RISK-BASED SUPERVISORY FRAMEWORK
(Prudential Supervision)

Approved June 2023

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The AFSC and its Role

The Anguilla Financial Services Commission ("AFSC") was established by the enactment of the Financial Services Commission Act, R.S.A. c. F28 ("FSC Act") on 26th November 2003 and it commenced operations on 2nd February 2004. The creation of the AFSC allows Anguilla to meet international standards in the structure and administration of its financial services regulatory body.

The AFSC's functions are to:

1. supervise financial services licensees in accordance with legislation, regulations and codes;
2. consider and determine applications for licenses and registrations;
3. monitor compliance by regulated persons with the Anti-Money Laundering Regulations, Guidelines or Codes;
4. monitor financial services business carried on in or from within Anguilla and to take action against persons carrying on unlicensed activities;
5. administer the financial services enactments;
6. supervise the administration of the Registry Acts by the Registrar of Companies;
7. monitor the effectiveness of the financial services enactments to ensure they meet internationally accepted standards;
8. advise the Governor and Government of Anguilla on matters relating to financial services;
9. encourage the development of high professional standards within the financial services industry, and to promote industry codes of conduct;
10. maintain contact with foreign regulatory authorities and international associations of regulatory authorities relevant to the AFSC's functions and to provide regulatory assistance to foreign regulatory authorities in accordance with the Act;
11. provide information and advice to licensees and the public concerning financial services as appropriate;
12. take measures to develop and protect the financial services industry in Anguilla.

1. INTRODUCTION

The primary functions of the AFSC are regulation and supervision.

a. Regulation involves the development, consultation, introduction and enforcement of appropriate legislation, regulations and guidelines for service providers,including authorizing service providers to operate in and from within the country.
b. Supervision involves dynamic assessments of theoperations of supervised service providers to ensure they continue to operate in a safe and sound manner andcomply with their governing statutes or supervisory requirements, and intervening effectively on a timelybasis in cases where prudential issues or concerns are identified.

This document outlines a framework adopted by the AFSC for effective supervision through the application of a risk-based approach.

2. SUPERVISORY FRAMEWORK

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

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

Effective 12 June 2023 the AFSC's Board of Directors approved the framework to supervise service providers which fall under its regulation using the approach and processes outlined herein.

This supervisory framework elaborates upon and should be read in conjunction with legislative requirements and issued guidance specific to the regulated service providers.

The supervisory framework applies to service providers which are regulated under the following laws along with the supporting regulations, amendments and guidelines issued by the AFSC:

a. Trust Companies and Offshore Banking Act, R.S.A. c. T60;
b. Co-operative Societies Act, 2023;
c. Insurance Act, R.S.A. c. I16;
d. Money Services Business Act, R.S.A. c. M104;
e. Company Management Act, R.S.A. c. C75;
f. Mutual Funds Act, R.S.A. c. M107;
g. Anguilla Utility Token Offering Act, 2018; and
h. Utility Tokens Exchange Act, 2020; and
i. other laws that may be prescribed by the Governor by regulations made under the Financial Services Commission Act, R.S.A. c. F28.

3. SUPERVISORY APPROACH

3.1 Key Principles

The following are the key principles of the supervisory approach:

1. It is risk and principle based, forward-lookingand outcome focused.
2. It recognizes that Board of Directors and Senior Management of service providers areprimarily responsible for their financialsoundness and prudent management.
3. It is intended to reduce the risk of failure or inappropriate behaviour by service providers; but it cannot prevent all failures as that wouldresult in excessive regulatory burden for theindustry and could negatively impact its efficiency.
4. Supervision of service providers is conducted on aconsolidated basis, in coordination with other regulators and using information fromthem as appropriate. It includes an assessment of all material entities, both national and international.
5. The exercise of sound judgment in identifying and evaluating risks is central to the effectiveness of the supervisory approach.
6. Where appropriate, the AFSC leverages the work of the service provider's Corporate Oversightand Governance functions to minimize duplication of effort.
7. Communication of assessments and recommendations to service providers are risk focused and timely.
8. The level and frequency of supervisory scrutiny and the degree of intervention depends on the risk profile of the service provider. Service providers that are well managed relative to their risks will require less supervision. Not all areas of a service provider need to be reviewed every year.
9. It enables the assessment of the risk profile of a service provider to remain current and provides an objective basis for allocating supervisory resources across institutions and within an institution.
10. The AFSC relies on external auditors for the fairness of the financial statements and uses their work to modify the scope of its reviews to minimize duplication of effort. Similarly, the AFSC relies on actuaries for the adequacy of policy liabilities and uses their work to modify the scope of its work.

