



**SUPERVISORY AND REGULATORY GUIDELINES: 2017**  
**Ladder of Compliance**  
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**A GUIDE TO THE CENTRAL BANK'S  
LADDER OF SUPERVISORY INTERVENTION**

**I. INTRODUCTION**

The Central Bank of The Bahamas (“the Central Bank”) is responsible for the supervision of banks, trust companies, registered representatives, non-bank money transmission businesses, money transmission agents and co-operative credit unions (“supervised financial institutions” or “SFIs”) operating in and from within The Bahamas pursuant to the Banks and Trust Companies Regulation Act, 2000 (“BTCRA”), the Central Bank of The Bahamas Act, 2000 (“CBA”), and The Bahamas Cooperative Credit Unions Act, 2015 (“BCCUA”). Additionally, the Central Bank has the duty, in collaboration with its SFIs, to promote and maintain high standards of conduct and management in the provision of banking and trust services.

All SFIs are expected to adhere to the Central Bank’s licensing or registration and prudential requirements and ongoing supervisory programs, including periodic onsite examinations, and required regulatory reporting. SFIs are also expected to conduct their affairs in conformity with all other relevant Bahamian legal requirements.

**II. PURPOSE**

The BTCRA and BCCUA provide a wide range of discretionary intervention powers to the Central Bank to address situations that give the Central Bank cause for concern. The objective of the intervention process is to identify areas of concern/deficiencies early so as to allow for the effective intervention to minimize problems and losses to depositors and other creditors of SFIs, where applicable.

This Guide sets out the procedures that the Central Bank will generally follow when it has cause for concern regarding the operations of a SFI or in the event of non-compliance by a SFI with applicable legislation, regulations, guidelines and directives of the Central Bank.

The objective of this Guide is to promote awareness and enhance the transparency of the system of intervention for SFIs and other interested parties. The Guide summarizes the circumstances under which intervention measures may be expected.

This Guide sets out the Central Bank's core supervisory principles, outlines its supervisory activities and provides the framework for remedial supervisory intervention. **Nothing in this Guide prevents or limits the Central Bank from taking any course of action, as it deems necessary, for the protection of depositors or of the financial system in The Bahamas.**

### III. APPLICABILITY

This Guide applies to all SFIs, as applicable.

### IV. THE CENTRAL BANK'S SUPERVISORY PRINCIPLES

1. The Central Bank subscribes to the Basel Core Principles for Effective Supervision (2006) and endorses the Basel Committee's Guidelines for Identifying and Dealing with Weak Banks published in 2015, The Supervision of Cross Border Banking issued in 1996 and The Principles for the Supervision of Financial Conglomerates released in 2012. Additionally, the Central Bank endorses the principles and best practices of the World Council of Credit Unions (WOCCU);
2. The Central Bank continues to review its policies and practices to ensure that they remain effective, efficient, and are in line with international best practices as well as are able to meet the requirements of The Bahamas' financial sector;
3. The supervision of banks and trust companies in The Bahamas is conducted on a consolidated basis. The CBA, and the BTCRA permit exchange of supervisory and other information between the Central Bank and supervisory authorities (both foreign and domestic) for the purpose of facilitating consolidated supervision;
4. Supervision of SFIs by the Central Bank includes:-
  - (a) onsite inspections of the SFI to review and assess, *inter alia*, the SFI's financial condition, general policies and procedures, anti-money laundering compliance and countering the financing of terrorism, internal audit, risk management, corporate governance frameworks; and
  - (b) offsite surveillance of the SFI's overall financial condition and compliance with legislation, regulations, guidelines and directives;
5. The Central Bank exercises its judgement in identifying and evaluating the risks inherent in a SFI's business profile and strategy;

6. The level and frequency of The Central Bank's supervisory scrutiny depends on the risk assessment of the SFI (i.e. the Central Bank utilizes a risk based supervisory framework);
7. The Central Bank continues to rely on external auditors for the fairness of the financial statements and may occasionally call upon them to perform special scope audits in accordance with the BTCRA or the BCCUA, as the case may be;
8. The Central Bank communicates its findings and recommendations to SFIs in a timely manner; and
9. The Central Bank notifies the SFI in writing of any supervisory intervention that is being taken or will be taken.

