



# **SUPERVISORY FRAMEWORK**



## MISSION

We instill public confidence in Saskatchewan credit unions by guaranteeing deposits. As the primary prudential and solvency regulator, we promote responsible governance by credit unions and SaskCentral, and advocate their strength and stability.

## VALUES

Values guide individual and organizational behaviour. The Corporation's values are reflected in its Code of Conduct which provides a common frame of reference for staff, management and the board in fulfilling the Corporation's mission and strategic focus.

**Co-operation:** As part of the co-operative financial services system, we respect co-operative principles and support credit unions and SaskCentral in enhancing their strength and development by working together.

**Honesty and Integrity:** We perform our duties conscientiously with the highest level of honesty and professional integrity.

**Fairness:** We approach issues and decisions with common sense, sound judgment, fairness and consistency.

**Responsible Regulation:** We act to protect the rights and interests of depositors, Saskatchewan credit unions, and their provincial central. We strike an appropriate regulatory balance that effectively protects depositors without unduly impairing SaskCentral and the credit unions' ability to compete in the market.

**Leadership:** We use our knowledge of the credit union system and the financial services industry to anticipate future trends and proactively respond to our environment. We demonstrate leadership provincially and nationally by advocating positive change that contributes to the strength and stability of the credit union system and its provincial central.

**Teamwork and Respect:** We work as a team to achieve goals and progress towards our common vision. We recognize that people are the key to success. We consistently treat people with dignity, respect, fairness and the highest standards of ethics. We demonstrate co-operation when working with others, encouraging questions that generate innovative ideas and creative solutions.

This Supervisory Framework has been printed for use by provincially incorporated Saskatchewan credit unions and SaskCentral. It outlines the processes used by Credit Union Deposit Guarantee Corporation for monitoring, staging and intervention.

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Regulatory Guidance Documents, the Supervisory Framework and assessment criteria for reviewing credit unions and SaskCentral are available on the Corporation's credit union intranet. Information pertaining to the Corporation's roles and responsibilities, deposit guarantee fund and the legislative framework for Saskatchewan credit unions and SaskCentral is available on both the Corporation's credit union intranet and public website.

Changes to the Supervisory Framework will be communicated when they take effect.

January 15, 2017

## CREDIT UNION DEPOSIT GUARANTEE CORPORATION'S ROLE

Established in 1953, Credit Union Deposit Guarantee Corporation (the Corporation) contributes to the safety and soundness of Saskatchewan's credit union system. The Corporation is the primary regulator for SaskCentral and provincially incorporated credit unions in Saskatchewan. We instill confidence in credit unions by guaranteeing deposits. We promote responsible governance by credit unions and SaskCentral, and advocate their strength and stability.

While we safeguard the interests of credit union depositors, these institutions are allowed to take reasonable risks and compete effectively.

The goal is to balance competitiveness with financial stability, and national and international standards with local market realities.

The Corporation supervises and regulates Saskatchewan credit unions and SaskCentral to assess the soundness of financial condition, and to monitor compliance with governing legislation and supervisory or prudential standards. We use a risk-based supervisory framework, first introduced in 2003, to provide early indications of potential issues, and intervene on a timely basis when needed.

Though the Corporation, empowered by *The Credit Union Act, 1998* and *The Credit Union Central of Saskatchewan Act, 2016*, has authority to direct credit unions and SaskCentral to take immediate action on issues that may put depositors' funds and the Guarantee Fund at risk, it respects each institution's right to govern its own affairs – regulating credit unions and SaskCentral, but not managing them. We take a co-operative and respectful approach to working with boards of directors, managers and employees.

The Corporation relies on three levels of deposit protection. A regulatory framework ensures credit unions and SaskCentral operate prudently, adhering to regulatory standards and regulatory guidance established by the Corporation.

At the local level, these institutions maintain strong levels of capital reserves.

The last level of deposit protection is the Deposit Guarantee Fund that the Corporation manages and maintains. It is one of the strongest deposit guarantee funds in North America.

Our strong focus on prevention and unique relationship with credit unions and SaskCentral contribute to the fact that no depositor has ever lost funds on deposit in a Saskatchewan credit union.

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# INTRODUCTION

The primary focus of Credit Union Deposit Guarantee Corporation's supervisory activities is to determine the impact of current and potential future events, in both the internal and external environment, on the risk profiles of credit unions and SaskCentral.

## THE SUPERVISORY FRAMEWORK

The Supervisory Framework describes the principles, concepts, and core processes that Credit Union Deposit Guarantee Corporation uses to guide its supervision of Saskatchewan credit unions and SaskCentral. These principles apply to all provincially incorporated credit unions (PICUs) and SaskCentral, regardless of size, and accommodate the unique aspects of these deposit-taking institutions.

**The Corporation's primary focus is deposit protection and institution solvency.**

Supervision involves assessing the safety and soundness of PICUs and SaskCentral, providing feedback as appropriate and using powers for timely intervention when necessary. Its primary goal is to safeguard Saskatchewan credit union depositors and the Guarantee Fund from loss. Primary emphasis is placed on determining impacts on the institution's risk profile from current and future events, both internal to the organization and from its external environment.

Since the Corporation's Supervisory Framework was first introduced, significant developments in the financial services industry have changed the nature of the risks and risk management of financial institutions. Product sophistication has increased, globalization has caused risks to become more systemic, and financial institutions have experienced multiple and severe stresses to their solvency and liquidity. Meanwhile, national and international standards and requirements for supervising financial institutions have also been strengthened.

The updated Supervisory Framework described in this document reflects the enhancements Credit Union Deposit Guarantee Corporation has made to address these changes, and the lessons learned from applying the Framework. These enhancements continue to make the Corporation's risk-based supervision as dynamic and forward looking as possible, and help ensure that we can respond effectively to changes in the Saskatchewan and Canadian financial services industry now and in the future.

## STATUTORY OBLIGATIONS

The Supervisory Framework is designed to assist the Corporation in meeting its statutory obligations set out in *The Credit Union Act, 1998*, *The Credit Union Central of Saskatchewan Act, 2016*, and other governing legislation related to the supervision of PICUs and SaskCentral. These obligations are broad and overarching, and to meet them in practice requires consistent standards and criteria for supervising these institutions.

## NATIONAL AND INTERNATIONAL EXPECTATIONS

The Corporation reviews and considers the application of guidance set by the federal regulatory agency, the Office of the Superintendent of Financial Institutions as well as other provincial regulators and deposit insurers. The Corporation also considers international standards set by the Basel Committee on Banking Supervision in setting supervisory standards and criteria. Credit Union Deposit Guarantee Corporation applies these methodologies within the context of its mandate and the nature of the financial services industry in Saskatchewan and in Canada.



## GENERAL APPROACH

### CONSOLIDATED SUPERVISION

The supervision of Saskatchewan credit unions that are provincially incorporated and SaskCentral is conducted on a consolidated basis, which involves the assessment of all of an institution's material entities (including all subsidiaries, branches and joint ventures). The Corporation uses information available from other regulators and third-parties, as appropriate.

### LEAD SUPERVISOR

The Corporation designates a lead supervisor (LS) for each institution. The LS is responsible for maintaining an up-to-date assessment of the institution. Specialists and other staff within the Corporation help support this work. The LS is the main point of contact for the institution.

