Securing Today. Shaping Tomorrow.®

SYSTEMIC RISK BAROMETER

2018 RISK FORECAST

First launched in 2013, the DTCC Systemic Risk Barometer Survey serves as a semi-annual pulse check to monitor existing and emerging risks that may impact the safety, resiliency and stability of the global financial system. It is designed to help identify trends and foster industry-wide dialogue on potential threats to financial stability. The survey is a key component of DTCC's thought leadership with respect to systemic risk. In addition to promoting transparency, DTCC also uses these survey results to support its member outreach efforts and to benchmark its risk management initiatives versus the concerns highlighted by respondents.

KEY FINDINGS

CYBER RISK REMAINS THE TOP RISK OVERALL

- More than a third (36%) of survey respondents view cyber risk as the number one threat to the broader economy in 2018, with 78% of respondents ranking it as a top 5 risk – a 7% increase from the last survey.

GEOPOLITICAL RISKS AND CONCERNS CONTINUE TO SURGE

- Geopolitical tensions in Asia, as well as prolonged uncertainties associated with Brexit negotiations, have positioned geopolitical risk as a top risk to watch in 2018.
- Geopolitical Risk saw the most significant increase (+17%) of any risk category from the prior survey as 69% of respondents view it as a top 5 risk versus 52% holding that view in our Q1 2017 survey.

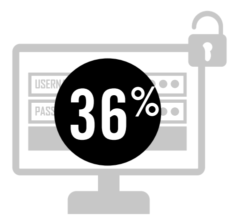
US FEDERAL RESERVE MONETARY POLICY BREACHES TOP 5 RISKS

- The U.S. Federal Reserve Bank has announced its intent to start reducing its $4.5 TN balance sheet, as other central banks across the globe start to conclude their quantitative easing programs.
- A quarter of respondents indicate concern over this shift in monetary policy, enough to include it on the list of the 5 most significant risks overall for 2018.

FINTECH MAY POSE RISKS TO FINANCIAL STABILTY

- Fintech risk, which was included in this survey for the first time, was acknowledged as a significant source of risk by 15% of respondents. While fintech is generally recognized as holding great promise, these results demonstrate a growing awareness of potential emerging risks, highlighting the need to evaluate both risks and rewards associated with fintech initiatives.

TOP SYSTEMIC RISKS



CYBER RISK

36% OF RESPONDENTS CITED CYBER RISK AS THE SINGLE BIGGEST THREAT

GEOPOLITICAL RISKS

69% OF RESPONDENTS IDENTIFIED GEOPOLITICAL RISK AS A TOP 5 RISK - AN ALL-TIME HIGH

HOW IS DTCC RESPONDING TO THE TOP RISKS?

DTCC EXECUTIVES PROVIDE THEIR PERSPECTIVES ON THE TOP RISKS IDENTIFIED BY DTCC'S SYSTEMIC RISK BAROMETER SURVEY

STEPHEN SCHARF

DTCC Managing Director and Chief Security Officer, on:

Cyber Risk

"We've learned that no companies or sectors are immune to the threat of cyber attacks - as firms and leaders are continuing to accept the inevitability that they will be forced to address and respond to a cyber attack. As such, it is becoming increasingly imperative not just to safeguard systems and infrastructure - but for companies to prepare response plans and maintain crisis management playbooks to respond to cyber attacks."

MARK WETJEN

DTCC Managing Director and Head of Global Public Policy, on:

Geopolitical Risk

"The escalation of geopolitical tensions globally as well as the continued emergence of new and significant geopolitical flash points is only increasing the level of risk across markets and concerns among financial service professionals. As these tensions continue to simmer and the consequences of any missteps or aggression exacerbate - there is the possibility of broad spikes, fluctuations and/or dislocations to ripple through markets."

ANDREW DOUGLAS

CEO, DDRL and Managing Director, Government Relations EMEA / Asia, on:

Brexit

"As Brexit negotiations move forward with limited concrete progress leading to continued uncertainty, financial institutions are increasingly looking to enact their own contingency plans to ensure that their business models can continue to operate under the worst case scenario of "Hard Brexit." These efforts and the consequent start of any resource relocations have the potential to effectively turn fears of hard Brexit into a hard Brexit before the actual end state is agreed. It effectively becomes a self-fulfilling prophecy with the fear creating the same market readjustments as an actual hard Brexit."

