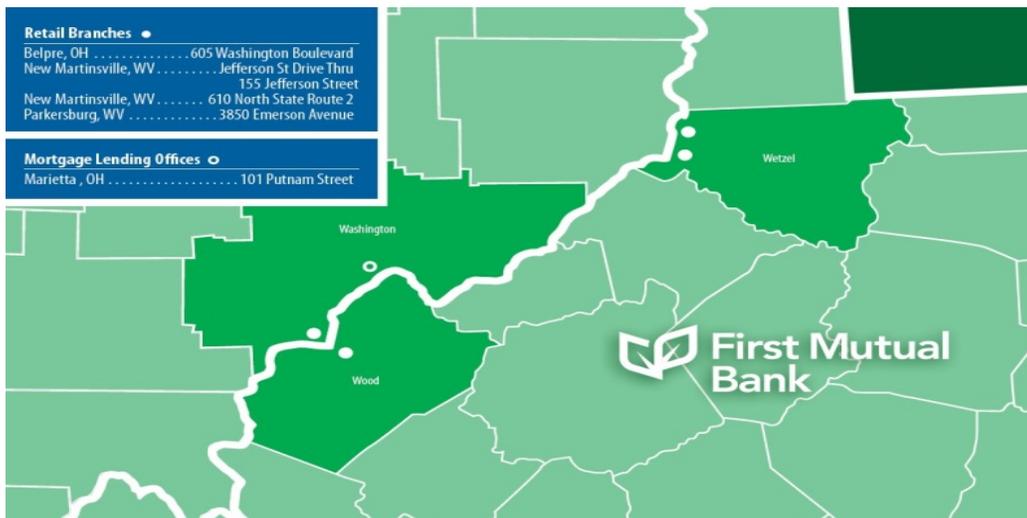
Headquartered in Lakewood, Ohio, First Mutual Holding Co. (FMHC) formed in 2015 as a depositor-owned, no-stock mutual holding company on the belief that mutual community banks¹ are essential to every community. FMHC is the largest member-owned mutual holding company of its kind in the Midwest.

First Federal Savings and Loan Association of Lakewood (FFL), the largest subsidiary of FMHC, is the largest independent, depositor-owned community bank headquartered in Ohio with \$1.78 billion in total assets. FFL has had a steady presence since 1935 serving over 55,000 customers with 18 branches and 15 mortgage loan production offices throughout the State of Ohio.

¹ A mutual community bank is a depositor-owned, no-stock bank, a structure that allows the bank to focus on taking a long-term view with its customers and communities investing customer deposits back into the communities it serves. This is in contrast to a stock-owned bank that typically focuses on performance for its shareholders.



First Mutual Bank, FSB (FMB), headquartered in Belpre, Ohio, affiliated with FMHC in 2018 when Belpre Savings Bank (a prior subsidiary of FMHC) and Doolin Security Savings Bank, FSB merged together. Combined they can better serve their customers and ensure both banks remain local. With \$94 million in total assets, FMB operates with four branches and one mortgage loan production office throughout the Mid-Ohio Valley.

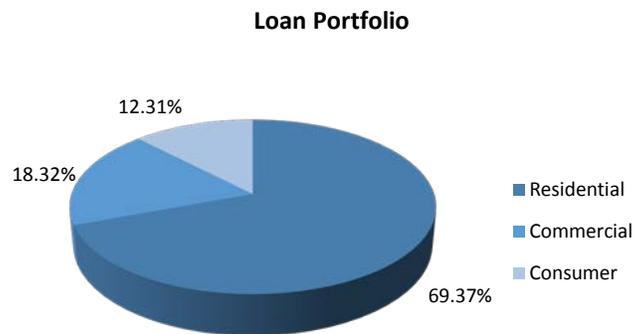


Throughout this business case, all references to FMHC and its subsidiaries, FFL and FMB, will be referenced generally as the “Company”.

Business Model

The Company seeks to provide sustainable diversified financial solutions benefiting its customers and communities through perpetuation of the mutual ownership model. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial, and consumer loans.

As of December 31, 2017, the Company accounts for \$1.83 billion in total assets, of which the loan portfolio attributes \$1.38 billion (or 75.76%):



Overall Strategy

The Company's management team is united by a commitment to mutuality and has extensive experience across multiple sectors of the banking industry, including large and mid-size stock banks. The Company offers financial solutions in its communities through its multi-bank structure.