## **V. THE CENTRAL BANK'S APPROACH TO SUPERVISORY OVERSIGHT**

To ensure the safety and soundness of its SFIs, The Central Bank performs certain core supervisory activities, pursuant to the BTCRA, the Banks and Trust Companies (Money Transmission Business) Regulations, 2008, the Banks and Trust Companies (Private Trust Companies) Regulations, 2007 and the BCCUA. These required activities include:

1. The review of applications and licensing of banks and/or trust companies;
2. The review of applications for the registration, regulation and supervision of co-operative credit unions, non-bank money transmission service providers, money transmission agents, registered representatives and private trust companies;
3. The review and assessment of a wide range of applications and requests for regulatory approvals including, but not limited to the following:-
  - (a) changes in a SFI's name;
  - (b) share transfers in a SFI;
  - (c) capital increases/decreases;
  - (d) changes in control and ownership of a SFI;
  - (e) appointments of new directors and senior executives, as applicable;
  - (f) significant acquisitions by SFIs and other major business investments;
  - (g) payment of dividends; and
  - (h) outsourcing of material functions
4. The on-going monitoring of SFIs including:-
  - (a) monitoring compliance with statutory and other regulatory requirements;
  - (b) monitoring compliance with supervisory directives, guidelines and other requirements;
  - (c) assessing the financial condition and operating performance of SFIs;

- (d) monitoring required remedial measures; and
  - (e) conducting research relevant to the SFI and the Central Bank in general
5. Reviewing information obtained from statutory filings, financial reporting requirements (weekly, monthly and quarterly reports, external audit reports, consolidated annual reports from the parent company), correspondences, service level agreements, newspaper articles and press releases, internal audit reports, internal capital adequacy assessment process (ICAAP) reports and management reporting to the Board of Directors (“the Board”) (including minutes of the Board and Board committee meetings);
  6. Conducting periodic onsite examinations (Special Focus or Full Scope) and issuing a Report of Examination (RoE) outlining the Central Bank’s concerns and recommendations to the Board of the SFI;
  7. Performing risk assessments or updating the institutions’ risk profile and providing the SFI with a risk assessment letter and/or a risk mitigation programme, where necessary; and
  8. Conducting regular meetings with the SFI which may include special meetings such as Prudential meetings, Discovery Review and Quarterly Credit Review meetings.

## **VI. THE CENTRAL BANK’S APPROACH TO SUPERVISORY INTERVENTION**

From its routine oversight, the Central Bank may become concerned about the financial state of or a supervisory breach by a SFI, which requires some form of supervisory intervention. In considering the appropriate supervisory intervention to take, the Central Bank will take into account, amongst other things, the following:

1. The impact on stakeholders, particularly third party depositors’ interests, other financial institutions, market confidence and the overall stability of the financial system;
2. The nature and extent of the contravention as well as the urgency with which it must be rectified;
3. The ability and extent to which remedial action will rectify the contravention;
4. The willingness and ability of the SFI to cooperate with and assist the Central Bank in terms of its investigations and recommendations. This includes how quickly, effectively and completely the SFI brought the contravention to the attention of the Central Bank, the degree and timeliness of co-operation in meeting the Central Bank’s requests for information; any remedial actions the SFI

