

# **Solvency Prediction Report**

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# Contents

Current Metrics	2
AI Summary	3
Graphs	6

# Current Metrics

Metric	Value
Tier1 capital ratio	14.29
Total capital ratio	19.3
CET1 ratio	13.8
leverage ratio	4.59
ROE	12.59
ROA	1.03
NIM	3.4
L to D ratio	87.96
NSFR	112.17
NPL ratio	1.24
Coverage ratio	55.55
Sovereign exposure	8.04

## AI Summary

Based on the provided metrics, the bank appears to be in a financially fragile position, as indicated by the "At Risk" solvency status. Here's an assessment of the current situation, historical context, and suggested actions:

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### ### \*\*Current Metrics Analysis\*\*

#### 1. \*\*Capital Adequacy\*\*:

- **Tier1\_capital\_ratio**: 14.29% (current) vs. historical range (8-16%).
  - The capital ratio is below the typical target of 8-10%, indicating insufficient capital to absorb losses.
- **Total\_capital\_ratio**: 19.3% (current) vs. historical range (8-24%).
  - Total capital is relatively low compared to historical averages, further reducing the bank's solvency buffer.
- **CET1\_ratio**: 13.8% (current) vs. historical range (10-16%).
  - CET1 capital is also below the target of 10%, which is critical for banks during stress periods.

#### 2. \*\*Liquidity\*\*:

- **L\_to\_D\_ratio**: 87.96% (current) vs. historical range (50-80%).
  - The loan-to-debt ratio is extremely high, signaling potential liquidity risks if there were a sudden need for liquidity.
- **NSFR**: 112.17 (current) vs. historical range (~90-140).
  - The net stable funding ratio indicates strong liquidity, but this metric alone does not assess solvency risk.

#### 3. \*\*Profitability\*\*:

- **ROE**: 12.59% (current) vs. historical range (8-20%).
  - Return on equity is moderate compared to historical averages.
- **ROA**: 1.03% (current) vs. historical range (~0.5-2%).
  - Return on assets is very low, indicating inefficiency in asset utilization and profit generation.
- **NIM**: 3.4% (current) vs. historical range (~2-6%).
  - Net interest margin is low, suggesting poor pricing of loans or ineffective investment income generation.

#### 4. \*\*Risk Management\*\*:

- **NPL\_ratio**: 1.24% (current) vs. historical range (0.5-3%).
- Non-performing loan ratio is moderate but increasing risk as the year progresses.
- **Coverage\_ratio**: 55.55% (current) vs. historical range (~50-70%).
- Adequate capital coverage relative to NPLs, reducing stress.

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### ### **Historical Context**

Looking at the historical data (rows 1-58), several trends emerge:

- **Tier1\_capital\_ratio** fluctuates between ~8% and ~24%, with peaks in late April and early May.
- **Total\_capital\_ratio** ranges from ~8% to ~30%, showing variability but no clear upward trend.
- **L\_to\_D\_ratio** starts at 50% and increases to 90.71%, indicating gradual deteriorating liquidity.
- **ROE** fluctuates between 6% and 20%, with peaks in late April.
- **NIM** remains consistently low (~2-3.4%), suggesting persistent issues with profitability.

The bank's capital buffers have not been improving historically, and current metrics indicate further decline.

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### ### **Key Concerns**

1. **Low Capital Adequacy**: The Tier1 and Total capital ratios are insufficient, leaving the bank vulnerable to liquidity stress.
2. **High Debt Ratio**: The L\_to\_D\_ratio is alarmingly high at 87.96%, increasing risk of liquidity needs during stress periods.
3. **Lack of Profitability**: Low ROA (1.03%) and NIM (3.4%) suggest inefficiency in asset utilization and income generation.
4. **Moderate Risk Management**: While the Coverage\_ratio is adequate, the NPL\_ratio indicates potential credit risk exposure.

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### ### **Suggested Actions**

To improve solvency, the bank should focus on the following key areas:

#### #### 1. **Strengthen Capital Adequacy**

- **Objective**: Increase Tier1 and Total capital ratios to meet regulatory targets (~8-10% for Tier1).
- **Actions**:

- Conduct stress testing to assess current and worst-case scenarios.
- Revamp risk management practices to identify undercapitalized areas (e.g., credit risk, market risk).
- Consider raising capital through debt or equity offerings.

#### #### 2. **\*\*Improve Profitability\*\***

- **\*\*Objective\*\***: Reduce costs and increase income generation to improve ROA and NIM.
- **\*\*Actions\*\***:
  - Streamline operations to reduce overheads (e.g., IT infrastructure, administrative costs).
  - Focus on increasing loan demand or improving asset quality through better credit risk management.
  - Explore alternative revenue streams (e.g., wealth management, digital banking innovations).