Affiliates of the Company receive a wide range of benefits including access to:

- Broad suite of products and services;
- Shared services, including: information technology, accounting, human resources, marketing, internal audit, etc.;
- Economies of scale;
- Capital; and
- Preservation of autonomy.

The Company's appetite for growth is moderately aggressive with a focus on the following strategic imperatives:

- Perpetuate mutual form of ownership;
- Enhance the digital experience; and
- New market / business expansion.

Market Share Competition

Within the Company, FFL and FMB have finite growth limits in their respective markets and each face similar challenges from legacy balance sheets and external forces, such as Fintech disruption, the rate environment, etc.

Their peer group includes the following financial institutions:

- Chelsea Groton Bank
- Clifton Savings Bank
- Dedham Institution of Savings
- ESSA Bank & Trust
- First Federal Savings and Loan of Lorain
- Florence Bank
- Gate City Bank
- Hingham Institution for Savings
- Maspeth Federal Savings and Loan
- Needham Bank
- North American Savings Bank
- Sterling Bank and Trust
- Territorial Savings Bank
- Think Mutual Bank
- Union Savings Bank

FMB is too new to adequately compare them to peers; however, FFL comparisons include the following key performance metrics:

12/31/2017	Result	Peer Ranking
Tier 1 Leverage	10.18%	#13
Total Risk Based Capital	16.20%	#11
Total Equity Capital	9.99%	#14
Return on Assets	0.55%	#7
Efficiency Ratio	80.94%	#15
Nonperforming Loans to Charged off	8.43%	#3

Metrics from <https://www.BankRegData.com>

Financial Highlights

	12/31/2017	12/31/2016
Total Assets	\$1,830,734,047	\$1,677,339,567
Total Liabilities	\$1,645,587,544	\$1,498,422,095
Total Equity	\$185,146,503	\$178,917,472
Net Income	\$7,893,766	\$8,269,618

In 2017, the Company grew its consolidated total assets from \$1.67 billion in 2016 to \$1.83 billion (or 9.14%); however, net income shrank from \$8.26 million to \$7.89 million (or 4.54%).

Regulatory Agency Oversight

The Company's primary federal regulators are the Federal Reserve System who is responsible for the oversight of holding companies (FMHC) and The Office of the Comptroller of the Currency who is responsible for the supervision of all national banks and federal savings associations (FFL & FMB).

Capstone Introduction

As the Company continues to grow and become more complex, the regulatory expectations of the risk assessment process will intensify. The Company is looking to invest in a Governance, Risk and Compliance (GRC) software with the expectation of enhancing the risk assessment process throughout the organization. The desire is to identify a solution that will enable aggregation of

data, automation, and real-time reporting to allow for less dependency on subjectivity and provide a more comprehensive analysis of risk in decision making.

Strategy & Implementation

Overview of Opportunity

The purpose of this project is to evaluate the Company's current approach in an effort to optimize the way the Company assesses and monitors risks. The Company stands to benefit from the utilization of a GRC system through data aggregation, automation, issues management, and real-time reporting which will decrease its dependency on subjectivity.

My role for this project as the Company's Corporate Governance & Risk Officer, will be to perform the necessary due diligence to better understand the alternative solutions as well as assess the benefits and limitations of each solution to determine which is best for the Company. Members from Enterprise Risk, Compliance, and Internal Audit will be responsible for the execution while the Corporate Governance & Risk Officer will oversee implementation. No resources are allocated solely to this project; each have other job responsibilities and ultimate accountability resides with the Corporate Governance & Risk Officer regarding the success or failure of this project.

Current Risk Assessment Process

The enterprise risk program has been in place for nearly a decade and strives to be a best in class program to support the Company's current structure and future growth. Currently, the risk assessment process is manually conducted and highly subjective. Over the last year, the risk team has evolved the process to include the lines of businesses identifying, assessing, and monitoring its key risks, controls, and performance indicators via Excel on a semi-annual basis.

While considerable progress has been made, managing this information via Excel is not the most effective way to assess risk for an institution that continues to explore ways to grow. Operating within Excel presents two issues. First, the ability to aggregate data not only within one business area, but across multiple business areas to create an enterprise-wide risk assessment is a very manual and labor-intensive process. Secondly, utilizing Excel creates more opportunities for human error due to the manual nature of the process. For example, lines of businesses are expected to add new risks as they are identified and can unintentionally unformat select cells causing the spreadsheet to not function as intended.

