

# CPG’s External Risk Events Report

Capital Performance Group tracks events at banks across the country which could have risk implications for the industry.

The report focuses on events at large banks in the United States – institutions with assets of \$30.0B or more.

Within each risk type, events are sub-divided into three categories based on the relative size of the fine or penalty levied against the institution in question:

HIGH IMPACT	MEDIUM IMPACT	LOW IMPACT
Penalties of equivalent to 5.0% or more of average quarterly net income	Penalties equivalent to between 2.5% and 5.0% of average quarterly net income	Penalties equivalent to between 0.0% and 2.5% of average quarterly net income

The report contains a recap of legislative actions, proposed regulatory rules and enforcement actions among U.S. regulatory agencies involved in financial oversight.

A column is provided on each page to mark those events that are most relevant to your institution. Each report can be customized to best suit the risk-needs of the individual subscribing organization. A template to help you determine the appropriate next steps to address risk in the impacted areas is provided on page 37.

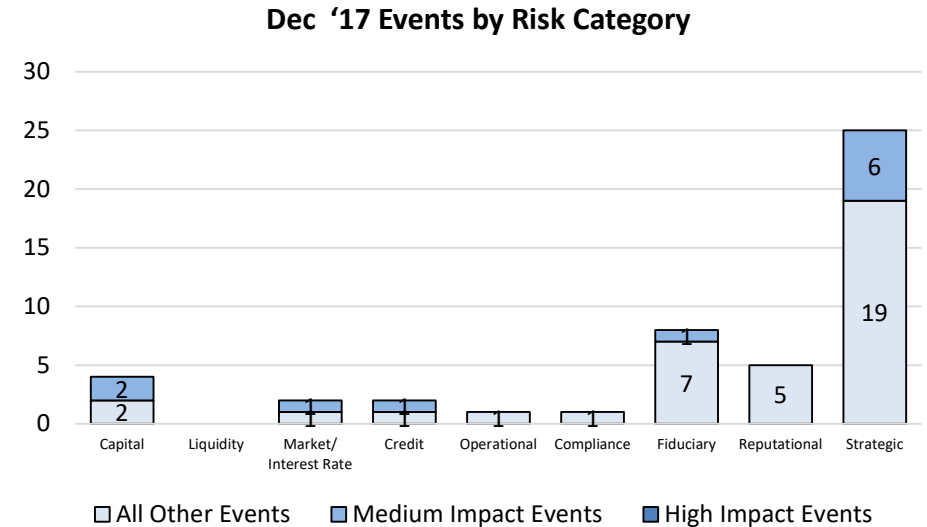
External events are organized under nine types of risk for easy review:

- 1. Capital** – changes to markets or regulations that could impact an institution’s ability to remain well-capitalized
- 2. Liquidity** – changes to markets or regulations that could impact an institution’s ability to fund its assets
- 3. Interest Rate** – changes or potential changes to rates
- 4. Credit** – instances of increased charge-offs or nonperforming loans in a particular credit segment
- 5. Operational** – when the failure of a system, process, or person results in a loss or penalty
- 6. Compliance** – when an institution is penalized due to noncompliance with a law or regulation
- 7. Fiduciary** – when an institution fails to act in the best interest of either shareholders or clients
- 8. Reputational** – ongoing lawsuits/investigations and settlements of lawsuits
- 9. Strategic** – changes in the competitive environment of a market that could impact the ability of other institutions to meet their strategic goals

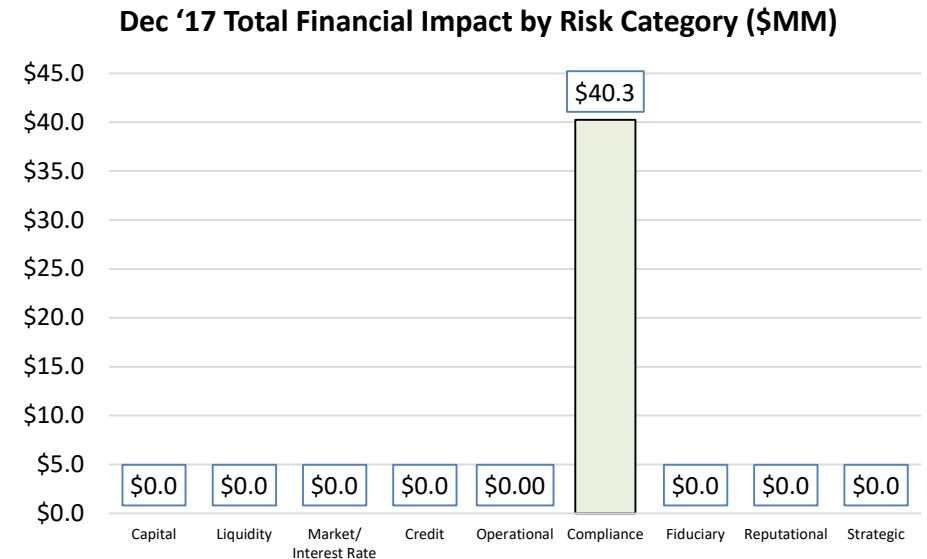
For more information, please contact **Claude Hanley**, Partner at 202-337-7875 or [chanley@capitalperform.com](mailto:chanley@capitalperform.com)

# Overview – December 2017

High Impact Events	Risk Type	Financial Impact to Bank in Question
<div style="border: 1px solid black; border-radius: 15px; padding: 10px; background-color: #e6f2ff;"> <p><b>No single event in December had a great enough financial impact to be considered “high priority.”</b></p> </div>		



Categories with External Events
<ul style="list-style-type: none"> <li>• Capital Risk (see pg. 8)</li> <li>• Market/Interest Rate Risk (see pg. 11)</li> <li>• Credit Risk (see pg. 13)</li> <li>• Operational Risk (see pg. 15)</li> <li>• Fiduciary Risk (see pg. 16)</li> <li>• Compliance Risk (see pg. 17)</li> <li>• Reputational Risk (see pg. 21)</li> <li>• Strategic Risk (see pg. 24)</li> </ul>



# Overview – December 2017

WATCHLIST: MEDIUM IMPACT EVENTS
<p><b>Capital Risk</b></p> <ul style="list-style-type: none"> <li>Resolution plans for 8 of the largest U.S. banks received passing grades, though 4 banks were told that shortcomings were found, page 8.</li> <li>Banks are expecting large one-time hits to their deferred tax asset holdings, as a result of the new tax bill, page 9.</li> </ul>
<p><b>Market/Interest Rate Risk</b></p> <p>The Federal Reserve increased its federal-funds rate to between 1.25% and 1.5%, page 11.</p>
<p><b>Credit Risk</b></p> <p>In 3Q17, the percentage of performing first-lien mortgages remained steady from last year, and the number of new foreclosures dropped over the same period, page 13.</p>
<p><b>Compliance Risk</b></p> <p><b>HSBC Holdings Plc</b> has announced that the U.S. Department of Justice (DOJ) will file a motion to dismiss money laundering charges against the bank, page 17.</p>
<p><b>Strategic Risk</b></p> <ul style="list-style-type: none"> <li>Four banks have been granted waivers, allowing them to continue to manage pensions and individual retirement accounts, page 24.</li> <li><b>Fifth Third</b> and <b>Wells Fargo</b> announced raises and bonuses in the wake of the recently enacted federal tax cut, page 25.</li> <li><b>Citigroup</b> and <b>CME Clearing</b> have partnered to launch a real-time distributed ledger platform, page 25.</li> <li><b>Morgan Stanley's</b> Wealth Management launched an online investing robo-advisor platform, page 25.</li> <li>20 firms have begun to engage in bitcoin futures trading, page 26.</li> <li>The Financial Accounting Standards Board's revenue recognition changes take effect in 1Q18 and may surprise banks that have not fully evaluated the effects of the change, page 26.</li> </ul>

## Notable Regulatory & Legislative Events

- President Donald Trump signed the Tax Cuts & Jobs Act into law.
- The Consumer Financial Protection Bureau (CFPB) plans to reopen its rulemaking for the Home Mortgage Disclosure Act (HMDA).
- The Senate Banking Committee approved a bill to raise the asset threshold for designation as a Systemically Important Financial Institution (SIFI). The House passed their own version of the bill that would change the SIFI criteria.
- The CFPB said it would be issuing its final amendments to its prepaid accounts rules "soon after the new year."