#### #### 3. **\*\*Enhance Risk Management\*\***

- **\*\*Objective\*\***: Reduce NPL\_ratio and improve liquidity buffer.
- **\*\*Actions\*\***:
  - Implement advanced credit scoring models to minimize loan defaults.
  - Regularly monitor and stress-test loan portfolios.
  - Improve liquidity management by reducing excessive debt levels.

#### #### 4. **\*\*Leverage Leverage\*\***

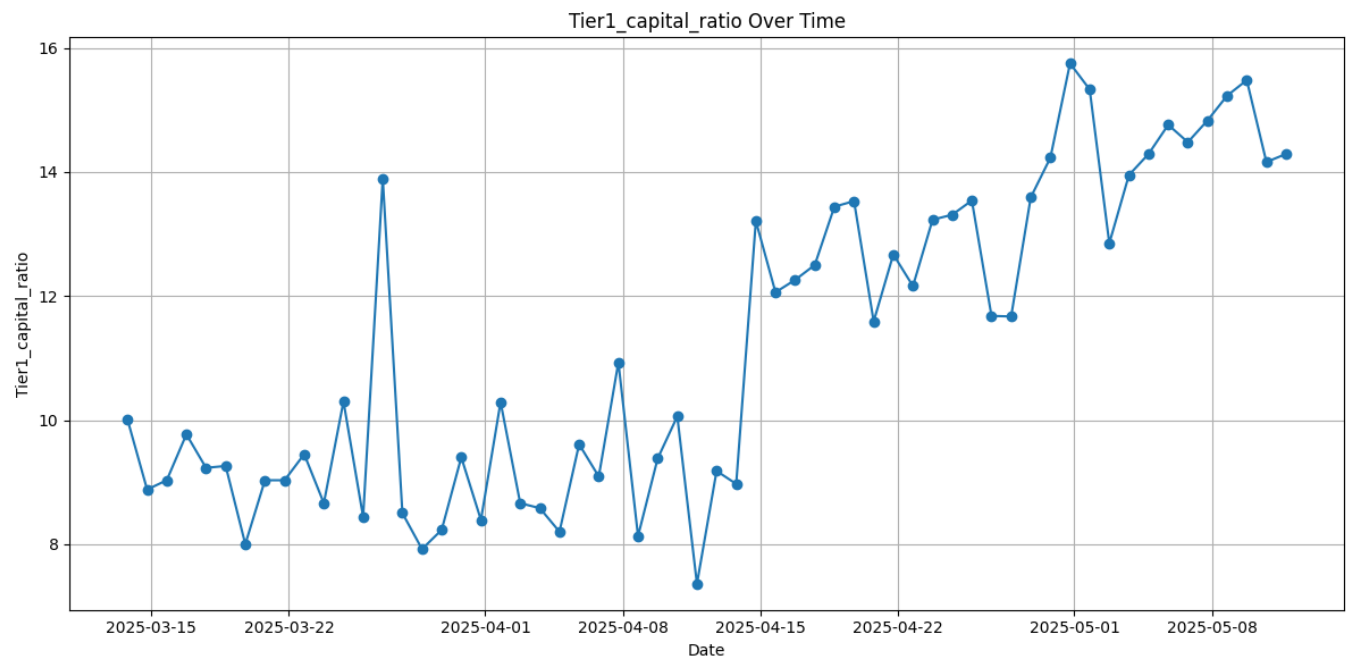
- **\*\*Objective\*\***: Reduce leverage relative to assets (leverage\_ratio) while maintaining growth.
- **\*\*Actions\*\***:
  - Refinance or retake high-interest debt to reduce interest expenses.
  - Increase profitability to support higher capital reserves.