Project Objectives

The primary objectives for this project are to install a value-add, cost effective GRC system and to establish a risk taxonomy that is proportionate to the size and complexity of the Company while being able to support future growth.

According to Racz, Weippl, and Seufert, an effective GRC system enhances a company's risk assessment process by taking "an integrated, holistic approach to corporate governance, risk and compliance ensuring that an organization acts in accordance with its self-imposed rules, its risk appetite and external regulations through the alignment of strategy, processes, technology and people, thereby leveraging synergies and driving performance."²

The initial intent of the Company implementing a GRC system is to establish a risk assessment tool incorporating issues management, key risk and performance indicators³, and control testing conducted by Internal Audit and Compliance to create a dynamic tool that creates real-time reporting.

The Company expects the following to be achieved:

² Racz, Nicolas; Weippl, Edgar; and Seufert, Andreas. *Frame of Reference for Research of Integrated Governance, Risk & Compliance (GRC)*.

<https://www.docplayer.net/3808645-A-frame-of-reference-for-research-of-integrated-governance-risk-and-compliance-grc.html> (accessed October 14, 2018).

³ Key risk and performance indicators are quantifiable measures used to evaluate how the Company is at reaching their targets.

- Central risk management platform;
- Improve workflow management;
- Strengthen ownership and accountability;
- Aggregation / automation; and
- Real-time reporting.

Central Risk Management Platform

A GRC system provides a centralized platform for which all risk information (i.e. risk assessment, control testing, issue tracking, vendor management, business continuity, etc.) is managed and monitored creating efficiencies.

Improve Workflow Management

A GRC system's workflow enables communication and data collection. Further, it keeps the data clean by requiring approvers throughout the risk and control evaluation process. Lastly, it serves as a way to document credible challenge when an approver may not necessarily agree with the evaluator.

Strengthen Ownership and Accountability

A GRC system strengthens ownership and accountability of departmental risks and controls by requiring a periodic assessment of their risk and control inventory.

Aggregation / Automation

A GRC system provides for the capability to aggregate and automate data analysis providing less reliance on subjectivity.

Real-Time Reporting

A GRC system creates real-time reporting through issues management, incident management, and key risk and performance indicators being integrated into the risk assessment process.

Key Decision Factors

When going through a formal request for proposal (RFP) process, many key factors should be considered:

- Ease of use;
- Functionality / flexibility;
- Technology; and
- Price

Ease of Use

Success begins and ends with support from the lines of businesses, so it is important that the GRC system be user friendly to the end user.

Functionality / Flexibility

A GRC system should provide functionality and flexibility that can easily incorporate the Company's risk taxonomy and ideologies. Ideally, configuration adjustments should be limited; however, the system should be flexible enough to accommodate.

Technology

When evaluating a GRC system, considerations must be given to how the solution aligns with the Company's technology infrastructure.

Price

The cost of the solution should be in line with the Company's budget.

Ncontracts

During the RFP process, the project team identified four potential providers who initially met the expectations of the Company. The team sat in on several walkthroughs and performed vendor due diligence to further narrow the providers and determined that Ncontracts was the best fit for the Company providing the most user-friendly, integrated solution for the best value. In addition, the dedicated support and training team further separated them from the other providers.

The following outlines the features of each of the solutions that will be installed.

Nrisk™ – “Nrisk is a dynamic risk management solution that measures potential impacts continuously, for the closest thing to real-time risk management you can get. Constant control monitoring in the form of weekly data collection prevents risk factors from building up, as opposed to quarterly manual processes, which produce results that are out-of-date by the time you’re reading them.”⁴

Nfindings™ – “Managing exam and audit findings can be a time-consuming process, usually performed manually with endless spreadsheets, documents, and emails. Nfindings eliminates the guesswork from findings management, so you can direct the best course of action, whether you’re dealing with the results of your latest audit or being proactive to prepare for an upcoming exam.”⁵

Nvendor™ – “Third-party risk represents one of the biggest potential risk factors for an organization. To tame third-party or vendor risk, you need comprehensive knowledge of your vendors.