*See pages 4 to 7 for more information*

## Significant Management Changes

- Ally Financial's** CFO is retiring, effective March 1, 2018.
- M&T Bank's** CEO passed away.
- KeyCorp's** CRO is retiring in 2018.

*See pages 33 to 34 for more information*

## Regulatory Events

### 1. Investment Companies ask Securities and Exchange Commission (SEC) to Look Into Market Data Businesses:

Two dozen of the largest investing and trading companies on Wall Street sent a letter that asked the SEC to institute rule-making proceedings surrounding exchanges' increasingly profitable market data businesses. "Today, for-profit exchanges enjoy an oligopoly over the dissemination and sale of market data," the letter read. The letter asked the SEC to consider requiring the exchanges to disclose fee-related information and introduce a public notice and comment process for SEC review related to market data fees. The companies also requested that the SEC review equity market data fee structures. The letter was signed by **E\*TRADE Financial Corp.** (\$60.4B; New York, NY), **Morgan Stanley** (\$853.9B; New York, NY), **Citigroup Inc.** (\$1.9T; New York, NY) unit **Citigroup Global Markets Inc.**, **Interactive Brokers Group Inc.** (\$59.8B; Greenwich, CT), **Charles Schwab Corp.** (\$230.7B; San Francisco, CA), and **UBS Group AG** (\$945.6B; Zurich, Switzerland) unit **UBS Securities LLC**.

### 2. Agencies to Raise Loan Commitment Threshold for Shared National Credit Program:

The Board of Governors of the Federal Reserve System (Federal Reserve), the Federal Deposit Insurance Corp. (FDIC) and the Office of the Comptroller of the Currency (OCC) announced that they would be jointly raising the threshold of the aggregate loan commitment for the Shared National Credit program from \$20.0MM to \$100.0MM. The threshold is expected to lift the reporting burden for 82 lenders, while at the same time only decreasing the shared national credit portfolio by 2.0%.

### 3. CFPB to Reopen HMDA Rulemaking:

The CFPB said that it plans to reopen its rulemaking for HMDA and will not assess penalties against mortgage lenders for any errors in data collected next year. "The bureau does not intend to assess penalties with respect to errors in data collected in 2018 and reported in 2019," the CFPB said in a press release. "Collection and submission of the 2018 HMDA data will provide financial institutions an opportunity to identify any gaps in their implementation of amended Regulation C and make improvements in their HMDA compliance management systems for future years. Any examinations of 2018 HMDA data will be diagnostic to help institutions identify compliance weaknesses and will credit good faith compliance efforts."

Mortgage lenders have complained about the CFPB's changes made in 2015 to Regulation C. Some of the data is mandated by the Dodd Frank Act, but under former Director Cordray, the Bureau added 25 new data points and modified 14 others, in addition to the existing 9 that were already part of required reporting.

### 4. Randal Quarles Recuses Himself from Wells Fargo

**Decisions:** Randal Quarles, the Federal Reserve's vice chairman for supervision, said that he is recusing himself from any decisions relating to **Wells Fargo & Co.** (\$1.9T; San Francisco, CA). Quarles' father-in-law was chairman and CEO of a bank that Wells Fargo purchased. Quarles said that he was legally cleared to participate in any Wells Fargo matters but is declining to do so to "avoid even the appearance of a conflict of interest."

## Regulatory Events, continued

5. **CFPB to Issue Prepaid Card Rule Changes in Early 2018:** The CFPB said it would be issuing its final amendments to its rule regarding prepaid accounts "soon after the new year," meaning that the agency will likely further postpone the rule's implementation date. The prepaid rule is intended to limit consumers' losses when prepaid debit cards are stolen or lost and was set to go into effect in April 2018.
6. **SEC Staff Issue Guidance on Tax Accounting Implications of the Tax Cuts & Jobs Act:** On December 22, 2017, the SEC announced new staff guidance on the accounting impacts of the Tax Cuts and Jobs Act to publicly-traded companies. The SEC issued the following interpretations:
  - Staff Accounting Bulletin (SAB) No. 118: Provides a "measurement period" for companies to evaluate the impacts of the Tax Act on their financial statements.
  - Compliance and Disclosure Interpretation 110.02: Confirms that the accounting implications of the Tax Act generally will not trigger an impairment disclosure obligation under Item 2.06 of Form 8-K

# Legislative Events

**1. Tax Reform Bill Signed:** On December 22, 2017, President Donald Trump signed into law the new tax reform bill, the Tax Cuts & Jobs Act. According to CNBC, banks stand to be huge beneficiaries under the new tax code.

An analysis by **Goldman Sachs Group, Inc.** (\$930.2B; New York, NY) found an average of a 13.0% boost to bank earnings in 2018 from a reduction in the U.S. corporate tax rate and other changes. Those other changes include a new limit on the deduction of FDIC premiums paid by banks, which would cut most big banks' earnings by 1.0%, as well as changes in international taxation and the loss of various tax credits. Banks with a bigger international presence generally would get a more modest boost to profits.

Goldman Sachs estimated that **Wells Fargo** would emerge as the biggest winner from the tax reform bill by getting an 18% boost in EPS, higher than projections for the largest financial institutions based in the U.S. The report estimated a 16% EPS boost for **Bank of America Corp.** (\$2.3T; Charlotte, NC), a 10% increase for **Citigroup**, a 13% increase for **JPMorgan Chase & Co.** (\$2.6T; New York, NY), an 11% increase for **Morgan Stanley**, a 16% increase for **PNC Financial Services Group Inc.** (\$375.3B; Pittsburgh, PA) and a 13% increase for **U.S. Bancorp** (\$459.2B; Minneapolis, MN).



**2. Senate Banking Committee Approves Bill to Raise Regulatory Threshold:** On December 7, 2017, a regulatory relief bill passed the Senate Banking Committee, it still faces numerous steps before becoming law. The bill was passed in bipartisan fashion, and unlike previous efforts to pare back the Dodd-Frank Act, lobbyists are optimistic that this one will succeed.

According to the *American Banker*, the bill is a significant win for small and medium sized banks. It raises the Dodd-Frank asset threshold for being designated a Systemically Important Financial Institution (SIFI) from \$50.0B to \$100.0B immediately, and then to \$250.0B after 18 months. The bill would also only make banks above \$250.0B go through company run stress-tests.

Community banks with assets under \$10.0B get the most out of the deal. They have an “off-ramp” from capital and liquidity requirements if they maintain a leverage ratio between 8.0% and 10.0%, and are exempt from the Volker rule, which is a proprietary trading ban, if they hold minimal trading assets. Also, for banks that fall within that category, certain mortgages held on portfolio are also automatically considered a “qualified mortgages” under the CFPB’s underwriting rules.



## Legislative Events

- 3. House Passes Bill to Alter SIFI Designation Criteria:** The House passed a separate bill that would change the criteria for designating a SIFI. The bill would end the \$50.0B in assets threshold and instead implement a formula that the Federal Reserve uses to determine the amount of extra capital that banks need to hold.