- has already taken or intends to take in rectifying the situation and any action that has been taken to ensure that such a contravention does not arise in the future;
5. The compliance history of the SFI. This includes whether the Central Bank or any other regulator has taken any previous action against the SFI; whether the SFI has previously failed to comply with relevant laws and regulations, licence/registration conditions or directives of the Central Bank, and the general compliance history of the SFI in terms of any other correspondence considered relevant by the Central Bank;
  6. The amount of the loss incurred or any benefit lost as a result of the contravention;
  7. The nature and extent of any crime facilitated, occasioned or otherwise attributable to the contravention;
  8. The nature and extent of civil and/or criminal proceedings that have been or are expected to be commenced against the SFI or any of its directors, officers and/or shareholders;
  9. The extent to which the directors, officers and shareholders, have acted in an unfit or improper manner;
  10. Whether there are a number of issues which, when considered individually may not justify disciplinary action, but which do, when considered collectively, indicate a pattern of unfit and improper behaviour;
  11. Whether any Guidelines have been issued in respect of the contravention and, if so, the extent to which the SFI has followed the Guidelines; and
  12. Action taken by the Central Bank or other regulatory authorities in previous similar cases. Where it appears warranted, the Central Bank will involve the home or other host regulatory authorities regarding an intended supervisory action or advise them of an action which has already occurred.

Also aiding in the intervention process, SFIs have a duty to report any concerns with their operations or breaches of legislation, regulations, guidelines or directives to the Central Bank in a timely manner.

## **VII. THE CENTRAL BANK'S LADDER OF SUPERVISORY INTERVENTION**

The ladder of supervisory intervention contained in this Guide has been revised to align with the Central Bank's Risk-Based Supervisory Framework (RBSF) which seeks to achieve an accurate assessment of individual SFI's key business risks, controls, managerial strength and financial condition on an on-going basis in order to facilitate a

prompt supervisory response to emerging risk problems<sup>1</sup>. The RBSF supports the Basel Committee's Pillar II Supervisory Review Process which aims to (i) ensure that SFIs have adequate capital to support the risks in their business; and (ii) encourage SFIs to develop and employ better risk management techniques in monitoring and managing their risks.

This Guide outlines the actions that SFIs can normally expect the Central Bank to take given the outcome of their risk assessments, their non-compliance with legislation, regulations, guidelines or SFI-specific directives, conditions and requirements. The Guide provides a description of the five stages of supervisory intervention, detailing the likely actions to be taken in response to a breach and the triggers at each stage that would cause an escalation to the next level of supervisory intervention. **It is important to note that this Guide should not be interpreted as limiting the scope of action that may be taken by the Central Bank in dealing with specific problems affecting SFIs. As such, the list of intervention measures is not exhaustive. Furthermore, the Central Bank's intervention process is not prescriptive or a rigid regime under which every SFI or every situation is necessarily addressed with a predetermined set of actions. The Central Bank assesses each SFI taking into account qualitative and quantitative factors in determining which measures to undertake.** While a range of supervisory intervention measures is at the disposal of the Central Bank, primary responsibility for addressing and rectifying weaknesses/problems rests with the Board and senior management of the SFI.

### **Stage 0: No Intervention**

If the Central Bank determines that a SFI has a sound financial position, robust governance, adequate policies, procedures and risk control frameworks commensurate with its nature, scope, complexity and risk profile, the SFI will not typically be staged. When an institution is not staged, the Central Bank has determined that the SFI's overall net composite risk rating, capital, liquidity and earnings along with its practices are satisfactory and do not indicate any significant problems or control deficiencies. Hence, the Central Bank does not expect the SFI to fail or pose any loss to its depositors.

Given that the Central Bank has determined that the SFI's operations are sound, it is not subject to intervention measures. Rather, routine supervisory activities (outlined in Section V) will be maintained and the SFI should be in a position to address any minor supervisory concerns which may arise.

### **Stage 1 Intervention: Early Warning**

Stage 1 intervention is initiated when there are deficiencies in policies or procedures within a SFI or the existence of practices, conditions and circumstances that could lead to problems identified at Stage 2, if not promptly addressed, as evidenced by:

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<sup>1</sup> A description of the Risk-Based Supervisory Framework is provided in the Appendix.

