

October 23, 2004

Circular BM - 978

To: All Licensed Banks Operating in the Sultanate of Oman

After Compliments,

Sub: Banks' Off-site Surveillance Return

As banks are aware, all licensed banks are required to submit a Quarterly Monitoring Report (BOSS-I), as per the format prescribed vide our Circular BM 764 dated July 8, 1995.

There have been significant changes in the banking industry since the introduction of the above return, with the banks entering into new areas of business and adapting the latest technology. With the growing complexity of the banking business, it has been decided to monitor the risk profile of the banks operating in the Sultanate more closely. Accordingly, the Central Bank has identified a set of Financial Soundness Indicators to monitor the health of the banks on a continuous basis.

In view of the above, the reporting format for the Quarterly Monitoring Report (BOSS-I) has been revised. The revised format, both in soft and hard copies, along with the Explanatory Notes for filling the return is enclosed. All licensed banks are required to submit the data in the revised format, both in soft and hard copies, on a quarterly basis, with effect from the quarter ending December 2004 and onwards. The due date for submission of the return continues to be the 15th of the following month.

It has also been decided to build a time-series of data with effect from the quarter ended December 2000 to capture fully the recent historical trends in the risk profile of the banking system. However, recognizing the reporting burden, banks are advised to submit only the returns for the last quarter for the years 2000, 2001 and 2002 and for all the quarters from March 2003 to September 2004, **latest by March 31, 2005**. However, banks that are capable of submitting such returns early are encouraged to do so.

A list of Financial Soundness Indicators identified by the Central Bank along with their definition is also enclosed herewith. It is proposed to share the Indicators on a quarterly basis with the banks along with the performance of the peer group and the

banking system, which would help banks in comparing their performance and setting benchmarks. Further, the scope and coverage of the Executive Summary of the BOSS Report also would be expanded significantly for the benefit of the users of the System.

We seek full co-operation of banks in submitting quality data in time so as to make the exercise useful, which is aimed at strengthening the financial system of the Sultanate.

Best regards,

Hamood Sangour Al-Zadjali
The Executive President

Encl: As above

Explanatory Notes for filling the Quarterly Monitoring Report – BOSS- I

General

- The report is to be submitted on a quarterly basis. The due date for submission would be the 15th of the following month after the end of each quarter. A blank format is enclosed as Attachment-I.
- All amounts are to be indicated in RO.000's
- For all the four quarters, the report with un-audited data is to be filed within the due date. However, for the quarter ending December, banks are to submit a revised report based on the audited financials as soon as the approval from the Central Bank is obtained.
- Banks are required to furnish correct and consistent information.
- Banks having overseas operations are to submit the return for Oman Operations and Consolidated Operations separately.

I. Data on Earnings

- Under the 'Quarter Amount' column, banks are to report performance for the respective quarter and under 'Year-to-date' column performance upto the quarter from the beginning of the year.
- Generally both income as well as expenses is to be reported as positive integers. However, in respect of items like gain (loss) on assets sales or capital gains/loss on sale of investments, the numbers are to be reported with appropriate sign, for instance with negative sign if loss is incurred on such transactions.
- Under Item 10.1, banks are to report the net gains / losses arising out of trading in money market, capital market and foreign exchange market / derivatives.
- Under Item 10.2, banks are to report the interest income earned on Personal Loans.
- Under Item 10.3, banks are to report other income, other than interest income, (like documentation charges, insurance, commission / fees, prepayment charges, etc.) on Personal Loans.

II. Data on Asset Quality - Loans

A. Data on age-wise summary and restructured loan

- All loans and advances, which are classified as Sub-standard, Doubtful and Loss, should be categorized as Non-Performing Loans (NPLs).
- Items 11.1 and 11.2 are break-up of the Gross loans on the basis of whether they are performing or non-performing. Items 11.1.1 to 11.1.4 are break-up of performing loans and items 11.2.1.to 11.2.6 are break-up of non-performing loans, age-wise.
- Break-up of restructured loans is to be given on the basis of classification status of loans at the time of the first restructuring exercise under items 12.1 to 12.5.
- Under 12.6, outstanding gross loans which were waived / written-off is to be reported. Under 12.7, the amount waived / written-off is to be reported. Under 12.8 to 12.10 break-up of the sources for waiver / write-off are to be reported.

B. Economic Sector-wise distribution of Loans and Advances

- In Section II-B, the break up of gross loans, non-performing loans, reserve interest and provisions are to be furnished on the basis of the economic sector. The definition of the economic sector would be the same as considered for RD returns submitted to the Economic Research and Statistics Department of the Central Bank.