### PRINCIPLES-BASED SUPERVISION

The supervision of PICUs and SaskCentral is principles-based. It requires the application of sound judgment to identify and assess risks, and determine, from a wide array of supervisory and regulatory options available, the most appropriate method to ensure that the risks the institution faces are adequately managed.

### SUPERVISORY INTENSITY AND INTERVENTION

The intensity of supervision will depend on the nature, scope, complexity and risk profile of the institution. When there are identified risks or areas of concern, the degree of intervention will be commensurate with the risk assessment and in accordance with the staging criteria (see Appendix G) for PICUs and SaskCentral.

### BOARD AND SENIOR MANAGEMENT ACCOUNTABILITY

While the Corporation holds an institution's board of directors ultimately accountable for the safety and soundness of the organization, it looks to the board to hold senior management

responsible for the prudent management of the institution and compliance with governing legislation. The Corporation's mandate to supervise includes apprising PICUs and SaskCentral of situations having material risk that it has identified during its work, and recommending or requiring corrective actions to be taken. The Corporation looks to the board and senior management to be proactive in providing the Corporation with timely notification of important issues affecting the institution.

### RISK TOLERANCE

While the Corporation's supervision will reduce the likelihood that PICUs and SaskCentral will fail, the Corporation recognizes that they operate in a competitive environment and need to take reasonable risks. As such, these institutions can experience financial difficulties.

### RELIANCE ON EXTERNAL AUDITORS

The Corporation relies on institutions' external auditors for their assessment of the financial statements. The Corporation uses the audited financial statements to support assessment of the overall financial performance of the institution.

### USE OF OTHERS' WORK

The Corporation uses, when appropriate, the work completed by others to reduce the scope of its supervisory activities and minimize duplication of effort. This enhances both the Corporation's efficiency and its effectiveness. For example, the Corporation's staff may use the detailed testing performed by the institution's Internal Audit function to help them assess the effectiveness of controls.

External sources of work that may be of use to the Corporation are the institution's external auditor, oversight functions, legal counsel and consultants.

## KEY PRINCIPLES

Risk assessment – the fundamental activity of supervision – is undertaken by following these key principles.

### PRINCIPLE #1

#### Focus on Material Risk

The risk assessment the Corporation performs in its supervisory activities is focused on identifying material risk to an institution of potential loss to depositors and the Guarantee Fund.

### PRINCIPLE #2

#### Forward-Looking, Early Intervention

Risk assessment is forward looking. This view facilitates the early identification of issues or problems, and timely intervention when corrective actions need to be taken, so that there is a greater likelihood of the satisfactory resolution of issues.

### PRINCIPLE #3

#### Sound, Predictive Judgment

Risk assessment relies on sound, predictive judgment. To ensure adequate quality, the Corporation requires that these judgments have a clear, supported rationale.

### PRINCIPLE #4

#### Understanding the Drivers of Risk

Risk assessment requires understanding the drivers of material risk to an institution. This is facilitated by sufficient knowledge of the institution's business model (e.g., products and their design, activities, strategies and risk appetite), as well as its external environment.

Understanding how risks may develop and how severe they may become is important to the early identification of issues at an institution.

### PRINCIPLE #5

#### Differentiate Inherent Risks and Risk Management

Risk assessment requires differentiation between the risks inherent to the activities undertaken by the institution and the 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.

### PRINCIPLE #6

#### Dynamic Adjustment

Risk assessment needs to be continuous and dynamic so that changes in risk, arising from both the institution and its external environment, are identified early. The Corporation's core supervisory process is flexible. This means that identified changes in risk result in updated priorities for supervisory activities.

### PRINCIPLE #7

#### Assessment of the Whole Institution

The application of the Supervisory Framework culminates in a consolidated assessment of risk to an institution. This holistic assessment combines an assessment of earnings, capital and liquidity in relation to the overall net risk from the institution's significant activities to arrive at this composite view.

## PRIMARY RISK ASSESSMENT CONCEPTS

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

### 1. SIGNIFICANT ACTIVITIES

A significant activity is a line of business, unit or process that is fundamental to the institution's business model and its ability to meet its overall business objectives (i.e., if the activity is not well managed, there is a significant risk to the organization as a whole in terms of meeting its goals).

The Corporation identifies significant activities (see Appendix A) using various sources including the institution's organization chart, strategic and business plans, capital allocations, and internal and external reporting. This facilitates a close alignment between the Corporation's assessment of the institution and the institution's own organization and management of its risks, and enables the Corporation to make use of the institution's information and analysis in its risk assessment.

Judgment is used in selecting significant activities, which may be chosen for quantitative reasons and/or qualitative reasons. A list of materiality criteria is contained in Appendix A.

### 2. INHERENT RISK

In the Supervisory Framework, the key inherent risks are assessed for each significant activity of an institution. The definition of inherent risk is directly related to the Corporation's mandate to protect depositors and the Guarantee Fund. Inherent risk is the probability of a material loss due to exposure to, and uncertainty arising from, current and potential future events. A material loss is a loss or combination of losses that could impair the adequacy of the capital of an institution such that there is the potential for loss to depositors and the Guarantee Fund.

Inherent risk is intrinsic to a significant activity and is assessed without regard to the size of the activity relative to the size of the institution, and before considering the quality of its risk management. A thorough understanding of both the nature of the institution's activities and the environment in which these activities operate is essential to identify and assess inherent risk.

The Corporation uses five categories to assess inherent risk: **credit risk, market risk, operational risk, legal and regulatory risk, and strategic risk**. For each significant activity, the key inherent risks are identified and their levels are assessed as **low, moderate, above average** or **high**. Categories and levels of inherent risk are described in more detail in Appendix B.

The Corporation does not view reputational risk as a separate category of inherent risk. It is a consequence of each of the five inherent risk categories. Accordingly, it is an important consideration in the assessment of each inherent risk category.

**Inherent risk is the probability of a material loss due to exposure to, and uncertainty arising from, potential future events.**

Based on the key inherent risks and their levels identified for a significant activity, supervisors develop expectations for the quality of risk management. The higher the level of inherent risk, the more rigorous the day-to-day controls and oversight expected. State-of-the-art controls are expected where appropriate.



### 3. QUALITY OF RISK MANAGEMENT

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The Corporation assesses the quality of risk management (QRM) at two levels of control. These are:

#### Business Line Management

Business Line Management for a given significant activity is primarily responsible for the controls used to manage all of the activity's inherent risks on a day-to-day basis. Business Line Management ensures that there is a clear understanding by the institution's frontline staff of the risks that the activity faces and must manage, and that policies, processes, and staff are sufficient and effective in managing these risks. When assessing Business Line Management, the Corporation's primary concern is whether management is capable of identifying potential for material loss that the activity may face, and has adequate controls in place.

In general, the extent to which the Corporation needs to review the effectiveness of Business Line Management of a significant activity depends on the effectiveness of the institution's oversight functions. In an institution with sufficient and effective oversight functions, it may often be possible for the Corporation to assess the effectiveness of Business Line Management for a given significant activity using the work of the oversight functions. However this approach does not preclude the need for the Corporation to periodically validate that key day-to-day controls are effective.