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- Specific and minor identified deficiencies in a SFI's corporate governance and/or risk management framework as determined via the Central Bank's risk assessment or onsite examination of the SFI;
  - Frequent change in key management positions or control functions and/or significant time taken to fill regulated functions;
  - Breaches to statutory and regulatory requirements;<sup>2</sup>
  - Habitual submission of incomplete, inaccurate or erroneous returns, resulting in the need for re-submission;
  - Habitual late filings of statutory, regulatory and other supervisory returns; and/or
  - Delayed responses to supervisory requests/queries.

**Likely Intervention, in addition to the Central Bank's routine supervisory oversight, includes:**

- Formally notifying senior management by way of a supervisory letter that the SFI is undergoing a Stage 1 intervention and is required to take measures to mitigate/rectify the identified deficiencies;
- Meeting with management to outline concerns and discuss remedial actions;
- Entering into a prudential agreement with the SFI to establish specific measures/controls designed to improve the safety and soundness of the institutions' operations;
- Issuing a directive to require the SFI to enhance its governance, internal controls and risk management within a specific timeframe;
- Requiring submission of a formal action plan by the SFI outlining the timeframe in which all identified deficiencies will be rectified;
- Performing risk assessments or an updating to the risk profile of the SFI on a more frequent basis;
- On-going monitoring of remedial actions by requesting additional information and follow up onsite examinations;

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<sup>2</sup> Refer to Appendix in the Guidelines for the Administration of Monetary Penalties for description of the statutory and filing requirements.

- Directing the SFI's internal auditor to conduct reviews on specific areas of concern; and
- The imposition of administrative fines and penalties, where applicable<sup>3</sup>.

### **Stage 2 Intervention: Heightened Risk to Financial Viability or Solvency**

Stage 2 intervention is initiated when there are situations or problems that, although not serious enough to present an immediate threat to financial viability or solvency, could deteriorate into serious problems, if not addressed promptly. Such problems or concerns include:-

- The SFI's ability to meet capital and/or liquidity requirements on an on-going basis (i.e. a declining capital adequacy ratio (CAR) and/or liquidity ratio that is proceeding towards the minimum required prudential limit(s). A ratio of 2% above the minimum required CAR and/or liquidity ratio may be used as a trigger and a basis to intervene);
- Noticeable deterioration in the quality of loan and/or investment portfolio, which could negatively impact the SFI's asset values;
- Noticeable reduction in profitability or growing operating losses that may undermine compliance with target capital ratios;
- Undue exposure to off-balance sheet risk,
- Inadequate level of accessible liquidity or poor liquidity management;
- Less than satisfactory management quality or deficiency in risk management procedures or controls (including material breaches of standards of sound business and financial practices/prudential violations);
- Qualifications to the audited financial statements;
- Material issues/deficiencies identified in the SFI's internal audit report(s);
- Other concerns that may negatively impact the financial state of a SFI, such as:-
  - a financially weak or troubled owner;
  - potential weaknesses elsewhere in the group;
  - rapid asset and/or liability growth relative to the other institutions in the industry;
  - credit rating downgrades;

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<sup>3</sup> Refer to the Guidelines for the Administration of Monetary Penalties.



- systemic issues;
- improperly managed material outsourcing arrangements; and/or
- Failure to take remedial action to address:
  - deficiencies or recommendations outlined within the RoE or risk assessment letter;
  - deficiencies or recommendations outlined in the external auditor's management letter;
  - deficiencies or recommendations identified in the internal audit report(s);
  - deficiencies discussed under Stage 1 Intervention: Early Warning; or
  - other directives given by the Central Bank.

