FINANCIAL SERVICES AUTHORITY

ST. VINCENT & THE GRENADINES

SUPERVISORY FRAMEWORK

April 30, 2022

FSA'S MANDATE

The Financial Services Authority (FSA), established by the Financial Services Authority Act 2012, is the single regulatory authority mandated with the responsibility for regulating and supervising specified non-bank financial and international financial services business in St. Vincent & the Grenadines (SVG).

FSA's mandate of regulation and supervision includes the promotion of financial sector stability and creating public awareness and public confidence in the operations of the licensed operators under its purview. The FSA adopts a risk-based supervisory approach to ensure that entities falling under its remit are well supervised and that associated threats and risks are identified and addressed in a timely manner.

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INTRODUCTION

The activities of the Financial Services Authority (FSA), as a supervisory agency, can be divided into two broad functions: regulation and supervision.

Regulation involves the development, consultation, introduction and enforcement of appropriate legislation, regulations and guidelines for institutions, including authorizing institutions to operate in and from within the country.

Supervision involves dynamic assessments of the operations of supervised institutions to ensure they continue to operate in a safe and sound manner and comply with their governing statutes or supervisory requirements, and intervening effectively on a timely basis in cases where prudential issues or concerns are identified.

SUPERVISORY FRAMEWORK

The supervisory framework is a principle- and risk-based structured methodology designed to facilitate proactive and dynamic assessment of supervised institutions. It is outcome-focused with sufficient flexibility to enable supervisors to identify and respond to new and emerging risks through an integration of macro-economic and industry perspectives in the assessment of individual institutions.

The framework provides a structured approach for understanding and assessing key risks inherent in an institution's activities, whether its risk management processes (i.e., identification, assessment, measurement, monitoring, controlling, mitigating and reporting of risks) are adequate in the context of the key risks and whether its earnings, capital and liquidity are sufficient to enable it to support its risk profile and withstand unexpected shocks.

The FSA took the decision, on March 19th, 2015, to supervise institutions which fall under its regulation using the Risk-Based Supervision Framework, outlined herein and has worked to refine same since that time.

This supervisory framework elaborates upon and should be read in conjunction with legislative requirements[1] specific to the regulated institutions.

[1] Includes accompanying Regulations thereto as well as Guidelines issued or endorsed by the FSA e.g., Capital Adequacy and Large Exposure Guidelines pertaining to International Banks.

SUPERVISORY APPROACH

Key Principles

The following are the key principles of the supervisory approach:

- It is risk and principle based, forward-looking and outcome focused.
- It recognizes that Board of Directors and Senior Management of institutions are primarily responsible for their financial soundness and prudent management.
- It is intended to reduce the risk of failure or inappropriate behavior by institutions; but it cannot prevent all failures as that would result in excessive regulatory burden for the industry and could negatively impact its efficiency.
- Supervision of institutions is conducted on a consolidated basis, in coordination with other regulators and using information from them as appropriate. It includes an assessment of all material entities, both national and international.
- The exercise of sound judgment in identifying and evaluating risks is central to the effectiveness of the supervisory approach.
- Where appropriate, the FSA leverages the work of the institution's Corporate Oversight and Governance functions to minimize duplication of effort.
- Communication of assessments and recommendations to institutions are risk focused and timely.
- The level and frequency of supervisory scrutiny and the degree of intervention depends on the risk profile of the institution. Institutions that are well managed relative to their risks will require less supervision. Not all areas within an institution need to be reviewed every year.
- It enables the assessment of the risk profile of an institution to remain current and provides an objective basis for allocating supervisory resources across institutions and within an institution.
- The FSA relies on external auditors for the fairness of the financial statements and uses their work to modify the scope of its reviews to minimize duplication of effort. Similarly, the FSA relies on actuaries for the adequacy of policy liabilities and uses their work to modify the scope of its work.

Key Benefits

The key benefits of the supervisory approach are:

- closer integration of macro and micro prudential supervision, with focus on early identification of emerging risks to facilitate timely interventions;
- assessments parallel how an institution is managed;
- better evaluation of risk through separate assessments of inherent risks and risk management processes resulting in a deeper understanding of an institution's operations, its risk appetite and the key drivers of its risk profile;
- early identification of institutions and areas in institutions with prudential issues and concerns;
- cost effective utilization of resources through prioritization of supervision based on risks;
- reporting risk-focused assessments to institutions for desired outcomes;
- reducing regulatory burden on well managed institutions;
- encouraging a strong risk management culture in institutions; and
- providing flexibility for supervisors to use professional judgment within a structured approach.