MICHAEL LEIBROCK

DTCC Managing Director, Chief Systemic Risk Officer and Head of Counterparty Credit Risk, on:

Interconnectedness Risk

"Interconnectedness risk remains a focus area for risk managers and underpins almost any discussion on risk management. As the number of touch points across the global financial system expands and institutions become increasingly intertwined, it is imperative that risk managers apply an interconnectedness lens to assess how the financial and operational performance of market participants can propagate risk across the financial services ecosystem."

WHAT DO THESE RESULTS MEAN FOR THE FINANCIAL SERVICES INDUSTRY AND DTCC?

ANDREW GRAY Managing Director, Group Chief Risk Officer, on:

The Evolution of Risk Management

"Numerous factors have forced the enhancement of the risk management practices across the financial services industry including; the global regulatory response to the 2008 crisis; the explosion of new technologies; the evolution of trading strategies, financial products and market structure; as well as the growing interconnectedness of global markets. As a result, the scope of risk management has broadened and risk managers now must think more holistically, focusing not just on risks concentrated within their respective firms, but risks that could materialize due to their interconnections across all components of the financial services network. Financial services firms must continue their focus on building resiliency, as the impact of systemic shocks that occur in the future may be even more impactful than historical shocks. DTCC is committed to identifying new and emerging risks and being a thought leader in risk management; the Systemic Risk Barometer Survey is an example of that commitment."

CYBER RISK HAS CONSISTENTLY BEEN CITED AS THE TOP RISK SINCE DTCC LAUNCHED ITS SYSTEMIC RISK BAROMETER SURVEY

HOWEVER, THE REMAINDER OF THE TOP 5 RISKS HAVE FLUCTUATED WITH GEOPOLITICAL RISKS AND IMPACT OF NEW REGULATIONS AMONG THE MOST FREQUENTLY CITED RISKS

HISTORICAL LOOK BACK ON TOP 5 RISKS

Q3 2017

Geopolitical Risk
US Federal Reserve Monetary Policy
CYBER RISK
IMPACT OF NEW REGULATIONS
BRITAIN EXIT FROM THE EU

Q1 2017

IMPACT OF NEW REGULATIONS
Sudden Dislocation in Financial Markets
CYBER RISK
Geopolitical Risk
BRITAIN EXIT FROM EU

Q3 2016

GEOPOLITICAL RISK
Britain Exit from EU
CYBER RISK
US Presidential Election Outcome
IMPACT OF NEW REGULATIONS

Q1 2016

Asia Economic Slowdown
US Economic Slowdown
CYBER RISK
GEOPOLITICAL RISK
IMPACT OF NEW REGULATIONS

Risk size is proportionate to level of response

REGIONAL DIFFERENCES

COMPARED TO THE REST OF THE WORLD, NORTH AMERICAN RESPONDENTS ARE:

MORE CONCERNED ABOUT **CYBER RISK** AND A **US ECONOMIC SLOWDOWN**

North American Respondents		Respondents outside of North America
82%	CYBER RISK	60%
21%	US ECONOMIC SLOWDOWN	8%

LESS CONCERNED ABOUT **BREXIT** AND AN **ASIA ECONOMIC SLOWDOWN**

North American Respondents		Respondents outside of North America
34%	BREXIT	52%
14%	ASIA ECONOMIC SLOWDOWN	28%

● North American Respondents ● Respondents outside of North America

FUNCTIONAL DIFFERENCES

RISK MANAGERS ARE MORE CONCERNED ABOUT INTERCONNECTEDNESS RISK, SEARCH FOR YIELD AND MARKET LIQUIDITY WHILE **NON-RISK PROFESSIONALS** ARE MORE FOCUSED ON A MAJOR COMPLIANCE/GOVERNANCE EVENT, IMPACT OF NEW REGULATIONS AND FUNDING LIQUIDITY

RISK MANAGERS VS NON-RISK PROFESSIONALS

MORE CONCERNED

	Risk Managers	Non-Risk Professionals
INTERCONNECTEDNESS RISK	39%	16%
SEARCH FOR YIELD	16%	7%
MARKET LIQUIDITY	21%	14%

