SUPERVISORY FRAMEWORK

2012 AND BEYOND

Bank Supervision Department
CENTRAL BANK OF BARBADOS

Mission

We are the regulator of domestic banks, trust companies, finance companies and merchant banks licensed under the Financial Institutions Act, Cap. 324 (FIA) and international banks, licensed under the International Financial Services Act, Cap. 325 (IFSA). Our mission is to ensure the safety and soundness of the financial system. We advance and administer a regulatory framework that contributes to public confidence in a competitive financial system.

We are committed to providing an efficient, professional and high quality service.

Contents

1. Introduction

The Bank Supervision Department's activities can be divided into two broad functions: regulation and supervision. Regulation involves providing input into developing and interpreting legislation, issuing guidelines, and approving requests for licenses and from non-licensed financial institutions, as required under the various legislation. Supervision involves assessing the safety and soundness of licensed financial institutions, providing feedback to institutions, and using supervisory powers to intervene in a timely manner to achieve our mandate.

The objective of the Supervisory Framework (Framework) is to provide an effective process to assess the safety and soundness of regulated financial institutions. This is achieved by evaluating an institution's risk profile, financial condition, risk management processes, and compliance with applicable laws and regulations.

Developing supervisory practices is a dynamic process. Continuing change in the financial markets requires regular review of existing supervisory practices to ensure that they remain effective. In recognition of the increased globalization of the financial industry and the need for harmonization of supervisory practices across jurisdictions, the Central Bank of Barbados ((CBB)/the Bank) considered the practices of a number of foreign regulators. In establishing its Framework, the Bank has taken into account the practices developed by these regulators.

The Framework also takes into account the Bank's experience in supervising various types and sizes of institutions. It recognizes and accommodates the varying risk profiles of the domestic and offshore deposit-taking, and non-deposit taking sectors.

The Framework applies to all financial institutions licensed under the Financial Institutions Act (FIA) and the International Financial Services Act (IFSA). It is currently being implemented and will be fine-tuned based on experience and consultation with supervised institutions. The Bank will continue to critically assess and refine its practices to ensure that they remain effective and efficient in a rapidly changing environment.

2. Benefits

The principal benefits of the Framework are:

- Better evaluation of risks through separate assessment of inherent risks and risk management processes;
- Greater emphasis on early identification of emerging risks and system-wide issues;
- Cost effective use of resources through a sharper focus on risk;
- Reporting of risk focused assessments to institutions; and
- To assist in deciding the level of regulatory capital which we require the institutions to hold.

3. Key Principles

The following key principles form the basis of the Framework:

- The supervision of financial institutions is conducted on a consolidated basis, where applicable, using information from other regulators, as appropriate. It includes an assessment of all material entities (subsidiaries, branches, and joint ventures) both in Barbados, regionally, and internationally;
- The exercise of sound judgement in identifying and evaluating risks in an institution is central to the effectiveness of the Framework. Work performed will be focused on clearly identified risks or areas of concern;
- The level and frequency of supervisory scrutiny will depend on the risk assessment 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;
- Supervision will include reviews of major risk management control functions such as Compliance, Internal Audit, Risk Management, Senior Management and Board Oversight. The Bank's supervisory process uses, where appropriate, the work of the institution's internal management and control functions;
- Communication of findings and recommendations to institutions will be timely. The degree of intervention will be commensurate with the risk profile of the institution and in accordance with the Intervention Policy Guideline[1];
- Ratings will be provided to the institution after each on-site review on condition that this must not be shared with any third party outside of the group. The ratings will be linked to the stages of intervention in accordance with the Intervention Policy Guideline. The evaluation criteria and definitions of ratings, once developed, will be provided to industry for consultation and comment before being implemented;

[1] The Guideline provides general guidance to licensees on the procedures that the Bank will follow when there is cause for concern with respect to the operations of licensees or non-compliance by licensees with applicable legislation, regulations, guidelines or other directives of the Bank.

- The Bank will continue to rely on external auditors for the fairness of the financial statements and may use their work to modify the scope of its reviews to minimize duplication of effort; and
- The Bank will carry out benchmarking studies on a range of areas to identify best industry practices for dealing with various types of risk. CBB will share this information with institutions' senior management and Boards of Directors so that they can ensure that their risk management processes are adequate.

