

Objective Setting

The ERM Program ensures that there is a process in place through which the Boards of the Company and the Banks establish a Strategic Plan to identify the goals and objectives that will support our overall mission; the strategies for achieving our goals and objectives; and the measures by which we will determine our success in fulfilling those goals and objectives. In addition, our ERM program ensures the alignment of the Strategic Plan with our Risk Appetite Statement and stress testing activities, as well as with our budget and our capital plan.

Event Identification

To recognize and identify risks to the achievement of our goals and objectives from internal and external sources, we survey our key Business Process Owners on a quarterly basis, and conduct monthly meetings of the EOG. In this way, we not only focus on the risks we are currently facing, but also on risks that may arise in the future from new business initiatives, as well as from changes in our size, structure, personnel, business, and other strategic interests.

Risk Assessment

We analyze the risks we face in order to formulate a basis for determining how they should be managed. Accordingly, risks are assessed on both an inherent and residual basis (i.e., before controls are established and after such controls are applied), with both the likelihood and the impact of the risk being gauged. The risk assessment process is collaborative in nature, and includes the Business Process Owners, the ERM Department, and the members of the EOG.

Risk Response

Management addresses cases where actual risk levels are approaching or exceeding established limits, and considers alternative risk response options in order to reduce residual risk to an acceptable risk tolerance level. This includes taking into account established contingency and/or remedial actions, as described within our policies.

Control Activities

Adequate controls are designed and effectively implemented and maintained to ensure that inherent risks are reduced to acceptable levels. These controls are management tools that can be adjusted if conditions or risk tolerances change.

Information and Communication

Relevant information is identified, captured, and communicated in a form and timeframe that enable all relevant parties across, up, and down the organization, to effectively carry out their responsibilities. The ERM Department utilizes various channels to communicate such information, and to document risk information derived from the quarterly ERM surveys and the ERM dashboard reports.

Monitoring

We monitor our actual performance metrics against Board-established warning levels and limits through the use of our ERM dashboard, and through the active engagement of the Risk Assessment and Capital Assessment Committees of the Boards. Reports are produced with sufficient frequency to ensure that timely action is taken, as needed.

Internal Audit

Internal Audit is responsible for validating the controls identified by Business Process Owners when performing internal audits of their respective areas of responsibility. In addition, Internal Audit is responsible for communicating its audit findings to the Chief Risk Officer and the ERM Department, who then revisit the self-assessment performed by each Business Process Owner.

ITEM 1A. RISK FACTORS

There are various risks and uncertainties that are inherent in our business. Following is a discussion of the material risks and uncertainties that could have a material adverse impact on our financial condition and results of operations, and that could cause the value of our common stock to decline significantly. Additional risks that are not currently known to us, or that we currently believe to be immaterial, also may have a material effect on our financial condition and results of operations. This report is qualified in its entirety by those risk factors.