C. Credit Rating wise distribution of Loans and Advances

- In Section II-C, the break up of gross loans is to be given on the basis of credit rating accorded to the loans.
 - This table is to be filled on the basis of internal ratings are assigned by the bank.
 - Rating scale given in the format contains 7 performing scales followed by special mention category and 3 non-performing scales. Banks, which are using fewer or higher number of rating scale, are to report their data as per the format only, by suitably mapping their internal ratings to the scales given in the format. While reporting for the first time, the basis for mapping the internal ratings to the scales indicated in the format is to be furnished.

- The total of rated and un-rated advances should tally with the Gross Loans figure reported elsewhere in the return.

D. Movement of Gross Loans during the quarter

- In Section II-D, the movement of loans and advances, risk-classification-wise, is to be furnished.
 - Opening balance should tally with the closing balance of the previous quarter
 - Migration / Changes would capture only the movement from one risk classification to another risk classification during the quarter.
 - New advances would be fresh advances granted during the quarter. In respect of overdrafts, net increase in balances of individual accounts could be given. This would also include all the charges including interest charged on the loans.
 - Recovery of loans – only the cash recovery of loans is to be reported under this heading. In respect of overdrafts, net decrease in balances of individual accounts could be given.
 - Loans written off – all loans written off during the quarter are to be reported.
 - Total of the closing balance should tally with gross loans reported elsewhere in the report.
 - Provisions held against each risk-classification category are to be indicated. The total provisions (specific provisions + general loan loss provisions) held should tally with the figures reported elsewhere in the report. General provisions held for Standard Loans are to be indicated under 'Standard Loans'.
 - Reserve interest held against each risk-classification category is to be indicated. Total reserve interest should tally with the figures reported elsewhere in the report.

E. Movement of Provisions and Reserve Interest

- In Section II-E, the movement in provisions and reserve interest are to be furnished.
- Opening balance should agree with the closing balance of the previous quarter
- Closing balance should agree with the figures reported elsewhere in the report.

F. Other Data

- **17.1** - Total loans granted to senior members and their related parties as at the end of the quarter is to be indicated here. Higher of limits sanctioned or the outstanding balance is to be reckoned for arriving at the total exposure. The banks should report the entire exposures, notwithstanding the fact that a part and / or full of the exposures are backed by cash or other collaterals, recognized by the Central Bank.
- **17.2** – Under this field, total of loans granted to single obligors and their related parties or senior members and their related parties are to be given, if such exposures account for more than 10% of the bank's networth, irrespective of the portion excluded for the purpose of determining the compliance with legal lending limits. The banks should, therefore, report the entire exposures, notwithstanding the fact that a part and / or full of the exposures are backed by cash or other collaterals, recognized by the Central Bank.
- **17.3 & 17.4:** Amount outstanding under respective categories of loans is to be indicated.

III. Data on Asset Quality - Investments

A. Data on Investments

- Under Items 18.1 to 18.3, break up of investment portfolio in terms of held for trading, available for sale and held to maturity is to be furnished. Investments categorized under 'Originated by the bank' category are to be reported under 'Held to Maturity' category for the purpose of this report.
- Under 18.4, non-performing investments is to be reported. Under 18.5, cumulative provision held for depreciation in investments is to be given.
- Other non-performing assets would include all assets, which are non-performing other than those included under non-performing loans, but including non-performing investments, and are to be furnished here.
- Under Items 18.6.1 to 18.6.6 the break up of other non-performing assets are to given on the basis of age-wise overdue.

B. Movement of Investments during the quarter

- Under III-B, movement of investments, risk classification wise, during the quarter is to be furnished.
 - Under this section the flow data on investments is to be given.
 - Opening balance should tally with the closing balance reported at the end of the previous quarter.
 - Under migration, the total should add up to zero generally, as this captures only movements within the classifications. For example, if an investment of RO.1 million moves from 'Standard' to 'Sub-standard', the same would be reported as 1 million under 'Sub-standard' and '-1' million under 'Standard'.
 - New Investments would be the total new investments made during the quarter. Increases arising out of accrual of interest also may be reported here.
 - Investments redeemed / sold during the quarter is to be given.
 - Closing balance should tally with total investments indicated elsewhere in the report.

IV. Data on Off-balance sheet items

- Break-up of off-balance sheet items are to be furnished here.
- Break-up of Swaps, Futures and Options are to be furnished under 20.7.1 to 20.7.3, 20.8.1 to 20.8.2 and 20.9.1 to 20.9.2 respectively.
- **20.4 Other Contingents:** This would be other off-balance sheet items, other than those listed under 20.1 to 20.3, and does not include any foreign exchange related off-balance sheet items.
- **20.11 Classified off-balance sheet items:** Here special mention and non-performing off-balance sheet items are to be indicated. The break-up of the same is to be provided under 20.11.1 to 20.11.4.