4. Risk Assessment

A dynamic risk assessment process is critical to the Framework.

Risk assessment begins with identifying the significant activities of an institution. The net risk in these activities is a function of the aggregate inherent risk offset by the aggregate quality of risk management. This evaluation is illustrated by the following equation:

Inherent Risks mitigated by Quality Risk Management = Net Risk

The results of the risk assessment are summarized in a Risk Matrix as discussed below (subsection 4.6).

4.1 Significant Activities

Significant activities could include any significant line of business, unit or process. Significant activities are identified from various sources, including the institution's organisation charts, strategic business plan, capital allocations, and internal and external financial reporting.

Sound judgement is applied in determining the significance or materiality of any activity in which an institution engages. The following are examples of criteria that may be used:

a. Assets generated by the activity in relation to total assets (both on- and off-balance sheet);
b. Risk-weighted assets generated by the activity in relation to total risk-weighted assets;
c. Revenue generated by the activity in relation to total revenue;
d. Net income before tax for the activity in relation to total net income before tax;
e. Risk-weighted capital for the activity in relation to total risk-weighted capital;
f. Internal allocation of capital to the activity in relation to total capital; and
g. Stipulated or allocated Reserves held as a percentage of total reserves.

4.2 Inherent Risk

Inherent risk is intrinsic to a business activity and arises from exposure and uncertainty arising from potential future events. Inherent risk is 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 are essential to effectively identify and assess inherent risks in those activities. The Bank has decided to group these risks in the following categories for assessment purposes:

- Credit risk;
- Market risk;
- Operational risk;
- Liquidity risk;
- Legal and regulatory risk; and
- Strategic risk.

These risk categories are described in Appendix A.

After significant activities have been identified, the level of each inherent risk in those activities is assessed as **low, moderate, above average** or **high (Appendix B)**. This assessment is made without considering the impact of risk mitigation through the institution's risk management processes and controls. The quality of these factors are considered separately and combined with the inherent risk assessment to determine the net risk of each activity.

4.3 Quality of Risk Management

The quality of risk management is evaluated for each significant activity. In addition to Operational Management, we have identified six other risk management control functions that may exist in an institution. These are: Financial Analysis, Compliance, Internal Audit, Risk Management, Senior Management and Board Oversight **(see Appendix D)**. The presence and nature of these functions vary based on the size and complexity of an institution.

Operational Management for a given activity is primarily responsible for its day-to-day management. This function ensures that policies, processes, control systems, staff levels and experience are sufficient and effective in compensating for the risks inherent in the activity. The organisational structure and controls must be effective in preventing and detecting material errors or irregularities in a timely manner.

The degree to which an institution's Operational Management and controls for a given activity needs to be reviewed depends on the assessment of the effectiveness of the institution's other risk management control functions. (For example, in large financial groups it may be possible to assess the effectiveness of Operational Management and controls for a given activity through an assessment of the other risk management control functions). Where institutions lack some of the risk management control functions, the Bank looks to other functions such as Senior Management, External audit, etc., within the group or external to the institution for which outsourcing arrangements may be in place.

Where independent reviews of Operational Management and controls have not been carried out or where independent risk management control functions are lacking, CBB will, under normal circumstances, make appropriate recommendations or direct that appropriate work be done.

The quality of risk management processes for each significant activity is an evaluation of an institution's current practices of each risk management control function for that activity. The quality of risk management processes is assessed as **strong, acceptable, needs improvement or weak (Appendix C)**.

4.4 Net Risk

The net risk for each significant activity is a function of the aggregate level of inherent risk offset by the aggregate quality of risk management. The aggregate levels are based on judgements that consider all of the inherent risk ratings and the quality of risk management for the activity.

For example, the investment banking activity of an institution may be evaluated as having a high aggregate level of inherent risk arising from a combination of high credit risk, high market risk, and high liquidity risk. However, net risk for the activity may be rated as moderate due to mitigation by a strong aggregate quality of risk management resulting from strong operational management, strong internal audit, strong risk management, and strong Board oversight.

Net risk is rated as **low, moderate, above average** or **high** as shown in the chart below.

