BANK RATING METHODOLOGY

CREDIT RATING AGENCY OF BANGLADESH LIMITED
Presentation Outline

Bank’s Risk – A bird’s eye-view

Rating Methodology
Presentation Outline

- Bank’s Risk – A bird’s eye-view
- Rating Methodology
Balance Sheet Risk

Credit Risk
  - Concentration Risk
  - Intrinsic Risk

Market Risk
  - Interest Rate Risk
  - Liquidity Risk
  - Currency Risk
  - Commodity Risk
Presentation Outline

Bank’s Risk – A bird’s eye-view

Rating Methodology
RATING PROCESS FLOW

- Rating Frame Work
- Analysis and Evaluation
- Rating Committee Meeting
- Final Rating
Rating Framework

CRAB’s “BankDataBase”  →  CRAB’s “BankRatios”

Rating Scale

Rating of Individual Bank

Weight  X
Analysis Output

Weight  X  Quantitative Rating
Weight  X  Qualitative Rating

FINAL RATING
CRAB’s Rating Methodology

CRAB's Presentation
CRAB’s Rating Methodology

CRAB’s Bank Rating Methodology

Input

Profitability
Earnings & Volatility
Asset Quality
Capital Adequacy
Liquidity & Funding

Bank Financial Strength Rating

Output

Earning Diversification
Corporate Governance
Controls & Risk Management
Asset Quality & Provisioning
Investment Quality

Sectoral Adjustment

CRAB’s Presentation
Analysis Process of Profitability

Normal Q-Q Plot of PPP_RWA

for Year 2003

for Year 2005

for Year 2004

for Year 2005
Analysis Process of Profitability

CRAB's Presentation

PPP_RWA vs. Year

Graph showing the distribution of PPP_RWA across different years (2001 to 2006). The box plots indicate the median, quartiles, and outliers for each year.
Analysis Process of Profitability
## FACTOR: PROFITABILITY

### Correlations

<table>
<thead>
<tr>
<th></th>
<th>LgScore</th>
<th>NIM</th>
<th>ROAA</th>
<th>ROAE</th>
<th>C_I</th>
</tr>
</thead>
<tbody>
<tr>
<td>LgScore</td>
<td>1</td>
<td>-0.732**</td>
<td>-0.798**</td>
<td>-0.664**</td>
<td>0.525**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>N</td>
<td>114</td>
<td>114</td>
<td>114</td>
<td>114</td>
<td>114</td>
</tr>
<tr>
<td>NIM</td>
<td>-0.732**</td>
<td>1</td>
<td>0.789**</td>
<td>0.557**</td>
<td>-0.466**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>N</td>
<td>114</td>
<td>114</td>
<td>114</td>
<td>114</td>
<td>114</td>
</tr>
<tr>
<td>ROAA</td>
<td>-0.798**</td>
<td>-0.789**</td>
<td>1</td>
<td>-0.675**</td>
<td>-0.733**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>N</td>
<td>114</td>
<td>114</td>
<td>114</td>
<td>114</td>
<td>114</td>
</tr>
<tr>
<td>ROAE</td>
<td>-0.664**</td>
<td>-0.557**</td>
<td>-0.675**</td>
<td>1</td>
<td>-0.491**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>N</td>
<td>114</td>
<td>114</td>
<td>114</td>
<td>114</td>
<td>114</td>
</tr>
<tr>
<td>C_I</td>
<td>0.525**</td>
<td>-0.466**</td>
<td>-0.733**</td>
<td>-0.491**</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>N</td>
<td>114</td>
<td>114</td>
<td>114</td>
<td>114</td>
<td>114</td>
</tr>
</tbody>
</table>

**Correlation is significant at the 0.01 level (2-tailed).
FACTOR: PROFITABILITY

Lgscore

- Observed
- Linear
- Power
- Exponential

CRAB’s Presentation
Efficiency

• Look into the current year efficiency level
• Last Five Years Trend
• Trend Analysis Relative to Industry and Peer

Key Indicator

• Cost to Income Ratio: Non Interest Expenses relative to Revenue [Net Interest Income + Non Interest Income + Net Gain or Losses on Securities Sales]
• Cost Per Branch
• Cost Per Employee

This is a measure of bank’s efficiency and its ability to generate incremental profits with added revenue

Ratio is judged in terms of business growth, management quality and operating performance
## Analysis Process of Efficiency