ASSESSING THE RISK PROFILE OF AN INSTITUTION

Risk assessment is fundamental to supervision. An understanding and assessment of the broader economic and industry factors and the institution's business profile provide the supervisor with the necessary context for assessing the institution's risk profile. The principles below guide the risk assessment.

1. Focus on Material Risk - The risk assessment performed by FSA in its supervisory work is focused on identifying material risk to an institution, such that there is the potential for loss to depositors or policyholders.
2. Forward-Looking, Early Intervention - Risk assessment is forward-looking. This view facilitates the early identification of issues or problems, and timely intervention where corrective actions need to be taken, so that there is a greater likelihood of the satisfactory resolution of issues.
3. Sound Predictive Judgement - Risk assessment relies upon sound, predictive judgment. To ensure adequate quality, FSA requires that these judgments have a clear, supported rationale.
4. Understanding the Drivers of Risk - Risk assessment requires understanding the drivers of material risk to an entity. This requires sufficient knowledge of the entity's business model (i.e., products and their design, activities, strategies and risk appetite), as well as the entity's external environment.
5. Differentiate Inherent Risks and Risk Management - Risk assessment requires differentiation between the risks inherent to the activities undertaken by the entity, and the entity's management of those risks – at both the operational and oversight levels. This differentiation is crucial to establishing expectations for the management of the risks and to determining appropriate corrective action, when needed.
6. Dynamic Adjustment - Risk assessment is continuous and dynamic in order that changes in risk, arising from both the entity and its external environment, are identified early. FSA's core supervisory process is flexible, whereby identified changes in risk result in updated priorities for supervisory work.
7. Assessment of the Whole Institution - The application of the Supervisory Framework culminates in a consolidated assessment of risk to an entity. This holistic assessment combines an assessment of earnings and capital in relation to the overall net risk from the entity's significant activities, as well as an assessment of the entity's liquidity, to arrive at this composite view.

Assessing the risk profile of an entity comprises the following steps:

1. Identifying Significant Activities;
2. Assessing key Risks Inherent in each Significant Activity;
3. Assessing Quality of Operational Management, Corporate Oversight and Governance for each Significant Activity;
4. Assessing Residual Risk in each Significant Activity;
5. Assessing Overall Residual Risk for all Significant Activities
6. Assessing Earnings, Capital and Liquidity; and
7. Assessing the Risk Profile of the institution.

The above steps are interrelated and operate in a dynamic manner. They represent the building blocks for assessing the risk profile of an institution. A risk matrix is used to summarize the assessments made through the supervisory process.

The risk matrix highlights the entity's Significant Activities, key risks inherent in those activities, how well the key risks are managed and overseen, residual risk for each Significant Activity, residual risk in all Significant Activities taken together, adequacy of its capital, earnings, and liquidity and the risk profile as well as direction and stability of the risk profile. The risk matrix provides a one-page window into the institution's operations and facilitates visualization of the components that are the key drivers of the institution's risk profile.

RISK ASSESSMENT CONCEPTS

The Supervisory Framework uses many concepts to enable a common approach to risk assessment across institutions and over time. The main concepts above are summarized below.

SIGNIFICANT ACTIVITIES

An institution's activities can include a line of business, business unit or an enterprise-wide process (such as information technology). Its activities can be identified from various sources of information, including its organization structure, strategic and business plans, capital allocations, internal and external financial reporting; etc.

Once an institution's activities are identified, sound judgement is applied in determining the significance or materiality of the activities. Materiality for this purpose is a measure of the relative significance of the activities to the attainment of the institution's objectives. It is multi-dimensional, current and prospective and considers both qualitative and quantitative factors.

The following are examples of criteria that may be used for determining materiality:

a. assets generated by the activity in relation to total assets;
b. revenue generated by the activity in relation to total revenue;
c. net income before tax for the activity in relation to total net income before tax;
d. risk-weighted assets generated by the activity in relation to total risk-weighted assets;

e. internal allocation of capital to the activity in relation to total capital, and
f. strategic importance.