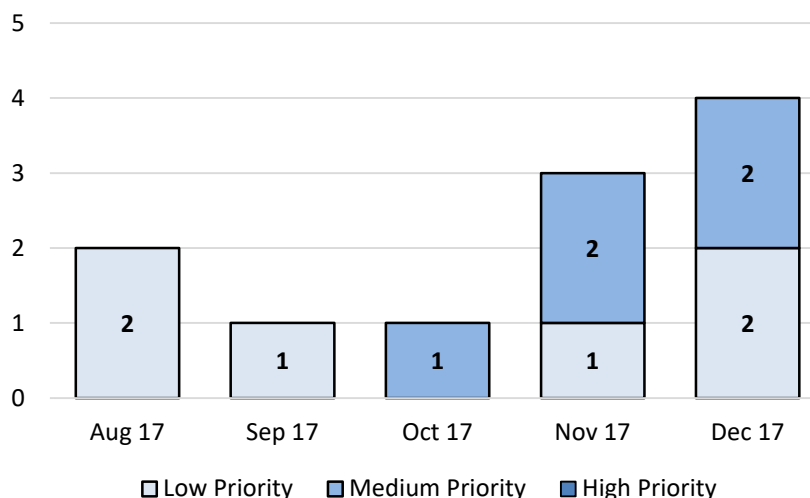


# Capital Risk

DATE: DECEMBER 19, 2017

EVENT	Resolution plans for 8 of the largest U.S. banks received passing grades from the Federal Reserve and the FDIC, although 4 banks were told that shortcomings were found in their resolutions plans. <b>Wells Fargo, Bank of America, Goldman Sachs</b> and <b>Morgan Stanley</b> were notified of shortcomings that must be fixed by July 1, 2019, when the banks are scheduled to submit the next version of their resolution plans. <b>JPMorgan Chase, Bank of New York Mellon Corp.</b> (\$354.4B; New York, NY), <b>Citigroup</b> , and <b>State Street Corp.</b> (\$236.0B; Boston, MA) did not have shortcomings in their resolution plans, but regulators did note 4 areas in which all of the banks could improve: “intra-group liquidity; internal loss-absorbing capacity; derivatives; and payment, clearing, and settlement activities.”	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		TBD	MEDIUM	

Trend in CAPITAL Risk Events





## Capital Risk, continued

DATE: DECEMBER 6, 2017

EVENT		Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
	<p>Banks are expecting large one-time hits to their deferred tax asset holdings, as a result of the new tax bill, the Tax Cuts &amp; Jobs Act. The CFO's of <b>JPMorgan Chase</b> and <b>Citigroup</b> disclosed the expected effects, with Citigroup CFO John Gerspach estimating an upfront hit of \$20.0B. This expense is mostly related to a write-down of their deferred tax assets, as well as a repatriation tax on profits from foreign units, which JPMorgan Chase CFO Marianne Lake said would cause a \$2.0B expense in 4Q17.</p>	TBD	MEDIUM	

DATE: DECEMBER 24, 2017

EVENT		Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
	<p><b>Capital One Financial Corporation</b> (\$361.4B; McLean, VA) resubmitted its capital plan for the 2017 Comprehensive Capital Analysis and Review process (CCAR). The bank reduced its buyback plan to up to \$1.0B for the remaining 2017 CCAR period, which will end on June 30, 2018. This is a reduction from \$1.85B. The revision is due to the estimated near-term negative impact of the recently passed tax law, primarily because of a decrease in value of the company's deferred tax assets.</p>	TBD	LOW	

## Capital Risk, continued

DATE: DECEMBER 5, 2017

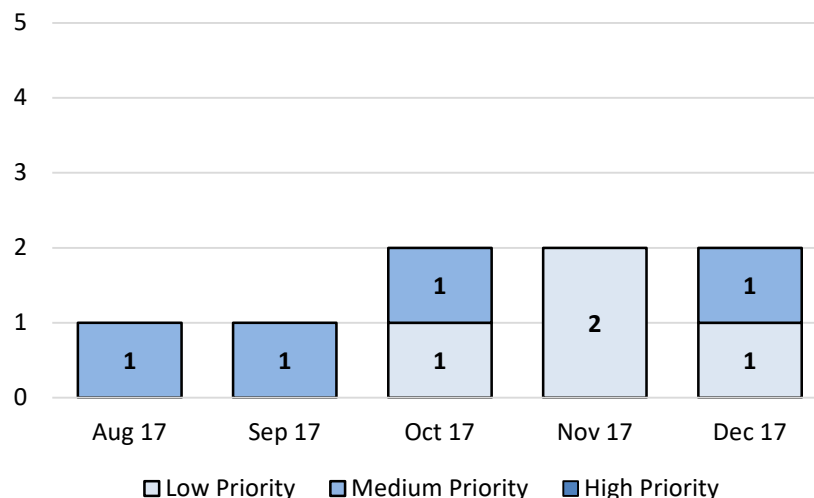
EVENT	<p><b>Bank of America</b> announced that it is repurchasing \$5.0B in common stock, on top of the \$12.0B previously authorized, following approval from the Federal Reserve. Bank of America’s plan to repurchase up to \$5.0B in common stock was an opportunity that fell outside of its annual stress tests and demonstrates that regulators are increasingly allowing excess capital to move outside the banking system, according to comments from Chairman and CEO Brian Moynihan.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		TBD	LOW	

# Market/Interest Rate Risk

DATE: DECEMBER 13, 2017

EVENT	The Federal Reserve said it would increase its benchmark federal-funds rate by a quarter percentage point to a range between 1.25% and 1.5%, the fifth such increase in the past two years. Officials penciled in three quarter-point rate increases for next year and two such increases each in 2019 and 2020.	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		<b>TBD</b>	<b>MEDIUM</b>	

Trend in MARKET/INTEREST RATE Risk Events



## Market/Interest Rate Risk, continued

DATE: DECEMBER 22, 2017

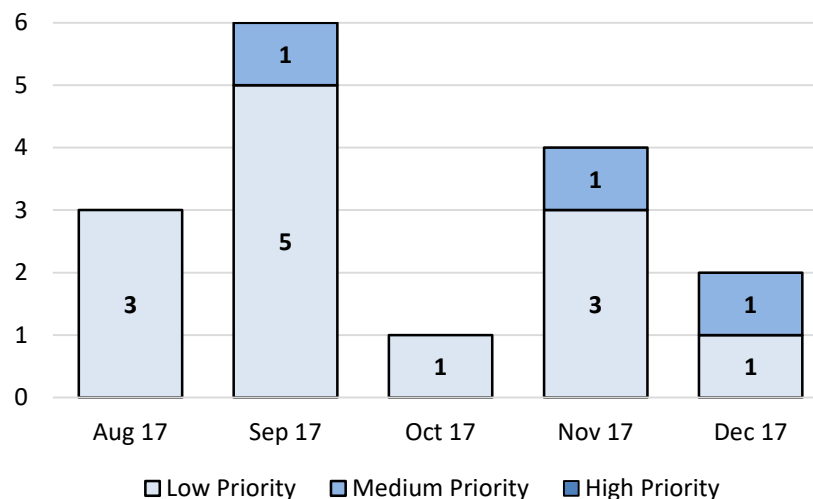
EVENT		Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
	<p>Banks have sought to mitigate the impact of rising interest rates by growing their Held-to-Maturity securities (HTM) and decreasing their Available-for-Sale portfolios (AFS). In 3Q17, the banking industry in aggregate grew HTM securities by 19.2% from the year-ago level, while AFS securities fell 2.1% in the period. The threat of rising rates has become even more pronounced for institutions with more than \$50.0B in assets, which are subject to the liquidity coverage ratio, or LCR. That provision requires them to hold higher concentrations of market-sensitive securities such as Treasuries and Ginnie Maes. Designating securities as HTM, however, can bring other risks if rates rise further. Institutions might have to retain those securities, even in the face of rising funding costs. As short-term rates move higher and funding costs increase, the use of HTM portfolios just might leave some banks threatened by margin pressures.</p>	<p><b>TBD</b></p>	<p><b>LOW</b></p>	