### Cost to Income Ratio

<table>
<thead>
<tr>
<th>Statistics</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mean</strong></td>
<td>44.19</td>
<td>44.77</td>
<td>42.83</td>
<td>42.00</td>
<td>41.28</td>
<td>43.03</td>
</tr>
<tr>
<td><strong>95% Confidence Interval for Mean</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lower Bound</td>
<td>29.86</td>
<td>32.85</td>
<td>36.84</td>
<td>36.87</td>
<td>36.62</td>
<td>38.22</td>
</tr>
<tr>
<td>Upper Bound</td>
<td>58.43</td>
<td>51.90</td>
<td>49.02</td>
<td>47.29</td>
<td>45.95</td>
<td>49.04</td>
</tr>
<tr>
<td><strong>5% Trimmed Mean</strong></td>
<td>44.12</td>
<td>43.41</td>
<td>41.46</td>
<td>41.15</td>
<td>40.92</td>
<td>43.16</td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td>42.06</td>
<td>41.80</td>
<td>41.56</td>
<td>39.74</td>
<td>39.50</td>
<td>40.44</td>
</tr>
<tr>
<td><strong>Variance</strong></td>
<td>131.57</td>
<td>205.25</td>
<td>164.83</td>
<td>159.97</td>
<td>133.27</td>
<td>171.94</td>
</tr>
<tr>
<td><strong>Std. Deviation</strong></td>
<td>11.46</td>
<td>14.32</td>
<td>13.60</td>
<td>12.62</td>
<td>11.54</td>
<td>13.11</td>
</tr>
<tr>
<td><strong>Minimum</strong></td>
<td>30.49</td>
<td>23.52</td>
<td>24.14</td>
<td>26.10</td>
<td>25.67</td>
<td>24.21</td>
</tr>
<tr>
<td><strong>Maximum</strong></td>
<td>59.26</td>
<td>90.52</td>
<td>67.37</td>
<td>75.34</td>
<td>63.09</td>
<td>73.19</td>
</tr>
<tr>
<td><strong>Range</strong></td>
<td>28.77</td>
<td>67.00</td>
<td>63.23</td>
<td>49.24</td>
<td>37.42</td>
<td>48.97</td>
</tr>
<tr>
<td><strong>Interquartile Range</strong></td>
<td>21.75</td>
<td>12.84</td>
<td>13.54</td>
<td>15.24</td>
<td>19.50</td>
<td>26.39</td>
</tr>
<tr>
<td><strong>Skewness</strong></td>
<td>0.24</td>
<td>0.84</td>
<td>1.74</td>
<td>1.29</td>
<td>0.66</td>
<td>0.48</td>
</tr>
<tr>
<td><strong>Kurtosis</strong></td>
<td>-1.29</td>
<td>5.76</td>
<td>4.97</td>
<td>1.42</td>
<td>-0.58</td>
<td>-6.40</td>
</tr>
</tbody>
</table>
Analysis Process of Efficiency

![Cost Inc vs ID Graph]
FACTOR: EARNINGS AND VOLATILITY

The strength and persistency of a bank’s pre-tax earnings is a direct function of its franchise strength and competitive position within its various line of business. Irrespective of a bank’s specific business model, pre-tax earnings are a direct contributor to capital formation and debt service capacity of the bank.

In view of the above it is proposed to incorporate two additional indicators into the Revised Quantitative Bank Model i.e.

- **Pre Provision pre Tax Earning in BDT Million**: In order to reduce the effect of both cyclical fluctuations as well as any one time gain or losses, our standard approach for computing pre-tax earnings in the context of this methodology is to use a weighted average of pre-tax earnings from the last three years, with the most recent year receiving 60% of the overall weight, and the remaining two years receiving 20% each.

<table>
<thead>
<tr>
<th>Calculation of Earnings for Model</th>
<th>Current Year Earning ( Y_n )</th>
<th>Previous Year Earning ( Y_{n-1} )</th>
<th>One Year Before ( Y_{n-2} )</th>
<th>Input of Model ( Y_{n-1} )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weight</td>
<td>60%</td>
<td>20%</td>
<td>20%</td>
<td>470.00</td>
</tr>
<tr>
<td>Amount in Million BDT</td>
<td>600.00</td>
<td>300.00</td>
<td>250.00</td>
<td>470.00</td>
</tr>
</tbody>
</table>

CRAB’s Presentation 19
FACTOR: EARNINGS AND VOLATILITY

- **Earnings Volatility**
For bondholders or other creditors, bank’s earnings stability is arguably more important than growth. One simple ratio is earnings volatility relative to its level of earnings is the coefficient of variation, which compares the standard deviation of particular bank’s pre-tax earnings in the trailing three years (if available quarterly) to the mean of population.