Activities identified as significant would be those that are important to the achievement of the institution's business objectives and strategies. They would also generally parallel those considered significant by management and how they are organized and managed by the institution. It may be appropriate to group or sub-divide activities for efficient and effective assessment. However, in doing so, supervisors need to ensure that key risks in the activities are not masked and would be assessed at an appropriate level.

INHERENT RISK

Inherent risk is a risk which cannot be segregated from the activity. It is intrinsic to an activity and arises from exposure to and uncertainty from potential future events. Inherent risks are evaluated by considering the degree of probability and the potential size of an adverse impact on an institution's capital or earnings.

A thorough understanding of the environment in which an institution operates and its various business activities is essential to effectively identify and assess risks inherent in its activities. For assessment purposes, inherent risks are grouped in the following seven categories:

- credit;
- market;
- operational;
- Reputational
- legal and regulatory;
- insurance;
- strategic.

An institution's Significant Activities are likely to have a number of the above risks. However, since the inherent risk assessments are in the context of assessing the risk profile (safety and soundness) of an institution, supervisory assessments are focused on risks that are likely to have a material impact on the institution's risk profile; i.e., key risks in its Significant Activities.

Key risks are assessed without regard to the size of the activity and without considering the impact of risk mitigation by the institution. The assessment is dynamic and forward looking. Size of the activity is considered separately in assessing Overall Residual Risk in all of the institution's Significant Activities taken together.

The levels of key inherent risks are assessed as Low (L), Moderate (M),), Above Average (AA) or High (H). The above risk categories and the rating definitions are described in Appendix A.

QUALITY OF RISK MANAGEMENT

The quality of risk management and controls for each Significant Activity is assessed at two levels:

a. An assessment of the day-to-day management of the Significant Activity (Operational Management); and
b. An assessment of the Corporate Oversight and Governance for the Significant Activity.

OPERATIONAL MANAGEMENT

Operational Management is primarily responsible for the day-to-day management of a Significant Activity. This function ensures that policies, processes, control systems, staff levels and experience are sufficient and effective in managing and mitigating the key risks inherent in the Significant Activity. The organizational structure and controls must be effective in preventing and detecting material errors and irregularities in a timely manner.

The degree to which an institution's Operational Management for a Significant Activity needs to be assessed directly depends on the assessment of the effectiveness of its Corporate Oversight and Governance functions. In cases where Corporate Oversight and Governance functions are assessed as effective, supervisors would be able to use the results of the work carried out by these functions in respect of the activity as input into the assessment of the effectiveness of Operational Management for the activity. Where institutions lack some or all of the Corporate Oversight and Governance functions (e.g., in case of branches), supervisors look to other functions, within or external to the institution, that handle these responsibilities.

CORPORATE OVERSIGHT AND GOVERNANCE

The presence and nature of Corporate Oversight and Governance functions vary based on the size, structure and complexity of an institution. Institutions incorporated in the country are required by legislation to have a Board of Directors and Senior Management. In branches of institutions incorporated outside the country, the principal officer generally carries out the role and responsibilities of Senior Management.

The Board of Directors is ultimately accountable for the management and oversight of an institution. The Board normally delegates management and oversight responsibilities to Senior Management. Depending on the size and complexity of an institution, Senior Management, in turn, may delegate some of its oversight responsibilities to other oversight functions. Oversight functions that may be set-up include Risk Management, Internal Audit and Compliance. Senior Management retains the responsibilities not delegated to oversight functions. In smaller institutions, Senior Management sometimes performs responsibilities normally carried out by Operational Management. In these cases, the institution will need to demonstrate how independent oversight is provided over these responsibilities.

Operational Management, Corporate Oversight and Governance functions are assessed as Strong (S), Acceptable (A), Needs Improvement (NI) or Weak (W). These rating categories are described in Appendix B.

OVERALL ASSESSMENT OF CORPORATE OVERSIGHT AND GOVERNANCE FUNCTIONS

The methodology facilitates the development of an overall assessment of the effectiveness of the Corporate Oversight and Governance functions. The overall assessment combines an assessment of the characteristics of the functions (how they have been set-up to provide the oversight) and an assessment of their effectiveness (how well they carry out their oversight roles) across all Significant Activities of the institution.

Corporate Oversight and Governance functions are rated as Strong (S), Acceptable (A), Needs Improvement (NI) or Weak (W).