V. Operational Risk related data

A. Data to support Standardized Approach

- Gross Income is as defined in Paragraph 650¹ of the International Convergence of Capital Measurement and Capital Standards. "Gross Income is defined as net interest income plus net non-interest income.

¹ Page No. 138 , Chapter V of the International Convergence of Capital Measurement and Capital Standards

It is intended that this measure should: (i) be gross of any provisions (e.g. for unpaid interest); (ii) be gross of operating expenses, including fees paid to outsourcing service providers; (iii) exclude realized profits/losers from the sale of securities in the banking book (available for sale and held to maturity); and (iv) exclude extraordinary or irregular items as well as income derived from insurance”.

- The business segment-wise data is to be furnished here. The gross income is to be furnished on an annualized basis. (For Example, March figures are to be multiplied by 4 for annualizing the income, June figures by 2 and September figures by 4/3)

B. Data to support Advanced Measurement Approach

- The event types have been defined in Annex 7² of the International Convergence of Capital Measurement and Capital Standards.
- Instructions contained in Section V – Operational Risk³ of the International Convergence of Capital Measurement and Capital Standards may be referred for guidance.

VI. Other Data

- **23.1 Volatile Customer Deposits:** This would include 10% of Savings Deposits, 40% of Current Deposits and the large deposits as indicated against 23.4.
- **23.4 Large Deposits:** All individual fixed deposits that individually exceed 5% of the total customer deposits of the bank or individual deposits of RO 1 million and above are treated as Large Deposits.
- **23.5 Prize Money Deposits:** Total deposits outstanding under prize money schemes are to be reported here.
- **23.6 Total cost of Prize Money Deposits:** Total cost for running the prize schemes is to be indicated here.

² Page No. 224, of the International Convergence of Capital Measurement and Capital Standards

³ Page 138 of the International Convergence of Capital Measurement and Capital Standards

- **23.7 Average Total Earning Assets:** Monthly average of all earning assets is to be given here. The average is to be calculated on the basis of earning assets of 12 months period upto the end of the reporting quarter. (For example, while reporting in March 2004, monthly average is to be obtained by taking the balances of April 2003 to March 2004)
- **23.8 Average Total Assets:** Monthly average of total assets is to be given here. The average is to be calculated on the basis of total assets of 12 months period upto the end of the reporting quarter. (For example, while reporting in March 2004, monthly average is to be obtained by taking the balances of April 2003 to March 2004)
- **23.9 Average Total Risk Weighted Assets:** Quarterly average of total risk weighted assets is to be given here. The average is to be calculated on the basis of total risk weighted assets of 4 quarters upto the reporting quarter. (For example, while reporting in March 2004, quarterly average would be obtained by considering the total risk weighted assets for the quarters ended June 2003, September 2003, December 2003 and March 2004)
- **23.10 Average Capital and Reserves:** Quarterly average of capital and reserves is to be given here.
- **23.11 Average Stock Price during the quarter:** Only banks whose shares are quoted and traded in the MSM need to report data here. This should be obtained by considering the closing price of the stock on all the days the stock was traded.

Benefits to the Banks: The format has been thoroughly revised to capture the early warning signals. It is proposed to share with banks 54 Financial Soundness Indicators instead of the present 25 Early Warning Ratios. The ratios alongwith their definitions are given in the Attachment-II. The Central Bank proposes to use a system, the details of which are also indicated in Attachment-II, to rate banks on the basis of the quarterly data submitted by banks.