Their financial status, continuity plans, and information security can

⁴ “*Your Control Center for Enterprise Risk Management.*”

<https://www.ncontracts.com/solutions/nrisk/> (accessed October 14, 2018).

⁵ “*Take the Lead in Findings Management.*” <https://www.ncontracts.com/solutions/nfindings/> (accessed October 14, 2018).

all have a direct effect on your organization. Managing all those factors can be quite a juggling act. Nvendor is your vendor management software solution.”⁶

Ncontinuity™ – “When life starts throwing tomatoes, you don’t miss a beat. Your business continuity plan outlines the steps to help your organization recover quickly and get back to work serving your community, and also helps you avoid compounding the initial incident with unforeseen costs and confusion. That’s why we created Ncontinuity, BCP software that simplifies the process of creating, testing and maintaining an effective business continuity plan.”⁷

Risk Taxonomy

The Company also needs to establish a common risk framework (i.e. risk taxonomy) to evaluate risks and issues throughout the three lines of defense (i.e. 1st line = Lines of Businesses, 2nd Line = Enterprise Risk, Compliance, Quality Control, etc., and 3rd Line = Internal Audit) to create consistency within the Company. It should provide high-level impact statements for each risk category and the likelihood of an event to occur, enabling more quantitative analysis

⁶ “Don’t Drop the Ball on Vendor Management.” <https://www.ncontracts.com/solutions/nvendor/> (accessed October 14, 2018).

⁷ “The Show Must Go On!” <https://www.ncontracts.com/solutions/ncontinuity/> (accessed October 14, 2018).

versus quantifiable analysis. The taxonomy will be embedded into the configuration of the GRC system.

Strategic Fit

This project fits very well with the Company's overall strategy of offering affiliates a wide range of benefits, which includes the utilization of the GRC system. The system allows management to be more proactive risk managers with real-time data providing more meaningful information that may influence the Company's strategic priorities and direction as it reduces certain types of risks or decides to take on more risk. Further, the flexibility of the system enables the organization to be adaptive to any changes in organizational structure as the Company continues to grow and potentially becomes more complex.

This project does not directly provide a competitive advantage to the Company's customers, but it does provide a competitive advantage to the Company itself as it seeks other mutual partners into becoming affiliates. In many cases, there are regulatory pressures behind the institutions that seek partnership. Typically, these pressures tie to either financial or compliance related matters requiring Board of Directors and / or management's attention, but unfortunately, the institutions cannot afford the luxury of having a dynamic tool in place to help them mitigate the risks presented at their institution. With this project, that the GRC system would be available to them as part of the affiliation.

Process Improvements

Many of the process improvements have already been highlighted above (i.e. central risk management platform, workflow management, aggregation / automation, real-time reporting, etc.). In addition, the risk taxonomy will create consistency in the evaluation of risks and issues and enable more proactive risk management with the risk assessments being more quantitatively driven.

In addition, the system will enable the Company to better aggregate data not only at the line of business level, but at the risk category level⁸ as well to ensure the Company manages its risk appetite for each risk category.

This project has the potential to change the risk culture across the Company, especially for departments outside of traditional risk management. This project will enable lines of businesses to better understand their own risks and issues and how those risks and issues impact the Company overall.

⁸ The Company monitors, manages, and assesses eight key risk categories: Credit, Interest Rate, Price, Liquidity, Operational, Reputation, Strategic, and Compliance.

Future Opportunities

The Ncontracts solution provides for many future opportunities as the initial implementation will improve the risk assessment process through the installation of Nrisk and Nfindings as described in the Process Improvements; however, with the installation of Nvendor and Ncontinuity there will be opportunity to further integrate those activities into the risk assessment process capturing and assessing third party concentrations, incident management, etc.

In addition, and as stated in the Strategic Fit, this project makes the Company more attractive to institutions seeking partnership with the Company.