3.2 Key Benefits

The key benefits of the supervisory approach are:

1. Closer integration of macro and micro prudential supervision, with focus on early identification of emerging risks to facilitatetimely interventions;
2. Assessments parallel how a service provider is managed;
3. Better evaluation of risk through separate assessments of inherent risks and risk management processes resulting in a deeper understanding of a service provider's operations, its risk appetite and

the key drivers of its risk profile;

4. Early identification of service providers with prudential issues and concerns;
5. Cost effective utilization of resources through prioritization of supervision based on risks;
6. Reporting risk-focused assessments toservice providers for desired outcomes;
7. Reducing regulatory burden on well managed service providers;
8. Encouraging a strong risk management culture for service providers; and
9. Providing flexibility for supervisors to use professional judgment within a structured approach.

4. ASSESSING THE RISK PROFILE OF A SERVICE PROVIDER

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

1. *Focus on Material Risk* - The risk assessment performed by AFSC in its supervisory work is focused on identifying material risk to a service provider, such that thereis the potential for loss to depositors orpolicyholders.

2. *Forward-Looking, Early Intervention* -Risk assessment is forward-looking. This viewfacilitates the early identification of issues orproblems, and timely intervention where corrective actions need to be taken, so that there is a greater likelihood of the satisfactory resolution of issues.

3. *Sound Predictive Judgement* - Risk assessment relies upon sound, predictive judgment. To ensure adequate quality, AFSC requires that these judgments have a clear, supported rationale.

4. *Understanding the Drivers of Risk* - Risk assessment requires understanding thedrivers of material risk to a service provider. Thisrequires sufficient knowledge of the service provider's business model (i.e., products and their design, activities, strategies and risk appetite), as well as the service provider's external environment.

5. *Differentiate Inherent Risks and Risk Management* - Risk assessment requires differentiation between the risks inherent tothe activities undertaken by the service provider, and the service provider's management of those risks – at both the operational and oversight levels. This differentiation is crucial to establishing expectations for the management of the risks and to determining appropriate corrective action, when needed.

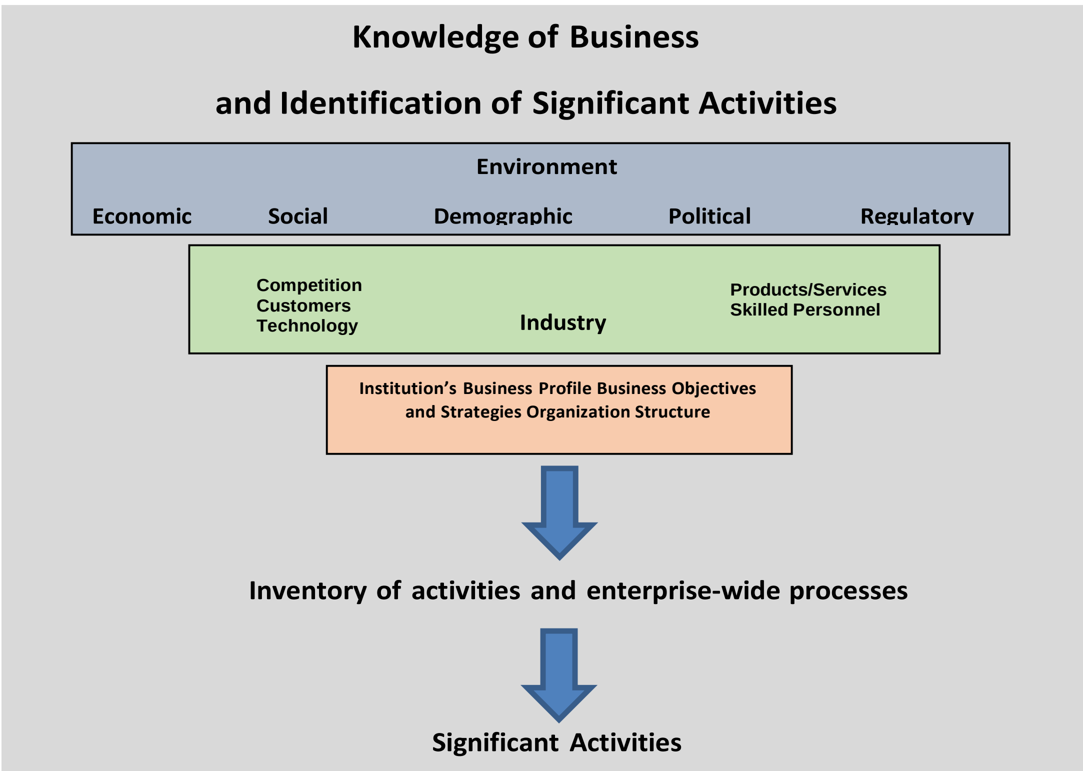
6. *Dynamic Adjustment* - Risk assessment is continuous and dynamic in order thatchanges in risk, arising from both the service provider and its external environment, are identified early. AFSC's core supervisory process is flexible, whereby identified changes in risk result in updated priorities for supervisory work.