Aggregate Quality of Risk Management for Significant Activity	**Aggregate Level of Inherent Risk for Significant Activity**			
	Low	**Moderate**	**Above Average**	**High**
	Net Risk Assessment			
Strong	Low	Low	Moderate	Above Average
Acceptable	Low	Moderate	Above Average	High
Needs Improvement	Moderate	Above Average	High	High
Weak	Above Average	High	High	High

4.5 Direction of Net Risk

The above assessments include a determination of the current direction of net risk. Direction of risk is assessed as **decreasing, stable,** or **increasing** over an appropriate time horizon for the institution. For example, the time horizon for a large financial group may need to be much longer than for a smaller institution. The time horizon considered is indicated in each case.

4.6 Risk Matrix

A Risk Matrix **(Appendix E)** is used to record the assessment of inherent risks, the quality of risk management, and the resulting net risk evaluation for each significant activity.

The Risk Matrix includes a determination of an **Overall Rating of Net Risk** and the **Direction of Risk**. In arriving at the Overall Rating of Net Risk, the relative significance or materiality of each activity is considered. This is rated **low**, **moderate**, **above average** or **high**. This assessment ensures that an activity with low materiality but high net risk does not skew the Overall Rating. The Bank's supervisory efforts will be focused in the first instance on material high-risk activities.

An Overall Rating for each risk management control function is also included in the Risk Matrix.

The Risk Matrix includes a **Composite Risk Rating (CRR)** and a **Direction of Composite Risk** for the institution. These could be affected by factors such as capital and earnings. Accordingly, the assessment includes a review of the quality, quantity, and availability of externally and internally generated capital. In reviewing an institution's ability to generate capital internally, profitability is considered both on a consolidated and unconsolidated basis. An appropriate time frame for the **Composite Rating** and the **Direction of Composite Risk** is also included.

While the Risk Matrix is a convenient way to summarize the conclusions of risk assessments, it is supported by documentation of the analysis and the rationale for the conclusions.

4.7 Risk Assessment Summary

The Risk Assessment Summary (RAS) is an executive summary which highlights an institution's present financial condition, its prospective risk profile, key issues, and past supervisory findings. The RAS includes:

a. A Risk Matrix;
b. An overview of the main business activities and strategies;
c. An assessment of the effectiveness of the key risk management control functions;
d. An assessment of the adequacy of capital and the profitability of the institution;
e. Where an institution is part of a foreign entity (i.e. a subsidiary or a branch), a suitable assessment of the foreign entity's operations and the supervisory system in effect in the home jurisdiction;
f. A listing of significant events during the past 12 months;
g. Financial highlights; and
h. Intervention status reports.

The RAS facilitates a sharper focus on activities that pose the greatest risk to an institution.

The RAS is used to set priorities for the year. It does not include the supervisory work to be carried out or resources required. Planned work and resources required are included in the Supervisory Plan discussed below (subsection 6.2).

While the RAS includes a Composite Rating for an institution, this rating is preliminary and is not shared with the institution until the risk rating is confirmed through appropriate on-site reviews.

Once appropriate criteria have been developed, the Bank intends to provide the institution with an Overall Net Risk Rating for each of its risk management control functions after the completion of an on-site review.

Intervention staging, in accordance with the Intervention Policy Guideline is reviewed after the RAS has been updated. Kindly refer to the Intervention Policy Guideline for details of the various stage ratings noted in the table below.

Composite Risk Rating (CRR)	**Stage Rating**
Low	0 - No significant problems
Moderate	0 - No significant problems
	1 - Early Warning
Above Average	1 - Early Warning
	2 - Heightened solvency risk/increased or continued regulatory breaches
High	2 - Heightened solvency risk/increased or continued regulatory breaches
	3 - High solvency risk/severe regulatory breaches
	4 - Imminent insolvency or non-viability of a licensee

4.8 Intervention Staging

The Composite Risk rating of an institution should be an indication of the intervention stage rating of the institution. The table above is meant to be a guide as the alignment of the CRR and the intervention stage rating is not a rigid process as circumstances may vary significantly from case to case.

An institution with a “low” Composite Risk Rating should be Stage 0. An institution judged to have a “moderate” risk rating could be either a Stage 0 or a Stage 1 depending on the direction of the risk profile (decreasing, stable, or increasing) and the reasons behind the rating (for example, very weak management control processes would indicate a need for higher staging).