In the following table and graphs the mean, median, maximum and minimum values, standard deviation and percentile values of the industry for FY07, FY06 and FY05 along with distribution pattern of the indicators is presented.

<table>
<thead>
<tr>
<th>Earnings and Earnings Volatility: Industry Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Earnings (US$ Million)</strong></td>
</tr>
<tr>
<td><strong>N</strong></td>
</tr>
<tr>
<td>Mean</td>
</tr>
<tr>
<td>Median</td>
</tr>
<tr>
<td>Std. Deviation</td>
</tr>
<tr>
<td>Minimum</td>
</tr>
<tr>
<td>Maximum</td>
</tr>
<tr>
<td>Percentile</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>50</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

CRAB’s Presentation
FACTOR: Asset Quality

- Main Driver of Future Earnings
- Non Performing Loan Status and Trend
- Causes behind non performing loan
- Grading of NPL i.e. Special Mention Account, Substandard, Doubtful and Bad Loss
- Reschedule Status
- Write off Status
- Fresh NPL Generation

Key Indicators

- Gross NPL Ratio
- Net NPL Ratio
- NPL as % of Shareholders Equity plus Loan Loss Reserve
# NPL Trend of PCB’s

<table>
<thead>
<tr>
<th>Statistics</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>6.85</td>
<td>12.41</td>
<td>11.05</td>
<td>7.30</td>
<td>5.32</td>
<td>4.42</td>
</tr>
<tr>
<td>95% Confidence Interval for Mean Lower Bound</td>
<td>-4.24</td>
<td>5.99</td>
<td>6.74</td>
<td>4.56</td>
<td>3.48</td>
<td>3.12</td>
</tr>
<tr>
<td>Upper Bound</td>
<td>21.84</td>
<td>18.83</td>
<td>15.39</td>
<td>10.84</td>
<td>7.17</td>
<td>5.73</td>
</tr>
<tr>
<td>5% Trimmed Mean</td>
<td>6.21</td>
<td>11.91</td>
<td>10.79</td>
<td>6.93</td>
<td>5.02</td>
<td>4.09</td>
</tr>
<tr>
<td>Median</td>
<td>3.15</td>
<td>7.78</td>
<td>9.75</td>
<td>4.96</td>
<td>4.26</td>
<td>3.79</td>
</tr>
<tr>
<td>Variance</td>
<td>109.45</td>
<td>166.74</td>
<td>90.23</td>
<td>44.12</td>
<td>20.85</td>
<td>9.96</td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>10.46</td>
<td>12.91</td>
<td>9.50</td>
<td>6.64</td>
<td>4.57</td>
<td>3.16</td>
</tr>
<tr>
<td>Minimum</td>
<td>2.32</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Maximum</td>
<td>26.96</td>
<td>33.77</td>
<td>27.05</td>
<td>22.15</td>
<td>16.15</td>
<td>15.04</td>
</tr>
<tr>
<td>Range</td>
<td>24.64</td>
<td>33.77</td>
<td>27.05</td>
<td>22.15</td>
<td>16.15</td>
<td>14.22</td>
</tr>
<tr>
<td>Interquartile Range</td>
<td>15.28</td>
<td>26.17</td>
<td>16.94</td>
<td>9.43</td>
<td>5.76</td>
<td>3.74</td>
</tr>
<tr>
<td>Skewness</td>
<td>1.92</td>
<td>0.66</td>
<td>0.46</td>
<td>0.80</td>
<td>1.17</td>
<td>1.75</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>3.65</td>
<td>-1.41</td>
<td>-1.16</td>
<td>-0.50</td>
<td>0.66</td>
<td>4.33</td>
</tr>
</tbody>
</table>
NPL Trend of PCB’s
# Asset Quality

