

Examples and Descriptions of Inherent Risk Categories

Inherent Risk Categories	Detail
Concentration	The risk that any single exposure or group of exposures with the potential to produce losses large enough relative to a bank's capital, total assets, or overall risk level may threaten a bank's health or ability to maintain its core operations
Credit	The risk that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms
Climate	The risk emanating from the effects of climate events such as extreme weather, temperature increases, epidemics and changes in the earth's eco-systems
Insurance	Insurance risk is the risk that unexpected changes in assumptions of underwriting, product design, pricing and claims settlement may adversely impact on an insurer's capital resources, and expose the entity to financial loss and consequent inability to meet its liabilities. Exposure to this risk results from adverse events occurring under specified perils and conditions covered by the terms of an insurance policy. Typical insured perils include accident, injury, liability, catastrophe, mortality, longevity, and morbidity. Insurance risk includes uncertainties around: a) the ultimate amount of net cash flows from premiums, commissions, claims, payouts, and related settlement expenses, b) the timing of the receipt and payment of these cash flows, and c) policyholder behavior (e.g., lapses). Although the business of insurance contributes to the investment portfolio of an insurer, actual or imputed investment returns are not elements of insurance risk.
Liquidity	Liquidity risk refers to the risk that a financial institution is unable to realize its investments and other assets in a timely manner in order to meet its financial obligations, including collateral needs, when they become due, without disrupting its operations and without incurring substantial losses.
Market	The risk of losses in on and off-balance sheet positions arising from adverse movements in market prices
Operational	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and includes legal risk, but excludes strategic and reputational risk
Compliance	Compliance risk arises from an institution's potential non-conformance with laws, rules, regulations, internal policies, prescribed practices, or ethical standards in any jurisdiction in which it operates.

Inherent Risk Categories	Detail
Reputational	The risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties or regulators that can adversely affect an institution's ability to maintain existing, or establish new, business relationships and continued access to sources of funding
Strategic	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.

This is not an exhaustive list and is subject to change based on developments in the industry.