Performance assessment, which is the major part of the overall assessment, is derived from the effectiveness assessments for the function across the institution's Significant Activities.

ASSESSING RESIDUAL RISK IN EACH SIGNIFICANT ACTIVITY

The assessment of the residual risk in each Significant Activity considers the extent to which the key risks inherent in the activity are effectively managed by Operational Management and independently overseen by Corporate Oversight and Governance, Internal Audit and Compliance functions. For each Significant Activity, the effectiveness and oversight of each key inherent risk is considered separately and then compiled into an assessment of the residual risk for the activity. Hence, these assessments are multi-dimensional and are based on informed qualitative judgements.

For example, a corporate lending activity may be assessed as having a high credit risk, and a moderate level of operational risk. However, the residual risk for the activity may be assessed as moderate due to an acceptable level of risk management by Operational Management and a strong oversight by Internal Audit and Senior Management and an acceptable level of oversight by the Board.
Net residual risk for an activity is assessed as Low (L), Moderate (M), Above Average (AA) or High (H).

DIRECTION OF RESIDUAL RISK

The residual risk assessments include a determination of the direction of residual risk. Direction is assessed as Decreasing (D), Stable (S), or Increasing (I) over an appropriate time horizon for the institution; for example, generally the time horizon for a larger more complex institution may need to be longer than for a smaller institution.

ASSESSING OVERALL RESIDUAL RISK FOR ALL SIGNIFICANT ACTIVITIES

Overall Residual Risk of all Significant Activities taken together is a weighted aggregate of the residual risk of the individual Significant Activities. The assessment considers the residual risk in each activity and its relative materiality in developing the overall assessment. The overall assessment is a qualitative assessment of the institution's susceptibility to adverse events that might impact its liquidity, earnings or capital in the foreseeable future.

Overall Residual Risk is rated as Low (L), Moderate (M), Above Average (AA) or High (H). Definitions of these rating levels are included in Appendix C.

The direction of Overall Residual Risk is assessed as Decreasing (D), Stable (S), or Increasing (I).

ASSESSING EARNINGS, CAPITAL AND LIQUIDITY

After assessing the Overall Residual Risk in an institution's Significant Activities, supervisors assess Earnings, Capital and Liquidity in the context of the Overall Residual Risk. Under the methodology, Earnings and Capital are first assessed separately to understand how they individually contribute to the safety and soundness of the institution, then considered together to assess their adequacy in the context of the Overall Residual Risk in the institution's Significant Activities.

Earnings, Capital and Liquidity are assessed as Strong (S), Acceptable (A), Needs Improvement (NI) or Weak (W).

The criteria used to assess Earnings, Capital and Liquidity are summarized below:

EARNINGS

Earnings are intended to provide for an institution's expected losses, generate an adequate return for the shareholders and contribute to capital. The assessment of earnings considers the quality, quantity, volatility, composition and sustainability in the context of the institution's business objectives and its Overall Residual Risk. It also considers historical trends and future outlook, both under normal and stressed conditions, as well as reliability of its contribution to capital.

CAPITAL

Capital represents the resources of an institution which enable it to withstand unexpected losses and shocks (i.e., it is an institution's safety net). The assessment of capital considers the adequacy of capital (quality and quantity) both at present and prospectively and under normal and stressed conditions in the context of the institution's Overall Residual Risk. It also considers capital management processes, access to capital in the context of the institution's Overall Residual Risk and planned business activities. It is not sufficient for an institution to merely meet minimum regulatory requirements. Capital has to be sufficient to support the risk profile of the institution as well as its planned activities. Also, no matter how substantial an institution's capital is, it cannot be considered a substitute for appropriate risk management and oversight of the institution's activities.

Assessment of an entity's Internal Capital Adequacy and Assessment Process (ICAAP) is integral to the assessment of the adequacy of its capital in the context of its risk profile. Capital planning and management needs to be effectively overseen by Senior Management and the Board.

