



Credit Risk Programme

Module 5

Portfolio Standards and Diagnostics

Learning Objectives

At the end of this module, you will be able to:

- Identify portfolio measures and hurdle rates used in RB.
- Demonstrate the ability to interpret risk appetite and related portfolio level reports.
- Identify key areas in RB where data interrogation is necessary.
- Interpret key measures used for diagnostics.

Country RIR Reports

Discussion Questions

- How are senior management involved and informed about the Risk information Report (RIR) information?
- How should you use this pack in the Country Risk Committee (CRC)?
- Who provides the data and information for the RIR report?

Lessons Learned

The voice of experience says

- Trust the data
- Look forward, not back
- Be skeptical of the first explanation of the data that you hear
- Learn to learn how to interpret the information

Portfolio Measures

CAD Measures	Risk Appetite Measures
Triggers <ul style="list-style-type: none"> • Peak Limits / Exposures • LI % ANR • 30+ DPD% (\$) – coincident %ENR • LAR % ANR (Net Revenue less Loan Impairment) Indicators & Diagnostics <ul style="list-style-type: none"> • PE Asset • ANR • Revenue • Total Incremental Direct Cost • Loan Impairment • Operating Profit • Rev % ANR • Economic Profit • Peak Stress Loss 	Trigger <ul style="list-style-type: none"> • RoRWA% • RLM Indicators & Diagnostics <ul style="list-style-type: none"> • PD • LGD • RLM • LI %ANR • ER %ANR

Portfolio Diagnostics

1. Evaluate asset performance versus
 - CAD
 - CRD
 - Revenue, delinquency, and write-off targets
2. Analyze trends versus seasonal and economic data
3. Take action to improve the profitability of new and existing customers

Two Levels of Review


Portfolio Level

Hurdle rates, triggers, and indicators. These are the key figures from your CAD portfolio shape and risk appetite strategy.

Segment or Cluster Level

For diagnostics, we look for clusters or segments of customers who behave in a homogenous manner. In Retail Banking, a successful "drill down" for diagnostic purposes involves understanding and defining these segments. When you have a concentrated cluster of customers that is large enough, they can 'move the needle' of the portfolio, for better or worse!

Leading Indicators: What does My New Book Look Like?



Source	Branch, direct mail, DSA, telemarketing
Geography	Country, region, city, postal code
Demographics	Age, employment, residence, etc
Performance	Application score and forecasted PD at time of underwriting
Character	Time with bank, product usage, payment behaviour