#### Oversight Functions

Oversight functions are responsible for providing independent, enterprise-wide oversight of Business Line Management. There are six oversight functions that may exist in an institution: **Board, Senior Management, Internal Audit, Financial, Compliance and Risk Management** (see Appendix C). The presence and nature of these functions are expected to vary based on the nature, scope and complexity

of an institution and its inherent risks. If some of the oversight functions are lacking, are not sufficiently independent, or do not have enterprise-wide responsibility, the Corporation expects other functions, within or external to the institution, to provide the independent oversight needed.

For each significant activity, the Corporation assesses Business Line Management and oversight functions as **strong, acceptable, needs improvement** or **weak** (see Appendix C). The Corporation develops expectations when assessing the levels of inherent risks. Then an appropriate rating is determined by comparing the nature and levels of the institution's controls or oversight to these expectations.

The Corporation also assigns an overall rating for each oversight function that reflects the quality of the function's oversight across the entire institution. The Corporation has assessment criteria that guide the determination of these overall ratings. Assessment criteria can be found on the Corporation's credit union intranet.

### 4. NET RISK

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**Net risk is inherent risk(s)  
after mitigation by QRM.**

For each significant activity, the level of net risk is determined based on judgment that considers all of the key inherent risk ratings and relevant QRM ratings for the activity. Net risk is rated **low, moderate, above average** or **high**. Appendix D shows typical net risk ratings for combinations of inherent risk and QRM ratings.

The Corporation expects an institution to maintain controls and oversight that are prudent and commensurate with the key inherent risks. When levels of net risk are considered imprudent, the institution is expected to address the situation by reducing inherent risk, improving QRM or increasing capital.

## 5. OVERALL NET RISK

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The relative importance of the net risk of the significant activity is based on its contribution to the overall risk profile of the institution. The significant activities assigned higher levels of importance are the key drivers of the overall risk profile.

**The relative importance of the net risk of the significant activity is based on its contribution to the overall risk profile of the institution.**

The net risks of the significant activities are combined by considering their relative importance to arrive at the overall net risk of the institution. The overall net risk is an assessment of the potential adverse impact that the significant activities of the institution collectively could have on its earnings performance and adequacy of capital, and hence on the depositors and the Guarantee Fund. Overall net risk is rated as **low, moderate, above average** or **high**.

## 6. EARNINGS

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Earnings are an important contributor to an institution's long-term viability. Earnings are assessed based on their quality, quantity and stability as a source of internally-generated capital. The assessment takes into consideration both historical trends and future outlook, under both normal and stressed conditions. Earnings are assessed in relation to the institution's overall net risk.

Earnings are rated as **strong, acceptable, needs improvement** or **weak**.

## 7. CAPITAL

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Adequate capital is critical for the overall safety and soundness of institutions. Capital is assessed based on the appropriateness of its level and quality, both at present and prospectively, and under both normal and stressed conditions, given the institution's overall net risk. Also considered in the assessment is the effectiveness of its capital management processes for maintaining adequate capital relative to the risks across all of its significant activities. Institutions with higher overall net risk are expected to maintain a higher level and quality of capital, and stronger capital management processes.

Capital is rated as **strong, acceptable, needs improvement** or **weak**.

## 8. LIQUIDITY

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Adequate balance sheet liquidity is critical for the overall safety and soundness of institutions. Liquidity risk arises from an institution's potential inability to purchase or otherwise obtain necessary funds to meet its on- and off-balance sheet obligations as they come due. The level of liquidity risk depends on the institution's balance sheet composition, its funding sources, its liquidity strategy, and market conditions and events. Liquidity is assessed based on the appropriateness of quality, quantity and stability of current and potential liquidity sources, both at present and prospectively, and under both normal and stressed conditions. Institutions are required to maintain a level of liquidity risk and liquidity management processes that are prudent, under both normal and stressed conditions.

Liquidity is rated as **strong, acceptable, needs improvement** or **weak**.

## 9. THE RISK MATRIX AND COMPOSITE RISK RATING

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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 overall net risk from significant activities, and the assessment of liquidity. The CRR is the Corporation's assessment of the safety and soundness of the credit union or SaskCentral with respect to depositors and the Guarantee Fund. The assessment is over a time horizon that is appropriate for the institution, given changes in its external environment.

Composite risk is rated **low**, **moderate**, **above average** or **high**. Refer to Appendix F for CRR definitions. The assessment is supplemented by the overall direction of risk, which is the Corporation's assessment of the most likely direction in which the CRR may move. The overall direction of risk is rated as **decreasing**, **stable** or **increasing**.

The CRR of an institution is used in determining its stage of intervention, which is described in the Staging System section (Appendix G) of this document. Appendix H shows the combinations of composite risk ratings and staged ratings usually assigned.

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

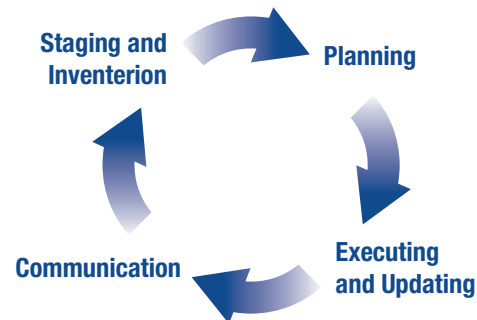
## THE CORE SUPERVISORY PROCESS

The intensity of supervisory activities depends on the nature, scope, complexity and risk profile of the institution.

Credit Union Deposit Guarantee Corporation uses a defined process to guide its institution-specific supervisory activities:

- the first step is planning supervisory activities
- the second is executing supervisory activities and updating the risk profile
- the third is communication
- the fourth is staging and intervention.

This process is dynamic, iterative and continuous, as pictured opposite:



Performing supervisory activities in this fashion helps keep the Corporation's risk assessments current and future oriented, which is vital to its ongoing effectiveness.

### 1. PLANNING SUPERVISORY ACTIVITIES

A supervisory strategy is prepared annually. The supervisory strategy identifies the supervisory activities necessary for the coming year, considering factors both internal and external to PICUs and SaskCentral. The intensity of the supervisory activities depends on the nature, scope, complexity and risk profile of the institution. The supervisory strategy serves as the basis for a more detailed annual plan, which indicates expected activities and resource allocations for the upcoming year.

Supervisory activities for each significant activity are planned and prioritized after considering the net risk assessment of the activity (including the types and levels of inherent risk, the quality of risk management, and any potential significant changes in these), the need to update the Corporation's information on the activity (due to information decay), and the importance of the activity. Similarly, supervisory activities for each relevant oversight function are planned and prioritized after considering the assessment of the quality of its oversight, and the need to update the Corporation's information on the function.

### 2. EXECUTING SUPERVISORY ACTIVITIES AND UPDATING THE RISK PROFILE

There is a continuum of supervisory activities that ranges from monitoring (institution-specific and external), to limited off-site reviews, to extensive on-site reviews including testing or sampling when necessary.

Monitoring refers to the regular assessment of information on the institution and its environment, to keep abreast of changes that are occurring or planned in the institution and externally to identify emerging issues.

Institution-specific monitoring includes the analysis of the financial results, typically considering its performance, and any significant internal developments. It may also extend to gathering information on non-regulated entities which have a significant influence on the institution, such as a holding company. Institution-specific monitoring usually also includes discussions with the institution's management, including oversight functions.