7. *Assessment of the Whole Institution* -The application of the Supervisory Framework culminates in a consolidated assessment of risk to a service provider. This holistic assessment combines an assessment of earnings and capital in relation to the overallnet risk from the service provider's significant activities,as well as an assessment of the service provider's liquidity, to arrive at this composite view.

Assessing the risk profile of a service provider comprises the following steps:

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

Table 1: Guide to create risk profile



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

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

4.1 Risk Assessment Concepts

The Supervisory Framework uses many concepts to enable a common approach to risk assessment for service providers and over time. The main conceptsabove are summarized below.

4.2 Significant Activities

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

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

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

a. assets generated by the activity in relation tototal assets;
b. revenue generated by the activity in relation tototal revenue;
c. net income before tax for the activity in relationto total net income before tax;
d. risk-weighted assets generated by the activity inrelation to total risk-weighted assets;
e. internal allocation of capital to the activity inrelation to total capital; and
f. strategic importance.

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

4.3 Inherent Risk

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

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

- Credit
- Market
- Operational
- Legal and Regulatory
- Insurance
- Strategic

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

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

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

4.4 Quality of Risk Management

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

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

4.5 Operational Management

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

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

4.6 Corporate Oversight and Governance

The presence and nature of Corporate Oversight and Governance functions vary based on the size, structure and complexity of a service provider.

Service providers incorporated in the country are requiredby legislation to have a Board of Directors and SeniorManagement. In branches of service providers incorporated outside the country, the principal officer generally carries out the role andresponsibilities of Senior Management.

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

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

4.7 Overall Assessment of Corporate Oversight and Governance Functions

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

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

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

4.8 Assessing Residual Risk in each Significant Activity

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

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

The following table is used to guide the residual risk assessments.

Table 2: Guide to residual risk assessment

Quality of Risk Management	Level of Inherent Risk			
	Low	Moderate	Above Average	High
Strong	Low	Low	Moderate	Moderate
Acceptable	Low	Moderate	Above Average	Above Average
Needs Improvement	Moderate	Above Average	High	High
Weak	Above Average	High	High	High

4.9 Direction of Residual Risk

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

4.10 Assessing Overall Residual Risk for all Significant Activities

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

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

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

4.11 Assessing Earnings, Capital and Liquidity

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

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

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

4.11.1 Earnings

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

4.11.2 Capital

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

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

4.11.3 Liquidity

An adequate level of liquidity is critical for the overallsafety and soundness of a service provider. Assessment of liquidity considers the current level and prospective sources of liquidity compared to funding needs (both under normal andstressed conditions) as well as the adequacy of liquidity management practices in the context of the size, complexity, and risk profile of the service provider. The assessment, for example, considers:

i. The availability of assets readily convertible to cash without undue loss;
ii. Access to various sources of funding;
iii. The level of diversification of fundingsources;
iv. The degree of reliance on short-term andvolatile sources of funds;
v. The trend and stability of deposits.