Financial Soundness Indicators (FSI) - Banking

Important Banking Indicators / Ratios	Formulae	Significance and Interpretation
Micro Indicators -		
1. Capital		
1. BIS Capital	$\{\text{Total capital (tier 1 + tier 2 capital) / Risk weighted assets}\} * 100$	To evaluate the risk bearing capacity and the nature of balance sheet items. Higher the ratio, greater is the risk bearing capacity and ability to absorb shocks.
2. Core capital	$\{\text{Tier 1 capital / Risk weighted assets}\} * 100$	Portrays the permanency of capital to mitigate the adverse impact of various types of risks. Ideally, the ratio should be above the international benchmark of 8%.
3. Net Capital	$\{\text{Total capital - net NPLs (NPLs - specific loan loss provisions and suspended interest) / Risk weighted assets - net NPLs}\} * 100$	Shows the unimpaired capital to absorb shocks and adverse impact of credit, market, operational, etc. risks. Important indicator of the capacity to withstand NPL-related losses.
4. Coverage	$\{(\text{Total capital - net NPLs}) / \text{Total assets}\} * 100$	Indicates the strength of banks in meeting contingencies and signals the vulnerability of banks to shocks. When the ratio falls below 0.5%, it indicates a potential problem.
5. Equity Multiplier	$\{\text{Total assets / Total capital}\}$	It measures financial leverage and also profit and risk measurement. EM affects the banks' profitability because it has a multiplier impact on Return on Assets (RoA) to determine Return on Equity (RoE). It is also a risk measure because it reflects how many times assets can go into default before a bank becomes insolvent. This ratio mitigates the restricted coverage of the existing BIS capital standard, which cover only credit risk, and partially of market risk.
6. Internal Capital Generation	$\{\text{Retained Earnings / Tier 1 capital}\} * 100$	Shows internal accrual of capital to support future growth and potential for higher profitability.
7. Capital to on and off balance sheet Items	$\{\text{Total capital / Total on and off balance sheet items}\} * 100$	The current credit conversion factors of off-balance sheet items in the BIS capital framework do not capture the true risk profile, leaving scope for rapid expansion of off-balance sheet items and banks assuming too much risk. The proposed ratio facilitates to analyse the magnitude of off - balance sheet exposures, assumed by banks.

Important Banking Indicators / Ratios	Formulae	Significance and Interpretation
8. MSM Prices	Quoted market price at the end of the quarter	The market prices of equities of banks provide clear indication of market player's perception about the risk profile.
2. Asset Quality		
1. Distribution of On and Off- balance sheet Items by Basel Risk – weight Category	Distribution of risk weighted assets – 0%, 20%, 50%, and 100%.	The distribution of risk-weighted assets into various risk baskets facilitates us to measure the concentration of risk in the balance sheets of banks.
2. Distribution of Loans by Sectors	Sectoral Distribution of Loans	The distribution of loans by sectors would help us to gauge the magnitude of concentration risk.
3. Loans in arrears 1-89 days	{Loans in arrears 1-89 days / Total Loans and advances} * 100	The ratio traces the simmering symptoms of asset quality.
4. NPLs	{NPLs / Total Loans and advances} * 100	The ratio is designed to capture the magnitude of impairment in the loan book. The ratio in excess of 5% is considered as a warning signal to future profitability and solvency of banks.
5. Accretion to NPLs	{Fresh NPLs / Opening performing loans and advances } * 100	The ratio tracks the quality and negative (downward) migration of standard loans. Higher ratio indicates the aggressive loan philosophy and poor asset quality.
6. Restructured/ rescheduled loans to total loans	{Restructured or rescheduled loans / Total loans and advances} * 100	The true asset quality problems could be camouflaged through evergreening of loans by renegotiating loan contracts. The ratio facilitates to analyse the magnitude of the problem.
7. Cash recoveries to NPLs	{Cash recoveries / Total NPLs} * 100	This ratio measures the recovery performance of banks.
8. Impaired investments	{Non performing investments / Total investments} * 100	Shows impairment i.e. long-term diminution in the value of investments. Captures the credit risk crystallised in the investment portfolio.
9. Loan loss provisions to NPLs	{Specific loan loss provisions / NPLs} * 100	Indicates the cushion available for meeting shortfall in the recovery of impaired loans.
10. Loan loss provision to Net Interest Income (NII)	{Loan loss provisions charged during the period / NII} * 100	Measures the credit risk adjusted spread and a higher ratio indicates that the risk premiums charged on advances are inadequate and the banks pursuing an aggressive loan philosophy.
11. Related party loans to total capital	{Loans to senior members and their	The ratio measures the magnitude of connected lending.