# Credit Risk

DATE: DECEMBER 22, 2017

EVENT	Approximately 94.8% of first-lien mortgages were current and performing as of 3Q17, which was in-line with year-ago levels. Additionally, the number of new foreclosures initiated during the 3Q17 dropped by 28.5% to 34,266 over the same period. The data are from the OCC's quarterly mortgage metrics report, which uses loan data collected from <b>Bank of America, Citigroup, JPMorgan Chase, Wells Fargo, U.S. Bancorp, PNC Financial Services, and HSBC Holdings Plc's</b> (\$2.5T; London, UK) U.S. operations.	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		TBD	MEDIUM	

Trend in CREDIT Risk Events



## Credit Risk, continued

DATE: DECEMBER 21, 2017

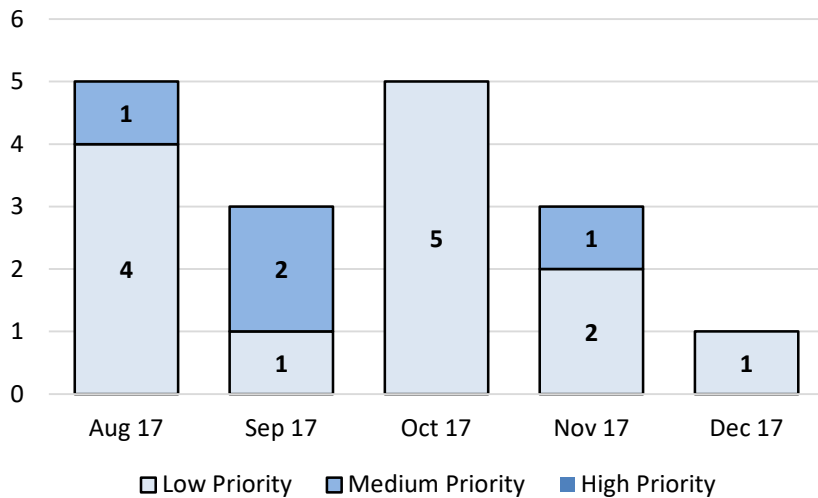
EVENT	<p>Four major credit card issuers saw their percentage of delinquencies 30 days or more jump in November. Delinquency rates at <b>American Express Co.</b> (\$168.6B; New York, NY), <b>Bank of America</b> and <b>Discover Financial Services</b> (\$97.6B; Riverwoods, IL) increased 3 basis points each to 1.00%, 1.64% and 1.72%, respectively. <b>Citigroup's</b> delinquency rate ticked up 1 basis point to 1.58%. Delinquencies at <b>Capital One</b> and <b>JPMorgan Chase</b> decreased in the month, with Capital One's delinquency rate decreasing 1 basis point to 2.11% and JPMorgan Chase's declining 2 basis points to 1.22%.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		TBD	LOW	

# Operational Risk

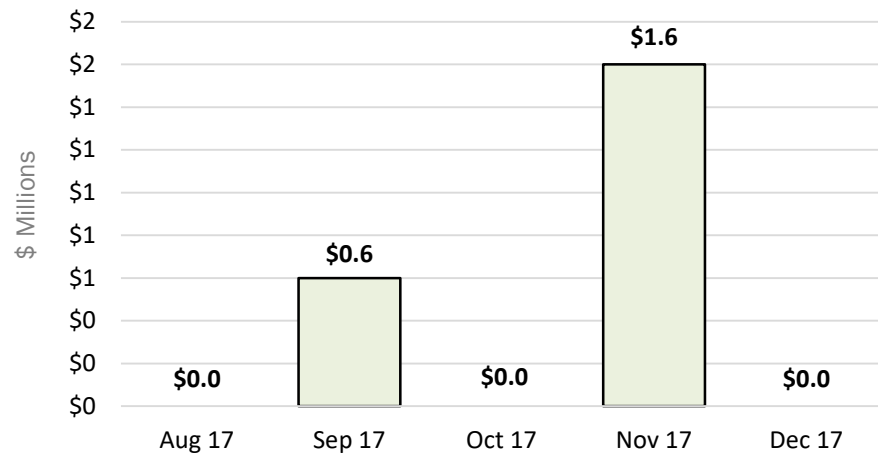
DATE: DECEMBER 5, 2017

EVENT	At a <b>Goldman Sachs</b> conference in New York, <b>Wells Fargo</b> CEO Tim Sloan stated that the company may permanently put in place an ongoing practice of examining its lines of business for evidence of misconduct. Its current internal reviews have unearthed more problems, showing that Wells Fargo is taking the process seriously but also amplifying the breadth of its troubles, analysts say.	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		TBD	LOW	

Trend in OPERATIONAL Risk Events



Trend in Financial Impact



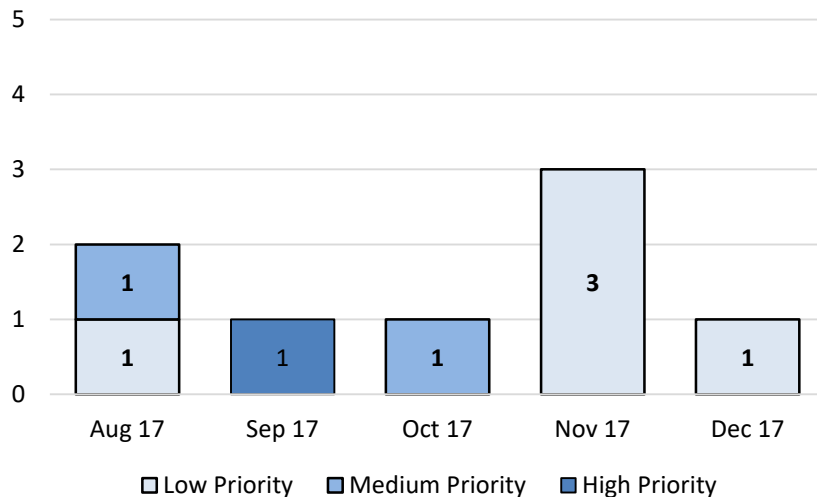
NOTE: September total includes the Wells Fargo CFPB fine.

# Fiduciary Risk

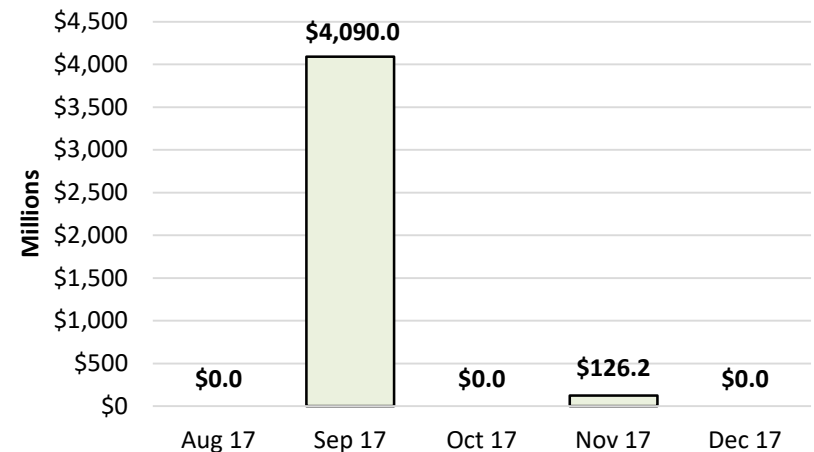
DATE: DECEMBER 6, 2017

EVENT	The Financial Industry Regulatory Authority (FINRA) announced that it had accepted <b>BB&amp;T Corp.</b> (\$220.3B; Winston-Salem, NC) unit BB&T Investment Service’s letter of acceptance, waiver, and consent regarding their alleged overcharging of its retirement plan and charitable organization clients. From July 1, 2009 to August 1, 2017, 865 clients were charged for buying mutual fund shares although they were eligible for a waiver, causing the customers to be overcharged by \$331,983. BB&T has paid \$373,134 in restitution.	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		<b>TBD</b>	<b>LOW</b>	