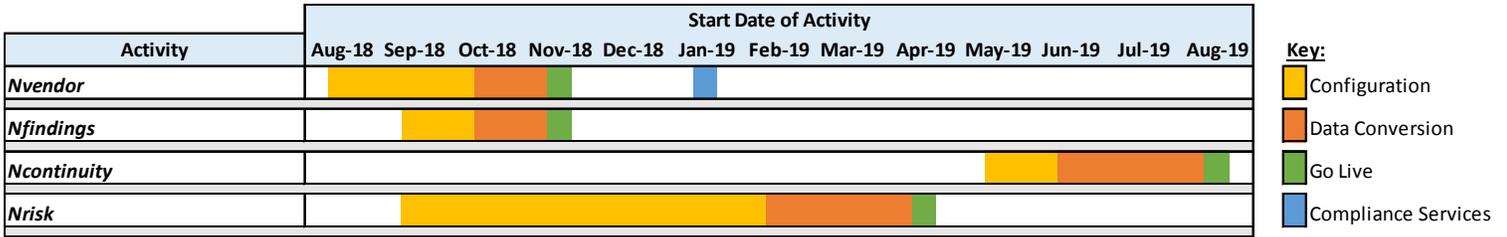
Implementation Schedule

The following is the proposed implementation schedule for the project team:

Solution	Key Activity	Start Date	Responsible Party
<i>Nvendor</i>	Configuration	August 2018	Enterprise Risk Compliance
	Data Conversion	October 2018	
	Go Live	November 2018	
	Compliance Services ⁹	January 2019	
<i>Nfindings</i>	Configuration	September 2018	Enterprise Risk
	Data Conversion	October 2018	Compliance
	Go Live	November 2018	Internal Audit

⁹ Compliance Services is an additional service provided by Ncontracts where they perform due diligence on all the Company's critical vendors.

Ncontinuity	Configuration	May 2019	Enterprise Risk
	Data Conversion	June 2019	
	Go Live	August 2019	
Nrisk	Configuration	September 2018	Enterprise Risk
	Data Conversion	February 2019	Compliance
	Go Live	April 2019	Internal Audit



Both the Nvendor and Nfindings solutions are being prioritized due to the fact current activities are associated with another vendor that has an expiring contract in January 2019. In addition, the common risk taxonomy has since been developed and approved by management and the Board of Directors in October 2018.

Financial Impact

Start Up & Implementation Costs

Investment in a GRC system can have significant costs associated with it, so it is essential to find a cost-effective system that corresponds to the size and complexity of the organization. Even though Ncontracts is not the least expensive provider, they are competitively priced and collectively rated the best

provider among the others when comparing the other key decision factors described above.

Solution	Implementation Cost	Software Fee	Training Expense
Nrisk	\$0	\$7,800	\$0
Nfindings	\$0	\$2,400	\$0
Nvendor	\$0	\$7,500	\$0
Ncontinuity	\$0	\$7,500	\$0

Total (Before Taxes)	\$25,200
Sales Tax	\$2,016
Total	\$27,216

The initial implementation costs associated with the installation of the GRC system are waived and include the initial review and / or drafting of policies and procedures for the Company. The software fee provides access to the Nrisk, Nfindings, Nvendor, and Ncontinuity online platform and the training expense is embedded in the software fee and provides the Company with access to qualified personnel to train the Company on the use of the platform. There is no additional cost for any customization of unique data fields, reporting features or other user requests that go beyond the universal system provided.

The initial term is for three (3) years and will automatically renew for successive one (1) year periods unless written notice of non-renewal is provided at least 60 days before the end of the then-effective term.

A resource reallocation to create centralization of key risk management activities involves a transfer of existing personnel costs from the Compliance department to the Enterprise Risk department resulting in higher overhead to the Enterprise Risk department. This resource's, the Enterprise Risk Analyst's, primary responsibilities are to serve as the administrator of the Company's GRC system, to serve as the point of contact for the Company's vendor management program, to assist in the completion of the business continuity and disaster recovery efforts, and to assist in the preparation of risk management reports to management and the Board of Directors. These activities are currently being performed by various departments throughout the Company, so this restructuring will optimize the Company's utilization of current resources and provides greater focus for these activities.