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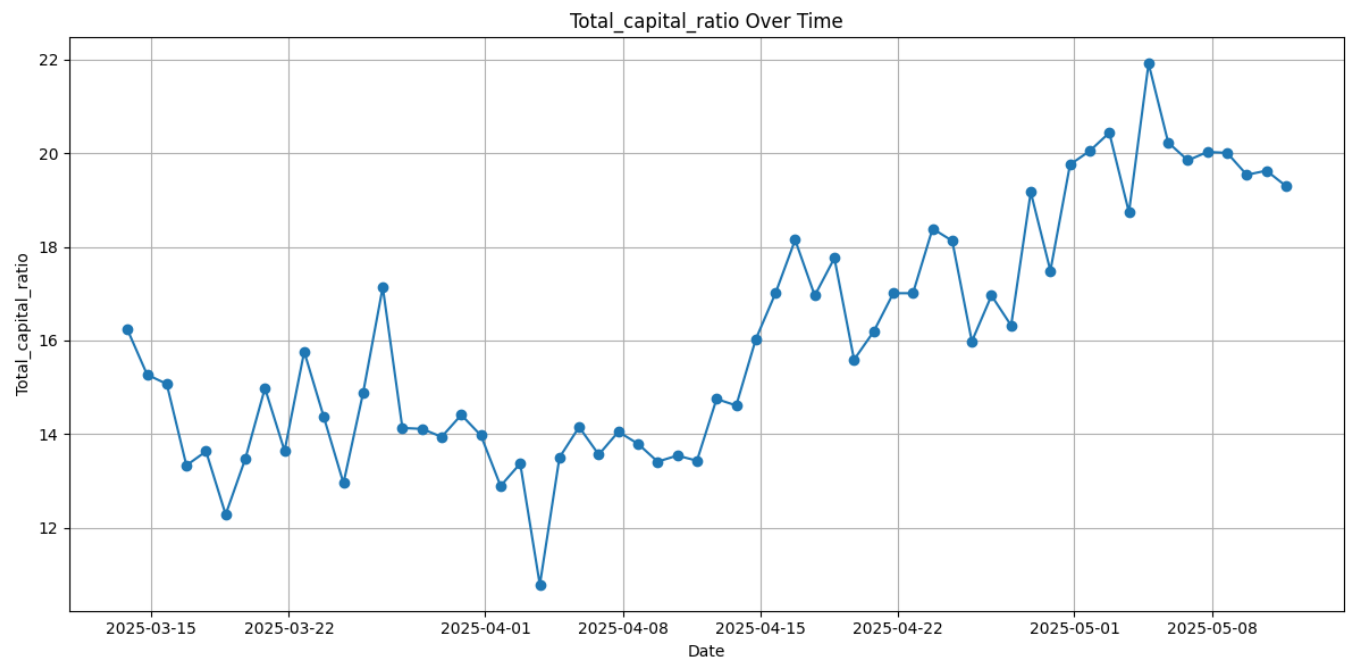
#### ### **\*\*Conclusion\*\***

The bank is in a fragile financial state, with critical metrics indicating insufficient capital, low profitability, and deteriorating liquidity. Immediate steps should focus on improving capital buffers, reducing debt, and enhancing operational efficiency. If these measures are not taken, the bank faces a heightened risk of solvency stress, potentially leading to regulatory intervention or recapitalization.