## Trends in Asset Quality (Template)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross NPLs</td>
<td>564.3</td>
<td>494.8</td>
<td>491.5</td>
<td>142.9</td>
<td>81.6</td>
<td>0.4</td>
</tr>
<tr>
<td>As % of Gross Loans</td>
<td>2.27%</td>
<td>2.77%</td>
<td>3.30%</td>
<td>1.75%</td>
<td>1.50%</td>
<td>0.01%</td>
</tr>
<tr>
<td>Fresh NPL</td>
<td>106.6</td>
<td>166.6</td>
<td>208.2</td>
<td>61.4</td>
<td>81.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Fresh NPL as % of Gross NPL</td>
<td>21.1%</td>
<td>34.4%</td>
<td>43.3%</td>
<td>43.3%</td>
<td>99.1%</td>
<td>90.1%</td>
</tr>
<tr>
<td>Loan Loss Reserves (LLR)</td>
<td>549.2</td>
<td>351.0</td>
<td>231.1</td>
<td>139.0</td>
<td>62.0</td>
<td>21.6</td>
</tr>
<tr>
<td>LLR to GNPLs</td>
<td>100.1%</td>
<td>71.1%</td>
<td>59.0%</td>
<td>97.2%</td>
<td>77.0%</td>
<td>5030.5%</td>
</tr>
<tr>
<td>Net NPL</td>
<td>127.6</td>
<td>149.2</td>
<td>198.0</td>
<td>127.9</td>
<td>75.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Net NPL to Equity (%)</td>
<td>6.5%</td>
<td>9.9%</td>
<td>16.1%</td>
<td>14.4%</td>
<td>20.1%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Net NPL to Net Loans (%)</td>
<td>0.6%</td>
<td>0.8%</td>
<td>1.6%</td>
<td>1.6%</td>
<td>1.4%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

### Grading of Gross NPLs (%):

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Substandard</td>
<td>10%</td>
<td>13%</td>
<td>41%</td>
<td>1%</td>
<td>1%</td>
<td>50%</td>
</tr>
<tr>
<td>Doubtful</td>
<td>0%</td>
<td>11%</td>
<td>3%</td>
<td>42%</td>
<td>0%</td>
<td>50%</td>
</tr>
<tr>
<td>Bad</td>
<td>90%</td>
<td>74%</td>
<td>57%</td>
<td>58%</td>
<td>99%</td>
<td>0%</td>
</tr>
</tbody>
</table>

### Recovery Pattern:

- **Recovery**
  - Recovery as % of Gross NPL: 98.60, 63.3, 78.1, 78.1, 78.1, 78.1
- **Write-off**
  - Write-off as % of Gross NPL: 20%, 13%, 20%, 20%, 20%

### Reschedule:

- **Reschedule of Loans**
  - Reschedule as % of Gross Loans: 234.0, 217.5, 365.5, 365.5, 365.5
- **Reschedule as % of Gross Loans**
  - Reschedule as % of Gross Loans: 1.05%, 1.22%, 3.08%, 3.08%, 3.08%
NPL Trend of PCB’s for FY 01-06
**FACTOR : CAPITAL ADEQUACY**

- Capital Adequacy in terms of regulatory requirements
- Exceeding regulatory capital and extent
- Tier I Capital position

**Key Indicators**

- RWCAR
- Tier 1 Capital as % of RWA
- Shareholder’s Equity as % of Deposit and Borrowing
FACTOR: LIQUIDITY & FUNDING

• **Liquidity Management**
  - Liquidity risks as a function of the unique structure of a bank’s asset and liabilities
  - Degree to which illiquid assets (primarily loans) are funded by core liabilities that are stable (primarily customer deposits, long term debts and equity)
  - Asset Liability matching in light of interest rate dynamics
  - Liquidity monitoring and control system
  - Diversification of its funding
  - Contingent planning and liquidity stress testing

• **Market Risk Appetite**
  - Sensitivity of both trading and non trading books to major changes in interest rates, equity prices, foreign exchange rates and credit spreads.
Funding Structure

- Deposit Growth in terms of peer and industry
- Funding Mix i.e. Current Deposit, Savings Deposit, Term Deposit, Interbank borrowing, Short Term Lending
- Deposit Renew Rate
- Movement of Cost of Fund
- Maturity profile of Deposit
- Deposit Lent Out Rate
RATIOS

- **Current + Savings Deposit as % of Total Deposit**

  Current and Savings Deposit is low cost funding sources compare to its fixed term deposit. Fixed term deposit is highly interest rate sensitive. Current and Savings Deposit is less interest rate sensitive. These sources also indicate the franchise value, customer confidence, networking efficiency of the bank.