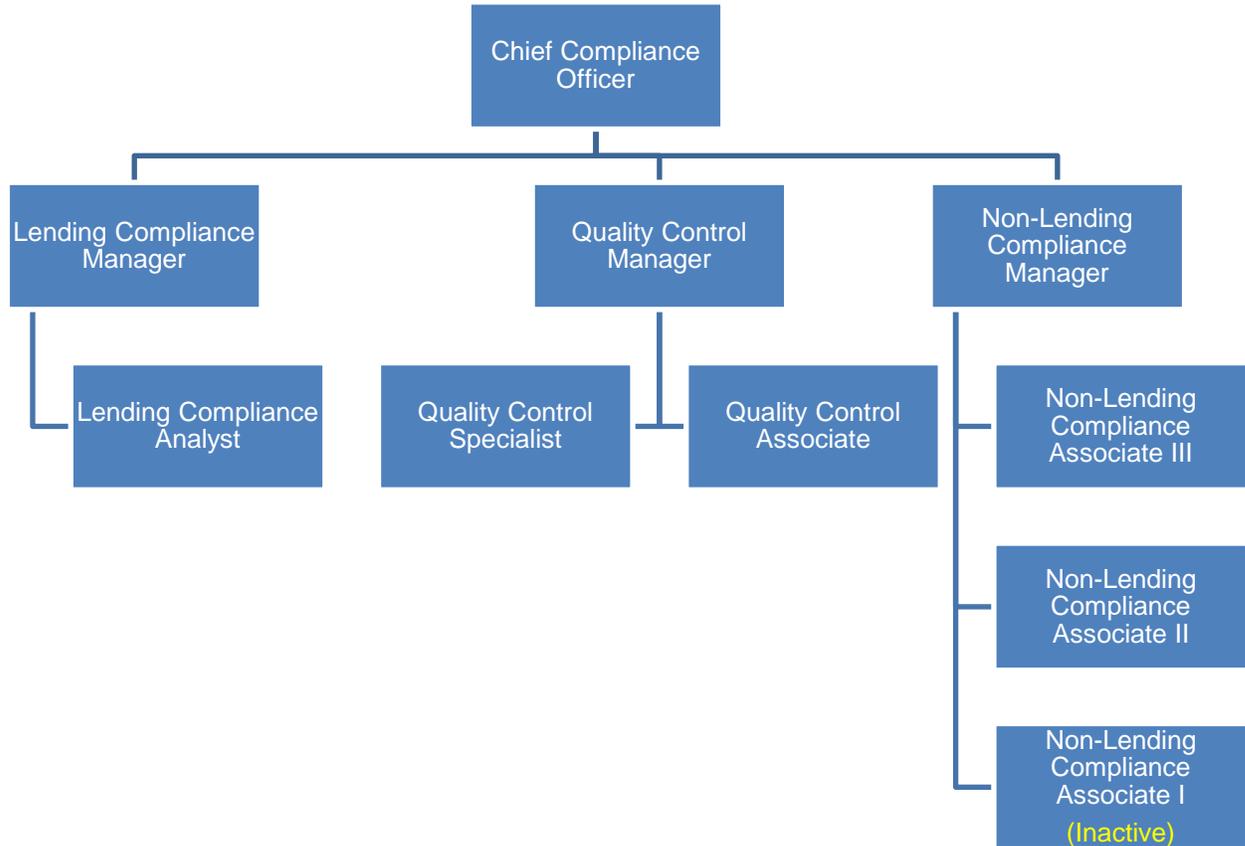
The resource will come from an existing position from the Compliance department, Non-Lending Compliance Associate I, and serve as a promotional opportunity for someone who is already involved with the Company's vendor management program and business continuity and disaster recovery efforts. This position will be inactive going forward and the additional responsibilities will be redeployed to other members of the Compliance department.

Since the resource would shift from one cost center to another, the only additional expense would be tied to the promotion that results in a \$2,500 salary increase. Also, no additional internal costs are expected to accrue during implementation as it is believed that no additional information technology (IT) resources will be needed to build and transfer data into the GRC system.

Enterprise Risk Department



Compliance Department



While this investment does not provide revenue to the Company, it is anticipated the GRC system will influence the Company's strategic direction for growing the Company and revenue streams while it assists management and the Board of Directors in managing key risks more effectively. Managing risk is a financial institution's top priority as viewed by investors, related directors and examiners (stakeholders). The best case and most likely scenario is that this investment will create efficiencies in the way the Company manages risks through a centralized platform through workflow management and data aggregation / automation, strengthening ownership and accountability throughout the Company. In

addition, it is expected this project will help protect the Company from any potential financial impacts by creating a more proactive environment in the way the Company manages its risk, which should improve strategic decision making as well as protect against any regulatory scrutiny and / or fines.