Important Banking Indicators / Ratios	Formulae	Significance and Interpretation
	related parties / Net worth } * 100	
12. Large exposures to net worth	{(Sum of all single obligors and senior members and their related parties' exposures in excess of 10% of net worth) / Net worth} * 100	The ratio is good measure of concentration risk. Large exposures internationally have been fixed around 600-800% of the net worth. Considering the peculiar features in the Sultanate, we may fix a lower limit of 600% of the net worth.
13. Financial derivatives to owned funds	{Financial derivatives / Total capital} * 100	The ratio measures the banks' exposure to high-risk financial derivatives.
14. Exposure to sensitive sectors	{Loans against real estate and equity / Total loans} * 100	The prices of real estate and equity are susceptible to asset price volatility. Undue exposure to these markets would add the dimension of risk profile of banks. Higher ratio indicates concentration of advances to sensitive sector.
3. Management		
1. Cost- Income	{Non- interest expenses / (Total income-interest expenses)} * 100	The ratio reveals the cost efficiency and cross subsidisation of various bank products. Higher the ratio, the lower is the profitability of banks. Ideally, the ratio should not exceed 60%.
2. Overhead Efficiency	{Non-interest income / Non-interest expenses} * 100	The ratio measures the burden and the diversification of income streams. Higher the ratio, greater is the diversification and fee income.
3. Operating expenses to operating earnings	{Operating expenses / Operating income} * 100	The ratio measures the banks' ability to generate surplus operative income to meet non-operative expenses, particularly loan loss provisioning.
4. Staff expenses to operating expenses	{ Staff expenses / Operating expenses} * 100	Measure the staff expenses to operating expenses and the efficiency.
4. Earnings		
1. ROA	{Net Profit / Average total assets} * 100	The single point indicator of overall efficiency of banks. A lower RoA signifies poor return on assets or high operating expenses or loan losses or heavy depreciation in the investment portfolio. The ratio should, at least be 1% to remain competitive.
2. Return on risk weighted assets	{Net profit / Average total risk weighted assets} * 100	The ROA focuses only on-balance sheet items, whereas banks have increasingly expanding their off-balance sheet activities, exposing them to higher degree of risks. Thus, this ratio reveals the contribution of off-balance sheet activities as well to the profitability of banks.

Important Banking Indicators / Ratios	Formulae	Significance and Interpretation
		The ratio also recognises the growing role of fee income. In case, the ratio has consistently been decreasing, it indicates that the bank has not been adequately compensated for the additional risks assumed.
3. RoE	{ Net profit / Average paid up capital and reserves and surplus} *100	Higher ratio indicates the efficiency of capital and the ability of the banks to outsource capital. Ideally, the ratio should be 15% to remain competitive.
4.Earnings per share (EPS)	{Net profit / No of equity shares} *100	Keenly watched by the equity market and the ratio is the pointer to the banks' ability to access the market.
5. Dividend Yield	{Dividend paid / Net Profit} * 100	The level of dividend paid is an important indicator of the relative attractiveness of banks' equity vis-à-vis other types of investment.
6.Recurring earning power	{Operating profit / Average total assets} *100	The ratio indicates the productivity of assets on a pre-provision income level and a comparison with the ROA would reveal the adverse impact of asset quality on earnings.
7. Net interest margin (NIM)	{Net II / Average total earning assets} * 100	The ratio is a summary measure of banks' net interest return on earning assets. The ratio reveals the banks ability to absorb various types of risk, high overhead expenses, etc.
8. Risk provisioning charge to operating profit	{Provisions for loan losses and depreciation in investments / Operating profit} *100	The ratio indicates the charge of risk costs on operating profit. Higher ratio indicates the banks' exposure to significant degree of risks.
9. Asset utilisation	{Total income/ Average total assets} *100	The asset productivity depends on the proportion of earning assets or earning base. The ratio shows the productivity of assets.
10. Trading and foreign exchange gains/losses to total income	{Trading and foreign exchange gains/losses /Total income} * 100	The ratio measures the stability and consistency of earnings.
11. Segmentation of Gross Income into 8 heads – Corporate Finance, Trading and Sales, Retail Banking, Commercial Banking, Payment and Settlement, Agency Services and Custody, Retail Brokerage and Asset Management.		The time series data on segmented gross income will facilitate us to track the trend and variations in the sources of income and trace concentration of risk. Higher return (income) is always accompanied by assumption of higher risk.
5. Liquidity		

Important Banking Indicators / Ratios	Formulae	Significance and Interpretation
1. Customer deposits to total assets	$\{\text{Customer deposits} / \text{Total assets}\} * 100$	Higher the ratio, more stable the liquidity.
2. Net loans to customer deposits	$\{\text{Net loans} / \text{Customer deposits}\} * 100$	A higher ratio indicates liquidity problem ahead.
3. Prime assets	$\{\text{Cash and balances with CBO} + \text{CDs of CBO} + \text{inter-bank placements due within 90 days} + \text{securities parked in the held for trading category and securities which are maturing within 90 days and held in the available for sale category} + \text{assets purchased under Repos}\} / \text{Total assets} * 100$	The ratio indicates the banks' flexibility in meeting short-term liquidity requirements.
4. Prime assets to Volatile liabilities	$\text{Prime assets} / (\text{Volatile portion of customer deposits} + \text{inter-bank borrowings} + \text{institutional deposits and CDs maturing within 90 days} + \text{assets sold under Repos}) * 100$	The ratio measures the ability of the banking system to meet short-term obligations.
5. Foreign currency assets to foreign currency liabilities (in USD and in currencies where the volume exceeds 10% of the total foreign currency assets and others in RO)	$\{\text{Foreign currency assets} / \text{Foreign currency liabilities}\} * 100$	The ratio indicates currency mismatches.
6. Foreign currency loans to foreign currency deposits	$\{\text{Foreign currency loans} / \text{Foreign currency deposits}\} * 100$	The ratio indicates liquidity mismatches.
7. Inter-bank assets to inter-bank liabilities	$\{\text{Inter-bank assets} / \text{Inter-bank liabilities}\} * 100$	The ratio reveals the banks exposure to the banking system.