Given the dynamic environment in which PICUs and SaskCentral operate, the Corporation continuously scans the external environment and industry, gathering information as broadly as possible, to identify emerging issues. Issues

include both institution-specific and system-wide concerns. The Corporation may periodically require PICUs and SaskCentral to perform specific stress tests that the Corporation will use to assess the potential impact of changes in the operating environment on individual institutions. Environmental scanning and stress testing have increased in importance since the Supervisory Framework was initially introduced. Changes in the external environment are a main driver of rapid changes in institutions' risk profiles.

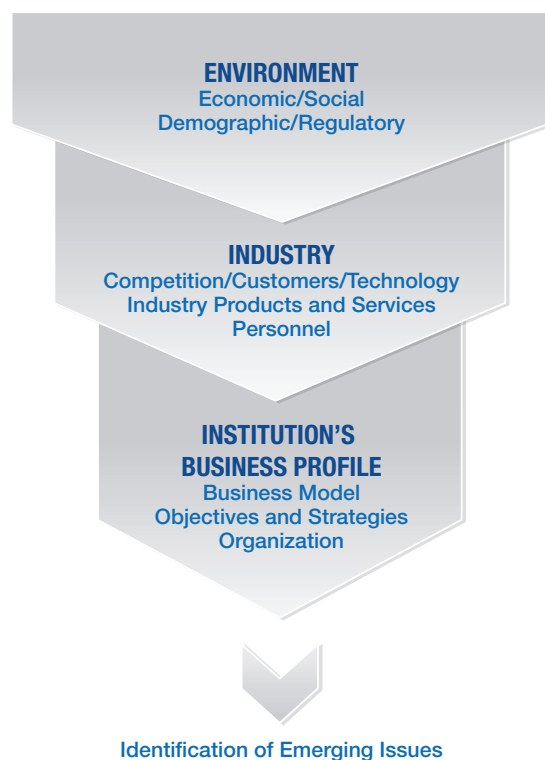
Given the dynamic environment in which credit unions and SaskCentral operate, the Corporation continuously scans the external environment and industry, gathering information as broadly as possible, to identify emerging issues.

Reviews refer to more extensive supervisory activities. The nature and scope of information assessed, and the location of the reviews are based on the specific requirements identified in the planning process. When an on-site review is conducted, the Corporation will request information from the PICU or SaskCentral in advance. Reviews include discussions with the institution's management, including oversight functions, and members of the board.

In addition to its supervisory activities, the Corporation frequently undertakes comparative or benchmarking reviews to identify standard and industry best practices.

As supervisory activities are conducted, the lead supervisor updates the risk profile of the institution. The risk matrix and supporting documentation detail the Corporation's formal assessment of the institution's business model and associated safety and soundness, both current and prospective.

When there are shifts in the risk assessment of the institution, the Corporation responds by adjusting the supervisory strategy and annual plan priorities, as necessary, to ensure that emerging important matters take precedence over items of lesser risk. Such flexibility is vital to the Corporation's ability to meet its legislated mandate.



### 3. COMMUNICATION

In addition to ongoing discussions with the institution's management, the Corporation communicates with both board and senior management through various formal communications, such as written reports and letters.

Annually, or as appropriate, the lead supervisor writes a formal communication that discloses or affirms the institution's composite risk rating and may include the Corporation's key findings and recommendations (and requirements, as necessary) based on the supervisory activities that have been conducted since the last formal communication was issued.

Formal communications are sent to the institution's board and senior management. If there are significant issues, a copy is sent to the Registrar of Credit Unions. The formal communication and information contained within it, including assigned ratings, is confidential and is not to be shared with

third-parties, other than the institution's external auditor, without the Corporation's express consent.

The Corporation may also issue other communications to request additional information or provide timely feedback on issues arising from supervisory activities that have been completed.

Regardless of the type of communication, findings and recommendations are discussed with the institution before communications are issued.

#### 4. STAGING AND INTERVENTION

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The Corporation believes it is important to work proactively with boards and senior management of institutions to prevent insolvency and mitigate risk to depositors and the Guarantee Fund.

The Corporation helps boards and senior management understand issues and, when necessary, direct the institution to address those issues. Employing an escalating intervention philosophy, the Corporation holds institutions' boards ultimately accountable for the safety and soundness of operations. The board is expected to hold senior management accountable for operations and responsible for the timely resolution of issues.

When proactive interaction does not produce desired results, the Corporation is obliged to intervene. *The Credit Union Act, 1998* and *The Credit Union Central of Saskatchewan Act, 2016* empower the Corporation to intervene with PICUs and SaskCentral, when necessary, to fulfill its mandate.

##### **Staging Credit Unions and SaskCentral**

The Corporation uses staged ratings to determine the level and frequency of supervisory attention. These ratings align the results of the supervisory processes with the level and frequency of supervisory attention, including intervention. They support the Corporation in identifying areas of concern at an early stage and taking appropriate action to minimize losses to depositors and the Guarantee Fund.

Staged ratings should not be confused with the composite risk ratings resulting from supervisory activities, which categorize risk at a point in time, and are only part of the staging process. CRRs are ranges used to categorize overall risk. In addition to the CRR, staged ratings take into consideration additional information such as trends, the institution's commitment to change, immediacy of risk to depositors and the Guarantee Fund, and corrective action previously taken. Staging criteria incorporate relevant thresholds for preventive and remedial intervention. For more detailed information related to staged ratings, reporting requirements and activities, refer to Appendix G.

Staged ratings are reviewed quarterly and adjusted as necessary based on financial performance and other information obtained by the Corporation during the quarter.

##### **Staged Rating 0 – Normal Activities**

Institutions that demonstrate appropriate corporate governance and risk management practices based on their nature, scope and complexity, and that have a solid cushion to absorb potential losses are subject to regular or routine supervisory activities.

##### **Staged Rating 1 – Early Warning**

Institutions exhibiting unfavourable trends in financial performance, risk management practices or governance require additional supervisory attention. These trends are typically identified early and have not impacted the safety and soundness of the institution. When deficiencies are identified, the Corporation will place matters before the board for resolution. In this stage, the Corporation will more closely monitor the institution through requests for specific information related to the trends or issues. In addition the Corporation will interact proactively with the institution's board and senior management to build understanding and gain commitment to address concerns.

Staged ratings 2 to 4 require more formal interaction between the Corporation and institution. Any institution that does not meet minimum financial requirements outlined in the Standards of Sound Business Practice or prudential standards will be rated stage 2 or higher.



## Preventive Intervention

### Staged Rating 2 – Increasing Risk to Financial Viability or Solvency

In situations where proactive interaction has not achieved desired results, an institution becomes subject to preventive intervention.

The Corporation is committed to taking actions to avert the need for more formal regulatory or remedial intervention. While preventive intervention does not possess the same level of legal formality as remedial intervention, it results in a greater level of interaction and documentation than needed for an institution not subject to intervention.

The Corporation will proactively work with PICUs and SaskCentral to resolve performance or compliance issues. The Corporation will meet with the institution's board and senior management to build understanding and gain commitment to address issues.

Communication with institutions subject to preventive intervention is documented to provide a formal record for future reference.

In instances where the institution is unable or unwilling to resolve concerns, the Corporation will escalate intervention to a remedial level.