Coincident Indicators

Revenue... Mortgages

- Attrition
- Average loan size
- Drawdown rate

Revenue - Cards

- Average limit
- Average utilization
- Revolve %

Expense... Mortgages

- Approval rate
- Overrides
- Delinquency(collections)
- Losses

Revenue - Cards

- Approval rate
- Overrides

Coincident Indicators

Past Due (Delinquency) as % of Outstanding = Present Performance of Accounts

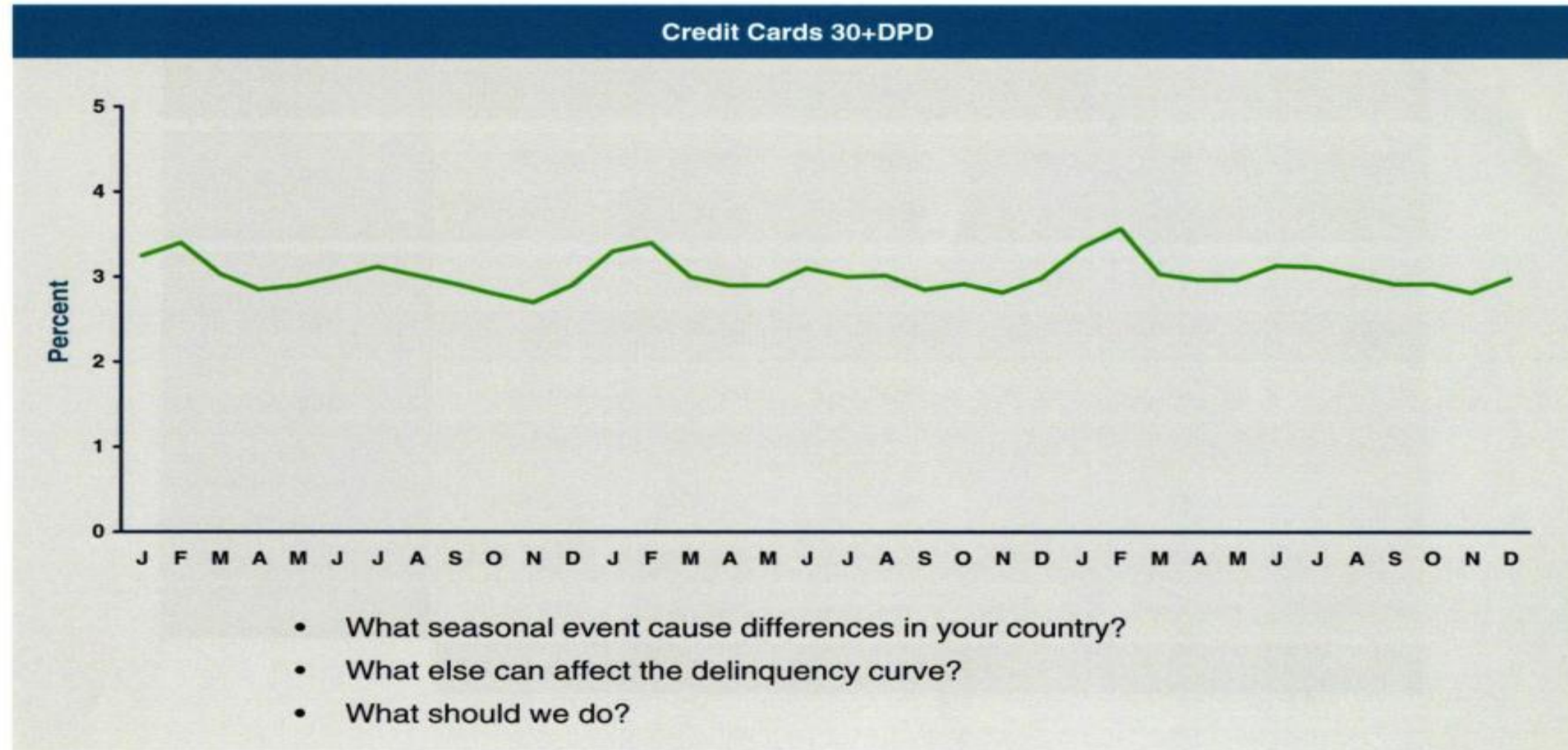
- Point in time snapshot
- Trends of a single product segment / program
- Comparison of different product segments/ programs
- Possible external factors (seasonality, the economy) Attrition

"Is it something we did or did not do or should have known?"

Delinquency Measurements

	Oct	Nov	Dec	Jan	Feb	Mar
Outstandings	1,732,679	1,768,592	1,840,958	1,897,977	1,921,284	1,945,843
Current	1,552,215	1,593,902	1,635,117	1,682,172	1,683,761	1,747,564
5 to 29	129,917	119,550	150,786	152,202	169,021	139,366
30 to 59	27,658	31,202	30,871	38,247	40,500	33,183
60 to 89	10,341	11,056	11,200	11,549	13,836	11,947
90 to 119	5,769	5,791	5,923	6,673	6,046	6,264
120+	6,779	7,091	7,061	7,134	8,120	7,519
30+ DPD\$	50,547	55,140	55,055	63,603	68,502	58,913
90+ DPD\$	12,548	12,882	12,984	13,807	14,166	13,783
30+ DPD%	2.92%	3.12%	2.99%	3.35%	3.57%	3.03%
90+ DPD%	0.72%	0.73%	0.71%	0.73%	0.74%	0.71%