Important Banking Indicators / Ratios	Formulae	Significance and Interpretation
8. Large Deposits	{Large Deposits (total of individual deposits each representing 5% of the total deposits or RO 1 million, which ever is higher) /Total deposits} *100	The ratio measures the degree of concentration and volatilities of deposits.
9. Cash flow mismatches	{Mismatch in a time band / Total outflows in the time band (preferably five time bands – 1-30 days, one month to three months, over three months to six months, six to nine months and over nine months to one year) in RO, USD and others.	The ratio measures the cash flow mismatches across various time bands.
6. Sensitivity to Market Risk		
1. Mismatches in repricing	Gaps (Rate sensitive assets – rate sensitive liabilities) - upto one year- in RO, USD and miscellaneous currencies.	The gaps can be used to estimate the Earnings-at- Risk (EaR) for a period of one year.
2. Duration of assets		To measure price sensitivity of assets.
3. Duration of liabilities		To measure price sensitivity of liabilities.
4. Ratio of equity position to total capital	{Net value of equity investments / Total capital} * 100	To measure the equity price risk.
5 Net foreign currency position to total capital	{Net open position in all currencies / Capital and Reserves}	To measure the magnitude of foreign currency risk

Financial Soundness Indicators (FSI)

Ratios	Formulae	Range of Marks
1. Capital (35)		
1. BIS Capital (15)	{Total capital (tier 1 + tier 2 capital) / Risk weighted assets} *100	1. >20% - 15 2. >17- 20% -13 3. >15 - 17% - 12 4. >13 – 15% - 10 5. 13- 12% - 8 6. <12% - 0
2. Core Capital (5)	{Tier 1 capital / Risk weighted assets} *100	1. > 12% - 5 2. >10 –12% - 4 3. >8 - 10% - 3 4. 6 - 8% - 1 5. < 6% - 0
3. Net Capital (5)	{Total capital – net NPLs (NPLs - specific loan loss provisions and suspended interest) / {Risk weighted assets – net NPLs } *100	1. > 15% - 5 2. >12-15% - 4 3. >10 –12% - 2 4. > 8 – 10% - 1 5. < 8% -0
4. Coverage (4)	{(Total capital - net NPLs) / Total assets} *100	1. > 1% - 4 2. >0.75 – 1% - 3 3. >0.50- 0.75% -2 4. >0.40- 0.50% - 1.5 5. < 0.40% - 0
5. Equity Multiplier (2)	{Total assets / Total capital}	1. < 8 - 2 2. > 8- 10 - 1 3. > 10 – 12 - 0.75 4. >12 - 14 - 0.50 5. > 14 - 0
6. Internal Capital Generation (2)	{Retained Earnings / Tier 1 capital} *100	1. > 10% - 2 2. > 8- 10% - 1.75 3. >6 - 8% - 1.50 4. > 4- 6% - 1 5. < 4% - 0
7. Capital to On and Off Balance Sheet Items (2)	{Total capital / Total on and off balance sheet items} *100	1. > 10% - 2 2. > 8 –10% - 1.75 3. >6 – 8% - 1.50 4. > 4- 6% - 1 5. < 4% - 0
Asset Quality (30)		
1. NPLs (10)	{NPLs / Total Loans and advances}*100	1. < 3% - 10 2. 3 – 5% - 8 3. >5 - 8% - 6 4. >8 - 10% - 4 5. >10- 13% - 2 6. >13 - 0
2.Accretion to NPLs (2)	{Fresh NPLs / Opening performing loans and advances } *100	1. < 3% - 2 2. 3 – 4% - 1 3. >4- 6% - 0.50 4. >6 - 0