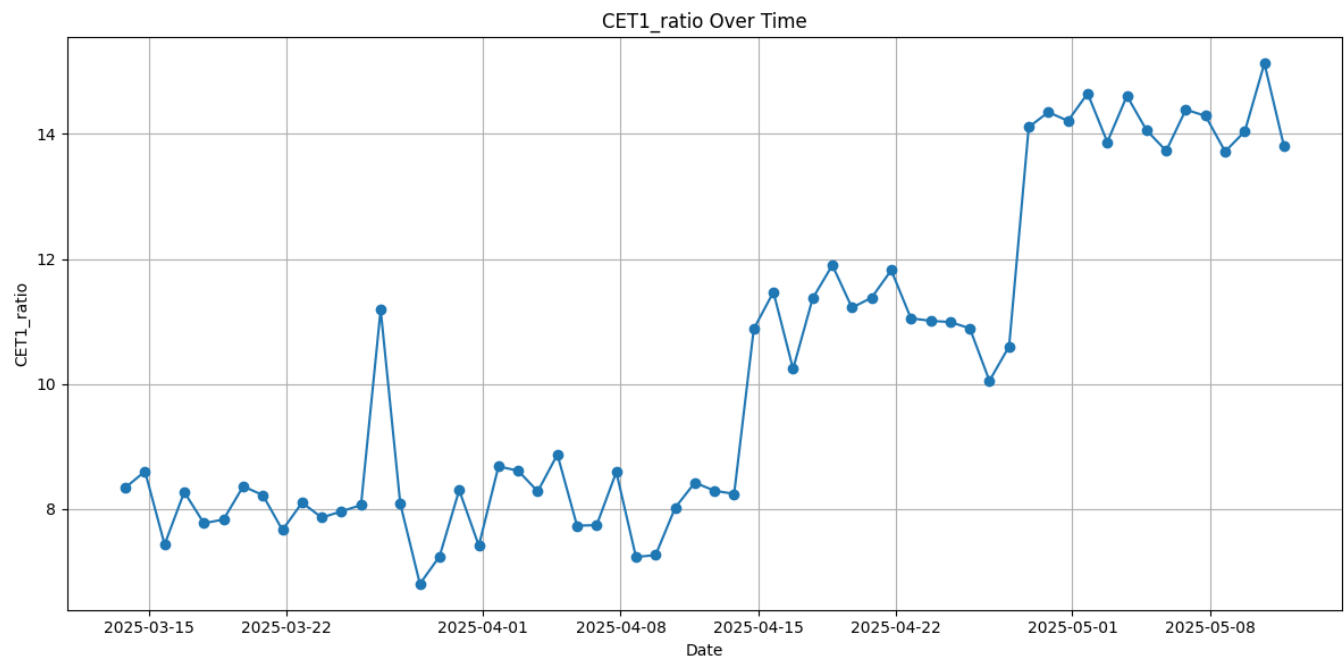
Tier1 capital ratio



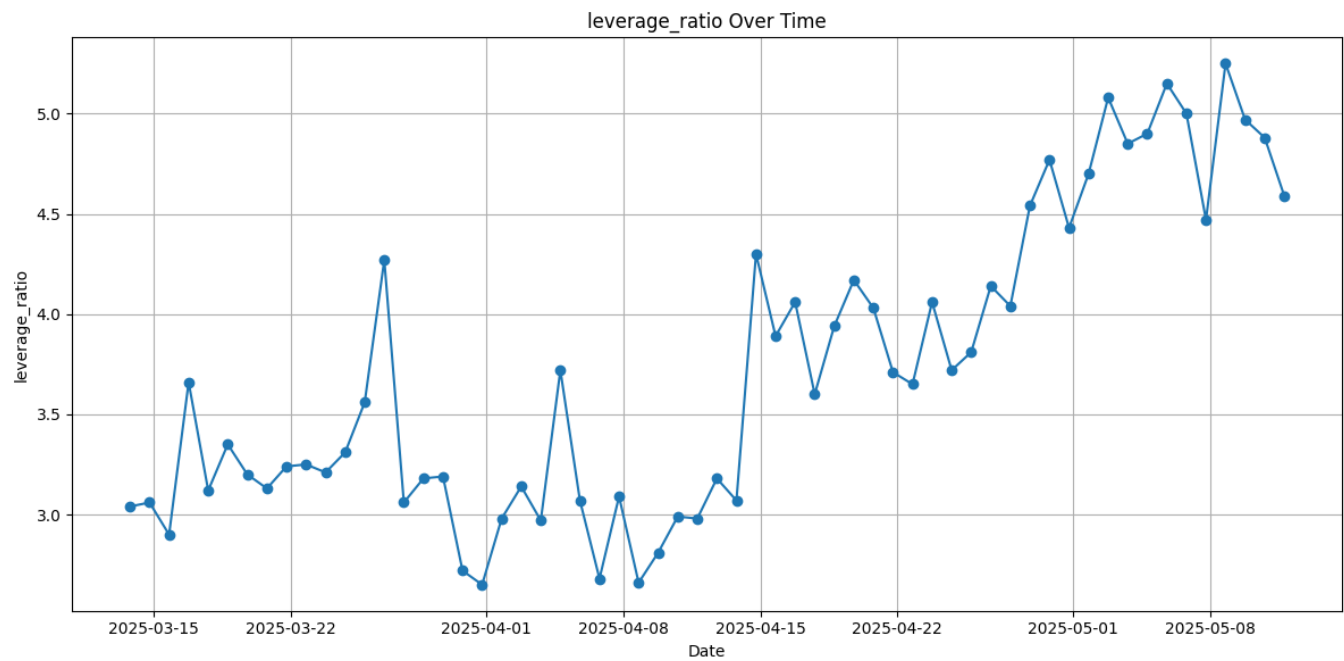