**Trend in FIDUCIARY Risk Events**



**Trend in Financial Impact**



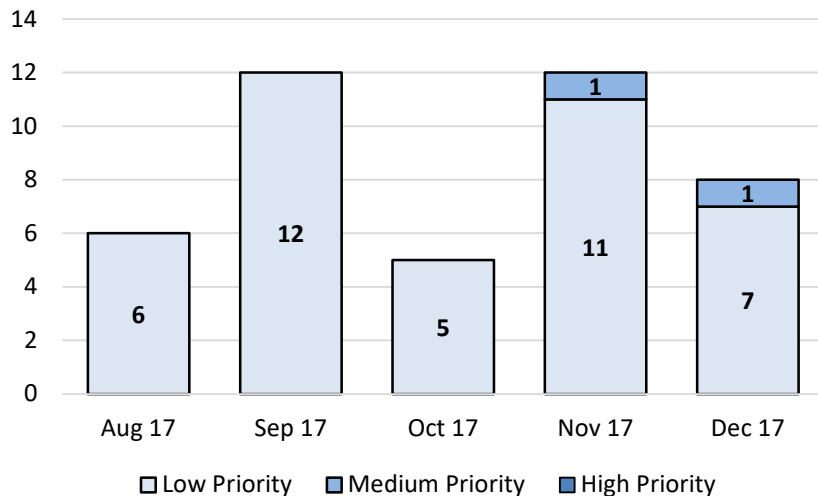


# Compliance Risk

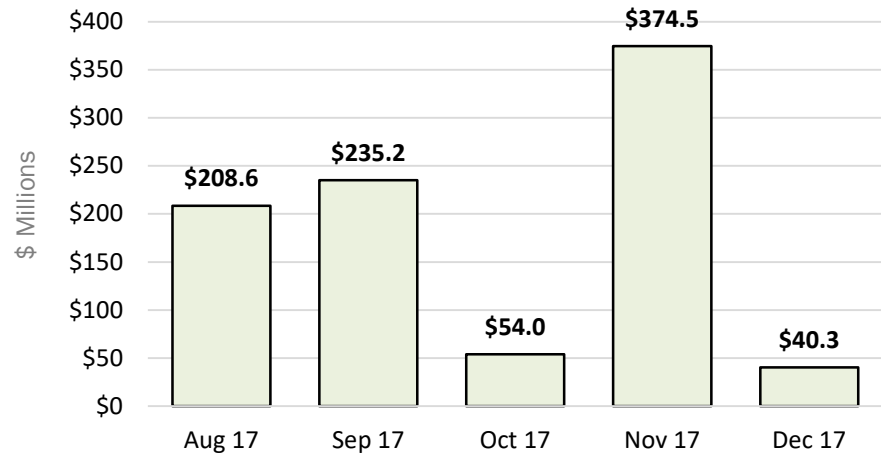
DATE: DECEMBER 11, 2017

EVENT	<p><b>HSBC Holdings Plc</b> has announced that the DOJ will file a motion to dismiss the money laundering charges leveled at the bank in 2012, which prompted HSBC to pay \$1.92B to settle and to enter into a five-year deferred prosecution agreement with the agency. The deferred prosecution agreement, which included conditions that an independent evaluator would annually assess the bank’s money laundering and sanctions compliance, has expired, and the DOJ will dismiss the charges as HSBC has taken the necessary steps to comply with anti-money laundering (AML) laws.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	MEDIUM	

Trend in COMPLIANCE Risk Events



Trend in Financial Impact



## Compliance Risk, continued

DATE: DECEMBER 28, 2017

EVENT	<p><b>Citigroup</b> unit <b>Citigroup Global Markets Inc.</b> (CGMI) has been fined \$5.5MM by FINRA and ordered to pay \$6.0MM to affected customers over distributing inaccurate equity securities research ratings to clients. The regulator “found that from February 2011 through December 2015, CGMI displayed to its brokers, retail customers and supervisors inaccurate research ratings for more than 1,800 equity securities — more than 38 percent of those covered by the firm. Because of errors in the electronic feed of ratings data that the firm provided to its clearing firm, the firm either displayed the wrong rating for some covered securities (e.g., “buy” instead of “sell”), displayed ratings for other securities that CGMI did not cover, or failed to display ratings for securities that CGMI, in fact, rated. The firm’s actual research reports, which were available to brokers, and the research ratings appearing in those reports, were not affected by these errors.”</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		<p><b>\$11.0MM; or 0.29% of Citigroup’s average quarterly net income (last 5 quarters)</b></p>	<p><b>LOW</b></p>	

## Compliance Risk, continued

DATE: DECEMBER 27, 2017

EVENT	<p><b>JPMorgan Chase</b> unit <b>JPMorgan Securities LLC</b> has been hit with a \$2.8MM fine by FINRA over findings that “from March 2008 to June 2016, J.P. Morgan Clearing Corp. did not have reasonable processes in place to ensure that its possession or control systems were operating properly.” The failures found by FINRA were violations of the SEC’s customer protection rule and resulted in hundreds of millions of dollars of securities deficits.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		<p><b>\$2.8MM; or 0.04% of JPMorgan’s average quarterly net income (last 5 quarters)</b></p>	<b>LOW</b>	

DATE: DECEMBER 22, 2017

EVENT	<p>According to Reuters, citing an unnamed source, the SEC and the FINRA may each penalize <b>Bank of America Merrill Lynch</b> \$13.0MM for allegedly failing to report suspicious transactions., which occurred in 2010 and 2011. The firm allegedly offered traditional banking services, such as wire transfers to offshore firms and cash deposits via ATMs, but the bank software did not screen the transactions, the report said, citing a source. The company will also enter into a Cease and Desist order.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		<p><b>\$26.0MM; or 0.49% of Bank of America’s average quarterly net income (last 5 quarters)</b></p>	<b>LOW</b>	

DATE: DECEMBER 20, 2017

EVENT	<p>From October, <b>Citigroup</b> unit <b>Citibank NA</b> was fined \$452.0K by the OCC for violating the National Flood Insurance Act and the Flood Disaster Protection Act.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		<p><b>\$452.0K; or 0.01% of Citigroup’s average quarterly net income (last 5 quarters)</b></p>	<b>LOW</b>	

## Compliance Risk, continued

DATE: DECEMBER 14, 2017

EVENT	<p><b>HSBC Holdings Plc</b> unit <b>HSBC Bank USA NA</b> had an OCC consent order lifted by the agency. The order was imposed on the bank in April 2016 for violations of the Federal Trade Commission Act, and was accompanied by a \$35.0MM fine.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	LOW	

DATE: DECEMBER 13, 2017

EVENT	<p>The Navajo Nation has sued <b>Wells Fargo</b> and <b>Wells Fargo Bank NA</b> over its sales practices, alleging that the bank had targeted members of the Indian tribe who neither wrote nor spoke English or were unfamiliar with banking services, and then falsely claimed that none of its community members had been harmed.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		TBD; the lawsuit is ongoing	LOW	