LIQUIDITY

An adequate level of liquidity is critical for the overall safety and soundness of an institution. Assessment of liquidity considers the current level and prospective sources of liquidity

compared to funding needs (both under normal and stressed conditions) as well as the adequacy of liquidity management practices in the context of the size, complexity, and risk profile of the institution. The assessment, for example, considers:

- The availability of assets readily convertible to cash without undue loss;
- Access to various sources of funding;
- The level of diversification of funding sources;
- The degree of reliance on short-term and volatile sources of funds;
- The trend and stability of deposits;

The capabilities of management to identify, measure, monitor and control the institutions liquidity position, including the effectiveness of fund management strategies, liquidity policies, management information systems and contingency funding plans.

- Liquidity management needs to be effectively overseen by Senior Management and the Board.

ASSESSING THE RISK PROFILE OF THE INSTITUTION

The assessment of the risk profile is an overall assessment of the institution after considering the adequacy of its capital supported by earnings, and its liquidity in the context of the Overall Residual Risks in its Significant Activities. It is an assessment of the safety and soundness of the institution.

The risk profile is assessed as Low (L), Moderate (M), Above Average (AA) or High (H).

The assessment also includes an assessment of the direction of the institution's risk profile. Direction is assessed as Decreasing (D), Stable (S) or Increasing (I).

The stability of the assessment is indicated in terms of a time frame. For example, a shorter time frame is assigned in cases where the risk profile is likely to be more volatile and a longer time frame in cases where the risk profile is expected to be more stable.

The supervisory methodology provides for a baseline level of activity to assess the risk profile of each institution. It provides the basis from which to determine risk-based priorities and the level of intervention considered necessary in individual cases.

Once an institution's risk profile has been assessed it is refreshed through a dynamic assessment of the impact of any material changes for the institution. Accordingly, beyond this dynamic monitoring and updating of an institution's risk profile, most of the supervisory resources are invested in institutions that require attention based on their risk profile and the prudential issues that need to be addressed.

THE RISK MATRIX AND COMPOSITE RISK RATING

A Risk Matrix (see Appendix E) is used to record all of the assessments described above. The purpose of the Risk Matrix is to facilitate a holistic risk assessment of an institution. This assessment culminates in a Composite Risk Rating (CRR).

The CRR is an assessment of the institution's risk profile, after considering the assessments of its earnings and capital in relation to the Overall Net Risk from its significant activities, and the assessment of its liquidity. The CRR is the FSA's assessment of the safety and soundness of the institution with respect to its depositors and policyholders. The assessment is over a time horizon that is appropriate for the institution, given changes occurring internally and in its external environment. Composite Risk is rated Low (L), Moderate (M), Above Average (AA) or High (H). The assessment is supplemented by the Direction of Composite Risk, which is FSA's assessment of the most likely direction of in which the CRR may move. The direction of the Composite Risk is rated as Decreasing (D), Stable (S) or Increasing (I).

The CRR of an institution is used in determining whether any extraordinary action or enhanced supervision or monitoring by the FSA is warranted. The FSA a Guide to Intervention would highlight the remedial actions that it may take based on the risk profile of an institution.

While the Risk Matrix is a convenient way to summarize FSA's conclusions of risk assessment, it is supported by detailed documentation of the analysis and rationale for the conclusions.

CONSOLIDATED SUPERVISION

Consolidated supervision is an essential tool for supervising financial groups. It involves a comprehensive approach that seeks to evaluate the strength of an entire group, taking into account all the risks which may affect the group, regardless of whether the risks are carried by the institution or related entities.

In the case of financial groups, the methodology is applied at the level of the top regulated entity in the group (either operating or non-operating) to ensure that all risks incurred by the group, no matter where they are located or booked, are evaluated and controlled across the group on an enterprise-wide basis. All assessments are made and documented on a consolidated basis. Various regulatory requirements (e.g., concentration limits, large exposure limits, liquidity, capital, intra-group exposures, off-balance sheet exposures, etc.) are assessed on a consolidated and solo basis to ensure compliance.

The assessment considers the implications of, and relationship with, other regulated and non-regulated down-stream entities in the group, as well as potential impact of up-stream or other related entities outside the supervised group. The latter are assessed for any contagion risks likely to emanate from them for the supervised group.

Not all regulated entities in a group require a separate assessment beyond ensuring regulatory compliance. Separate or solo assessments may be necessary in the following circumstances:

a. Where the regulated subsidiary represents a significant part of the consolidated entity and is operated independently of the group.
b. Where a regulated subsidiary requires a more in-depth review to adequately assess the subsidiary's impact on the consolidated entity than would be possible at the consolidated level.
c. Where a regulated subsidiary's risk management and control practices are distinct from those of the group, and
d. Where a regulated entity's risk profile is materially different from that of the group.