**Likely Intervention, in addition to the preceding stage, includes the following:**

- Informing the SFI's senior management and/or the Board and External Auditors that it is undergoing a Stage 2 intervention and is required to take measures to mitigate/rectify the identified deficiencies;
- Requiring the Board to provide a letter of commitment, signed by each director, acknowledging the directives/recommendations of the Central Bank. The letter should state that the Board is aware of the recommendations for remedial action and should be accompanied by a detailed plan to rectify identified problems within a specified timeframe;
- Conducting follow-up off-site reviews more frequently to assess the financial condition of the SFI and/or enlarging the scope/detail of those reviews;
- Expanding the scope and/or increasing the frequency of onsite examinations;
- Performing stress testing to identify SFI-specific vulnerabilities and discussing the results with senior management;
- Requesting that an expanded audit scope or a special audit be performed by the SFI's external auditors or auditors selected by the Central Bank at the SFI's expense, where the scope of the audit would reflect the areas of deficiencies identified by the Central Bank;
- Requiring the SFI to submit an action plan outlining how capital and/or liquidity levels will be enhanced within a specified timeframe;
- Requiring prior supervisory approval of any major capital expenditure, material commitment or contingent liability;

- Informing the SFI's home regulator, where appropriate, of the supervisory action taken and the circumstances which have led to action; and
- Placing the SFI whose risk assessment is deemed to be medium high or greater on the supervisory watch-list, which may result in the following additional actions:
  - Issuing formal notification to the SFI where appropriate, that the SFI is being placed on the supervisory watch-list and the reasons for it;
  - Commencing enhanced monitoring through increased frequency of reporting and the level of detail specific to the area of concern;
  - Imposing, amending or varying the conditions upon the licence including, but not limited to, restrictions on:-
    - payments of dividends or other withdrawals by shareholders;
    - compensation (including management fees and bonuses) to directors and senior executive officers;
    - lending or investment activities;
    - new deposit taking;
    - changes in or the introduction of new lines of business;
    - expansion in the number of branches of SFIs;
    - principal or interest payments on new subordinated debt; and
    - other activities, as deemed necessary by the Governor.

### **Stage 3 Intervention: Severe Risk to Financial Viability or Solvency**

Stage 3 intervention is initiated when situations or problems described at Stage 2 have worsened and are at a level where they pose a material threat to the future financial viability or solvency of the institution unless there is access to financial support from the parent/other entity or unless effective corrective measures are applied promptly. These severe risks to financial viability and solvency can be characterized by:

- Deterioration in the SFI's CAR and/or liquidity ratio where it has fallen below the minimum required prudential limit(s), as well as a decline in earnings to levels which make it vulnerable to adverse business and economic conditions and pose a serious threat to its financial viability;
- Unsatisfactory management quality or serious deficiency in risk management procedures or controls, which pose a serious threat to its financial viability or solvency; and/or
- Insufficient efforts made by the Board and senior management to correct identified weaknesses, or at least, to mitigate further deterioration in problematic

financial trends and risk management deficiencies identified at Stage 2 intervention.

**Likely Intervention, in addition to the preceding stages, includes the following:**

- Informing the SFI's senior management, the Board and External Auditors that it is undergoing a Stage 3 intervention and is required to take measures to mitigate/rectify the deficiencies identified by the Central Bank promptly;
- Imposing new business restrictions on the SFI or existing restrictions may be expanded above and beyond those levied when on the watch-list;
- Requiring the SFI to submit an action plan aimed at rectifying problems within a specific timeframe;
- Requiring the SFI to downsize its operations and sales of assets, including the closing of branches/registrants at home or abroad;
- Conducting more frequent meetings with senior management and/or the Board as well as in-camera sessions with independent control functions (Internal Audit and Compliance);
- Requiring the shareholders of the SFI to inject more capital into and improve the liquidity position of the institution, where appropriate, to ensure that the SFI's capital base is commensurate with its risk profile and its liquidity resources sufficient to meet its outstanding short-term obligations;
- Requesting that a special audit be conducted by an auditor other than the SFI's external auditor at the SFI's expense;
- Requiring the substitution or removal of a director(s) or officer(s) of the SFI;
- Requiring the dismissal of senior managers, should it be deemed necessary;
- Appointing external specialists or professionals to advise the SFI on the proper conduct of its affairs and/or to assess certain areas such as quality of loan security, asset values, sufficiency of reserves etc.;
- Informing/discussing with the Ministry of Finance and the Deposit Insurance Corporation and other domestic regulators, where necessary, of the circumstances which have led/or will lead to the supervisory action; and
- Informing/discussing with the SFI's home regulator, as appropriate, or other host regulators of the SFI of the supervisory action taken/or to be taken and the circumstances giving rise to such action.