DATE: DECEMBER 6, 2017

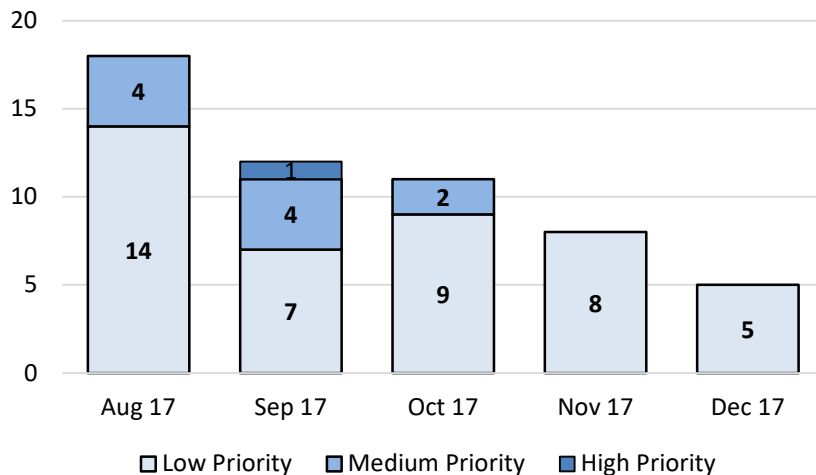
EVENT	<p>The California Department of Insurance has accused <b>Wells Fargo</b> of improper insurance sales practices and has sought to suspend or revoke the company's licenses in the state. The Department alleges that between 2008 and 2016, <b>Wells Fargo Bank NA</b> and <b>Wells Fargo Insurance Inc.</b> issued about 1,500 insurance policies to bank customers without their knowledge or permission. In some instances, employees allegedly told consumers to enter their personal information on a policy application just to receive a quote, and they later submitted the application to the insurer to buy the policy without the consumer's permission.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		TBD; the investigation is ongoing	LOW	

# Reputational Risk

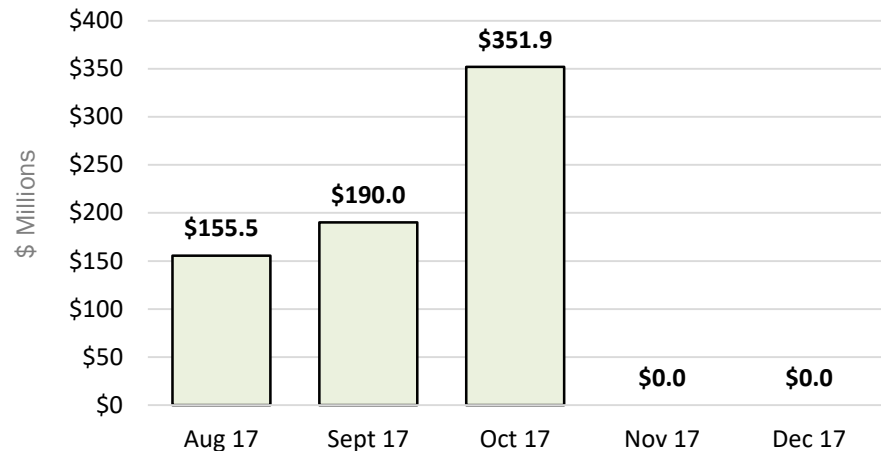
DATE: DECEMBER 20, 2017

EVENT	<p><b>Barclays Plc</b> (\$1.5T; London, UK), <b>HSBC Holdings Plc</b>, <b>Royal Bank of Scotland Group Plc</b> (\$1.1T; Edinburgh, UK), <b>Santander UK Group Holdings Plc</b> (\$422.3B; London, UK) and <b>Bank of Ireland Group Plc</b> (Dublin, Ireland), have received an extension from the U.K. Competition and Markets Authority (CMA) to submit data necessary for complying with “open banking” rules. The CMA has enacted regulatory measures that seek to encourage technological progress in the banking industry, and British banks must comply with the new open banking digital standard that requires banks to share customer data with lenders and third-party firms by early 2018. The banks told CMA that they would not be able to meet the deadline. The CMA granted Barclays, HSBC and RBS a few weeks, Bank of Ireland several months, and a year for Santander.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	LOW	

Trend in REPUTATIONAL Risk Events



Trend in Financial Impact



## Reputational Risk, continued

DATE: DECEMBER 18, 2017

EVENT	<p><b>JPMorgan Chase</b> is the subject of an \$875.0MM lawsuit brought against the bank by the Nigerian Government over allegations that JPMorgan Chase engaged in an illicit oil deal and made payments to a convicted money launderer. According to the lawsuit, the bank paid \$801.5MM to Malabu, a company run by former Nigerian oil minister Etete, which was selling its exploration license to Shell and Italian oil company Eni. JPMorgan Chase oversaw and processed all transactions connected to the deal, but the Nigerian government claims that the deal was illegal as Malabu did not legally acquire the license and that the bank “failed in its duty of care”.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		TBD; the lawsuit is ongoing	LOW	

DATE: DECEMBER 8, 2017

EVENT	<p>In a tweet, President Donald Trump promised penalties against <b>Wells Fargo</b> for "bad acts against their customers." Rumors had surfaced earlier that Trump's pick to temporarily lead the CFPB, Mick Mulvaney, was reviewing a pending settlement related to Wells Fargo's mortgage rate lock extension fees. Wells Fargo declined to comment on the matter.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	LOW	

## Reputational Risk, continued

DATE: DECEMBER 4, 2017

EVENT	<p><b>CIT Group, Inc.</b> (\$49.3B; New York, NY) will settle a lawsuit brought against the bank by <b>Ocwen Loan Servicing LLC</b> for \$29.9MM over claims that the bank did not pay the loan servicer for losses from servicing errors in June 2013. At the time, Ocwen has a mortgage servicing rights purchase and sale agreement with OneWest Bank, whose holding company was acquired by CIT in 2015.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		<p><b>\$29.9MM; CIT Group's average quarterly net income was negative. We were therefore not able to arrive at a meaningful estimate.</b></p>	<p><b>LOW</b></p>	

DATE: DECEMBER 4, 2017

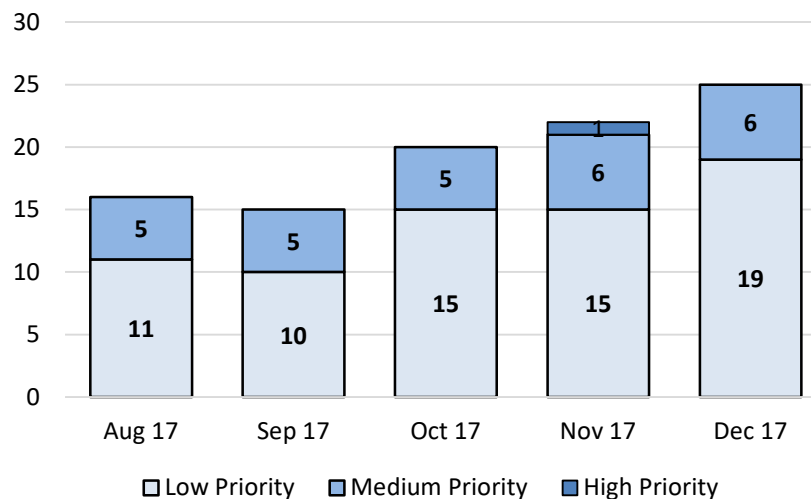
EVENT	<p>The U.S. Court of Appeals for the Second Circuit revived claims of illegal overdraft fees and violation of consumer protection laws filed against <b>Capital One</b>. The complaint accused the company of breaching its contract by assessing overdraft fees when it settles transactions, instead of when it authorizes them. The federal appeals court found the company's overdraft rules to be ambiguous.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		<p><b>TBD; the lawsuit is ongoing</b></p>	<p><b>LOW</b></p>	