## Remedial Intervention

### Staged Rating 3 – Future Viability in Question (Supervision and Other Orders, unless noted in Stage 4)

### Staged Rating 4 – Non-viability/Insolvency Imminent (Administration, Required Amalgamation or Take Control Orders)

An institution will become subject to remedial intervention when it demonstrates an elevated level of risk to depositors' funds and the Guarantee Fund and/or it is subject to preventive intervention and has been unable or unwilling to resolve outstanding deficiencies. Any institution that has received direct financial assistance from the Corporation will be rated stage 3 or 4.

The severity of the situation will determine whether the institution is assigned staged rating 3 or staged rating 4.

Remedial intervention results in the issuance of an order. When an order is issued, the Corporation's operating priorities are:

- successful correction of the problem that caused the order to be issued
- amalgamation when it is less costly to the Guarantee Fund than other options
- dissolution and repayment of guaranteed deposits if other more cost-effective solutions are not available or not in the interest of depositors

As it pertains to PICUs that are assigned a staged rating 3, the Corporation will issue an order that:

- requires compliance with any provision of *The Credit Union Act, 1998* or any standard of sound business practice
- directs a credit union to do or refrain from doing anything that the Corporation considers necessary, and/or
- places a credit union under supervision

As it pertains to SaskCentral being assigned a staged rating 3, the Corporation will issue orders that:

- require compliance with any prudential standard, any prudential agreement or any provision of *The Credit Union Central of Saskatchewan Act, 2016* administered by the Corporation, and/or
- direct SaskCentral to do or refrain from doing any other thing that the Corporation considers necessary

As it pertains to PICUs that are assigned a staged rating 4, the Corporation will issue an order that:

- places a credit union under administration, and/or
- requires a credit union to amalgamate with another willing credit union

As it pertains to SaskCentral being assigned a staged rating 4, the Corporation will issue an order to take control of SaskCentral.

The Corporation will employ an appropriate level of remedial intervention based on the severity of concerns. In making decisions related to remedial intervention, the Corporation will consider the course of action having the greatest potential to produce a soundly and prudently operated institution and maintain depositor confidence. The Corporation will, in all cases, act to protect depositors' funds and the Guarantee Fund.

When remedial intervention is the chosen course of action, the Corporation will provide the institution with an opportunity to be heard within the provisions of *The Credit Union Act, 1998* and *The Credit Union Central of Saskatchewan Act, 2016*. This process allows the institution to request that the Corporation review its decision to intervene.

The Corporation will only issue orders for administration or required amalgamation when other methods of action have not achieved required results.

The Corporation will meet with the institution's board of directors and senior management to build understanding of issues and expectations, and will gain commitment to resolve them within a reasonable time period.

Once an institution submits an acceptable action plan, the Corporation will closely monitor results in relation to the plan. Unacceptable performance may result in further escalation of remedial intervention.

The Corporation will only discontinue remedial intervention when it has confirmed that the institution:

- has achieved its corrective action plan objectives
- has acted successfully to comply with all requirements
- is performing at an acceptable level of composite risk
- has repaid any funds owing to the Corporation

The Corporation will endeavour to provide a PICU and SaskCentral with 30 days' notice prior to issuing any type of order. This notice will provide particulars of the potential order and will advise the institution of its right to an opportunity to be heard within the notice period.

Where the Corporation has issued notice to take control of SaskCentral, an opportunity to be heard will be provided within 10 days following SaskCentral's receipt of the notice.

The Corporation will, in circumstances it considers necessary, immediately issue an order and subsequently provide an institution with an opportunity to be heard within 15 days following the issuance of the order.

Communication with institutions subject to remedial intervention will be documented to provide a formal record for future reference.

## APPENDIX A – SIGNIFICANT ACTIVITIES AND MATERIALITY CRITERIA

### SIGNIFICANT ACTIVITIES

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- strategic orientation
- asset-liability management
- investment management
- lending services
- deposit services
- wealth management services
- information technology and business continuity
- substantial investments and subsidiaries
- other

The “other” category includes any business activity deemed to be material to a specific credit union or SaskCentral, but that does not fit into one of the above-noted categories.

This list of significant activities is subject to change based on developments in institutions and the external environment.

### QUANTITATIVE CRITERIA

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- assets as a percentage of total assets
- risk-weighted assets as a percentage of total risk-weighted assets
- total borrowings as a multiple of capital
- growth as a percentage of total assets
- revenues as a percentage of total revenues
- profitability as a percentage of total profitability
- results from profitability analyses (e.g., substantial losses in a given area)
- off-balance sheet revenues as a percentage of total revenues
- allocation of capital to the activity

### QUALITATIVE CRITERIA

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- events that trigger the lead supervisor’s concern
- strategic plan content that triggers the lead supervisor’s concern
- knowledge of potential reputation risk that could impair the institution’s ability to do business
- significant changes to enterprise-wide processes
- significant changes in leadership of the institution (e.g., majority of members new to the board, new senior management)
- extent to which the activity is decentralized
- diversification of product offerings and sophistication of service delivery

## APPENDIX B – INHERENT RISK CATEGORIES AND RATINGS

### CATEGORIES

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#### Credit Risk

Credit risk arises from a counterparty's potential inability or unwillingness to fully meet its on- and/or off-balance sheet contractual obligations. Exposure to this risk occurs any time funds are extended, committed, or invested through actual or implied contractual agreements.

The credit risk for securities and loans relates to principal and interest amounts. For derivatives, credit risk is the contract's replacement cost rather than its notional value.

#### Market Risk

Market risk arises from potential changes in market rates, prices or liquidity in various markets, such as for interest rates, credit, foreign exchange and equities. Exposure to this risk results from trading, investment, and other business activities which create on- and off-balance sheet positions.

Positions include traded instruments, investments, on- and off-balance sheet positions, assets and liabilities, and can be either cash or derivative.

#### Operational Risk

Operational risk arises from potential problems due to inadequate or failed internal processes, people and systems, or from external events. Exposure to operational risk results from either normal day-to-day operations (such as deficiencies or breakdowns with respect to transaction processing, fraud, physical security, data/information security, information technology systems, modeling, outsourcing, etc.) or a specific, unanticipated event (such as a natural disaster, loss of a key person, etc.).

#### Legal and Regulatory Risk

Legal and regulatory risk arises from an institution's potential non-conformance with laws, rules, regulations, prescribed practices and ethical standards, or potential unfavourable legal proceedings (such as civil litigation, criminal litigation, court interpretations of a contract liability, etc.).

#### Strategic Risk

Strategic risk arises from an institution's potential inability to implement appropriate business plans and strategies, make decisions, allocate resources or adapt to changes in its business environment.

### RATINGS

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#### Low

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

#### Moderate

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

#### Above Average

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

#### High

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

## APPENDIX C – QUALITY OF RISK MANAGEMENT CATEGORIES AND OVERALL RATINGS

### CATEGORIES

#### Business Line Management

Business line management is responsible for planning, directing and controlling day-to-day operations for specific business activities.

The presence and nature of oversight functions are expected to vary based on the nature, scope and complexity of an institution and its inherent risks.