Annual Operating Costs

The annual operating costs over the next three (3) years include the following expenses:

Solution / Service	Software Fee	Services Fee	Training Expense
Nrisk	\$7,800	\$0	\$0
Nfindings	\$2,400	\$0	\$0
Nvendor	\$7,500	\$0	\$0
Compliance Services	\$0	\$9,720	\$0
Ncontinuity	\$7,500	\$0	\$0

Total (Before Taxes) \$34,920

Sales Tax \$2,794

Total \$37,714

Compliance Services, as described above, are additional services provided by Ncontracts that will begin post implementation. This is an increase of approximately \$20,000 per year compared to the Company's current risk

management system that only provides for issues management and vendor management due diligence.

Additionally, it is recommended that at least one member of the Company attend Ngage User Conference to stay up-to-date with the latest updates from Ncontracts. Expenses associated with the Conference would include the following per person:

Expenses	Cost
Conference Registration	\$325
Flight	\$300
Hotel	\$500
Transportation	\$75
Food	\$100
Total	\$1,300

There is potential down the road that additional resources might be needed as either the Company grows, and / or the complexity of the Company's risk management and compliance programs advance; however, that need is not expected within the next three (3) years.

Again, there are no revenue estimates associated with this project.

Benefits and Cost Savings

The implementation of a GRC system creates operational efficiencies; however, these efficiencies are hard to measure financially because the number of employees impacted is so broad. In addition, the real-time reporting enables management to be more proactive and could potentially save the Company from future losses and / or identify risks the Company could potentially take on to support future growth.

Constraints

The investment risks are considered to be low based on the minimal costs associated with the project. With the GRC system being an internet-based solution, there is risk of the information being unavailable for a period of time or, worst case scenario, of confidential information being compromised. This risk is managed through the Company's ongoing vendor management due diligence process that ensures the solution has adequate safeguards in place to protect the Company's information from security breaches.

That said, this investment would be considered one of the Company's highest risk third-party vendors because it becomes the primary tool the Company relies on to manage all of the other vendors (Nvendor) and other risk management activities, including risk control self-assessment (Nrisk), issues management

(Nfindings), and business continuity / incident management (Ncontinuity). A failure in any one of these areas could result in negative financial impact of an amount much greater than the cost of the system, justifying the expense.

Summary

As outlined above, the implementation of a GRC system is forecast to have minimal start-up costs of approximately \$30,000 (\$27,216 for solution + \$2,500 for additional resource expense). The annual operating costs are projected of approximately \$40,000 per year (\$37,714 for solution and services + \$1,300 for Ngage User Conference) for the next three (3) years. Based on the analysis described above, the investment is definitely worthwhile even though the efficiencies gained are hard to financially measure with the project posing minimal risk and non-material costs to the Company. Additionally, not pursuing the investment could lead to negative financial impacts because the current monitoring activities are not as effective as a GRC system would be.

Non-Financial Impact

The implementation of a GRC system could have several non-financial impacts for the Company. As stated in Strategy & Implementation, the initial goal of this project is to create a dynamic, centralized risk management tool that creates workflow management, aggregation and automation of data, and real-time

reporting, while strengthening ownership and accountability from the lines of business.

Organizational Hurdles

With the implementation of a GRC system, the following organizational hurdles should be considered: resistance to change and insufficient resources.

Resistance to Change

One of the primary obstacles facing most projects is the resistance to change from the employees who will be impacted by the change. Even though this project should streamline today's risk management efforts and provide more meaningful reporting, there will be employees who are comfortable with the way things have been done or are hesitant to learn something new.

Overcoming this hurdle can be accomplished through support from the top of the organization and a strong communication plan. The project team needs to spend a considerable amount of time upfront and ongoing with the management team and key department managers, so they understand the purpose and value of the GRC system. Their support will help eliminate some of the resistance met by their teams.

A strong communication plan will allow for open and ongoing discussion on how the project is progressing. Updates on the project will be communicated periodically to the Board of Directors through the Risk Committee and Audit Committee, to the management team through the Enterprise Risk Management Committee, and to the department managers through the Enterprise Risk Management Subcommittee. In addition, updates will be provided periodically to all employees through the Compliance department's newsletter. Frequent communication should help facilitate a successful outcome.

Insufficient Resources

Another hurdle the Company may face pertains to insufficient resources to support the Compliance activities previously performed by the Non-Lending Compliance Associate I. As described in the Financial Analysis, this position will become inactive going forward and the responsibilities not tied to this project will be redeployed to other members of the Compliance department. Should the activities related to those responsibilities outgrow the department's current personnel or regulatory expectations continue to expand, reconsideration for additional staff may be warranted.