Ratios	Formulae	Range of Marks
3. Restructured/ Rescheduled Loans (2)	{Restructured or rescheduled loans / Total loans and advances} *100	1. < 0.5% - 2 2. 0.5 – 1% - 1.5 3. > 1 – 2% - 1 4. > 2% - 0
4. Cash Recoveries (2)	{Cash recoveries / Total NPLs} *100	1. > 10% - 2 2. > 8 - 10% - 1.5 3. 6 - 8% - 1 4. 4 - < 6% - 0.5 5. < 4 - 0
5. Impaired investments (2)	{Non performing investments / Total investments} * 100	1. < 1% - 2 2. 1 – 2% - 1 3. > 2% - 0
6. Loan loss provisions to NPLs (6)	{Specific loan loss provisions / NPLs} *100	1. > 80% - 6 2. > 70- 80% - 5 3. > 60 – 70% - 4 4. > 50 – 60% - 2 5. < 50% - 0
7. Loan loss provision to Net Interest Income (NII) (3)	{Loan loss provisions charged during the period / NII } *100	1. < 10% - 3 2. 10 – 20% - 2.5 3. > 20 - 40% - 2 4. > 40- 60% - 1.5 5. > 60 – 80% - 1 6. > 80 - 0
8. Loans in Arrears 1- 89 days (2)	{Loans in arrears 1-89 days / Total loans and advances } *100	1. < 2% - 2 2. 2- 3% - 1.5 3. > 3 – 4% - 0.5 4. > 4% - 0
9. Related Party Loans (3)	{Loans to senior members and their related parties / Net worth } *100	1. < 25% - 3 2. > 25 – 30% - 2 3. > 30- 35% - 1 4. > 35% - 0
10. Large Exposures (2)	{(Sum of all single obligors and senior members and their related parties' exposures in excess of 10% of net worth) / Net worth} *100	1. < 300% - 2 2. 300 – 400% - 1.75 3. > 400- 500% - 1.50 4. > 500 - 600% - 1 5. > 600– 800% - 0.5 6. > 800% - 0
11. Exposure to Sensitive sectors (2)	{Loans against real estate and equity/ Total loans} *100	1. < 5% - 2 2. 5 – 6% - 1.75 3. > 6 – 7% - 1 4. > 7% - 0
12. Lending Ratio (2)		1. < 70% - 2 2. 70 – 75% - 1.5 3. > 75 – 80% - 1 4. > 80– 87.5% - 0.50 5. > 87.5% - 0

Ratios	Formulae	Range of Marks
13. Personal Loans (2)		1. < 25% - 2 2. > 25 - 30% - 1.5 3. > 30 - 35% - 1 4. > 35- 42.5% - 0.50 5. > 42.5% - 0
Management (5)		
1. Cost- Income (2)	{Non- interest expenses / (Total income- interest expenses)} * 100	1. < 40% - 2 2. 40 - 50% - 1.75 3. > 50- 60% - 1.50 4. > 60- 70% - 1 5. > 70- 80% - 0.50 6. > 80% - 0
2. Overhead Efficiency (1)	{Non-interest income / Non-interest expenses} * 100	1. > 150% - 1 2. > 130 - 150% - 0.75 3. > 100- 130% - 0.50 4. > 80 - 100% - 0.25 5. < 80% - 0
3. Operating expenses to operating earnings (1)	{Operating expenses / Operating income} * 100	1. < 80% - 1 2. 80 - 85% - 0.75 3. > 85 - 90% - 0.50 4. > 90- 95% - 0.25 5. > 95% - 0
4. Staff expenses to non interest expenses (1)	{ Staff expenses / Operating expenses} * 100	1. < 50% - 1 2. > 50- 60% - 0.75 3. > 60 - 70% - 0.50 4. > 70 - 80% - 0.25 5. > 80% - 0
Earnings (15)		
1. ROA (3)	{Net Profit / Average total assets} * 100	1. > 2% - 3 2. 1.6 - 2% - 2 3. 1 - 1.5% - 1.5 4. 0.5 - 0.9% - 0.5 5. < 0.5% - 0
2. Return on risk weighted assets (1)	{Net profit / Average total risk weighted assets} * 100	1. > 3% - 1 2. > 2- 3 % - 0.75 3. > 1- 2% - 0.50 4. 0.5 - 1% - 0.25 5. < 0.5% - 0
3. RoE (2)	{ Net profit / Average paid up capital and reserves and surplus} * 100	1. > 25% - 2 2. > 20 - 25% - 1.75 3. > 15 - 20% - 1.50 4. > 10 - 15% - 1 5. > 5 - 10% - 0.5 6. < 5% - 0
4. Earnings per share (EPS) (2)	{Net profit / No of equity shares} * 100	1. > 300 baisa - 2 2. > 200 - 300 - 1.75 3. > 150- 200 - 1.50 4. > 100- 150 - 1.00 5. > 75 - 100 - 0.75 6. > 50 - 75 - 0.50