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

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

4.12 Assessing the Risk Profile of the Service Provider

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

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

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

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

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

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

4.13 The Risk Matrix and Composite Risk Rating

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

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

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

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

4.14 Consolidated Supervision

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

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

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

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

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

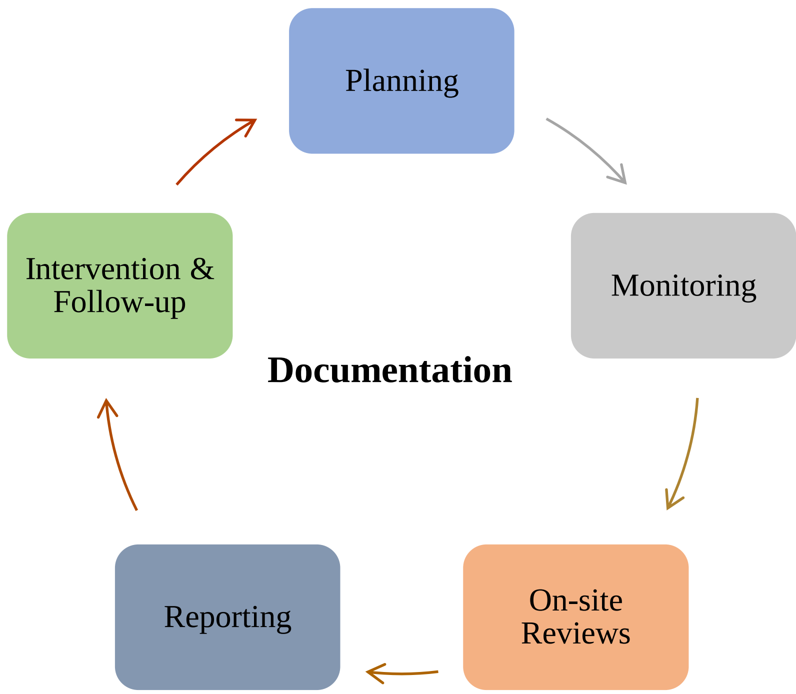
For groups operating across borders, supervisors willneed to deal with home/host considerations. These would include establishing memoranda of understanding, regular and timely exchange of information, co-ordination of supervisory activities, co-ordination of supervisory intervention as appropriate,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

5. SUPERVISORY PROCESS

The AFSC appoints a Regulator for each licensed service provider and is the key contact for the service provider at the ASFC. The Regulator is responsible for the on-going supervision of the service provider and ensuring that supervisory processes (which includes licensing, offsite monitoring, onsite examination and enforcement) and are completed effectively and on a timely basis.

The main steps of the supervisory process are illustrated below in Table 3. Although the steps are described sequentially, updating of the risk assessment is a dynamic, iterative and a continuous process requiring frequent reassessments at various stages.

Table 3: Flowchart of supervisory process



5.1 Planning

Supervisory planning involves developing/updating a supervisory strategy for a service provider and developing an annual supervisory plan.

A supervisory strategy is a multi-year plan for supervising a service provider, taking into account the nature, size, complexity and risk profile of the service provider. It outlines the supervisory work planned for three to four years, with an overall objective of reviewing all material areas of the service provider at least once during the cycle. Supervisory work on significant activities is planned and prioritized after considering their residual risks, when they were last reviewed, the volatility of the activity, and the importance of the activity in the context of the risk profile of the service provider.

Not all activities of a service provider need to be reviewed each year; but higher risk or more volatile activities may need to be reviewed more frequently.

Similarly, supervisory work for each relevant oversight function is planned and prioritized based on the assessment of the quality of its oversight, timing of its last review and the level of changes in the function.

The supervisory strategy is the basis for a more detailed annual work plan, which indicates work planned for the year and the required resources.

In addition to institution specific supervisory planning, planning also includes comparing allocation of supervisory resources across service providers. Not all service providers need to be reviewed each year. Reviews of service providers are prioritized considering their systemic importance, their risk profiles, their volatility, material changes in strategies, any significant changes in management or corporate governance, etc. This is to ensure that available supervisory resources are allocated effectively across service providers based on risk.

5.2 Monitoring

Institution specific monitoring includes a review of company information (including regulatory returns) and comparative analysis (both historical and against peers) of the results of early warning tests and ratios and the material changes in the industry and its operating environment that are likely to impact the service provider to assess the probable impact of these changes on the service provider's risk profile. Monitoring also includes meeting with key individuals of service provider to discuss trends and emerging issues.

The frequency and scope of monitoring depends on the size, complexity and risk profile of the service provider; but each service provider should be monitored at least quarterly. Higher risk service providers will require them to be monitored more frequently. Results of monitoring are used to update the risk profile of the service provider and provide the context for the on-site reviews.

Where there are shifts in the risk assessment of the service provider, supervisory strategy and planning are adjusted in the context of the changes. These adjustments are dynamic and help ensure effective utilization of resources across institutions as well as for an institution.

