



COMPOSITE RISK RATING

ASSESSMENT CRITERIA

DEFINITION OF COMPOSITE RISK

The Composite Risk Rating is an assessment of the institution's overall risk profile, after considering the impact of capital and earnings on its Overall Net Risk. It reflects BSL's assessment of the safety and soundness of the institution.

An institution's Composite Risk Rating is assessed as low, moderate, above average, or high, with the direction of change assessed as decreasing, stable or increasing for a specified time frame, depending on the institution's circumstances, and the business and economic environment.

Low Composite Risk

A strong, well-managed institution. The combination of its overall net risk and its capital and earnings 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.

Normally, an institution in this category would have a low overall net risk coupled with acceptable capital and earnings, or a moderate overall net risk coupled with strong capital and earnings. Other combinations may be possible depending on the circumstances of the institution.

Moderate Composite Risk

A sound, generally well-managed institution. The combination of its overall net risk and its capital and earnings 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.

Normally, an institution in this category would have moderate overall net risk coupled with acceptable capital and earnings, or low overall net risk coupled



with capital and earnings that need improvement. Other combinations may be possible depending on the circumstances of the institution.

Above Average Composite 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 net risk and its capital and earnings 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.

Normally, an institution in this category would have above average overall net risk, which is not sufficiently mitigated by capital and earnings, or moderate overall net risk coupled with capital and earnings that need improvement. Other combinations may be possible depending on the circumstances of the institution.

High Composite Risk

The institution has serious safety and soundness concerns. One or more of the following conditions are present. The combination of its overall net risk and its capital and earnings 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.

Normally, an institution in this category would have high overall net risk, which is not sufficiently mitigated by capital and earnings, or above average overall net risk coupled with capital and earnings that need improvement. Other combinations may be possible depending on the circumstances of the institution.