An institution with a CRR of “Above Average” would be assigned a Stage 1 or Stage 2 rating.

An institution with a "high" Composite Risk Rating should be Stage 2 or worse.

The RAS is the primary document provided to senior Bank officials for briefings. Additional documentation may be necessary in case of institutions at Stage 1 or worse.

5. The Relationship Manager/Officer

Each supervisory group is headed by a Senior Examiner who is the designated Relationship Manager (RM) for all institutions in his/her group. The functions of the RM are to ensure that all institutions in his/her group are being properly monitored and to assist the Relationship Officer (RO) with any matters outside of their expertise. All institutions in the Group are allocated among Examiners who serves as RO for their specified institutions.

The RO is the focal point for the supervision of assigned institutions and CBB's primary contact with those institutions. The RO/RM is also part of the regulatory approval process in conjunction with the Policy and Approval Units.

The responsibilities of a RO that support the key principles of the Framework are described below under the supervisory process.

6. The Supervisory Process

The main steps of the supervisory process are: **Analysis, Planning, Action, Documentation, Reporting, and Follow-up**. These steps are listed below.

Although the steps appear sequential, updating of the risk assessment is a dynamic process requiring frequent reassessments at various stages of the supervisory process.

STEPS		OUTPUT	
1.	Analysis (Understanding the institution and developing a risk profile)	1. 2.	Risk Matrix Risk Assessment Summary (RAS)
2.	Planning (Scheduling and planning activities for the supervisory period)	3.	Supervisory Plans (by Institution, Division, Group, and Sector)
3.	Action (Conducting on-site reviews and on-going monitoring)	4.	Information requests
4.	Documentation (Preparing and filing information to support findings)	5. 6.	Section Notes Working papers
5.	Reporting (Report of findings and recommendations to the institution)	7. 8.	Management and Inspection Reports Updated RAS
6.	Follow-up of findings and recommendations	9.	Updated RAS

6.1 Analysis (Step 1)

Analysis of the institution is a primary input into the risk assessment process. The supervisory groups are responsible for ongoing analysis and monitoring of institutions. Analysis is performed at least once every three months for institutions rated Stage 1 or better, and on a monthly basis for institutions rated Stage 2 or worse. Analysis work carried out just prior to the preparation of the Supervisory Plan is more extensive to allow for better input into the planning process.

Analysis and monitoring includes a review of company information as well as meetings with key individuals at the institution to discuss trends and emerging issues. The scope of this work will depend on the size and the risk profile of the institution.

Results of the analysis are used to update the Risk Matrix and the RAS.

6.2 Planning (Step 2)

A Supervisory Plan is prepared at the end of each calendar year and outlines work planned and resources required. The scope of the work planned is based on the RAS. The focus is on the activities and risk management processes identified in the RAS as significant risk areas. Each Relationship Manager uses the RAS to determine priorities for the upcoming year and to allocate resources to individual institutions accordingly.

The Supervisory Plan for each institution includes a consideration of the following:

- Industry risks;
- Concerns or issues raised by the Policy and Approval Units;
- Concerns or issues raised by the Bank's executives; and
- Planning for benchmarking, peer reviews, or other special projects.

Once Supervisory Plans are approved at the department's management level and priorities established, the institution specific Supervisory Plans are finalized.

The Supervisory Plan is subject to revisions if unforeseen events alter the risk profile of the institution. However, any changes require a reassessment of priorities, not just an extension of the scope of the supervisory efforts.

6.3 Action (Step 3)

The Relationship Officer communicates with key parties at the institution and maintains an on-going relationship with key officers of the financial institution. For domestic banks and stage 2 and above entities, discussion with senior management of the financial institution will be undertaken by the Bank Supervision Department's management. For larger institutions, this may involve periodic visits in addition to ongoing monitoring.

Information requested from an institution is based on the specific requirements arising from the risk assessment process. Other information requests may be made prior to an on-site review by way of an inspection letter.

On-site reviews are a critical part of the supervisory process. The scope of on-site reviews depends primarily on the Overall Rating of Net Risk. These reviews and interaction with the institution's officers and management also enhance the Central Bank of Barbados' understanding of the institution and its risk profile.

6.4 Documentation (Step 4)

All supervisory groups use the same documentation standards.