Offsite Reviews

The approach to off-site supervision/monitoring is compliance based. This is consistent with the on-site inspection work, which is based on an assessment of the supervised service provider's compliance with applicable legislation, guidance and internationally accepted standards.

Off-site monitoring is complemented by on-site inspections and is an integral part of the supervisory process. While the on-site work is conducted at intervals determined by each supervisory division, the off-site monitoring process is continuous. The objectives of off-site reviews are as follows:

a. Review, understand and explain the genesis of all significant matters disclosed by the financial statements;
b. Obtain satisfactory explanations for all material variances in the current financial statements compared with those of prior years;
c. Ensure that the supervisory division employs a systematic and consistent approach to monitoring supervised service providers;
d. Detect early warning signs of potential problems in supervised service providers;
e. Assist on-site examiners in focusing their work on areas of high risk and the greatest weakness in each supervised service provider;
f. Assist the on-site examiners follow up each supervised service provider's compliance with any
g. Recommendations made as a result of the on-site inspection;
h. Determine the supervised service provider's compliance with applicable laws, codes of practice, guidelines and directives; and
i. Provide meaningful reports on individual supervised service providers and the industry to the Director of the Department.

Attention is directed to specific risk indicators within each supervisory area. This is supplemented with prudential meetings – these generally cover strategic initiatives, adherence to standards and legislation, and a discussion of the financials. Discussions are usually high-level and may involve the supervised service provider's directors, staff, the parent of the service provider, and other regulators.

Key offsite activities include:

a. Vetting of licence applications;
b. Approval of ownership changes;
c. Vetting of directors and senior officers;
d. Analysis of financial and prudential returns;
e. Review of audited financial returns;
f. Review of correspondence such as management letters and internal control memorandum; and
g. Any other material changes or events.

5.3 On-Site Reviews

On-site reviews are a critical part of the supervisory process. The scope of on-site reviews depends on the size, complexity and risk profile of the service provider and the nature of prudential concerns, if any. These reviews and interactions with the service provider's management and oversight functions are critical to effective supervision of a service provider and deepen the supervisor's understanding of the service provider and its risk profile.

The on-site inspection process is fundamental to the effectiveness of the AFSC's regulatory function, post licensing. In setting out the onsite review procedures the AFSC's aims to:

a. Provide a clear statement of the AFSC's policies, standards and procedures for the inspection of supervised service providers;
b. Provide guidance to supervisory personnel;
c. Promote the consistent application of examination/inspection procedures; and
d. Enhance the quality and effectiveness of on-site examinations.

The objectives of an on-site inspection:

a. Review the supervised service provider's operations to determine whether they are being conducted in prudent manner to mitigate against any potential liability for wrongful or negligent discharge of their responsibilities;
b. Verify the current solvency of a company and obtain an informed view on the likely future solvency of the company;
c. Review for compliance with applicable laws, regulations and accepted international standards of business conduct, including compliance with the anti-money laundering and terrorist financing regulations;
d. Gather data to create a more comprehensive picture of a company than that which could be obtained from off-site analysis alone, thus gaining a better understanding of the company, the nature of its operations, and its business policy and philosophy;
e. Identify potential problems and issues within a company, which might not otherwise have stated;
f. Gather information on the management and staff of a company to facilitate the assessment of the competency of these individuals;
g. Gather information and views from the management of a supervised service provider regarding its plans, the business environment in which it operates and market conduct issues;
h. Assess technical conduct of the supervised service provider;
i. Evaluate the supervised service provider's assessment and management of risks;
j. Assessment of the efficiency and reliability of the systems and adequacy of internal controls;
k. Gather information on matters identified as requiring policy consideration;
l. Enforce enhanced due diligence, AML/CFT requirements;
m. Review AML/ CFT processes and practices and adherence to the AML/ CFT Regulations, Code and guidelines;
n. Assess the quality of the management team;
o. Determine solvency (quality of investments credits and other assets);

p. Determine the level of and trend of risks associated with current and planned activities;
q. Evaluate the overall integrity and effectiveness of the risk management process systems;
r. Verify the effectiveness of corrective actions taken and if actions have not been taken, pursue timely resolution through supervisory and enforcement actions;
s. Assess the effectiveness of board and other board subcommittee oversight;
t. Assess the effectiveness internal control systems; and
u. Identify any potential risks and vulnerabilities which have not developed into problems for regulatory violations.