For groups operating across borders, supervisors will need to deal with home/host considerations. These would include establishing memoranda of understanding, regular and timely exchange of information, co-ordination of supervisory activities, co-ordination of supervisory intervention as appropriate, establishment of colleges of supervisors, etc.

APPENDIX A
LEVELS OF KEY INHERENT RISKS

Low:

Low inherent risk exists when there is a lower-than-average probability of a material adverse impact on an institution's capital or earnings due to exposure and uncertainty from potential future events.

Moderate**:**

Moderate inherent risk exists when there is an average probability of a material adverse impact on an institution's capital or earnings due to exposure and uncertainty from potential future events.

Above Average:

Above Average Inherent risk exists when there is a higher-than-average probability of a material adverse impact on an institution's capital or earnings due to exposure and uncertainty from potential future events.

High:

High inherent risk exists when there is a higher than above average probability of a material adverse impact on an institution's capital or earnings due to exposure and uncertainty from potential future events.

APPENDIX B
QUALITY OF RISK MANAGEMENT RATINGS CATEGORIES

The following rating categories are used to assess the effectiveness of Operational Management, Corporate Oversight and Governance functions at the Significant Activity level:

Strong:

Strong means the function consistently demonstrates highly effective performance in the context of the key risks inherent in the Significant Activity.

Acceptable:

Acceptable means the function demonstrates effective performance in the context of the key risks inherent in the Significant Activity.

Needs Improvement:

Needs improvement means the function may generally demonstrate effective performance, but there are some areas where effectiveness needs to be improved in the context of the key risks inherent in the Significant Activity,

Weak:

Weak means the function has demonstrated serious instances where effectiveness needs to be improved in the context of the key risks inherent in the Significant Activity.

APPENDIX C
OVERALL RESIDUAL RISK IN SIGNIFICANT ACTIVITIES DEFINITIONS

The following rating categories are used to assess the Overall Residual Risk in an institution's Significant Activities taken together.

Low:
The institution has risk management that substantially mitigates risks inherent in its Significant Activities down to levels that collectively have lower-than-average probability of a material adverse impact on its capital and earnings in the foreseeable future.

Institutions in this category will have a predominance of Significant Activities rated as low residual risk. Other combinations may be possible depending on the circumstances of the institution.

Moderate:
The institution has risk management that sufficiently mitigates risks inherent in its Significant Activities down to levels that collectively have an average probability of a material adverse impact on its capital and earnings in the foreseeable future.

Institutions in this category will have a significant number of their Significant Activities rated as moderate residual risk, or a few of their Significant Activities rated as high residual risk with others rated as low residual risk. Other combinations may be possible depending on the circumstances of the institution.

Above Average:
The institution has weaknesses in its risk management that, although not serious enough to present an immediate threat to solvency, give rise to high residual risk in a number of its Significant Activities. As a result, residual risk in its Significant Activities collectively have an above average probability of a material adverse impact on its capital and earnings in the foreseeable future.

Institutions in this category will have a number of their Significant Activities rated as high residual risk with others mainly rated as moderate residual risk. Other combinations may be possible depending on the circumstances of the institution.

High
The institution has weaknesses in its risk management that may pose a serious threat to its financial viability or solvency and give rise to high residual risk in a number of its Significant Activities. As a result, residual risks in its Significant Activities collectively have a high probability of a material adverse impact on its capital and earnings in the foreseeable future.

Institutions in this category will have the majority of their Significant Activities rated as high residual risk, or will have rated as high residual risk one or more Significant Activities that have a pervasive impact on its operations. The weaknesses in risk management

lead to considerable doubt about the institution's capability and/or willingness to apply prompt and effective corrective measures to sufficiently mitigate high residual risks in its Significant Activities. Other combinations may be possible depending on the circumstances of the institution.