Total capital ratio



CET1 ratio

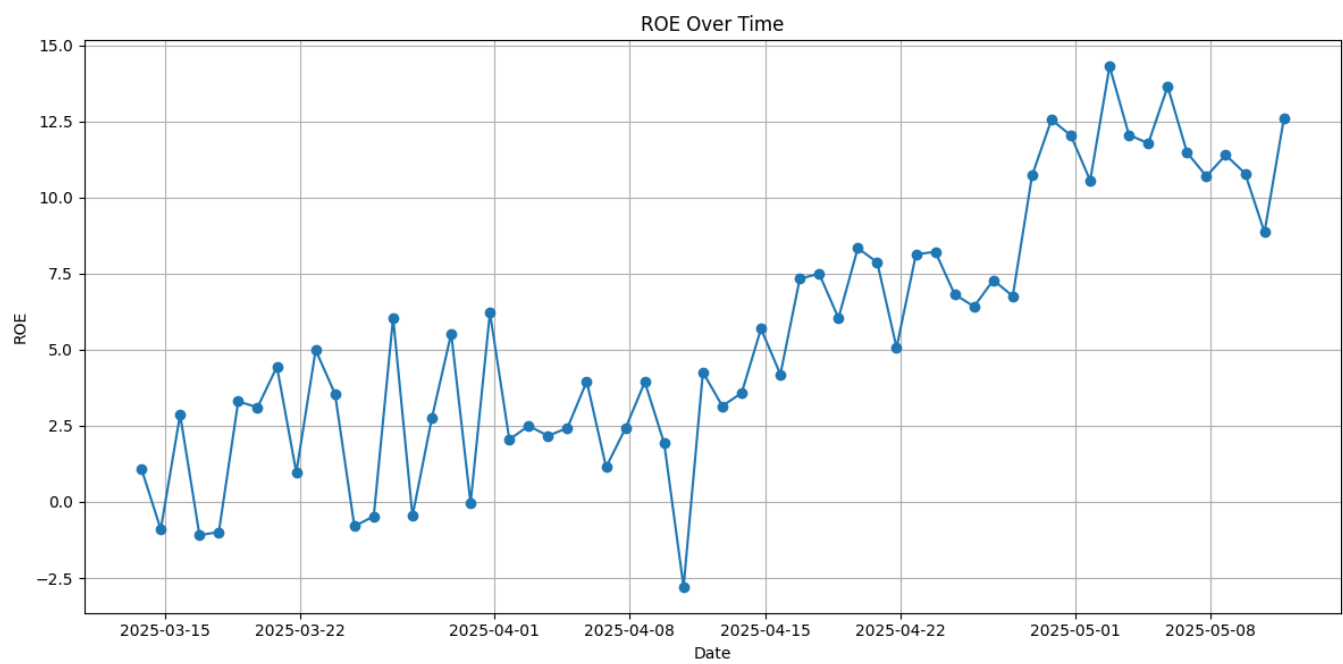


leverage ratio

