



# Top 10 Bank Hot Topics

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WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor



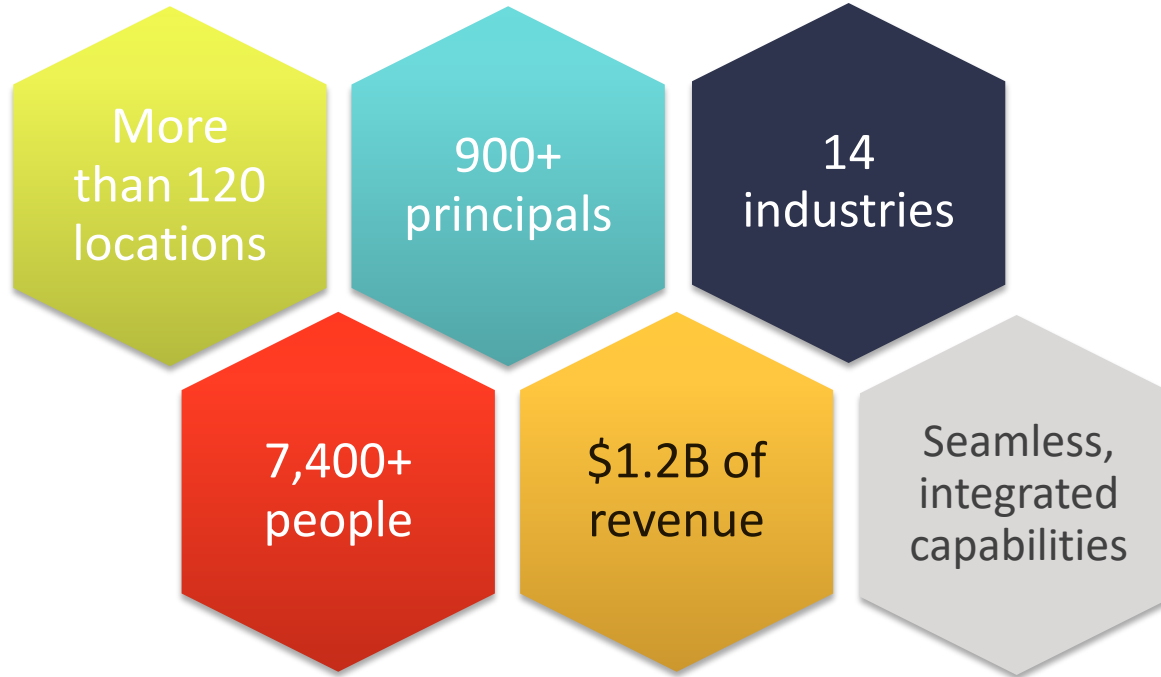
# About CLA

Financial Institutions Group

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# CLA Facts: Top 10 Firm



# The Four Essential Elements of the CLA Promise

## Our Purpose

CLA exists to create opportunities — for our clients, our people, and our communities.

## Our Promise

We promise to know you and help you.

## Our Family Culture

We're one family, working together to create opportunities.

## Our Strategic Advantages

Deep industry specialization  
Seamless, integrated capabilities  
Premier resource for private business and owners  
Inspired careers

## Driven by Our Values



### Curious

We care, we listen, we get to know you



### Collaborative

We help you seamlessly, bringing innovative teams to the table



### Transparent

We communicate clearly and authentically



### Inclusive

We embrace all voices and create opportunities for you in an energetic and inspiring environment



### Reliable

We respond in hours, not days; we follow through, protect our client data, and produce quality results



# Seamless Solutions for Financial Institutions

## Assurance & Tax

- Over 500 assurance clients
- Over 300 tax clients
- EBP audits
- HUD audits

## Risk

- Internal audit/SOX
- Regulatory Compliance
- Credit Risk
- BSA/AML
- IT and Cybersecurity
- Risk model validation
- Mortgage quality control

## Advisory

- Merger & acquisitions
- CECL
- PPP loan application and forgiveness
- Core contract negotiation and bidding
- Managed IT services



# Your Speakers



Pam has 25 years of financial services experience. She has more than 10 years of public accounting experience providing financial statement opinion audits, outsourced internal audit services, consulting and other specialized accounting services to financial institutions ranging from \$10 million to more than \$5 billion in assets. Pam also spent 10 years as a controller for various financial institutions.