The supervisory file structure is consistent with the framework. The file includes an updated copy of the RAS, a copy of the latest inspection Report and related correspondence, and copies of various section notes.

A section note is prepared in the standard format for each significant activity or risk management control function identified for review. The section note is used to fully document an assessment of the activity or the risk management control function. Working papers necessary to support the assessment are also on file. If a significant activity or risk management control function is not reviewed during an on-site visit, the

latest section note is brought forward. This ensures that the file contains the latest information available to CBB on all areas of an institution.

6.5 Reporting (Step 5)

The licensee will continue to receive copies of on-site inspection reports detailing findings, exceptions and recommendations when an onsite review is conducted. The inspection report is the key written document sent to the institution. Findings and recommendations are first discussed with appropriate senior managers in the institution or referred in written format to the CEO for comment on any factual inaccuracies. The report is thereafter finalized and discussed with the Board of Directors. Corrective action is monitored by way of action plans. As the risk-based framework matures, the department will seek to provide the institution with management reports and/or an annual assessment whether or not an on-site review has taken place. This will be done by way of an annual meeting with the management of the institution.

In accordance with the Deposit Insurance Act, 2006, the Bank provides regular information to the BIDC of deposit-taking institutions.

Written reports are made to senior officers of the Bank as required.

6.6 Follow-up (Step 6)

The findings and recommendations reported to the institution are followed-up on a timely basis and the results included in the RAS updates.

Appendix A Risk Categories

Following are descriptions of the risk categories identified in subsection 4.2 of the Framework. These descriptions should be read within the context of the definition of inherent risk contained in subsection 4.2.

1. Credit Risk

Credit risk arises from a counterparty's inability or unwillingness to fully meet its on- and/or off-balance sheet contractual obligations. Exposure to this risk results from financial transactions with a counterparty including issuer, debtor, borrower, broker, or guarantor.

2. Market Risk

Market risk arises from changes in market rates or prices. Exposure to this risk can result from market-making, dealing, and position-taking activities in markets such as interest rate, foreign exchange, equity, commodity and real estate. Interest rate risk and foreign exchange risk are described further below:

a. Interest Rate Risk

Interest rate risk arises from movements in interest rates. Exposure to this risk primarily results from timing differences in the repricing of assets and liabilities, both on- and off-balance sheet, as they either mature (fixed rate instruments) or are contractually repriced (floating rate instruments).

b. Foreign Exchange Risk

Foreign exchange risk arises from movements in foreign exchange rates. Exposure to this risk mainly occurs during a period in which the institution has an open position, both on and off balance sheet, and/or in spot and forward markets.

3. Operational Risk

Operational risk arises from problems in the performance of business functions or processes. Exposure to this risk can result from deficiencies or breakdowns in internal controls or processes, technology failures, human errors or dishonesty and natural catastrophes.

4. Liquidity Risk

Liquidity risk arises from an institution's inability to purchase or otherwise obtain the necessary funds, either by increasing liabilities or converting assets, to meet its on- and off-balance sheet obligations as they come due, without incurring unacceptable losses.

5. Legal and Regulatory Risk

Legal and regulatory risk arises from an institution's non-conformance with laws, rules, regulations, prescribed practices, or ethical standards in any jurisdiction in which the institution operates.

6. Strategic Risk

Strategic risk arises from an institution's inability to implement appropriate business plans, strategies, decision-making, resource allocation and its inability to adapt to changes in its business environment.

Appendix B Definitions of Inherent Risk Ratings

1. Low Inherent Risk

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

2. Moderate Inherent Risk

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

3. Above Average Risk

Above average inherent risk exists when there is an above average probability of a material loss due to exposure to, and uncertainty arising from, current and potential future events.

4. High Inherent Risk

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

Appendix C Definition of QRM, Capital and Earnings Ratings

1. Strong

The characteristics (e.g., mandate, organization structure, resources, methodologies, practices) of the function exceed what is considered necessary, given the nature, scope, complexity, and risk profile of the financial institution. The function has consistently demonstrated highly effective performance. The function's characteristics and performance are superior to sound industry practices.

2 Acceptable

The characteristics (e.g., mandate, organization structure, resources, methodologies, practices) of the function meet what is considered necessary, given the nature, scope, complexity, and risk profile of the financial institution. The function's performance has been effective. The function's characteristics and performance meet sound industry practices.