Measures to Evaluate

There are several ways to evaluate the non-financial impact of this project, including, but not limited to, key risk and performance indicators, employee productivity, and the Company's reputation.

Key Risk & Performance Indicators

As described in Strategy & Implementation, the GRC system replaces a very manual, labor-intensive process for the Company to evaluate and monitor risk. Currently, lines of business provide their key risk and performance indicators via Excel to the Enterprise Risk team, and the team will then summarize the results in narrative form. Using a GRC system will enable aggregation and automation of data, and provide real-time reporting, creating a much more efficient and effective process to evaluate and monitor risk.

In addition, the risk taxonomy will further enhance the process by establishing risk tolerances for all key risk and performance indicators. Currently, only key Asset-Liability Committee (ALCO) risk and performance indicators have assigned tolerances. These key risk and performance indicators and associated thresholds will be configured into the system providing more meaningful and actionable reporting, strengthening ownership and accountability from the lines of business.

More effective oversight of the key risk and performance indicators should assist management and the Board of Directors in being more proactive by pinpointing them to areas in need of attention enabling them to make quicker, more-informed decisions that could potentially relate to future profitability and / or help avoid excessive losses. An effective system will heighten awareness to emerging risks and / or trends throughout the Company and allow the organization to further explore the impacts that new and / or modifications to existing products by measuring the risk versus return against the Company's tolerance.

Employee Productivity

Employee productivity is also likely to improve through the centralization of issues management and greater accessibility to risk assessments. The GRC's issues management solution, Nfindings, will house all internal (Compliance, Internal Audit, etc.) and external (External Auditors, Regulatory, etc.) issues providing the three lines of defense with access to their issues. Furthermore, Enterprise Risk, Compliance, and Internal Audit will have access to all issues providing them with valuable insight during the planning phase of their reviews allowing them to understand what has already been identified as an issue and how management has addressed or plans to address the issue. This access will also allow for Compliance and Internal Audit to focus on other areas knowing that the lines of business are already working through issues previously identified during the other's most recent review.

The GRC system also provides greater, more efficient access to risk assessments being performed throughout the Company via Nrisk. Currently, Compliance and Internal Audit must go through either the lines of business or Enterprise Risk to access the line of business's most recent risk assessment. Enterprise Risk, Compliance, and Internal Audit will have access to all risk assessments, which will assist them in their understanding of the risks and controls associated with the reviews they are performing.

Company's Reputation

Effective risk management protects the Company's reputation. Strengthening the risk management program by implementing an effective GRC system will enable the Company to be more proactive and responsive to potential threats. This reduces the likelihood and impact of adverse events or negative news helping to protect the Company's positive reputation it has built with its customers, communities, and regulatory bodies.

Organizational Impact

Successful implementation of a GRC system will have a positive, long-term impact to the Company's profitability by providing more efficient and effective risk management oversight to the Company.

Some key organizational impacts include:

- Management becoming more aware of their risks and controls providing them with a better understanding of the key risks across the Company facilitating improved decision making;
- Employees being encouraged to self-identify issues and raise them to the attention of management before a potential problem escalates thereby improving ethical behavior; and
- All three lines effectively identifying, tracking and reporting issues will eventually result in fewer issues.

Improvements in these areas will be viewed favorably by the Company's regulators as their expectations continue to grow. Further, proactive risk management will increase trust with the Company's customer base and ultimately become a competitive advantage.

Conclusion

Successful implementation of a GRC system has the potential to dynamically improve the way the Company manages risk. When fully implemented, the project will maximize the Company's risk assessment efforts by streamlining workflows, aggregating and automating data, and providing real-time reporting to allow for less dependency on subjectivity. These improvements will allow the Company to proactively monitor existing and emerging risks, which would be

viewed favorably by the Company's regulators and build trust with its customers. This can all be accomplished with minimal financial investment and supports the Company's efforts of providing a wide range of benefits to its affiliates that they otherwise could not afford. After review and consideration of four potential providers, the project team recommends moving forward with Ncontracts as it was determined that Ncontracts was the best fit for the Company providing the most user-friendly, integrated solution for the best value.

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