Appendix D

Institution

RISK MATRIX as at MM/DD/YY. Prior Risk Matrix as at: MM/DD/YY[2]

Significant Activities (Date of Last In-Depth Assessment)	Materiality	Inherent Risks							Quality of Risk Management						Net Risk/Residual Risk	Direction of Rating
		Credit	Insurance	Market	Operational	Legal and Regulatory/Regulatory Compliance	Reputational	Strategic	Operational Management	Compliance	Risk Management	Internal Audit	Senior Management	Board		
Overall Rating																

	Rating	Direction of Rating	Time Frame
Earnings			
Capital			
Liquidity			
Composite Risk			

Intervention Rating[3]	
Recommended IR	

Note: For Inherent Risk, Net Risk, Overall Net Risk and Composite Risk: "H" = High; "AA" = Above Average; "M" = Moderate; "L" = Low

For Quality of Risk Management, Earnings, Capital and Liquidity: "S" = Strong; "A" = Acceptable; "NI" = Needs Improvement; "W" = Weak

For Direction of Rating "I" = Increasing, "S" = Stable, "D" = Deteriorating,

For Direction of Earnings, Capital and Liquidity "I" = Improving, "S" = Stable, "D" = Deteriorating

For Materiality: "H" = High; "M"= Medium; "L"= Low

For Intervention Ratings: "0" – No Problems / Normal activities; "1" – Early Warning; "2" – Risk to Financial Viability or Solvency; "3" – Future Financial Viability in Serious Doubt; "4" – Company Not Viable / Insolvency Imminent.

[2] Where there is a change in a rating or the direction of a rating: The revised rating or direction should be added to the appropriate cell of the Matrix, and the previous rating or direction placed next to it in brackets ("()"). The comparative rating should only

[3] INTERVENTION RATING

The following indicates the relationship one would normally expect to see between an institution's CRR and intervention rating: Low - 0 intervention rating; Moderate - 0 or 1 intervention rating; Above Average - 1 or 2 intervention rating; and High - 2 or above intervention rating. However, there may be circumstances in a given case that may require deviation from the relationship indicated.

APPENDIX E

RISK PROFILE RATING DEFINITIONS

The following rating categories are used to assess the risk profile of an institution.

Low Risk:

A strong, well-managed institution. The combination of its Overall Residual Risk and its capital supported by earnings, and its liquidity makes the institution resilient to most adverse business and economic conditions without materially affecting its risk profile. Its performance has been consistently good, with most key indicators in excess of industry norms, allowing it ready access to additional capital. Any supervisory concerns have a minor effect on its risk profile and can be addressed in a routine manner.

An institution in this category would have a low Overall Residual Risk coupled with acceptable capital, earning, and liquidity, or a moderate Overall Residual Risk coupled with strong capital, earnings, and liquidity. Other combinations may be possible depending on the circumstances of the institution.

Moderate Risk:
A sound, generally well-managed institution. The combination of its Overall Residual Risk and its capital supported by earnings, and its liquidity makes the institution resilient to normal adverse business and economic conditions without materially affecting its risk profile. The institution's performance is satisfactory, with key indicators generally comparable to industry norms, allowing it reasonable access to additional capital. Supervisory concerns are within the institution's ability to address.

An institution in this category would have moderate Overall Residual Risk coupled with acceptable capital, earnings, and liquidity. Other combinations may be possible depending on the circumstances of the institution.

Above Average Risk:
The institution has issues that indicate an early warning or that could lead to a risk to its financial viability. One or more of the following conditions are present. The combination of its Overall Residual Risk and its capital supported by earnings, and its liquidity makes the institution vulnerable to adverse business and economic conditions. Its performance is unsatisfactory or deteriorating, with some key indicators at or marginally below industry norms, impairing its ability to raise additional capital. The institution has issues in its risk management that, although not serious enough to present an immediate threat to financial viability or solvency, could deteriorate into serious problems if not addressed promptly.

An institution in this category would have moderate Overall Residual Risk coupled with capital, earnings, and liquidity that need improvement. Other combinations may be possible depending on the circumstances of the institution.

High Risk:

The institution has serious safety and soundness concerns. One or more of the following conditions are present. The combination of its Overall Residual Risk and its capital supported by earnings, and its liquidity is such that the institution is vulnerable to most adverse business and economic conditions, posing a serious threat to its financial viability or solvency unless effective corrective action is implemented promptly. Its performance is poor, with most key indicators below industry norms, seriously impairing its ability to access additional capital.

An institution in this category would have above average Overall Residual Risk with capital, earnings, and liquidity that need improvement. Other combinations may be possible depending on the circumstances of the institution.