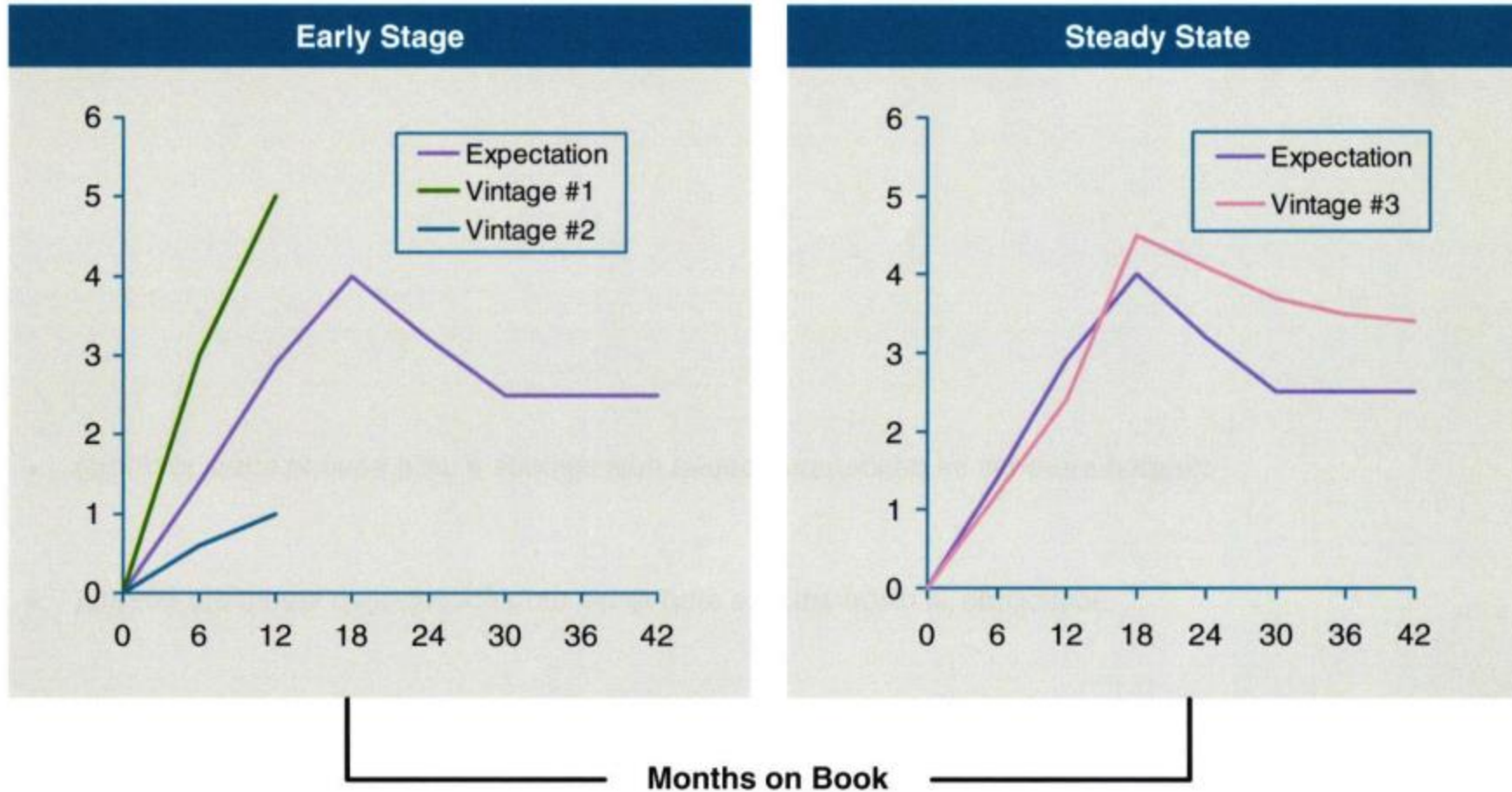
Seasonality



Vintage Measurement

- Over time, loans perform differently
- Vintage measures delinquency from either date of draw-down or application
- Group of loans booked from a specific time period and tracked as separate portfolio

Vintage Delinquency



Portfolio Analysis

	Outstandings (\$MM)	Delinquency (Percent)	Delinquency (\$MM)
Portfolio A	\$550	3.32%	\$18.25
Portfolio B	\$1,100	3.32%	\$36.50

Note: Delinquency (Percent) is based on 30+ DPD

Portfolio Analysis

When Acquired	Outstandings (\$MM)	Delinquency (Percent)	Delinquency (\$MM)
4 Years Ago	\$350	4.00%	\$14.00
3 Years Ago	50	2.50%	1.25
2 Years Ago	50	3.00%	1.50
1 Year Ago	50	2.00%	1.00
This Year (6 Mo.)	50	1.00%	0.50
Portfolio A	\$550	3.32%	\$18.25
4 Years Ago	\$700	2.00%	\$14.00
3 Years Ago	100	4.50%	4.50
2 Years Ago	100	8.50%	8.50
1 Year Ago	100	6.50%	6.50
This Year (6 Mo.)	100	3.00%	3.00
Portfolio B	\$1,100	3.32%	\$36.50

How do the vintages compare?

Portfolio Analysis - Source

Sourced Through	Outstandings (\$MM)	Delinquency (Percent)	Delinquency (\$MM)
Bangkok	\$400	2.06%	\$8.25
Upcountry	150	6.67	10.00
Portfolio A	\$550	3.32%	\$18.25
Bangkok	\$800	1.81%	\$14.50
Upcountry	300	7.33	22.00
Portfolio B	\$1,100	3.32%	\$36.50

What is the largest problem area(s)?

