



EARNINGS ASSESSMENT CRITERIA

ROLE OF EARNINGS

Earnings absorb normal and expected losses in a given period and provide a source of financial support by contributing to the institution's internal generation of capital and its ability to access capital externally.

EARNINGS PERFORMANCE

The following statements describe the rating categories used in assessing an institution's earnings and its ability to continue to generate earnings required to ensure its long-term viability. The adequacy of an institution's earnings will be evaluated in the context of the nature, scope, complexity, and risk profile of the institution. This evaluation considers quality, quantity and volatility of earnings.

Strong

The institution has consistent earnings performance, producing returns that significantly contribute to its long-term viability, and there is no undue reliance on non-recurring sources of income to enhance earnings. The earnings outlook for the next 12 months continues to be positive.

Acceptable

The institution has satisfactory earnings performance, producing returns needed to ensure its long-term viability, and there is no undue reliance on non-recurring sources of income to enhance earnings. Although there is some exposure to earnings volatility, the outlook for the next 12 months remains positive.

Needs Improvement

The institution has inconsistent earnings performance, with returns that may, at times, be inadequate to ensure its long-term viability. It may occasionally depend on non-recurring sources of income to show a profit. The earnings outlook for the next 12 months is uncertain.

Weak



The institution has consistently recorded operating losses or earnings that are insufficient to ensure its long-term viability. It may be heavily dependent on non-recurring sources of income to show a profit. The earnings outlook for the next 12 months is expected to remain negative.

EARNINGS CRITERIA

The following statements describe the criteria for assessing an institution's earnings performance. The application and weighting of the individual criteria will depend on the nature, scope, complexity, and risk profile of the institution, and will be assessed collectively in evaluating its ability to generate earnings required for long-term viability.

Essential Elements Criteria

1. Historical Trends, Level and Composition

- 1.1 Adequacy of earnings relative to the risk profile of the institution.
- 1.2 Earnings contributions from volatile and non-volatile sources of income.
- 1.3 Trend and volatility of earnings.
- 1.4 Level of, and reasons for, earnings variances to plan.
- 1.5 Extent to which sources of income are diversified.
- 1.6 Extent to which the institution relies on interpretations of accounting and/or actuarial principles to enhance earnings.
- 1.7 Extent to which earnings are from non-recurring sources of income.

2. Peer Group Comparison

- 2.1 Profitability and earnings trends compared to its peers.

3. Future Outlook

- 3.1 Vulnerability of earnings to competition.
- 3.2 Extent to which the institution's earnings may be affected by an economic downturn or market event.
- 3.3 Extent to which the institution's earnings ensure its long-term viability.