# Strategic Risk

DATE: DECEMBER 29, 2017

EVENT	<p><b>JPMorgan Chase, Citigroup, Deutsche Bank AG</b> (\$1.8T; Frankfurt, Germany), and <b>UBS Group AG</b> have been granted waivers by the U.S. Department of Labor that allow the banks' asset management arms to continue to manage their client's pensions and individual retirement accounts. Since the group of banks have been convicted of market manipulation in recent years, the waivers are required for the banks to operate their asset management units in the United States, which would otherwise be disqualified.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	MEDIUM	

Trend in STRATEGIC Risk Events





## Strategic Risk, continued

DATE: DECEMBER 21, 2017

EVENT	<p><b>Fifth Third Bancorp</b> (\$142.3B; Cincinnati, OH) and <b>Wells Fargo</b> announced raises and bonuses, citing the recently enacted tax cut. Four additional banks, <b>Washington Federal</b> (\$15.3B; Seattle, WA), <b>Florida Community Bank</b> (\$10.0B; Weston, FL), <b>FirstCapital Bank of Texas, N.A.</b> (\$1.1B; Midland, TX) and <b>Western Alliance Bancorp.</b> (\$19.9B; Phoenix, AZ), have announced plans to give employees a raise or pay a one-time bonus.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	MEDIUM	

DATE: DECEMBER 18, 2017

EVENT	<p><b>Citigroup</b> and <b>CME Clearing</b> have partnered to launch a real-time distributed ledger platform with Baton Systems, which will enable financial institutions to look at its ledgers' collateral in real time, send funds or securities to a clearing house and receive quick confirmation of the transaction.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	MEDIUM	

DATE: DECEMBER 11, 2017

EVENT	<p><b>Morgan Stanley's Wealth Management</b> unit has launched an online investing platform, Morgan Stanley Access Investing, "designed to help build, monitor, and automatically rebalance a diversified portfolio." The platform "provides investors access to easy-to-use, low cost, high quality portfolios backed by the investment expertise of Morgan Stanley."</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	MEDIUM	

## Strategic Risk, continued

DATE: DECEMBER 11, 2017

EVENT	20 firms, including <b>Interactive Brokers</b> , have begun to engage in bitcoin futures trading, while <b>Goldman Sachs</b> has announced they plan on clearing bitcoin futures contracts. <b>Cboe Global Markets Inc.</b> introduced bitcoin futures trading on December 10th, and had 3,000 contracts traded on the first night for a total value of \$50.0MM.	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	MEDIUM	

DATE: DECEMBER 4, 2017

EVENT	The Financial Accounting Standards Board's revenue recognition change that takes effect in 1Q18 may surprise banks that have not fully evaluated the effects of the reporting standard change, which exempts interest income. The revenue recognition change will alter how companies that contract with their customers to transfer goods, services or non-financial assets report revenue, and some fee lines at banks may fall under the new standard. The areas that may be affected at banks are credit card rewards, performance-based awards for investment managers, and checking and savings accounts tied to custodial or financial services. <b>Citigroup</b> previously announced that \$800.0MM in transactions would be subject to the new standard, and that the revenue recognition change would increase their efficiency ratio by 50 basis points.	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	MEDIUM	

## Strategic Risk, continued

DATE: DECEMBER 30, 2017

EVENT	A year after the \$7.2B settlement reduced bonuses at <b>Deutsche Bank AG</b> by almost 80% for 2016, the bank will go back to paying standard bonuses for 2017, according to CEO John Cryan.	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	LOW	

DATE: DECEMBER 22, 2017

EVENT	<b>PNC Financial Services</b> is buying <b>Fortis Advisors</b> , a provider of private merger and acquisition post-closing shareholder representative services. Terms of the deal were not disclosed. The deal is expected to close in February 2018. Upon closing, Fortis will become a unit of PNC Bank within its corporate and institutional banking division.	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	LOW	

DATE: DECEMBER 22, 2017

EVENT	According to SNL Financial, mobile wallets are increasingly becoming a common way for consumers, especially younger cohorts, to transfer money to one another. <b>PayPal Holdings Inc.'s</b> (\$37.7B; San Jose, CA) subsidiary <b>Venmo LLC</b> , grew transaction volumes at a compound annual growth rate of more than 150% over the past three years.	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	LOW	

## Strategic Risk, continued

DATE: DECEMBER 21, 2017

EVENT	<p><b>Deutsche Bank AG</b> expects to reduce staff by 1,000 in Germany as a result of the bank merging its retail division <b>Deutsche Postbank AG</b> and its <b>Deutsche Bank Privat-und Geschäftskunden AG</b>. The bank hopes to achieve most of the staff reduction through a voluntary program, giving employees until October 2018 to agree to the terms.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	LOW	

DATE: DECEMBER 18, 2017

EVENT	<p><b>First-Citizens Bank &amp; Trust Co.</b>, a unit of <b>First Citizens BancShares, Inc.</b> (\$34.6B; Raleigh, NC), has announced it will purchase <b>HomeBancorp Inc.</b> (\$954.9MM; Tampa, FL), agreeing to a price of \$15.03 per share. HomeBancorp operates 13 branches in Tampa and Orlando. The acquisition, expected to close in 2Q18, will see First-Citizens expand into the Orlando and Tampa markets.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	LOW	

DATE: DECEMBER 12, 2017

EVENT	<p><b>WSFS Financial Corporation</b> (\$6.9B; Wilmington, DE) has entered into a two-year partnership to provide payment processing and debit card sponsorship services for a new cash management account by <b>SoFi Securities</b>, a subsidiary of <b>SoFi</b> (San Francisco, CA). The new "SoFi Money" account is reportedly expected to launch in early 2018.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	LOW	

## Strategic Risk, continued

DATE: DECEMBER 12, 2017

EVENT	<p><b>Charles Schwab</b> filed an application with the Federal Reserve Bank of San Francisco to create a de novo depository institution to facilitate the consolidation of its trust services and related activities. The company has applied to form <b>Charles Schwab Trust Bank</b>, a Nevada state-chartered savings bank. While the firm already had a bank subsidiary, the new unit will focus on Schwab’s workplace benefit plan clients, such as employers who offer 401k plans, and the intermediaries who serve them.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	LOW	

DATE: DECEMBER 12, 2017

EVENT	<p><b>JPMorgan Chase</b> has partnered with Kroger Co. to introduce Chase Pay, JPMorgan Chase’s digital wallet, as a payment method in Kroger stores in 2018.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	LOW	

DATE: DECEMBER 11, 2017

EVENT	<p><b>Fifth Third</b> unit <b>Fifth Third Bank</b> picked Fidelity National Information Services Inc. to enable real-time payments for its customers through The Clearing House LLC's RTP, a real-time payments system.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	LOW	

## Strategic Risk, continued

DATE: DECEMBER 11, 2017

EVENT	<p><b>American Express</b> has announced that, beginning in April 2018, merchants will not be required to collect card members' signatures for point of sale transactions. This will apply to all merchants around the globe that accept American Express cards.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	LOW	

DATE: DECEMBER 11, 2017

EVENT	<p><b>Discover Financial Services</b> will no longer require signatures at the point of sale for credit and debit transactions on the Discover Global Network in the U.S., Canada, Mexico and the Caribbean.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	LOW	

DATE: DECEMBER 8, 2017

EVENT	<p><b>SoFi</b> announced today the closing of its \$769MM offering of SoFi Private Student Loan notes (SoFi 2017-F). The closing marked the company's 12th ABS transaction this year, bringing its total issuance in 2017 to \$6.9B, up from \$4.2B in 2016. The 2017 total includes six Student Loan ReFi and six Consumer Loan transactions.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	LOW	

