

Scoring of Answers

Appetite for Risk

(subtotal questions 1–5, maximum 50 points)

- Score equals number circled (see scale)
- Assign points based upon priority order
 Score 10 (a, b, c)
 Score 8 (a, c, b)
 Score 6 (b, a, c)
 Score 4 (b, c, a)
 Score 2 (c, a, b)
 Score 1 (c, b, a)
 Score 1 (d)
- Score and sum all items checked : maximum 10 points
1 Past Dues/Losses
1 Level of Criticized/Classified Loans
4 Distribution of Pass categories in the bank's asset quality ratings
2 Portfolio concentrations
2 Risk in major types of lending making up the portfolio including subsets, e.g., industries, property types, types of ag.
- Points per level
10 < 2%
8 2-4%
6 4-6%
4 > 6%
2 Do not know or have not thought about it
- Score and sum all items checked : maximum 10 points
1 Bank profitability
1 Lender's portfolio profitability
1 Lender's personal loan production
4 Lender's portfolio credit quality
3 Lender's timely and accurate assignment of asset quality (risk) ratings
2 Do not offer incentives

Quality of Risk Management Practices

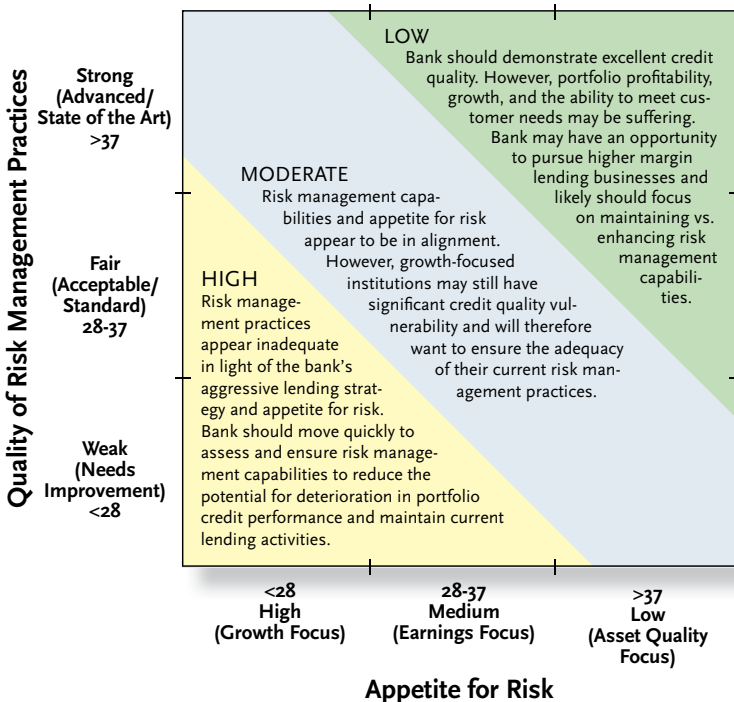
(subtotal questions 6–10, maximum 50 points)

- Points per number checked
2 One 4 Two 6 Three
8 Four 10 Five or more
- Points per number checked
2 One 4 Two 6 Three
8 Four 10 Five
- Points per number checked
2 One 4 Two 6 Three
8 Four 10 Five
- Points per number checked
2 One 4 Two 6 Three
8 Four 10 Five
- Points per number checked
1 One 2 Two 3 Three
4 Four 4 Five 6 Six
7 Seven 8 Eight 9 Nine
10 Ten

Tabulating and Interpreting	
Appetite for Risk	Score:
Low (focus on asset quality)	>37
Medium (focus on earnings)	28 - 37
High (focus on growth)	<28
Quality of Risk Management Practices	Score:
Weak (Needs Improvements)	<28
Fair (Acceptable/Standard)	28 - 37
Strong (Advanced/State of the Art)	>37

Understanding the Implications

Potential for Portfolio Volatility in Credit Quality



Banks need to address issues related to potential volatility in credit quality, including issues related to organizational profitability. In addition, banks must also address and reconcile inconsistencies between:

- Assessments by members of management
- Assessments across lending businesses
- Responses to Appetite for Risk questions
- Responses to Quality of Risk Management Practices questions

Capital Performance Group can help. CPG provides a full range of credit risk management services, including:

- Credit risk management strategic planning
- Credit process assessment and redesign
- Portfolio monitoring and reporting
- Asset quality rating framework enhancement
- Risk-based pricing
- Market risk analysis

For more information regarding these services or to learn about any of our commercial banking profitability enhancement services, please call us at 202-337-7870 or visit us at www.capitalperform.com.