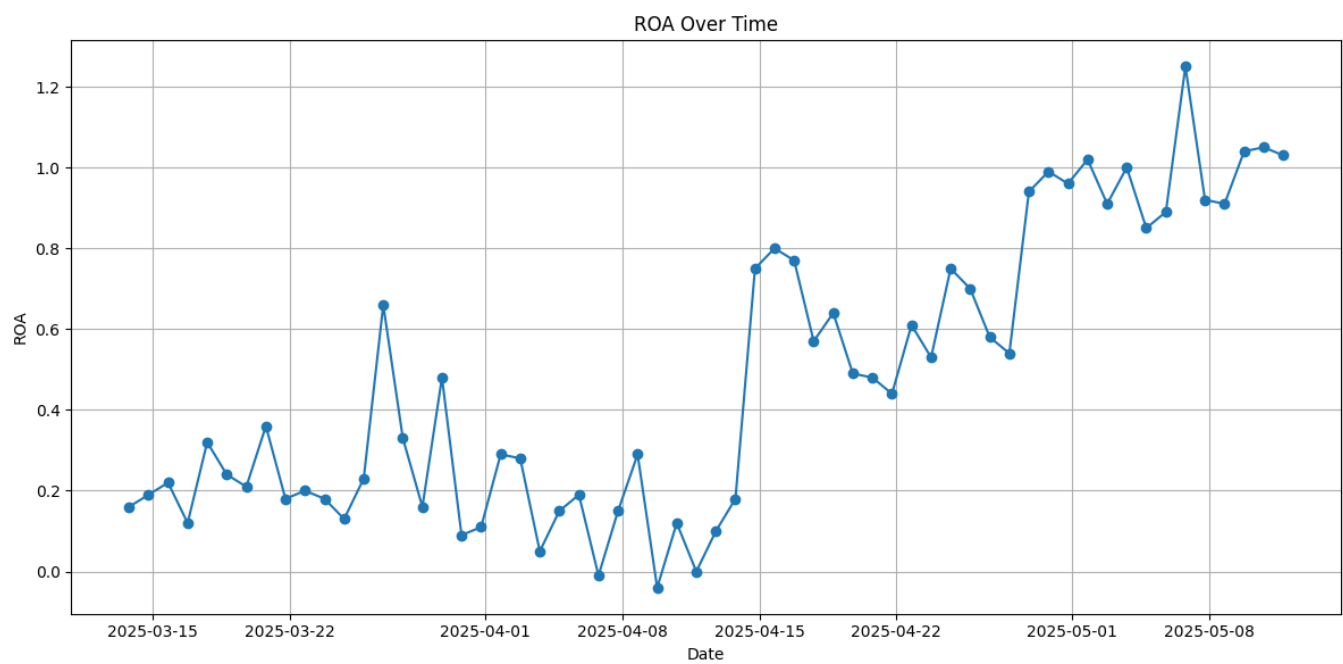




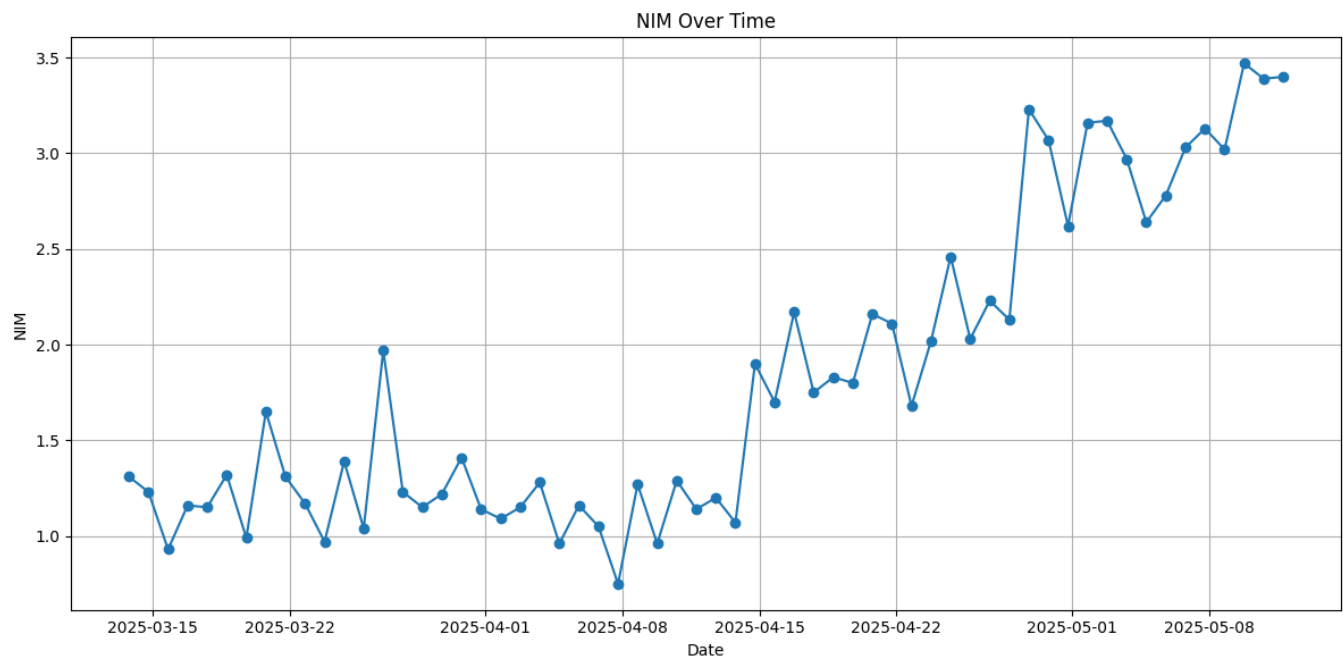
ROE



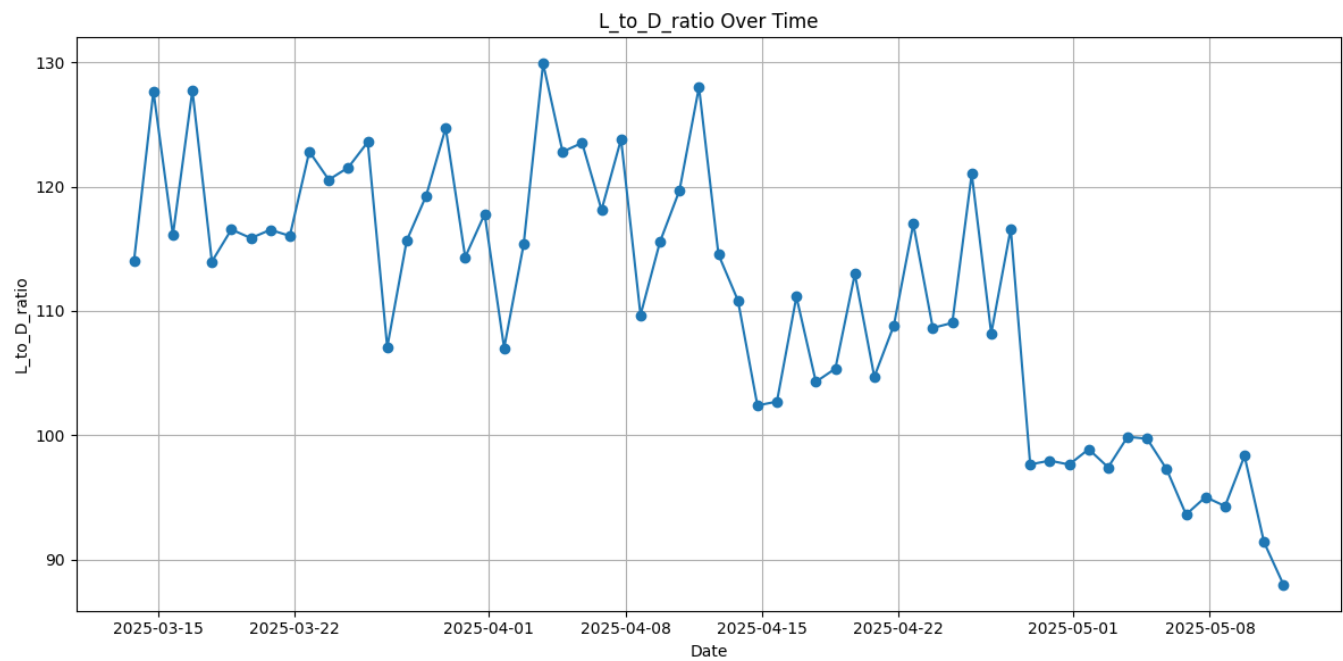