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**Stage 4 Intervention: Imminent Insolvency or Non-Viability and Severe Regulatory Breaches**

Stage 4 intervention is initiated when the Central Bank has determined that the SFI will become non-viable on an imminent basis as a result of:-

- Failure or imminent failure to correct deficiencies in regulatory capital and/or liquidity requirements, as was identified in Stage 3, within a short period of time, leading to a further deterioration in the CAR and/or liquidity ratios;
- Failure to develop and implement an acceptable business or strategic plan, thus making failure or insolvency inevitable within a short period of time; and/or
- Prolonged and consistent failure to comply with Central Bank directives.

**Likely Intervention, in addition to the preceding stages, may include the following:**

- Providing the SFI with written notification of the intended intervention that will be undertaken unless the situation is rectified imminently;
- Requiring the provision of a recovery plan approved by the Board;
- Suspending some or all shareholders' rights, including voting rights;
- Requiring the appointment of a receiver to assume control of the SFI's affairs;

Further,

- The Central Bank may at the expense of the SFI, appoint a person to advise the SFI on the proper conduct of its affairs and to report to the Governor thereon within three months of the date of his appointment; and
- Where applicable, the Central Bank may invoke the provisions for intervention contained in the Protection of Depositors Act, 1999.

**Stage 5 Intervention: Insolvency or Non-Viability**

Stage 5 intervention is the Central Bank's resolution stage and is initiated when situations or problems described at Stage 4 have deteriorated due to severe financial difficulties and/or continued regulatory breaches by a SFI, such that it has:

- critical undercapitalization or otherwise substantially insufficient capital;
- assets that are less than the SFI's obligations, and/or;
- ceased, or is about to cease to be viable, and the viability of the SFI cannot be restored or preserved by the exercise of the Central Bank's power.

**In light of the foregoing, the Central Bank's resolution includes the following:**

- Notice given to the general public;
- Formal activation of resolution plan for the SFI;
- Placing the SFI under compulsory liquidation;
- Suspension of the licence;
- Revocation of the licence; and/or
- Notification to the SFI's home regulator, as appropriate, or other host regulators of the supervisory action taken.

\*\*\*END\*\*\*

## APPENDIX

### The Risk Based Supervisory Framework

The Central Bank's RBSF involves identifying significant operations, such as business lines, entities or processes; and assessing inherent business risks for significant operations. In addition, the framework allows supervisors to evaluate SFIs' mitigating controls, management and oversight functions, financial positions and to determine SFIs' net risk.

To do this, the framework evaluates ten risk areas. These risk areas called "risk groups" capture the essential components of a SFI. This covers the inherent risks a SFI chooses to take when determining its business model and how it controls those risks, both in a direct way and through the secondary controls it puts in place.

The framework also classifies the ten separate risk groups into four distinct categories which are described in the table below:

	Risk Type	Risk Group
<b>Business Risk</b>	<b>Business Risk</b> Risk inherent to the SFI as a result of the nature of the SFI's operations	1. Environmental and Strategy Risk 2. Fiduciary and KYC/AML Risk 3. Business Process Risk 4. Prudential Risk
<b>Controls</b>	<b>Controls</b> Policies and procedures that SFIs adopt and implement to manage their inherent risks	5. Fiduciary and KYC Controls 6. Business Process Controls 7. Prudential Risk Controls
<b>Oversight &amp; Governance</b>	<b>Oversight and Governance</b> The quality of SFIs' management, Board and control functions	8. Control Functions 9. Management and Governance
<b>Net Risk</b>		10. Financial Soundness

### Understanding the Risk Model

To assess the probability of particular risks materializing, the Central Bank uses a high-level schematic of a SFI which identifies three fundamental risk areas specifically; Fiduciary and KYC/AML, Business Process and Prudential along with their corresponding controls. It also allows for the assessment of risks and controls against the

backdrop of the economic environment, the effectiveness of the SFI's control functions and overall governance of the SFI. See Risk Model below.