In addition to the above list, during the on-site examination process the AFSC's inspection team may:

a. Make recommendations for the supervised service providers to develop written policies and procedures in all areas;
b. Provide recommendations to correct deficiencies and to avoid potentially adverse situations; and
c. Promote the importance of robust internal systems and controls by encouraging supervised service providers to follow 'best practices' in all aspects of their operations.

To some extent the results of the on-site will influence the intensity and frequency of off-site monitoring. Supervised service providers that are operating in a satisfactory manner will require monitoring on a less frequent basis than supervised service providers with weaknesses and gross deficiencies.

Types of Onsite Inspections

There are three categories of on-site inspections, namely:

(1) A Full Scope Inspection;

(2) Limited Scope or Themed Inspection; and

(3) Follow-up Inspection.

(1) Full Scope Inspection

A full scope inspection will usually involve a review of all lines of business undertaken by the supervised service provider along with all areas of operations.

(2) Limited Scope Inspection

A limited scope or themed inspection focuses on a particular segment(s) of a supervised service provider's business operations or a particular theme that might be of interest to the Authority, such as AML/CFT or internal controls.

While the reasons for carrying out a limited scope inspection can vary, ordinarily such an inspection will be desirable in the following circumstances:

a. Unusual results are found following off-site review of periodic returns and financial statements;
b. Follow-up on findings of a prior inspection report;
c. Concerns expressed by stakeholders; and
d. Material changes or events reported by the supervised service provider e.g., change in a key/management position; acquisition of a large block of business; acquisition, sale or merger, etc.

A limited scope inspection may alternatively consist of a review of a supervised service provider's adherence to AML/CFT obligations (see AFSC AML/CFT Risk Based Supervisory Framework).

(3) Follow-up Inspection

Follow-up inspections are effectively limited scope inspections that are based on specific issues and are typically shorter in duration than a limited scope inspection. The purpose is to determine if the supervised service provider is in compliance with recommendations issued in previous inspection reports.

5.4 Reporting

Objectives of the Inspection Report

a. To inform the AFSC, and the supervised service provider's directors and management of adverse matters requiring attention;
b. To effect correction of those matters; and
c. To provide an accurate and complete assessment of the supervised service provider's administration of its fiduciary powers.

To meet these objectives, the AFSC's inspection team must address the many and varied aspects of the inspection. In this process, accurate and timely reporting of facts is essential to the proper understanding, and ultimately the proper correction of problems and violations by management.

The inspection report is sent to the supervised service provider's board of directors and management within 6-8 weeks after the date of the on-site examination. Its primary purpose is to focus the action of the directors and management on matters warranting corrective attention.

Significant violations of law, regulations, rulings or sound fiduciary principles will be reported. Any policy or procedural deficiencies will also be reported. Isolated exceptions impacting individual accounts will be reported if the account has sustained a loss or is to sustain a loss. Any recurring items of criticism will be reported, regardless of their nature.

Technical or minor violations and isolated exceptions will be reported. Comments should include the AFSC regulatory team's criticism and recommendation for corrective action. Management's view, whether representing assurances of correction or disagreement with the AFSC's position, should be stated.

Any deficiency of a regulatory or statutory nature would be addressed in the report and under separate correspondence. The inspection team should immediately inform the AFSC's Director and Deputy Director of the breaches and provide recommendations as to what appropriate remedial action should be taken by the service provider. Following the communication of the required corrective action to the supervised service provider, a member of the inspection team should monitor the progress of the service provider and provide regular reports to the Director and Deputy Director to ensure that early detection of any further problems can be identified. Where the supervised service provider fails to address such deficiencies in a timely manner the AFSC may take disciplinary action.

Reasonable deadlines will be stipulated for recommendations on operational issues which was statutory requirements or not deemed to be of regulatory concern but where implementing a recommendation would improve the overall running of the company from a management point of view.

The inspection report will be sent out in draft form to allow opportunity for response and comment on any factual inaccuracies. The inspection team should be flexible to work with the supervised service provider's request for changes but be careful not to alter the substance of the inspection report.

The inspection team consists of representatives of the AFSC and have an obligation to conduct their business in a manner that enhances trust and confidence. The information obtained during the on-site inspection process regarding the company and its stakeholders remains confidential between the supervised service provider and the AFSC.