Ratios	Formulae	Range of Marks
		7. > 25 - 50 - 0.25
5. Recurring earning power (1)	{Operating profit / Average total assets} * 100	1. > 4% - 1 2. > 3- 4% - 0.75 3. > 2 -3% - 0.50 4. > 1 - 2% - 0.25 5. < 1% - 0
6. Net Interest Margin (NIM) (2)	{Net II / Average total earning assets} * 100	1. > 4% - 2 2. > 2.5 - 4% - 1.5 3. > 1- 2.5% - 1 4. 0.5 - 1% - 0.50 5. < 0.50% - 0
7. Risk Provisioning Charge (2)	{Provisions for loan losses and depreciation in investments / Operating profit} * 100	1. < 20% - 1% 2. 20 -30% - 0.75 3. > 30- 40% - 0.50 4. > 40 - 50% - 0.25 5. > 50% - 0
8. Asset utilisation (1)	{Total income/ Average total assets} * 100	1. > 10% - 1 2. > 8 -10% - 0.75 3. < 6 - 8% - 0.50 4. > 3 - 6% - 0.25 5. < 3% - 0
9. Trading and foreign exchange gains/losses to total income (1)	{Trading and foreign exchange gains/losses / Total income} * 100	1. < 10% - 1 2. 10 - 15% - 0.75 3. > 15% - 20% - 0.50 4. > 20% - 0
5. Liquidity (10)		
1. Customer deposits to total assets (2)	{Customer deposits/ Total assets} * 100	1. > 70% - 2 2. > 60 - 70% - 1.50 3. > 50 - 60% - 1 4. < 50% - 0
2. Net loans to customer deposits (2)	{Net loans / Customer deposits} * 100	1. < 60% - 2 2. 60 - 70% - 1.50 3. > 70 - 80% - 1 4. < 80% - 0
3. Prime assets (3)	{Cash and balances with CBO + CDs of CBO + inter-bank placements due within 90 days + securities parked in the held for trading category and securities which are maturing within 90 days and held in the available for sale category + assets purchased under Repos} / Total assets * 100	1. > 20% -3 2. 15 -20% -2 3. > 10 - 15% - 1.5 4. > 7 - 10% - 1 5. < 7% -0

Ratios	Formulae	Range of Marks
4. Prime assets to Volatile liabilities (1)	{Prime assets / (Volatile portion of customer deposits + inter-bank borrowings + institutional deposits and CDs maturing within 90 days + assets sold under Repos) } * 100	1. > 100% - 1 2. > 90 - 100% - 0.75 3. > 80 - 90% - 0.50 4. < 80% - 0
5. Foreign currency assets to foreign currency liabilities (1)	{Foreign currency assets / Foreign currency liabilities} * 100	1. > 100% - 1 2. 90 - 100% - 0.50 3. < 90 - 0
6. Foreign currency loans to foreign currency deposits (1)	{Foreign currency loans / Foreign currency deposits} * 100	1. > 80% - 1 2. > 70 - 80% - 0.75 3. 60 - 70% - 0.25 4. < 60% - 0
7. Inter-bank assets to inter-bank liabilities (1)	{Inter-bank assets / Inter-bank liabilities} * 100	1. > 100% - 1 2. > 90 - 100% - 0.75 3. > 80 - 90% - 0.50 4. > 70 - 80% - 0.25 5. < 70% - 0

Ratios	Formulae	Range of Marks
8. Cash flow mismatches (3)	{Mismatch in a time band / Total outflows in the time band} (preferably five time bands – 1- 30 days, one month to three months, over three months to six months, six to nine months and over nine months to one year) in RO, USD and others.	Upto one month (2) 1. 0 or positive - 2 2. < 10% - 1.5 3. 10 – 20% - 1 4. >20 – 30% - 0.50 5. > 30% - 0 Cumulative Mismatch upto one year (1) 1. < 10% - 1 2. 10 –20% - 0.75 3. >20 – 30% - 0.25 4. > 30% - 0
Sensitivity to Market Risk (5)		
1. Mismatches in repricing (2)	Gaps (Rate sensitive assets – rate sensitive liabilities) -upto one year- in RO, USD and miscellaneous currencies.	EaR 1. < 20% - 2 2. 20 – 25% - 1.5 3. >25 – 30% - 1 4. > 30% - 0
2. Duration of Equity (2)		Hit on Capital 1. < 5% - 2 2. 5 – 10% - 1.5 3. >10 –15% - 1 4. >15% - 20% - 0.50 5. > 20% - 0
3. Net foreign currency position to total capital (1)	{Net open position in all currencies / Capital and Reserves} * 100	1. < 10% - 1 2. 10 – 20% - 0.75 3. >20 – 30% - 0.50 4. >30 - 40% - 0.25 5. > 40% - 0

Rating	Range of Marks
1	> 85
2	> 80 –85
3	> 75 –80
4	> 70 –75
5	> 65 –70
6	> 60 - 65
7	> 55 –60
8	> 50 –55
9	> 45 - 50
10	< 45