Susan Sabo is a principal in the firm's Charlotte, North Carolina office and joined CLA in 2020 with more than 20 years of financial services experience. She began her career auditing financial institutions before moving into the financial services industry at small community banks and Fortune 500 companies. Susan has served in a variety of industry roles including controller, chief accounting officer, and business unit CFO. Susan has been involved in multiple mergers & acquisitions of sizes ranging from \$150 million to \$500 billion with engagement at all stages of the process. Contact Susan at [Susan.Sabo@CLAconnect.com](mailto:Susan.Sabo@CLAconnect.com).





# The Top 10...

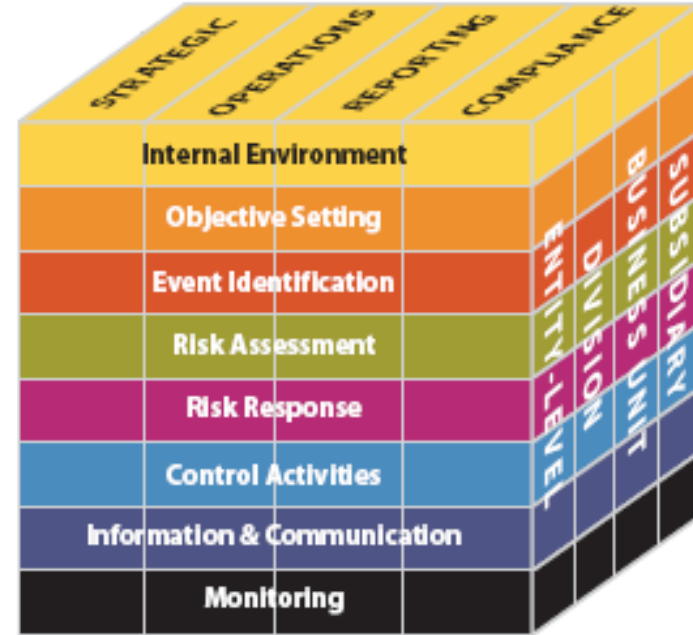
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# Hot Topic #1 – Enterprise Risk Management

## Why do we care?

- OCC 2021 Regulatory Priorities emphasize risk
- Current environment demands risk management
- Mindset vs. burden
- Governance and oversight are critical



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# Hot Topic #2 – Credit Risk

*The most common cause of bank failure occurs when the value of the bank's assets falls below the market value of the bank's liabilities, or obligations to creditors and depositors.*

**Credit Risk = Financial Risk + Business Risk + Structure Risk**

- Credit Risk
  - The potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms.
- Quantity of Risk vs. Quality of Risk
  - Quantity of Risk: outstanding balance loaned to a borrower
  - Quality of Risk:
    - ❑ Probability that default will occur
    - ❑ Guarantees/assurances that reduce the loss in the event of default



# Hot Topic #3 – Compliance Risk

- Need for Comprehensive Risk Assessments
  - Frequency
  - Materiality of the issue
  - Use it as a tool for focus, trends
- Regulatory focus on:
  - BSA/AML
  - CARES Act – loan forbearance/accommodation compliance
    - Collections (Fair Debt Collections Practices Act) – how are banks responding and replying **fairly**