  In the following table the mean, median, standard deviation, minimum and maximum value as well as percentiles of the industry are given:

<table>
<thead>
<tr>
<th>Percentiles</th>
<th>12.5</th>
<th>25</th>
<th>37.5</th>
<th>50</th>
<th>82.5</th>
<th>75</th>
<th>87.5</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>114</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>32.8651</td>
<td>27.0700</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>16.41595</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum</td>
<td>4.58</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum</td>
<td>63.03</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Advance to Deposit Ratio**

CRAB’s Presentation
Why It Matters

- Solidity of a bank’s market standing
- Indicates the ability to generate and sustain earnings

Key Analytical Area

- Market Share and Sustainability
  - Portfolio and Deposit base
  - Trend over the Period
  - Business Tenure
- Earnings Stability
  - Degree of predictability of main business lines
  - Focus area: Retail / Corporate
- Earnings Diversification
FACTOR : CORPORATE GOVERNANCE

Key Analytical Area

- Corporate Governance
  - Relationship between the BoD, Management and Shareholders
  - Degree of relationship to balance effectively shareholders and creditors interest
  - Board Effectiveness
  - Board Independence
  - Ownership and Organizational Complexity
  - Management Compensation
  - Key Personnel Risk
  - Insider and Related Party Risk
  - Integrity of Accounting and Audit
FACTOR : CONTROLS AND RISK MANAGEMENT

- **Controls and Risk Management**
  - Internal Checks and Balance System
  - Functionality of System in light of business mix
  - Technological advancement
  - Past Control issues and qualified Audit Reports

- **Risk Management**
  - Risk Governance
  - Risk Management
  - Risk Measurement
  - Risk Infrastructure and Intelligence

* Checks and balances between senior executives and Board, *
* Between risks and business line units, *
* Limit system, Regular use of stress tests, and Independence of CFO, CRO *

CRAB’s Presentation
Risk Management

- **Risk Governance:**
  - Involvement of directors in reviewing risk appetites and control effectiveness, director’s awareness of risks, relevance of their backgrounds to assess risks
  - Collective and individual responsibilities of and awareness by executive management on risk matters, integration of risk considerations in budgeting, capital allocation, and determination of capital adequacy
  - Organization, staffing, resources, enterprise-wide role of risk function(s)

- **Risk Management:**
  - Risk control process—mandates of units controlling credit and operational risk, practices to ensure limit disciplines
  - Relationship of risk to earnings, capital, limit setting, portfolio mix and diversification
  - Risk mitigations

- **Risk Analysis and Quantification:**
  - Quantification, measures used for setting of limits and running the business, stress testing, capital determination
  - Monitoring and Reporting—rigor, appropriateness and usefulness of reports and alert systems

- **Risk Infrastructure and Intelligence:**
  - Risk infrastructure—information and knowledge systems
  - Risk intelligence—validity of scorecard/CRG and data used
RISK POSITIONING

- **Financial Reporting Transparency**
  - Global Comparability of Reported Financial Information
  - Frequency and Timeliness of Reporting
  - Quality of Financial Information reported by banks

- **Credit Risk Concentration**
  - Large exposures to single obligor, industry or region
  - Good diversification across economic sectors enables the bank to ride through business cycles without undue harm to asset quality
  - **Borrower Concentration**: Large exposures relative to Tier 1 Capital and Pre-tax pre Provision Income
  - **Industry Concentration**: Aggregate exposures to a particular sector or industry relative to Tier 1 Capital
  - **Regulatory Limit**: Individual borrower limit as well as aggregate large loan exposure limit corresponding to its level of NPL relative to its paid up capital
RISK POSITIONING

• **Liquidity Management**
  - Liquidity risks as a function of the unique structure of a bank’s asset and liabilities
  - Degree to which illiquid assets (primarily loans) are funded by core liabilities that are stable (primarily customer deposits, long term debts and equity)
  - Asset Liability matching in light of interest rate dynamics
  - Liquidity monitoring and control system
  - Diversification of its funding
  - Contingent planning and liquidity stress testing

• **Market Risk Appetite**
  - Sensitivity of both trading and non trading books to major changes in interest rates, equity prices, foreign exchange rates and credit spreads.

CRAB’s Presentation 35
FACTOR: ASSET QUALITY & PROVISIONING

Asset Quality & Provisioning

Provision Maintenance Ratio (PMR) (Actual Provision as % of Required Provision)

Reschedule Amount as % of Loans and Advances

SMA as % of Loans and Advances

Recovery Efficiency (Cash Recovery as % of Opening Gross NPL)

Quality of Twenty Largest Loans