#### Oversight Functions

##### Board of Directors

The board of directors is responsible for providing stewardship and oversight of management and operations of the institution, including any subsidiaries. Its key responsibilities include:

- reviewing and approving the corporate governance framework, including structures, policies and practices
- reviewing and approving the corporate mission, principles and values as well as the code of conduct and market code
- reviewing and approving business objectives, strategies and plans and monitoring performance against those plans
- reviewing and approving an appropriate enterprise risk management (ERM) framework, including an overall risk appetite and appropriate risk tolerance levels
- ensuring strategic, risk, liquidity and capital management are integrated processes, and the business objectives, strategies and plans are within the institution's risk tolerance, with a view to balancing business objectives with an appropriate control environment and governance
- reviewing and approving organizational structure and controls
- reviewing and approving policies for major activities and risk management within those activities
- providing for an independent assessment of, and reporting on the effectiveness of, organizational and procedural controls

- ensuring management is qualified and competent, completing regular performance reviews and reviewing senior management compensation
- ensuring board and management succession plans are in place
- reviewing and approving mandate, resources and budgets for the oversight functions
- reviewing and approving the external audit plan, including audit fees and the scope of the audit engagement
- reviewing and approving disclosure policies and processes that support transparency to members and other stakeholders
- ensuring decisions are prudent by exercising due diligence and reasonable care during deliberations
- obtaining reasonable assurance on a regular basis that the institution is in control

##### Senior Management

Senior management is responsible for directing and overseeing the effective management of the institution's operations. This includes managing, monitoring and controlling the institution's operations, including subsidiaries, in accordance with legislation, Standards of Sound Business Practice or prudential standards, and board policy. Its key responsibilities include:

- developing and promoting sound corporate governance practices, culture and ethics (in conjunction with the board)
- developing business objectives, strategies, plans, organizational structure and controls, and policies for board approval, consistent with the institution's board-approved risk appetite and tolerance
- implementing and maintaining an appropriate ERM framework and an effective control system that continuously assesses all of the material risks that could adversely affect the achievement of the institution's objectives
- executing and monitoring the achievement of board-approved business objectives, strategies, and plans and the effectiveness of organizational structure and controls

- ensuring the board is kept well informed and facilitating board understanding of significant activities and key risks
- developing an appropriate compensation policy for all human resources
- ensuring the institution's oversight functions have the resources to perform their work and that they have the capacity to offer objective opinions and advice to the board

### **Internal Audit Function**

Internal audit is an independent function resourced either in house or through outsourcing as deemed necessary. Its responsibilities include:

- developing an appropriate internal audit charter and work plan to guide its activities
- coordinating with other oversight functions and external auditors, and considering regulator's recommendations, to ensure that the combined evaluation and testing of controls are comprehensive, cost effective and appropriate to risks, business activities and changing circumstances
- having direct access to the audit committee and attending audit committee meetings
- testing the ERM mitigating strategies for effectiveness
- reviewing the institution's system of assessing its capital in relation to its estimate of risk considering its ERM framework, internal capital adequacy assessment process and stress-testing program
- ensuring the internal audit function is risk based with an organization-wide scope
- reviewing the reasonableness and approval process of senior management expenses
- examining and evaluating the adequacy and effectiveness of internal control systems
- reviewing the application and effectiveness of risk management procedures and risk assessment methodologies
- reviewing the management and financial information systems, including electronic information systems and electronic banking services

- providing an appraisal of the economy and efficiency of the operations
- testing of both transactions and the functioning of specific internal control procedures
- reviewing the systems established to ensure compliance with legal and regulatory requirements, codes of conduct and the implementation of policies and procedures
- testing the reliability and timeliness of regulatory reporting
- carrying out special investigations as required

### **Financial Function**

Financial is an independent function responsible for ensuring the timely and accurate reporting and in-depth analysis of the operational results of an institution to support decision making by the board and senior management. Its responsibilities include:

- providing financial analysis of the institution's and business line/unit's performance and the major business cases to senior management and the board, highlighting matters requiring their attention
- ensuring an effective financial reporting and management information system

### **Compliance Function**

Compliance is an independent oversight function responsible for supporting and ensuring the institution's compliance with all applicable legislation, regulations and guidelines that are relevant to all business activities. Its key responsibilities include:

- on a proactive basis, identifying and assessing the compliance risks associated with the institution's business activities, including the development of new products and business practices, the proposed establishment of a new business or customer relationships, or material changes in the nature of such relationships
- advising senior management on the applicable laws, regulations and standards, including keeping up-to-date with any developments
- establishing written guidance to staff on the appropriate implementation of laws, regulations and standards through policies and procedures, and other documents such as compliance manuals, internal codes of conduct and practice guidelines



- assessing the appropriateness of internal compliance procedures and guidelines, promptly following up any identified deficiencies in the policies and procedures and, where necessary, formulating proposals for amendments
- reporting on compliance matters, on a regular basis, to senior management and, if necessary, the board or committee of the board
- exercising any specific statutory responsibilities (e.g., money laundering, terrorist financing)
- educating staff about compliance with the applicable legislation, rules and standards, and acting as a contact point for compliance queries

### **Risk Management Function**

Risk Management is an independent oversight function responsible for evaluating the effectiveness of organization-wide and business activity-specific risk management processes. Its key responsibilities include:

- identifying current and emerging risks
- developing risk assessment and measurement systems
- establishing risk management policies and practices that support management of each identified key risk
- developing risk tolerance limits for board and senior management approval
- monitoring positions against approved risk tolerances
- reporting the results of risk monitoring to the board (board committee) and senior management, and facilitating their understanding of these results

## **OVERALL RATINGS**

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### **Strong**

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

### **Acceptable**

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

### **Needs Improvement**

The characteristics (e.g., mandate, organizational structure, resources, methodologies, practices) of the function generally meet what is considered necessary given the nature, scope, complexity and risk profile of the institution, 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.

### **Weak**

The characteristics (e.g., mandate, organizational 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 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 – TYPICAL NET RISK RATINGS

The chart below shows typical net risk ratings for combinations of inherent risk and QRM ratings.

Inherent Risk (Aggregate)	High	Moderate	Above Average	High	High
	Above Average	Low	Moderate	Above Average	High
	Moderate	Low	Low	Moderate	Above Average
	Low	Low	Low	Low	Moderate
		Strong	Acceptable	Needs Improvement	Weak
Quality of Risk Management (Aggregate)					

## APPENDIX E – RISK MATRIX

Risk Matrix as at:	Inherent Risks						Quality of Risk Management								
Significant Activities	Credit	Market	Operational	Legal & Regulatory	Strategic	Aggregate	Corporate Governance		Control Environment					Aggregate	Net Risk
							Board of Directors	Senior Management	Internal Audit	Financial	Compliance	Risk Management	Business Line Management		
Strategic Orientation															
Asset-Liability Management															
Investment Management															
Lending Services															
Deposit Services															
Wealth Management															
Information Technology & Business Continuity															
Substantial Investments & Subsidiaries															
Overall Risk Ratings															
Overall Net Risk															
Capital															
Earnings															
Liquidity															
Risk Offset															
Composite Risk Rating															
Overall Direction of Risk															

## APPENDIX F – COMPOSITE RISK RATINGS

### Low

The combination of the credit union's or SaskCentral's overall net risk and risk offset makes the institution resilient to most adverse business and economic conditions without materially affecting its risk profile. Its performance meets or exceeds expectations, with most key indicators in excess of industry norms. Any supervisory concerns have a minor effect on its risk profile and can be addressed in a routine manner.