Environmental	Business Risks	Controls Risks	Oversight & Governance		Prudential Mitigants	Net Risk
Environmental & Strategy Risk	Fiduciary & KYC/AML Risk	Fiduciary & KYC/AML Controls	Control Functions	Management & Governance		Fiduciary & KYC/AML
	Business Process Risk	Business Process Controls			Operating	
	Prudential Risk	Prudential Risk Controls			Capital, Liquidity & Earnings Position	Financial Soundness
Business Risks		Controls	Oversight & Governance			

From left to right, the model flows as follows:

**FAR LEFT COLUMN** Environmental and Strategy risk group incorporates risk originating outside the SFI and emanating from the business strategy. This group spans all three rows as the level of these risks impact the overall risk profile.

**SECOND COLUMN** The second column contains three types of intrinsic business risk – those which the SFI itself elects to bear when choosing its business model.

**THIRD COLUMN** The third column contains the specific controls that the SFI has in place to mitigate each type of risk. There is a direct matching of these control groups to three inherent business risk groups.

**NEXT TWO COLUMNS** Represent high-level controls the SFI has in place. These cover control functions, such as internal audit and compliance as well as senior management and governance arrangements. High-level oversight and governance are general mitigants to all risks within the SFI and the model includes them as factors in the aggregation of all three rows in the matrix.

**SIXTH COLUMN** Includes an assessment of the level of capital, liquidity and strength of earnings of the SFI. The existence of surplus capital and/or strong earnings mitigates prudential risks. However, it provides no mitigation of fiduciary & KYC/AML risk or of business process risks. Therefore, the model excludes this risk group from aggregation of reputational/fiduciary and business process risks.

**LAST COLUMN** The last column shows the net risk scores for each of the three fundamental risk areas after taking into account the environment, governance and oversight and the level of capital/liquidity and strength of earnings of the SFI.

### Scoring of Risk

When making an assessment the Central Bank uses a simple five-point scale to rate each of the ten risk groups:

Business Risk	Control Risk
High	Critically Deficient
Medium High	Deficient
Medium	Needs Improvement
Medium Low	Satisfactory
Low	Strong

### BUSINESS RISK

Business risks are categorized as either high, medium high, medium, medium low or low. The distinction between each business risk band is as follows:

- **Low** – The likelihood that the risk element/group will result in the crystallisation of a risk to objectives is considered to be **remote**.
- **Medium Low** - It is considered to be **unlikely** that the risk element/group will result in the crystallisation of a risk to the objectives.
- **Medium** - It is **possible** that without mitigation the risk element/group will result in the crystallisation of a risk to the objectives.
- **Medium High** - It is **likely** that without mitigation the risk element group will result in the crystallisation of a risk to the objectives.
- **High** - It is **almost certain** that without mitigation the risk elements/group will result in the crystallisation of a risk to the objectives.

### CONTROL RISK

Controls are categorized as either critically deficient, deficient, needs improvement, satisfactory or strong. The distinction between the control risk bands are as follows:

- **Strong** - The control function **consistently demonstrates highly effective characteristics** and is superior to generally accepted industry standards.
- **Satisfactory** - The control function **consistently demonstrates effective performance** and meets generally accepted industry standards.



- **Needs Improvement** - The control function **may demonstrate effective performance** but there may be some areas where effectiveness can be improved (but not too serious as to cause prudential concerns). The characteristics and performance of the control function partially meets generally accepted industry standards.
- **Deficient** - The control function has **demonstrated instances where effectiveness needs to be improved** through immediate action; characteristics and performance do not meet generally accepted industry standards.
- **Critically Deficient** - The control function has **demonstrated serious instances where effectiveness needs to be improved** through immediate action; characteristics and performance do not meet generally accepted industry standards.