Portfolio Analysis - Vintage

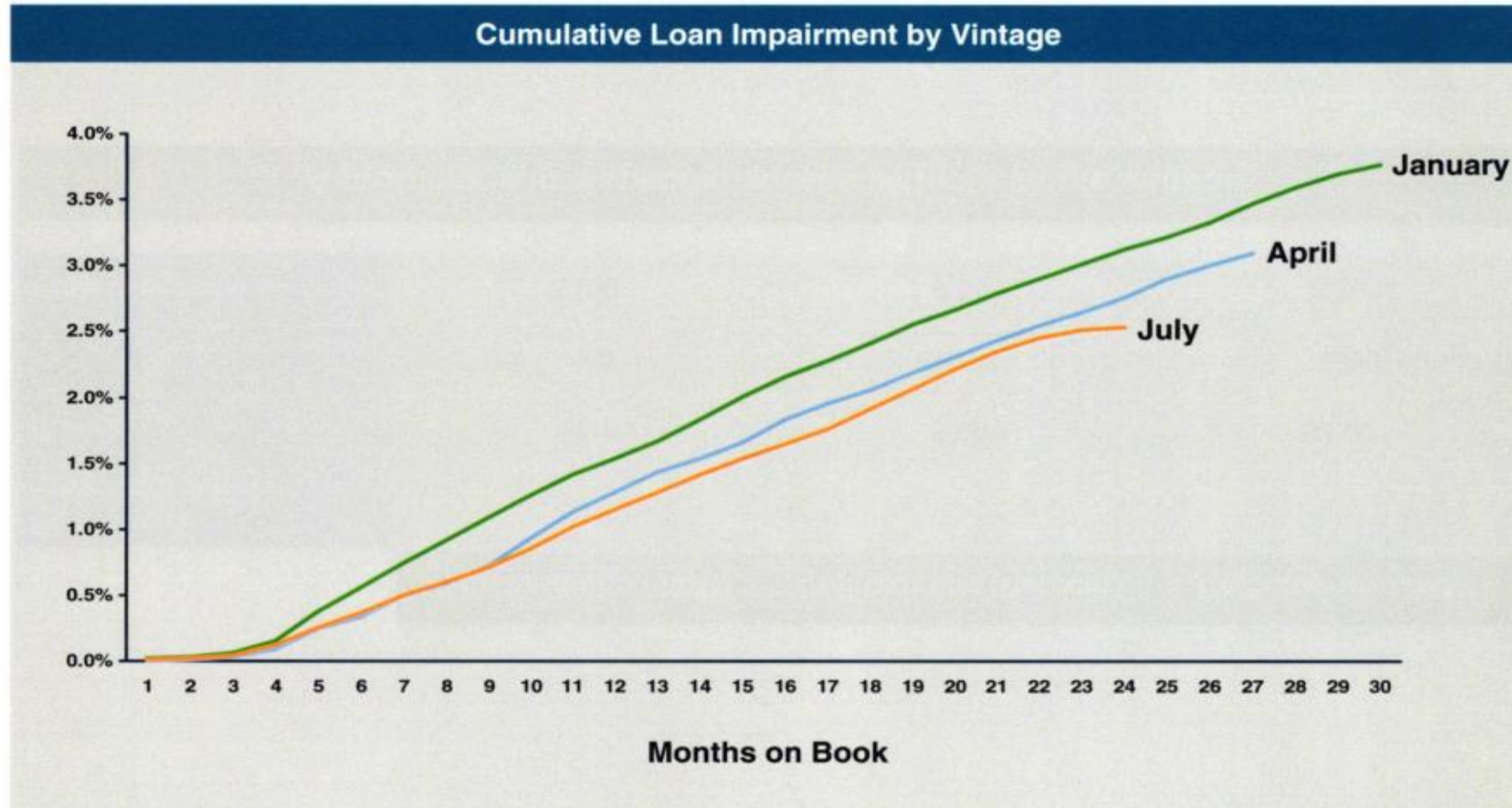
	Outstandings (\$MM)	Delinquency (Percent)	Delinquency (\$MM)
Portfolio B Sourced 2 Years Ago	\$100	8.50%	\$8.50

Portfolio Analysis – Source/Vintage

	Outstandings (\$MM)	Delinquency (Percent)	Delinquency (\$MM)
Portfolio B Sourced 2 Years Ago			
Bangkok	\$60	5.00%	\$3.00
Upcountry	40	13.75%	5.50
Total	\$100	8.50%	8.50%

A problem is in a specific source within a single vintage

Lagging Indicators



Points to Remember

Let's revisit some of the most important points in this sections

Portfolio risk profiles are measured in total or by segments using a variety of indicators

- Leading
 - Are the targeting and risk tools doing their job?
 - Is credit quality within expectations?
- Coincident
 - Are the portfolios/programs on track with expected risk levels?
- Lagging
 - Are the portfolio/program losses in the targeted range?

Questions



Notes