The institution will attract regular or routine supervisory attention.

### Moderate

The combination of the credit union's or SaskCentral's overall net risk and risk offset makes the institution resilient to normal adverse business and economic conditions without materially affecting its risk profile. The institution's performance meets expectations, with key indicators generally comparable to industry norms.

Supervisory concerns are within the institution's ability to address, however the institution may attract an increased level and frequency of supervisory attention.

### Above Average

The combination of the credit union's or SaskCentral's overall net risk and risk offset makes the institution vulnerable to adverse business and economic conditions. Its performance does not meet expectations or is deteriorating, with some key indicators at or marginally below industry norms. 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 promptly addressed.

The institution will attract an increased level and frequency of supervisory attention.

### High

The combination of the credit union's or SaskCentral's overall net risk and risk offset 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 promptly implemented. Its performance does not substantially meet expectations, with most key indicators below industry norms.

The institution will attract the greatest level and frequency of supervisory attention.

## APPENDIX G – STAGING SYSTEM

The following chart outlines the Corporation's staging system. It demonstrates how composite risk ratings align with the appropriate level and frequency of supervisory attention required. Staging criteria and staged ratings incorporate relevant thresholds for preventive intervention and remedial intervention.

The staging and intervention process is not a rigid regime under which every situation is necessarily addressed with a predetermined set of actions. Circumstances may vary significantly from case to case.

Staging criteria and the actions listed should not be interpreted as limiting the scope of action that may be taken by the Corporation in dealing with specific problems or institutions. The purpose of this appendix is to communicate at which stage an action/intervention would typically occur. The Corporation may choose to implement its powers at different times or stages, depending on the circumstances.

Staging Criteria	Reporting Requirements and Activities
<p><b>Staged Rating 0 – Normal Activities</b></p> <p>The composite risk rating indicates risk to depositors' funds and the Guarantee Fund is low to moderate.</p> <p>This rating is the result of the institution employing corporate governance and risk management practices that are considered appropriate for its nature, scope, complexity and risk profile.</p> <p><b>and</b></p> <p>The combination of its overall net risk and the level of capital, earnings and liquidity supports the institution's resilience to risks during normal business cycles and provides a comfortable cushion to accommodate more difficult periods.</p> <p>There is no concern with respect to safety and soundness.</p> <p>The credit union or SaskCentral is subject to regular or routine supervisory attention.</p>	<p>The Corporation conducts regular or routine supervisory activities using a risk-based approach for all institutions. As a result, supervisory activities will differ based on the nature, scope, and complexity of the institution. These efforts may consist of, but are not limited to, an assessment of the following institution-specific information:</p> <ul style="list-style-type: none"> <li>• quarterly financial and statistical submissions</li> <li>• annual budget</li> <li>• annual financial forecast</li> <li>• monthly/quarterly board and key board committee reporting packages</li> <li>• strategic and business plans</li> <li>• annual audited financial statements</li> <li>• annual reports, including management discussion and analysis</li> <li>• annual external audit management letters</li> <li>• capital and liquidity plans</li> <li>• Internal Capital Adequacy Assessment Process (ICAAP) reporting</li> <li>• internal audit reports</li> <li>• ERM framework and reports</li> </ul>

Staging Criteria	Reporting Requirements and Activities
<p><b>Staged Rating 1 – Early Warning</b></p> <p>The composite risk rating indicates risk to depositors' funds and the Guarantee Fund is moderate.</p> <p>This rating is the result of the institution exhibiting trends in its corporate governance and/or risk management practices that could lead to the development of problems described in stage 2 if areas requiring improvement are not proactively addressed.</p> <p><b>and/or</b></p> <p>The combination of overall net risk and the potential for the level of capital, earnings and liquidity to be negatively impacted indicates that the institution's resilience to adverse business and economic conditions may become compromised.</p> <p><b>and</b></p> <p>Board and management have demonstrated understanding, ability and willingness to address concerns in a timely and acceptable manner.</p> <p>There is no concern with respect to safety and soundness.</p> <p>The credit union or SaskCentral is subject to a moderate increase in the level and frequency of supervisory attention. Additional contact with the institution's board and senior management is required to build understanding and gain commitment to address concerns.</p>	<p>In addition to reporting requirements listed in staged rating 0, the Corporation may request additional information, including an action plan to address identified issues to gain clarification or determine action to be taken with respect to specific areas of concern.</p> <p>The Corporation will continue to more closely monitor the specific areas of concern until they are resolved, with an assessment completed that demonstrates satisfactory resolution and risks within an acceptable level.</p>



Staging Criteria	Reporting Requirements and Activities
<p><b>Staged Rating 2 – Increasing Risk to Financial Viability or Solvency (Preventive Intervention)</b></p> <p>The composite risk rating indicates risk to depositors' funds and the Guarantee Fund is moderate to above average.</p> <p>This rating is the result of the institution exhibiting trends in its corporate governance and/or risk management practices that could result in serious problems if not promptly addressed.</p> <p><b>and/or</b></p> <p>The combination of overall net risk and the level* of capital, earnings and liquidity make the institution increasingly vulnerable to adverse business and economic conditions unless corrective action is taken.</p> <p><b>and</b></p> <p>Board and management have demonstrated understanding, ability and willingness to address concerns in a timely and acceptable manner.</p> <p>There is no immediate threat with respect to safety and soundness although concern is elevated.</p> <p>The credit union or SaskCentral is subject to an increased level and frequency of supervisory attention with additional reporting required. Increased and more formal interaction with the board of directors and senior management is required to build understanding and gain commitment to address concerns.</p>	<p>In addition to reporting requirements listed in staged rating 0, the institution will be required to submit reporting that includes, but is not limited to:</p> <ul style="list-style-type: none"> <li>• an action plan that demonstrates issues will be addressed in a timely manner</li> <li>• a contingency plan in the event the institution is unsuccessful in achieving its action plan objectives</li> <li>• any institution-specific information deemed necessary based on issues identified by the Corporation</li> </ul> <p>The Corporation will meet with institutions subject to preventive intervention to facilitate understanding of the issues.</p> <p>The Corporation will increase supervisory efforts. It will review and assess corrective action plans, and closely monitor performance and progress made in achieving those plans. If an institution is not successful in achieving its action plan objectives, the institution will be expected to move forward with its contingency plan.</p> <p>Assessments may be conducted more frequently than under normal circumstances. The scope of the assessment may be enlarged depending on the concerns.</p> <p>Communication with the institution is more formal and supported by comprehensive documentation.</p>