DATE: DECEMBER 8, 2017

EVENT	<p><b>Bank of America</b> has agreed to sell its mortgage lien release business to <b>First American Financial Corporation</b> (Santa Ana, CA). The transaction's terms include an agreement to provide lien release services to Bank of America in the future. After the deal closes, Bank of America's lien release business and its employees will become part of First American's mortgage solutions division. The deal is expected to close in 1Q18.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	LOW	

## Strategic Risk, continued

DATE: DECEMBER 5, 2017

EVENT	<p><b>American Express and JPMorgan Chase</b> have extended their co-branded credit card partnerships with Marriot International Inc, with both planning on launching new co-branded products in 2018. American Express currently issues Marriot's Starwood Preferred Guest credit cards and JPMorgan Chase issues their Marriot Rewards and Ritz-Carlton Rewards Visa credit cards.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	LOW	

DATE: DECEMBER 5, 2017

EVENT	<p><b>Regions Financial Corp.</b> (\$123.5B; Birmingham, AL) has engaged the services of McKinsey &amp; Co. for a "comprehensive review" in line with its simplification initiative. The bank is a "couple of weeks" away from the completion of the consulting firm's planning process.</p> <p>The company has consolidated approximately 163 branches in two years. It is also already using artificial intelligence, with IBM Watson resolving and assisting in customer service calls. IBM Watson is also being implemented in Regions' Bank Secrecy Act/anti-money laundering practices. The company is streamlining its loan process as well, and plans to offer every consumer loan category through digital platforms. It will also launch Zelle capabilities in 2018.</p>	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	LOW	

## Strategic Risk, continued

DATE: DECEMBER 4, 2017

EVENT	Comerica Inc's (\$72.3B; Dallas, TX) Comerica Global Payments EP SL introduced Apple Pay to its customers. Using the new CaixaBank Pay app users can now add their CaixaBank cards to Apple Wallet and use Apple Pay for purchases at any contactless enabled retail location.	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	LOW	

DATE: DECEMBER 4, 2017

EVENT	SunTrust Banks Inc. (\$208.4B; Atlanta, GA) has finalized the sale of Premium Assignment Corp., the bank's commercial lines insurance premium finance subsidiary, to IPFS Corp. The sale allows SunTrust to focus on its core wholesale banking business.	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	LOW	

DATE: DECEMBER 4, 2017

EVENT	KeyCorp (\$137.1B; Cleveland, OH) announced its strategic investment and partnership with a provider of virtual claims technology, Screenshot. Terms of the investment were not disclosed.	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	LOW	

DATE: DECEMBER 1, 2017

EVENT	Umpqua Bank, a unit of Umpqua Holdings Corp. (\$25.7B; Portland, OR), created Umpqua Capital Markets, a division that will support middle-market businesses and provide M&A advisory services. The bank appointed Chad Riddle to be the division's managing director. Riddle previously was director of investment banking at KeyBank Capital Markets.	Financial Impact to Bank in Question	IMPACT	Relevancy of Event to Our Bank
		N/A	LOW	



## Significant Management Changes

### MIDWEST & WEST

DATE	BANK	MANAGEMENT CHANGE
December 18 <sup>th</sup>	Wells Fargo & Co.	Mary Mack, head of community banking, is now also in charge of consumer lending.

### NORTHEAST

DATE	BANK	MANAGEMENT CHANGE
December 22 <sup>nd</sup>	Fifth Third Bancorp	Named Brian Lamb, who is the current executive vice president and head of corporate responsibility and reputation, the new head of wealth and asset management.
December 13 <sup>th</sup>	KeyCorp	Chief Risk Officer Bill Hartmann is retiring in 2018. The company hired Mark Midkiff to succeed him.
December 12 <sup>th</sup>	Ally Financial Inc.	CFO Chris Halmy is retiring, effective March 1, 2018. The board has hired Jenn LaClair from PNC Financial Services, to take on the CFO role.
December 7 <sup>th</sup>	Fifth Third Bancorp	Hired Joseph Yurosek as market president who will serve California-based middle-market companies.

## Significant Management Changes

### NEW YORK METRO AREA

DATE	BANK	MANAGEMENT CHANGE
December 20 <sup>th</sup>	M&T Bank Corp.	Robert Wilmers, Chief Executive Officer and Chairman, passed away at the age of 83. René Jones has been named his successor for both positions at M&T Bank Corp. and its primary banking unit, M&T Bank. Richard Gold was named president and Chief Operating Officer of M&T Bank and its parent.
December 20 <sup>th</sup>	Goldman Sachs Group Inc.	Karen Seymour has been named as a partner and co-general counsel, effective January 2018.
December 11 <sup>th</sup>	Synchrony Financial	Glenn Marino, chief commercial officer and EVP and CEO of the company's payment solutions sales platform, will be retiring on January 1st, 2018. Marino will be succeeded by Neeraj Mehta, who currently serves as executive vice president of business strategy and development.
December 1 <sup>st</sup>	American Express Co.	Susan Sobbott, president of global commercial services, will be departing the company effective February 1st, 2018.

### SOUTHEAST

DATE	BANK	MANAGEMENT CHANGE
December 13 <sup>th</sup>	Regions Financial Corp.	Promoted John Turner Jr. to president of both the company and subsidiary, Regions Bank.

## Note On This Report

This report is designed to provide information on events impacting a certain group of banks (those with total assets of \$30B or more) and the markets that make up the Bank's footprint. It is not meant to be a comprehensive view of every fine or penalty levied against any financial institution operating in the United States.

Events involving areas of financial services in which the Bank does not operate (e.g., investment banking) or markets that are not part of the Bank's footprint are not included in this report, but could potentially impact the Bank indirectly.

The reader should also note that this report is based on publicly available information and there may be details related to mergers and acquisitions, fines or penalties, and the settlement of lawsuits that are not publicly disclosed. CPG has tried to capture as much detail available to the public as possible in our summaries of events.

## Sources

All information related to bank asset sizes and location comes from SNL Financial, Inc., as of June 30<sup>th</sup>, 2017. SNL Financial is also the source for many of the news stories contained in this document.

In addition, we leverage a variety of sources in our work to track risk events, including the following:

### PUBLICATIONS

- *American Banker*
- *New York Times*
- *Wall Street Journal*
- *Financial Times*

### REGULATORY PRESS RELEASES

- Consumer Financial Protection Bureau
- Department of Justice
- Federal Deposit Insurance Corporation
- Federal Reserve
- Financial Crimes Enforcement Network
- Financial Fraud Enforcement Taskforce
- Financial Industry Regulatory Authority
- Office of the Comptroller of the Currency
- Office of Foreign Assets Control
- Securities & Exchange Commission

# Determining Priorities for Your Institution

The template below can be used to help identify areas that warrant further investigation or attention. Business areas that have not been recently reviewed for risk – or that have been reviewed, but have problem areas that have not been addressed – should be considered high priorities for your institution. Other high priority areas would be those where the methods for identifying risk have not been updated to reflect current events, or where the bank’s competitive advantage is threatened.

	Event 1	Event 2	Event 3	Event 4	Event 5
Brief Description					
Business area impacted by event					
Date of last review for risk					
Date of next review					
Were any problems identified during the last review? Y/N					
Were the problems addressed? If not, what is the plan to address them?					
Does the review process accurately reflect current events? If not, what is the plan to address this?					
Does the event impact the bank’s competitive advantage(s) in any way?					

## Subscription Information

The Risk Events Monitor is available to subscribers on a monthly or quarterly basis.

Monthly Subscription	\$3,000 per month or \$36,000 per year
Quarterly Subscription	\$7,500 per quarter or \$30,000 per year

Custom reporting is also available. Pricing for custom reports is determined on a case-by-case basis and varies based on the degree of customization requested.

For more information on pricing, or to subscribe, please email [monitor@capitalperform.com](mailto:monitor@capitalperform.com) or call (202) 337-7870.