Post- Examination

At the conclusion of the examination the AFSC's Deputy Director will:

a. Review the work performed by the inspection team (if not previously reviewed);
b. Organize the overall conclusions, and verify that all assertions of facts or opinions are specifically substantiated in the checklist(s)and any accompanying work papers;
c. Formulate general comments and conclusions relative to the supervised service provider's overall condition, and specific comments and conclusions relative to subject areas, practices, etc.;
d. Present findings to the Director for approval;
e. Present the draft inspection report of findings to the management and board of the supervised service provider within 6-8 weeks from the date of the on-site examination.
f. The supervised service provider has one month to review the factual accuracy of the inspection report; and
g. On receipt of the comments from the supervised service provider the final inspection report is

issued within two weeks.

5.5 Follow-Up

Once the supervised service provider has been provided with the inspection report it is the responsibility of the lead on the inspection team to ensure that the service provider satisfies the recommendations within the timeframes agreed to by the AFSC and supervised service provider. The supervised service provider may be required to submit progress reports periodically. The inspection team will then conduct a follow-up visit to review the progress the supervised service provider has made towards achieving the recommendations. The follow-up visit is scheduled based on the gravity of the findings from the on-site inspection.

APPENDIX A: LEVELS OF KEY INHERENT RISKS

Low:

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

*Moderate***:**

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

Above Average:

Above Average Inherent risk exists when there is a higher-than-average probability of a material adverse impact on a service provider’s capital or earningsdue to exposure and uncertainty from potentialfuture events.

High:

High inherent risk exists when there is a higher thanabove average probability of a material adverseimpact on a service provider’s capital or earnings due toexposure and uncertainty from potential future events.

APPENDIX B: QUALITY OF RISK MANAGEMENT RATINGS CATEGORIES

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

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

Acceptable:
Acceptable means the function demonstrates effective performance in the context of the key risksinherent in the Significant Activity.

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

Weak:
Weak means the function has demonstrated seriousinstances where effectiveness needs to be improvedin the context of the key risks inherent in the Significant Activity.

APPENDIX C: OVERALL RESIDUAL RISK IN SIGNIFICANT ACTIVITIES DEFINITIONS

The following rating categories are used to assess the Overall Residual Risk in a service provider's SignificantActivities taken together.

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

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

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

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

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

Service providers in this category will have a number of their Significant Activities rated as high residual risk with others mainly rated as moderate residual risk. Other combinations may be possible depending onthe circumstances of the service provider.

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

Service providers in this category will have the majority oftheir Significant Activities rated as high residual risk or will have rated as high residual risk one or more Significant Activities that have a pervasive impact onits operations. The weaknesses in risk management lead to considerable doubt about the service provider's capability and/or willingness to apply prompt and effective corrective measures to sufficiently mitigate high residual risks in its Significant Activities. Other combinations may be possible depending on the circumstances of the service provider.

APPENDIX D: RISK MATRIX

Name of Service provider

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

MM/DD/YY[2]

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

	Rating	Direction of Rating	Time Frame
Earnings			
Capital			
Liquidity			
Composite Risk			

Intervention Rating[3]	
Recommended IR	

Note: For Inherent Risk, Net Risk, Overall Net Risk and Composite Risk: "H" = High; "AA" = Above Average; "M" = Moderate; "L" = Low
For Quality of Risk Management, Earnings, Capital and Liquidity: "S" = Strong; "A" = Acceptable; "NI" = Needs Improvement; "W" = Weak
For Direction of Rating "I" = Increasing, "S" = Stable, "D" = Deteriorating,
For Direction of Earnings, Capital and Liquidity "I" = Improving, "S" = Stable, "D" = Deteriorating
For Materiality: "H" = High; "M" = Medium; "L" = Low
For Intervention Ratings: "0" – No Problems / Normal activities; "1" – Early Warning; "2" – Risk to Financial Viability or Solvency; "3" – Future Financial Viability in Serious Doubt; "4" – Company Not Viable / Insolvency Imminent.

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

[3] INTERVENTION RATING
The following indicates the relationship one would normally expect to see between a service provider CRR and intervention rating: Low - 0 intervention rating; Moderate - 0 or 1 intervention rating; Above Average - 1 or 2 intervention rating; and High - 2 or above intervention rating. However, there may be circumstances in each case that may require deviation from the relationship indicated.

APPENDIX E: RISK PROFILE RATING DEFINITIONS

The following rating categories are used to assess the risk profile of a service provider.