LESS CONCERNED

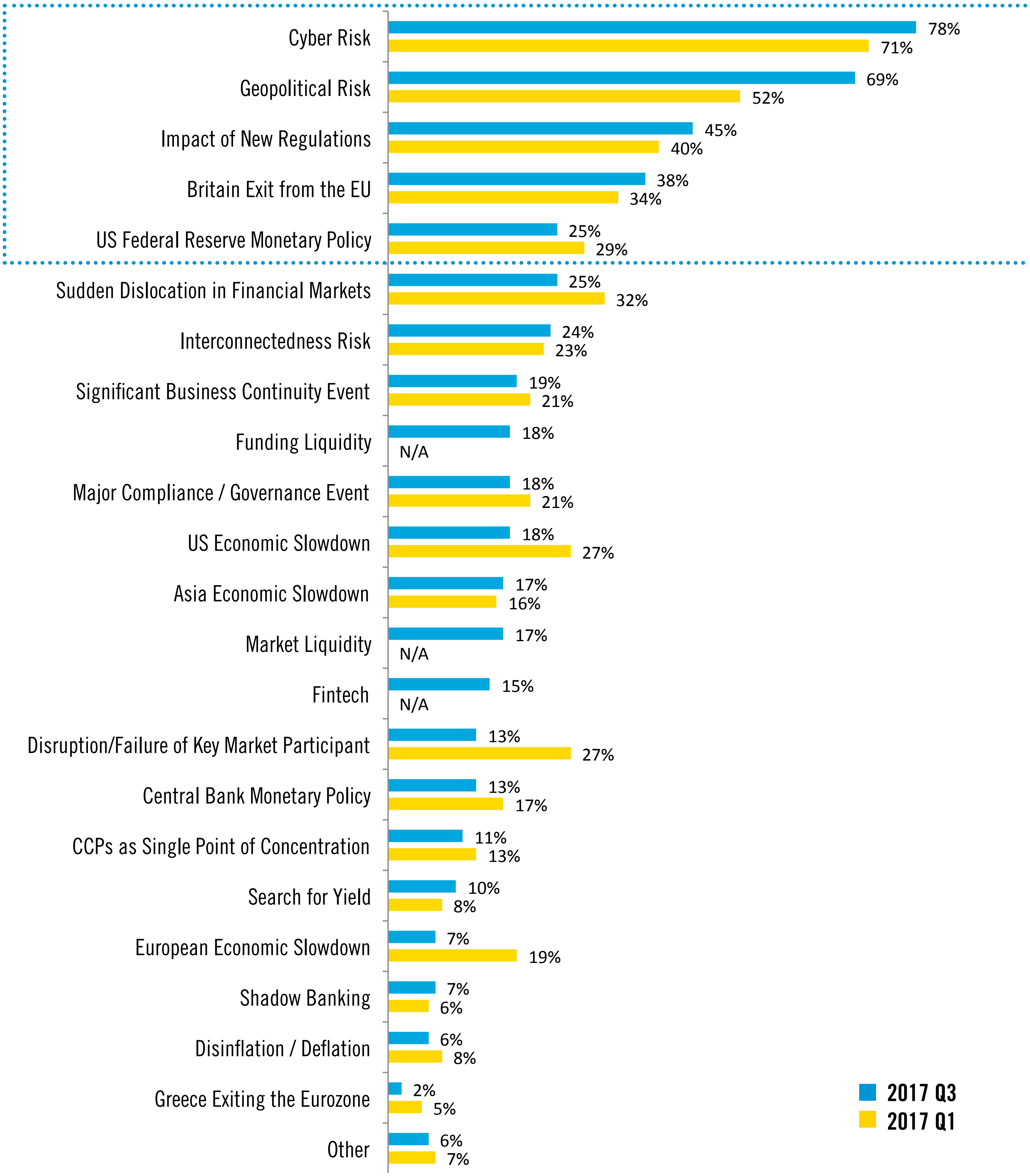
	Risk Managers	Non-Risk Professionals
MAJOR COMPLIANCE/ GOVERNANCE EVENT	8%	24%
IMPACT OF NEW REGULATIONS	37%	49%
FUNDING LIQUIDITY	11%	22%

● Risk Managers ● Non-Risk Professionals

TOP 5 RISKS IDENTIFIED

When asked to identify the top 5 systemic risks to the broader economy, looking ahead into 2018 and beyond, most respondents cited Cyber Risk, Geopolitical Risk, Impact of New Regulations, Britain Exit from the EU and US Federal Reserve Monetary Policy. The results below reflect changes compared to 2017 Q1.

RISK TO BROADER ECONOMY



**Fintech was added as a risk category and Lack of Liquidity/Decreasing Liquidity was split into Market Liquidity and Funding Liquidity for the Q3 2017 DTCC Systemic Risk Barometer Survey.