# Hot Topic #4 – Mergers & Acquisitions

## DD Goals--Actionable Feedback

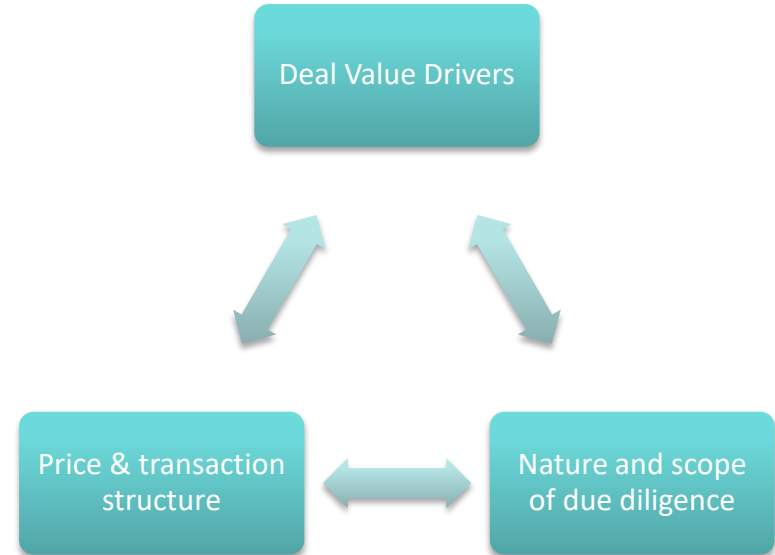
Identify and assess risks

Identify additional negotiation items

Identify/confirm synergies

Confirm or adjust valuation model

Provide input for definitive agreements



# Hot Topic #5 – ALLL

- Since 2010 (peak post-recession), ALLL had been steadily declining and then COVID arrived.
- **Heavy reliance on Q&E factors** since look-back losses are low
- Where are we heading post-COVID?
  - Good controls are critical
  - Strong procedures and processes for the calculation, understanding and review of the ALLL
  - Strong oversight by senior management and Board of Directors' review of past due, watch, and classified loan reports
  - Existence of an objective credit review function



# Hot Topic #6 – CECL

- Are you ready for January 1, 2023?
  - Effective for entities *other* than large accelerated and accelerated filers for periods beginning after December 15, 2022.
- **Do you have your plan and method?**
- Run your calculation parallel in 2022 before adoption
- Monitor early adopters
- Leverage available data
  - Federal Reserve Economic Data
  - Call Report Data



# Hot Topic #7 – Leasing

- New standard is effective for fiscal years beginning after December 15, 2021 (January 1, 2022, for calendar year-ends)
- Applies to all leases greater than 12 months (excluding lessor agreements)
- Must be recognized on the Balance Sheet upon commencement
- Required to identify all long-term lease agreements, perform a discounted cash flow to determine the asset and obligation
- **Implementation pitfall** – properly identifying the population of lease agreements:
  - This is not just real property but embedded in other service contracts such as ATMs and technology equipment.



# Hot Topic #8 – Cybersecurity

- Social Engineering –
  - Phishing which leads to clicking and installing ransomware, or providing passwords
  - Business email compromise – spoofed emails from executive team leads to payments to fraudulent accounts
- Ransomware attacks –
  - Most often a malicious file that was downloaded
  - Hackers want to encrypt everything they can reach, including backup files



# Hot Topic #9 – Third Party Risk Management

- Risk-based approach
  - Tailor due diligence and ongoing oversight based of materiality of the third party to the bank's business objectives & strategy.
- Vendors vs partners: Approach differently
  - Vendors – Who the bank buys products/services from
  - Partners – The bank partners with a 3<sup>rd</sup> party (i.e., FinTech) to offer products/services. Due diligence & ongoing monitoring/oversight should be done both on the product and the partner.
- Proposed Interagency Guidance on Third-Party Relationships





# Hot Topic #10 – Change Management

- Board & management oversight
  - Identify, measure and monitor changing/emerging strategic, operational and compliance risks
- Pandemic-related environment complexity:
  - Implementing new assistance programs (CARES Act, etc.)
  - Increasing loan modifications and forbearance accommodations
  - Evaluate customer complaints, and communications with customers associated with the COVID-19 pandemic
  - Increasing staffing disruptions, attracting & retaining talent





# Resources

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# Resources

- [Fiscal Year 2021 OCC Priorities](#)
- [OCC Spring 2021 Update](#)
- [ERM on the COSO Website](#)
- [Stop Ransomware](#) – Ransomware guide and training
- [FFIEC Handbook](#)
- [Proposed Interagency Guidance on Third Party Relationships](#)





# *Create Opportunities*

CLA exists to  
create opportunities —  
for our clients, our people,  
and our communities.



*SCAN ME*

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