Low Risk:
A strong, well-managed service provider. The combination of its Overall Residual Risk and its capital supported by earnings, and its liquidity makes the service provider 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.

A service provider in this category would have a low Overall Residual Risk coupled with acceptable capital, earnings, and liquidity, or a moderate Overall Residual Risk coupled with strong capital, earnings, and liquidity. Other combinations maybe possible depending on the circumstances ofthe service provider.

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

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

Above Average Risk:
The service provider has issues that indicate an early warning or that could lead to a risk to its financial viability. One or more of the following conditions are present. The combination of its Overall Residual Risk and its capital supported by earnings, and its liquidity makes the service provider 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 service provider 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.

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

High Risk:

The service provider has serious safety and soundness concerns. One or more of the following conditions are present. The combination of its Overall Residual Risk and its capital supported by earnings, and its liquidity is such that the service provider is vulnerable to most adverse business and economic conditions, posing a serious threatto 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.

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

APPENDIX F: GUIDE TO INTERVENTION

The intervention guide or ladder of supervisory intervention outlines the types of actions that supervisors consider depending on the risk profile of the service provider and the nature and significance of prudential concerns. It is important that interventions are proportionate to the desired outcomes. The actions indicated below are for a range of ratings as the intervention process needs to be flexible to enable supervisors to use interventions that are likely to be most effective in individual cases.

The actions indicated below are cumulative; i.e., actions indicated at lower levels of risk are implicitly included in actions that could be considered for service providers with a higher risk profile. Also, if circumstances warrant, actions can be taken at risk levels lower than that indicated in the guide.

LOW TO MODERATE RISK PROFILE

a. Continue dynamic up-dating of the service provider's risk profile (financial condition and operating performance) through review of information obtained from regulatory filings and other sources, including discussions with the service provider, and through periodic on-site reviews.
b. Correspond annually with the service provider to discuss its risk profile and related findings and recommendations and communicate these in writing.
c. Monitor timely implementation of the material recommendations by the service provider.

MODERATE TO ABOVE AVERAGE RISK PROFILE

a. Correspond with management and Board of Directors (or a Board committee) the prudential concerns and remedial actions required. These meetings may include external auditors and/or actuaries as appropriate.
b. Notify in writing management and Board of Directors of the prudential concerns and remedial actions required.
c. Require submission of Board approved action plans by the service provider indicating the time frame in which the deficiencies will be addressed.
d. Escalate monitoring of the service provider as warranted, including expanding the scope, level and frequency of information to be reported to ensure concerns are being addressed on a timely basis.
e. Increase the frequency, depth and scope of on-site supervisory reviews as warranted.
f. Impose operating conditions on the service provider and/or issue a directive if warranted.
g. Require the service provider to increase capital as warranted.

ABOVE AVERAGE TO HIGH RISK PROFILE

a. Recommend that the service provider submit a Board approved business plan which incorporates appropriate remedial measures to address identified prudential concerns within specified timeframes.

b. Recommend that the service provider arrange for a special audit by an auditor, other than the service provider's regular auditor as warranted.
c. Consider imposing further operating conditions on the service provider.
d. Inform the service provider's home/host regulators of the circumstances and the status of the supervisory actions taken, and
e. Commence contingency planning.

HIGH RISK PROFILE

a. Recommend that the service provider retain an external specialist to assess specific areas such as quality and valuation of assets, liquidity, etc.
b. Issue directives where necessary to, for example, restrict lending, investments, level of deposits, expansion of operations, payment of interest on subordinated debt, payment of dividends, and other such directives warranted by the circumstances.
c. Require the assigned regulator to interact with management of the supervised service provider and monitor developments on a regular basis.
d. Recommend to management and Board of Directors to restructure or sell part or whole of the company's operations as warranted.
e. Ensure home regulators are kept abreast of the circumstances and the intervention measures taken.
f. Develop plans to appoint an administrator if the circumstances warrant.

HIGH RISK PROFILE WITH AN INCREASING TREND

a. Meet with management and the Board of Directors to communicate the likely regulatory actions if prudential concerns are not addressed quickly.
b. Advise home/host regulators (national and foreign) of the impending regulatory action.
c. Appoint an administrator, if the situation warrants such action.
d. In conjunction with the Attorney General, commence action to obtain the necessary Court order to liquidate the service provider, if the situation warrants such action.

RECORD OF VERSIONS

Version #	Date Approved by the AFSC Board
1	12 June 2023