3. Needs Improvement

The characteristics (e.g., mandate, organization structure, resources, methodologies, practices) of the function generally meet what is considered necessary, given the nature, scope, complexity, and risk profile of the financial institution, but there are some significant areas that require improvement. The function's performance has generally been effective, but there are some significant areas where effectiveness needs to be improved. The areas needing improvement are not serious enough to cause prudential concerns if addressed in a timely manner. The function's characteristics and/or performance do not consistently meet sound industry practices.

4. Weak

The characteristics (e.g., mandate, organization structure, resources, methodologies, practices) of the function are not, in a material way, what is considered necessary, given the nature, scope, complexity, and risk profile of the financial institution. The function's performance has demonstrated serious instances where effectiveness needs to be improved through immediate action. The function's characteristics and/or performance often do not meet sound industry practices.

Appendix D Risk Management Control Functions

1. Operational Management

Operational management is responsible for planning, directing and controlling the day-to-day operations of an institution's business activities.

2. Financial Analysis

Financial analysis is the function that performs in-depth analyses of the operational results of an institution and reports them to management. Effective reporting is key to this function as the operational results affect strategic and business decisions made by management and the Board.

This function is generally only found as a separate unit in larger institutions.

3. Compliance

Compliance is an independent function within an institution that: 1) sets the policies and procedures for adherence to regulatory requirements in all jurisdictions where an institution operates; 2) monitors the institution's compliance with these policies and procedures; and, 3) reports on compliance matters to senior management and the Board.

4. Internal Audit

Internal audit is an independent function within the institution that assesses adherence to and effectiveness of operational and organizational controls. In addition, internal audit may also assess adherence to and effectiveness of compliance and risk management policies and procedures.

5. Risk Management

Risk management is an independent function responsible for planning, directing and controlling the impact on the institution of risks arising from its operations. The function is generally only found as a separate unit in the larger institutions, and may address the following:

- Identification of risks;
- Development of measurement systems for risks;
- Establishment of policies and procedures to manage risks;
- Development of risk tolerance limits;
- Monitoring of positions against approved risk tolerance limits; and
- Reporting of results of risk monitoring to senior management and the Board.

6. Senior Management

Senior management is responsible for planning, directing and controlling the strategic direction and general operations of the institution. Its key responsibilities include:

- Ensuring organisational and procedural controls are effective;
- Ensuring compliance with approved policies and procedures;
- Developing strategies and plans to achieve approved strategic and business objectives; and
- Developing sound business practices, culture and ethics.

If an entity does not have a separate risk management function, this is assessed under Senior Management.

7. Board of Directors

The Board of Directors is responsible for providing stewardship and management oversight for the institution. Its key responsibilities include:

- Ensuring management is qualified and competent;
- Reviewing and approving organizational and procedural controls;
- Ensuring principal risks are identified and appropriately managed;
- Reviewing and approving policies and procedures for the institution's major activities;
- Reviewing and approving strategic and business plans; and
- Providing for an independent assessment of management controls.

Appendix E Risk Matrix

INSTITUTION NAME
RISK MATRIX as at DATE
Prior Risk Matrix as at: [Date]

Significant Activities (Date of Last In-Depth Assessment)	Materiality	Inherent Risks [2]						Quality of Risk Management [2]							Net Risk [2]	Direction of Risk [2]
		Credit	Market	Liquidity	Operational	Legal & Regulatory	Strategic	Operational Management	Financial Analysis	Compliance	Internal Audit	Risk Management	Senior Management	Board Oversight		

Capital [2]		Earnings [2]			
Composite Rating [2]		Direction of Risk [2]		Time Frame	

Stage Rating	

Note:

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

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

For *Direction of Risk*: "I" = Increasing; "S" = Stable; "D" = Decreasing

Stage Ratings: "0" – No Significant Problems; "1" – Early Warning; "2" – Heighted Risk to Solvency; "3" – High Solvency risk; "4" – Imminent Insolvency

[2] Where there is a change in any rating or the direction of a rating recorded on the Risk Matrix, the revised rating or the 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 ratings should only be included until the next update of the Risk Matrix. This will ensure that only ratings that are changed in a given period are highlighted in this manner.