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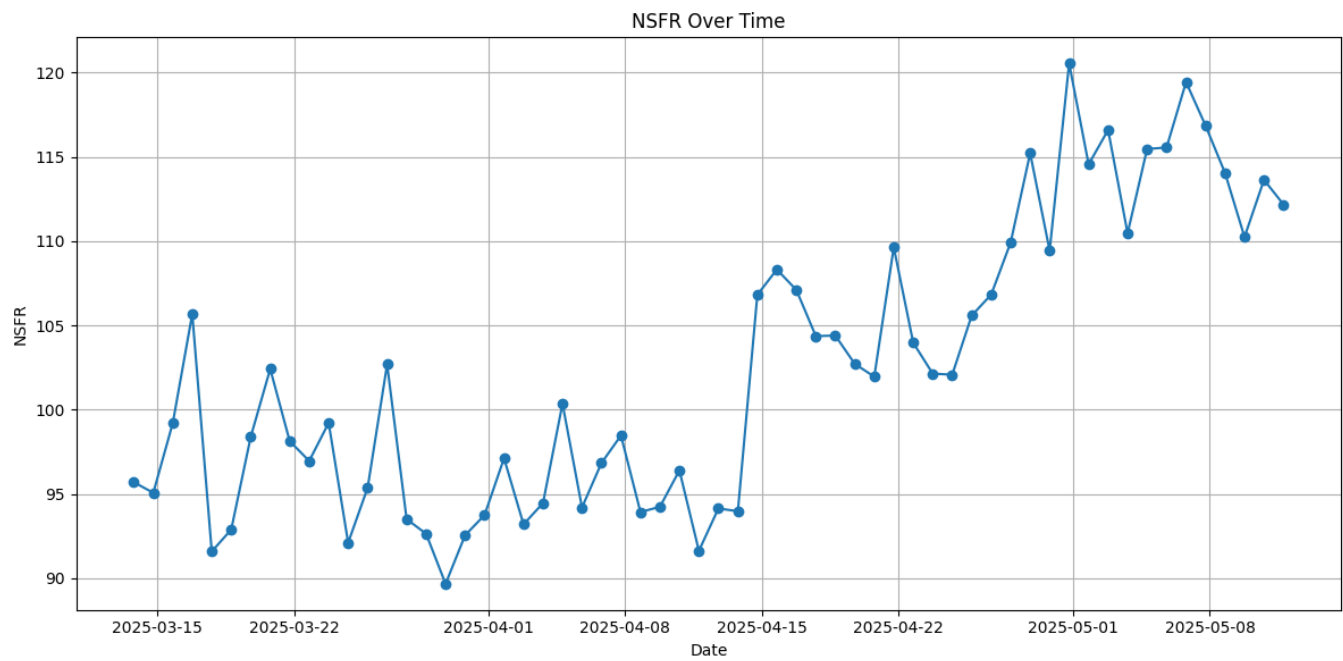
NIM



