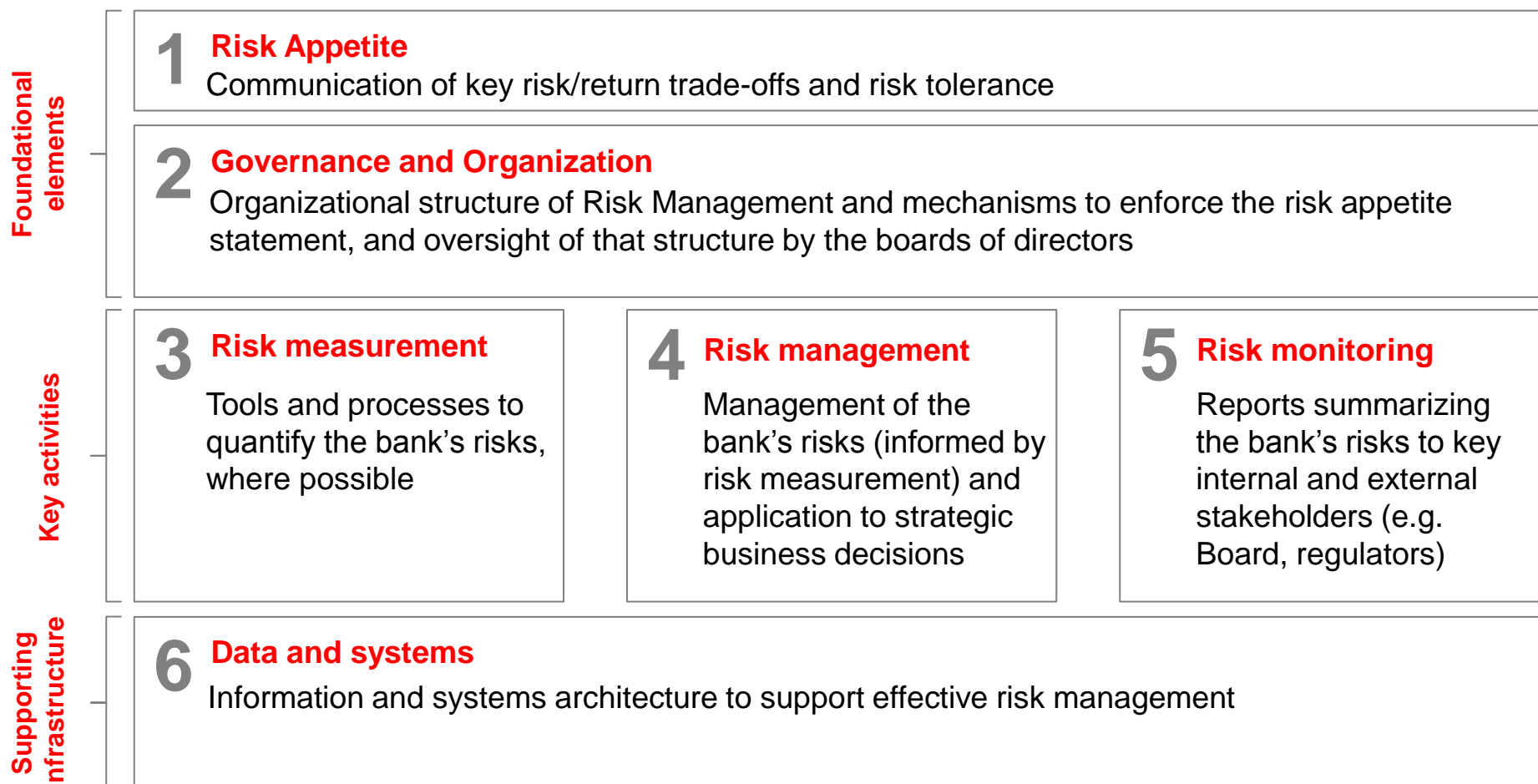


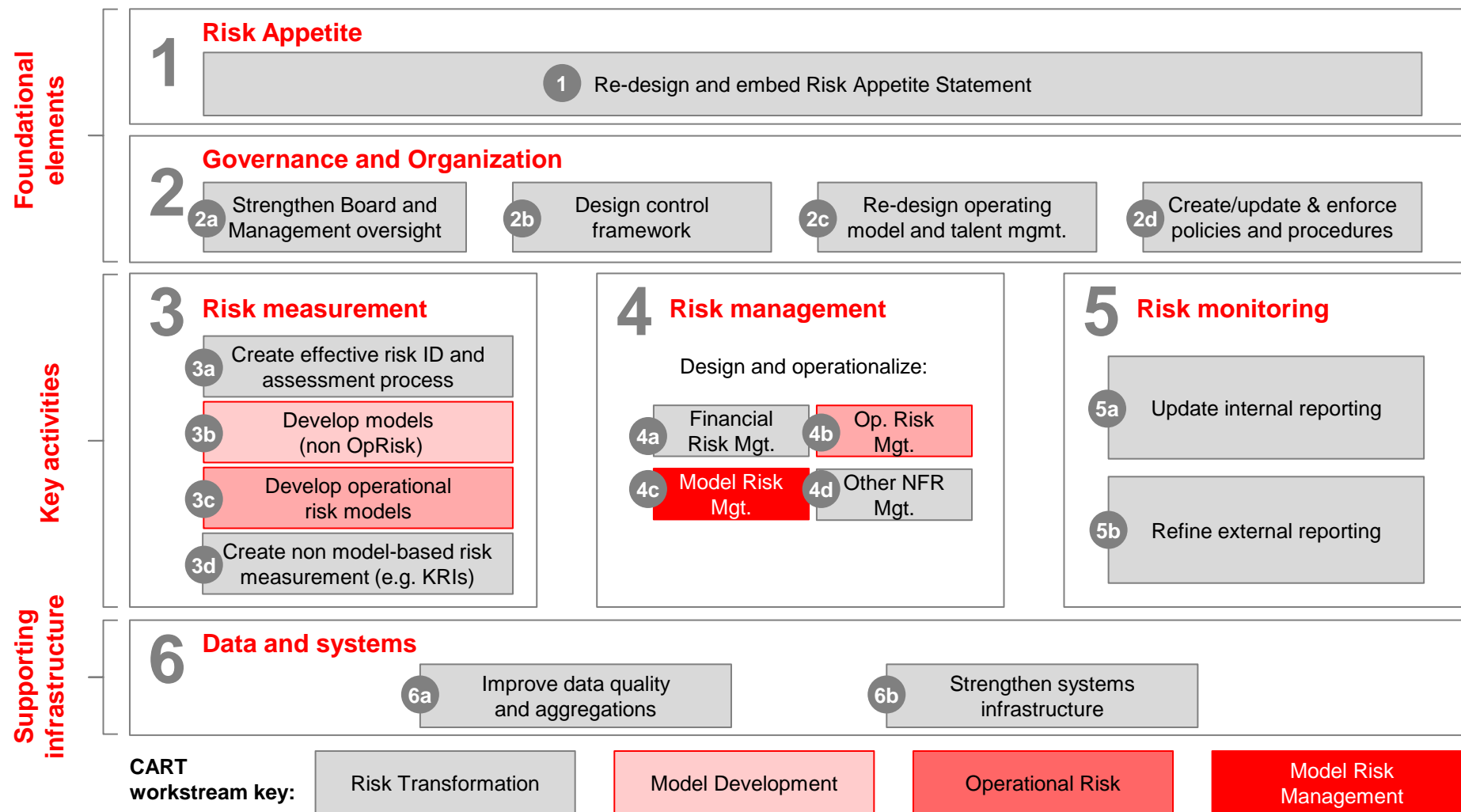
# Enterprise risk management framework



# For each dimension, we have described a high-level future vision, which will frame the set of work needed for Risk Transformation

	Dimension	Future vision
Foundational elements	Risk appetite	<ul style="list-style-type: none"> <li>Risk appetite statement is:               <ul style="list-style-type: none"> <li>A <b>measurable</b> and <b>understandable</b> articulation of desired risk profile</li> <li>The <b>binding constraint</b> on business activity and linked to capital</li> <li><b>Embedded</b> and <b>cascaded</b> across <b>SHUSA Enterprise</b></li> </ul> </li> </ul>
	Governance	<ul style="list-style-type: none"> <li><b>Strong “tone at the top”</b> to define expectations by line, backed up by Board &amp; Management oversight</li> <li><b>Operating model</b> based on Three Lines of Defense principles and well-defined parent-subsidary relations</li> <li>A <b>complete set of policies, procedures and controls</b> are enforced that cover all material risks</li> <li>Staff feel <b>accountable</b> and <b>empowered to own risks</b> across lines</li> </ul>
Supporting infrastructure	Risk measurement	<ul style="list-style-type: none"> <li>Existence of a repeatable <b>Risk ID &amp; assessment</b> process</li> <li><b>Models appropriately built and used</b> across the risk organization</li> <li><b>Non-model risk</b> measurement measures in place</li> </ul>
	Risk management	<ul style="list-style-type: none"> <li>Defined <b>set of expectations to detect risk</b>; consistent procedures across Enterprise</li> <li>Risk management activities cover <b>financial, operational, &amp; non-financial risks</b></li> </ul>
	Risk Reporting	<ul style="list-style-type: none"> <li><b>Right information</b>, at the <b>right time</b>, for the <b>right audience</b></li> <li>Information provided in a <b>concise, understandable and actionable format</b></li> </ul>
	Data and systems	<ul style="list-style-type: none"> <li>Data is comprehensive, timely, <b>accurate</b> and can be <b>easily aggregated</b></li> <li>Systems support efficient risk measurement, management, reporting</li> </ul>
Key activities		

# Risk Transformation requires setting the foundational elements for this workstream as well as Model development, Operational Risk and MRM



## We have identified a series of high-level activities for each initiative, the next step is coordination, agreement and prioritization (1/3)