Staging Criteria	Reporting Requirements and Activities
<p><b>Staged Rating 3 – Future Viability in Question (Remedial Intervention – Supervision and Other Orders, unless noted in Stage 4)</b></p> <p>The composite risk rating indicates risk to depositors' funds and the Guarantee Fund is above average to high.</p> <p>This rating is the result of the institution exhibiting or failing to address significant problems in its corporate governance and/or risk management practices and the situation is worsening and/or has led to loss of depositor confidence. Without appropriate and timely resolution, these problems will pose a material threat to the institution's mid- to long-term viability and solvency.</p> <p>and/or</p> <p>The combination of overall net risk and the level* of capital, earnings and liquidity make the institution very vulnerable to adverse business and economic conditions.</p> <p>Concern exists with respect to safety and soundness**.</p> <p>The credit union or SaskCentral is subject to remedial intervention for which the Corporation has issued compliance, supervision or other orders. Supervisory attention is heightened with respect to level and frequency. Enhanced interaction with the board of directors and senior management is required to influence decisions made.</p>	<p>In addition to reporting requirements listed in staged rating 0, the institution will be required to submit reporting that includes, but is not limited to:</p> <ul style="list-style-type: none"> <li>• an action plan that demonstrates issues will be addressed in a timely manner</li> <li>• a contingency plan in the event the institution is unsuccessful in achieving its action plan objectives</li> <li>• any institution-specific information deemed necessary based on issues identified by the Corporation</li> </ul> <p>As it pertains to credit unions, the Corporation will issue an order that:</p> <ul style="list-style-type: none"> <li>• requires compliance with any provision of <i>The Credit Union Act, 1998</i> or any standard of sound business practice, and/or</li> <li>• directs a credit union to do or refrain from doing anything that the Corporation considers necessary, and/or</li> <li>• places a credit union under supervision</li> </ul> <p>As it pertains to SaskCentral, the Corporation will issue an order to:</p> <ul style="list-style-type: none"> <li>• require compliance with a prudential standard, a prudential agreement or a provision of <i>The Credit Union Central of Saskatchewan Act, 2016</i>, and/or</li> <li>• direct SaskCentral to do or refrain from doing anything the Corporation considers necessary</li> </ul> <p>The Corporation will meet with institutions subject to remedial intervention to facilitate understanding of the severity of the issues.</p> <p>The Corporation will increase supervisory efforts. It will review and assess corrective action plans and closely monitor progress made in achieving those plans. If an institution is not successful in achieving its action plan objectives, the institution will be expected to move forward with its contingency plan.</p> <p>Assessments may be conducted more frequently than under normal circumstances. The scope of the assessments may be enlarged depending on the concerns.</p> <p>Communication with the institution is more formal and supported by comprehensive documentation.</p>

Staging Criteria	Reporting Requirements and Activities
<p><b>Staged Rating 4 – Non-Viability/Insolvency Imminent (Remedial Intervention – Administration, Required Amalgamation or Take Control Orders)</b></p> <p>The composite risk rating indicates risk to depositors' funds and the Guarantee Fund is high and immediate.</p> <p>This rating is the result of the institution exhibiting or failing to address significant problems in its corporate governance and/or risk management practices. It is experiencing severe financial difficulties and there is an imminent threat with respect to financial viability and solvency.</p> <p><b>and/or</b></p> <p>The combination of overall net risk and the level* of capital, earnings and liquidity make the institution extremely vulnerable to adverse business and economic conditions.</p> <p>Significant concern exists with respect to safety and soundness**.</p> <p>The credit union is subject to remedial intervention for which the Corporation has issued an administration order and may require amalgamation or liquidation. In the case of SaskCentral, the Corporation has issued an order to take control of the institution.</p> <p>The board of directors is relieved of its duties and the Corporation assumes control of the institution for the purpose of affecting necessary change. The credit union or SaskCentral is subject to the greatest level and frequency of supervisory attention with efforts focused on maintaining solvency while arriving at a timely and cost-effective solution.</p>	<p>The Corporation will relieve the institution's board of directors of its duties and assume control of the institution for the purpose of affecting necessary change.</p> <p>The Corporation will issue an order that:</p> <ul style="list-style-type: none"> <li>• places a credit union under administration, and/or</li> <li>• requires a credit union to amalgamate with another willing credit union, or</li> <li>• takes control of SaskCentral</li> </ul> <p>Institutions in this stage are subject to the greatest level and frequency of supervisory attention with the Corporation's efforts focused on maintaining solvency while arriving at a timely and cost effective solution.</p> <p>Communication with the institution is more formal and supported by comprehensive documentation.</p>

\*Any credit union that does not meet minimum financial requirements outlined in the Standards of Sound Business Practice will be rated stage 2 or higher. If SaskCentral does not meet minimum financial requirements outlined in prudential standards, it will be rated stage 2 or higher.

\*\*An institution that has received direct financial assistance from the Corporation will be rated stage 3 or higher.

## APPENDIX H – ALIGNMENT OF COMPOSITE RISK RATINGS AND STAGED RATINGS

The following chart demonstrates the relationship among composite risk ratings, staged ratings and intervention status.

Composite Risk Rating	Staged Rating	Intervention Status
<b>Low</b>	0-Normal Activities	None
<b>Moderate</b>	0-Normal Activities	None
	1-Early Warning	None
	2-Increasing Risk to Financial Viability	Preventive Intervention
<b>Above Average</b>	2-Increasing Risk to Financial Viability	Preventive Intervention
	3-Future Viability in Question	Remedial Intervention
<b>High</b>	3-Future Viability in Question	Remedial Intervention
	4-Non-Viability/Insolvency Imminent	Remedial Intervention

## OPERATING PRINCIPLES

Our principles provide direction on how to carry out the Corporation's roles and responsibilities. They are what make us unique. These philosophical insights have contributed to the Corporation's notable success throughout its history and provide guidance in shaping the Corporation's future.

### Self-Regulation

As the primary prudential and solvency regulator, we support and encourage a successful credit union system by working with stakeholders to balance prudential regulation with market forces.

We recognize the need for credit unions and SaskCentral to evolve in the marketplace and we support a strong and prosperous credit union system by:

- focusing on the future of the financial services industry
- striving towards leading edge approaches and industry best practices
- developing flexible and enabling approaches to effective and efficient regulation

Our role is to regulate, not to manage. Our actions demonstrate our preference to prescribe rather than restrict, and demonstrate our respect for a credit union's right to determine its own destiny.

We believe that effective deposit protection is accomplished through investments in prevention including:

- analyzing credit union and SaskCentral performance on an ongoing basis to ensure early identification of potential risks
- communicating our expectations
- sponsoring and promoting programs that strengthen the knowledge and skills of credit union decision makers

### Authority, Responsibility and Accountability

#### Authority

- We clearly communicate to all stakeholders our authority to take action to protect deposits. The Corporation has the authority to act to fulfill its deposit protection responsibilities in the best interests of the credit union system.

#### Responsibility

- We exercise great care and judgment in carrying out the authority that has been granted to us.
- We are responsible to act when others are either unwilling or unable to take action on matters concerning credit union and system solvency and the safety of deposits.

#### Accountability

- We demonstrate accountability through fiscal responsibility.
- We pursue economical business solutions to protect deposits and minimize costs to the credit union system.
- Our operating methods demonstrate effective and efficient use of system resources.

### Objectivity and Independence

Our actions are free of influence, interest or relationship that would impair professional judgment or objectivity.

We act independently and in the best interests of the Corporation to protect depositors' funds.

We carry out our responsibilities fairly and consistently, basing decisions on careful analysis of facts.

### Openness

We communicate openly with all stakeholders.

We respect our stakeholders' rights to privacy and confidentiality of information.

We value the opinions and ideas of our stakeholders and take care to ensure that we consult with them on matters that affect them.

### Collaborative Relationships

Through constructive relationships with our stakeholders, we create opportunities to enhance the overall quality and effectiveness of our results.

We believe that the best solutions are arrived at by working with others to build common understanding and to identify and achieve common goals.