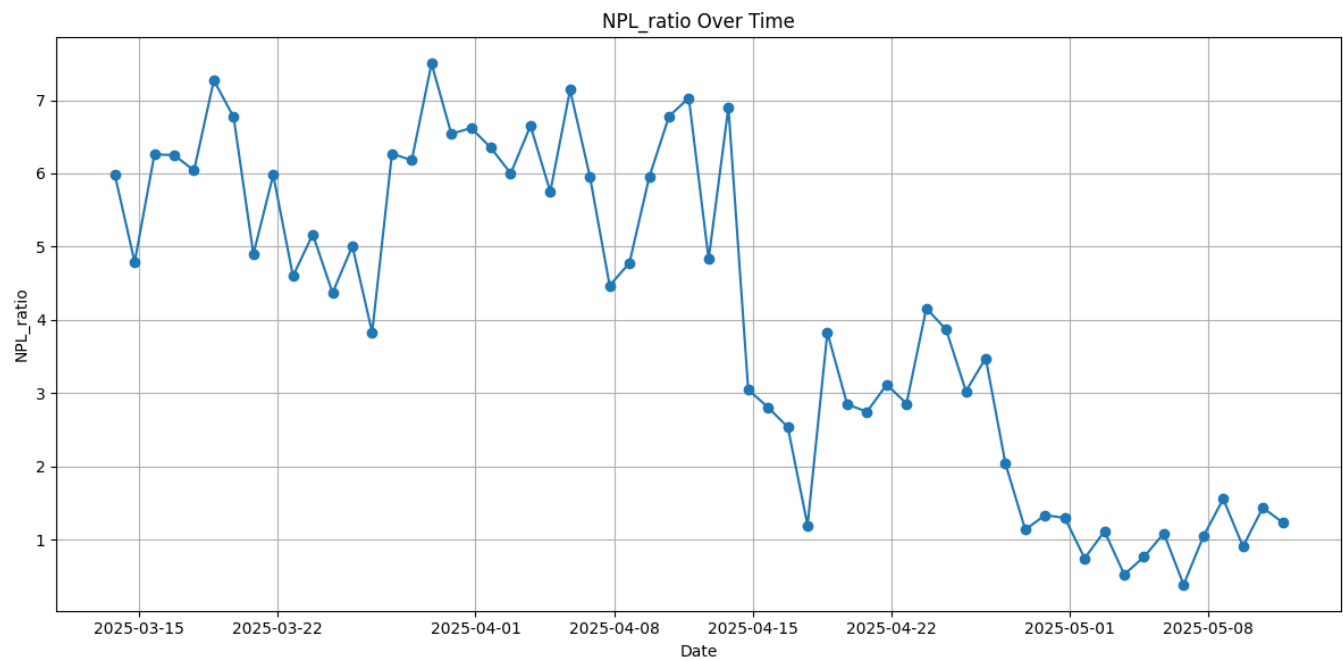
L to D ratio



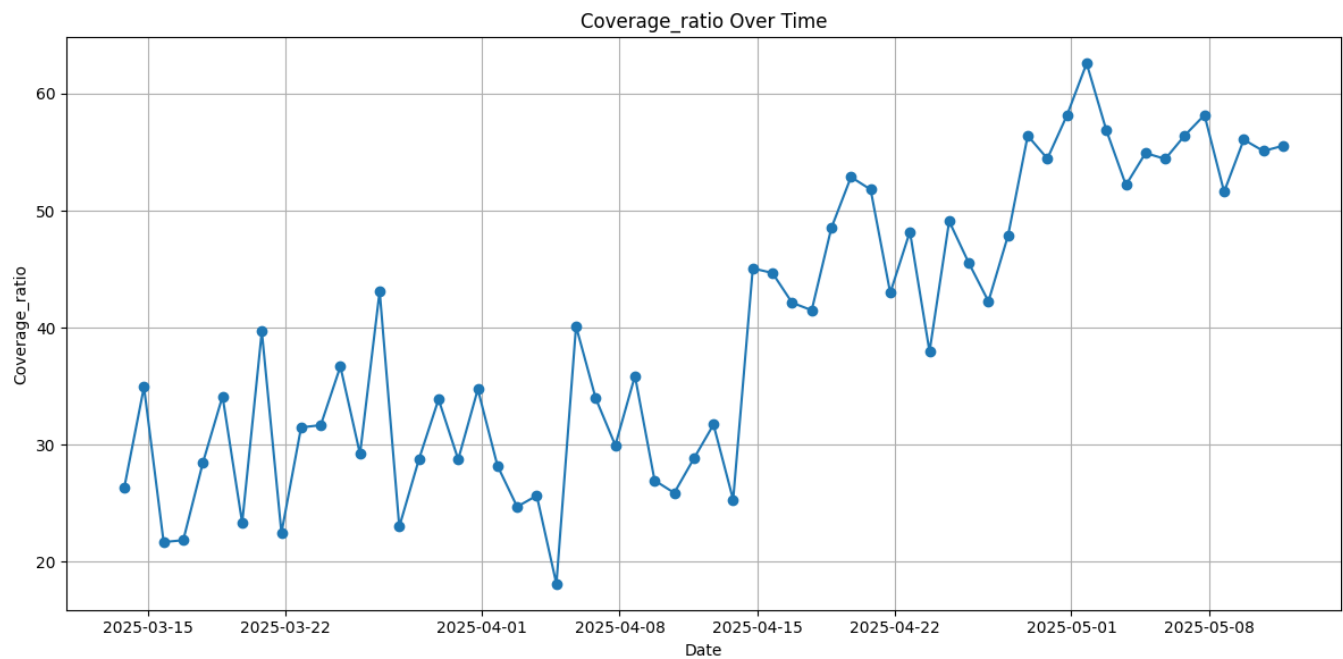
NSFR



NPL ratio



Coverage ratio



Sovereign exposure