Initiative	Activities
1. Re-design and embed Risk Appetite statement	<ul style="list-style-type: none"> <li>Re-design risk appetite statement for SHUSA enterprise (blend of qualitative and quantitative statements)</li> <li>Integrate risk appetite statement with enterprise-level planning activities, specifically capital and strategic planning</li> <li>Cascade risk appetite limits to the activities of subsidiaries and below (link to measurement and reporting)</li> </ul>
2a. Strengthen Board and Management oversight	<ul style="list-style-type: none"> <li>Develop mechanisms to help foster a strong “tone-from-the-top”</li> <li>Enforce Board Risk and Executive committee mandates</li> <li>Develop link to performance review and compensation for Risk and Business Executives</li> <li>Continue and enhance Risk training for the Board Risk Committee (curriculum to be determined)</li> <li>Enhance ability to demonstrate presence of credible challenge: Board to management; between lines of defense</li> </ul>
2b. Design control framework	<ul style="list-style-type: none"> <li>Enhance comprehensive controls framework (including SOX, non-financial controls, compliance, policies &amp; procedures, regulatory safety and soundness expectations) (link to operational risk)</li> </ul>
2c. Re-design operating model and talent management	<ul style="list-style-type: none"> <li>Rationalize risk organizational structure and clearly define roles &amp; responsibilities between SHUSA/subsidiaries</li> <li>Articulate 3LoD principles across the organization</li> <li>Articulate roles and responsibilities across all lines of defense with particular focus on first and second line – ensure closed loop system of checks-and-balances between the 3 lines (including internal audit)</li> <li>Design risk management organizational model that is aligned with 3LoD principles and is effective across the enterprise (including headcount)</li> <li>Recruit and onboard necessary talent</li> <li>Perform Risk culture assessments and roll out risk culture initiatives (articulation, communication, reinforcement, etc.)</li> <li>Enhance risk-based compensation and performance assessment across the organization</li> </ul>
2d. Create/update policies and procedures	<ul style="list-style-type: none"> <li>Review policy inventory: <ul style="list-style-type: none"> <li>Merge or create policies and procedures as required</li> <li>Standardize policies &amp; procedures across enterprise (SHUSA policies cascade to subsidiaries via procedures)</li> </ul> </li> <li>Enforce policy attestation process tied to Senior Management incentives</li> </ul>
3a. Create effective risk identification and assessment process	<ul style="list-style-type: none"> <li>Enhance and roll-out consistent, systematic risk identification and assessment process within clear risk taxonomy and hierarchy (link to OpRisk)</li> <li>Create process to achieve continuous assessment of exposures and evolution of risk profile</li> </ul>

## We have identified a series of high-level activities for each initiative, the next step is coordination, agreement and prioritization (2/3)

Initiative	Activities
3b. Develop models (excluding OpRisk)	<ul style="list-style-type: none"> <li>To be coordinated with Model development workstream</li> </ul>
3c. Model development (OpRisk)	<ul style="list-style-type: none"> <li>To be coordinated with Operational Risk workstream</li> </ul>
3d. Non model-based risk measurement (e.g. KRIs)	<ul style="list-style-type: none"> <li>Develop comprehensive system of KRIs and other metrics to enhance enterprise risk monitoring (large OpRisk component, link to Operational Risk)</li> </ul>
4a. Design and operationalize Financial Risk Management	<ul style="list-style-type: none"> <li>Enhance credit risk management processes (e.g. credit approval, delegation of authority, ongoing portfolio monitoring)</li> <li>Ensure alignment in credit process across the enterprise</li> <li>Review, enhance where appropriate, market risk management processes</li> </ul>
4b. Design and operationalize Operational Risk Management	<ul style="list-style-type: none"> <li>To be coordinated with Operational Risk workstream</li> </ul>
4c. Complete design and operationalize Model Risk Management	<ul style="list-style-type: none"> <li>To be coordinated with Model Risk Management workstream</li> </ul>
4d. Design and operationalize other non-financial risk management	<ul style="list-style-type: none"> <li>Review/rationalize efficacy &amp; efficiency of compliance management process</li> <li>Design reputational risk framework that is aligned to other NFR frameworks within the enterprise</li> </ul>

## We have identified a series of high-level activities for each initiative, the next step is coordination, agreement and prioritization (3/3)

Initiative	Activities
5a. Update internal reporting	<ul style="list-style-type: none"><li>• Define reporting landscape (audience, content, frequency) – includes Board, ERM, BU heads, etc.</li><li>• Develop and launch action oriented reporting templates for different audiences (link to Organization and Governance and all Risk Management)</li><li>• Enforce clear tracking of open issues and remediation efforts (link to Organization and Governance and all Risk Management)</li></ul>
5b. Refine external reporting	<ul style="list-style-type: none"><li>• Develop timely reporting mechanisms and processes to satisfy external reporting requirements</li></ul>
6a. Improve data quality and aggregation	<ul style="list-style-type: none"><li>• Determine data requirements and Key Data Elements for Risk Management</li></ul>
6b. Strengthen systems infrastructure	<ul style="list-style-type: none"><li>• Determine systems requirements for Risk Management</li></ul>