

Sample Risk Rating Grid

Risk Grade ⇒	Weight ↓	1	2	3	4
Label ⇒ ↓ area		Minimal risk (Superior)	Modest risk (Exceptional)	Average risk	Acceptable risk
Industry/ Industry segment	1	<ul style="list-style-type: none"> Minimal cyclical 	<ul style="list-style-type: none"> Modest cyclical 	<ul style="list-style-type: none"> Average cyclical 	<ul style="list-style-type: none"> Intensely cyclical industry
	2	<ul style="list-style-type: none"> Not capital intensive or low fixed cost 	<ul style="list-style-type: none"> Modest fixed capital needs and fixed cost 	<ul style="list-style-type: none"> Average fixed capital needs and fixed cost 	<ul style="list-style-type: none"> High capital intensity and high fixed cost
	1	<ul style="list-style-type: none"> Priority Industry, most favorable legal, regulatory, labor outlook 	<ul style="list-style-type: none"> Favorable legal, regulatory, labor outlook 	<ul style="list-style-type: none"> Neutral legal, regulatory, labor outlook 	<ul style="list-style-type: none"> Demanding legal, regulatory, labor outlook
Market risk (Position within industry and level of competition)	2	<ul style="list-style-type: none"> Leader with large share in stable industry 	<ul style="list-style-type: none"> Reasonable market share nationally or strong regional presence 	<ul style="list-style-type: none"> Stable demand. Or smaller firm with strong local position 	<ul style="list-style-type: none"> Maintenance of market share is difficult and expensive or smaller firm with average local presence
	2	<ul style="list-style-type: none"> Pricing leader and low-cost producer 	<ul style="list-style-type: none"> Competitive pricing with good margins 	<ul style="list-style-type: none"> Price follower with average market share 	<ul style="list-style-type: none"> Customer/supplier relations price-driven
	1	<ul style="list-style-type: none"> High entry Barrier. Extremely difficult for new entrants. 	<ul style="list-style-type: none"> Moderate entry Barrier. New entrants have to overcome many restrictions and constraints 	<ul style="list-style-type: none"> Average entry barrier. New entrants find some difficulty 	<ul style="list-style-type: none"> Low entry barrier. Competitors may enter without restriction.

Management and controls	2	<ul style="list-style-type: none"> • Highly experienced management with continuity and depth 	<ul style="list-style-type: none"> • Experienced familial management with strong support from professional staff 	<ul style="list-style-type: none"> • familial management with some support from professional staff 	<ul style="list-style-type: none"> • Family run with no second line
	1	<ul style="list-style-type: none"> • Excellent internal controls and MIS 	<ul style="list-style-type: none"> • High level of internal controls with quality reporting 	<ul style="list-style-type: none"> • Good internal controls 	<ul style="list-style-type: none"> • Internal controls marginal with some manual processes
	3	<ul style="list-style-type: none"> • Undoubted integrity and character 	<ul style="list-style-type: none"> • Widely known and respected management 	<ul style="list-style-type: none"> • Reasonably known or long relationship with bank 	<ul style="list-style-type: none"> • Acceptable character or nothing negative known
Earnings & operating cash flow trends	2	<ul style="list-style-type: none"> • Very strong earnings trend 	<ul style="list-style-type: none"> • Consistent earnings with good growth 	<ul style="list-style-type: none"> • Adequate earnings and growth 	<ul style="list-style-type: none"> • Inconsistent earnings trend
	2	<ul style="list-style-type: none"> • Continuing excess operating cash flow 	<ul style="list-style-type: none"> • Stable excess operating cash flow 	<ul style="list-style-type: none"> • adequate operating cash flow trend 	<ul style="list-style-type: none"> • Weak but acceptable operating cash flow trend
	2	<ul style="list-style-type: none"> • Revenue from huge and scattered customer base or various products 	<ul style="list-style-type: none"> • Revenue from large and expanding customer base and diversified product lines 	<ul style="list-style-type: none"> • Revenue not dependent on one product or limited customers 	<ul style="list-style-type: none"> • Revenue dependent on one product or limited customers

Asset & liability values	2	<ul style="list-style-type: none"> • Highest quality assets mix, few intangible assets 	<ul style="list-style-type: none"> • High quality Assets mix, no reliance on intangibles 	<ul style="list-style-type: none"> • Average asset quality and stability. Little reliance on intangibles, 	<ul style="list-style-type: none"> • Acceptable asset mix and stability,
	2	<ul style="list-style-type: none"> • Appropriate liabilities all the time 	<ul style="list-style-type: none"> • Liabilities fit assets 	<ul style="list-style-type: none"> • Few related party receivables or loans Liabilities generally match assets 	<ul style="list-style-type: none"> • Asset/liability mismatches in maturity and structure
	2	<ul style="list-style-type: none"> • Superior facilities 	<ul style="list-style-type: none"> • Excellent facilities with good efficiency 	<ul style="list-style-type: none"> • Adequate facilities With fixed assets in good working order and remaining useful life 	<ul style="list-style-type: none"> • Outdated or older facilities with average operating efficiency, fixed assets near end of useful life, significant intangibles
Financial flexibility & debt capacity	2	<ul style="list-style-type: none"> • Substantial excess debt capacity and access to national and global capital markets at all times 	<ul style="list-style-type: none"> • Access to capital markets 	<ul style="list-style-type: none"> • Readily able to refinance debt with other financial institutions at similar rates/terms, stable relationships with good banks 	<ul style="list-style-type: none"> • Limited access to alternative banks and may have to refinance at different rate/terms
	2	<ul style="list-style-type: none"> • Very low leverage 	<ul style="list-style-type: none"> • Low leverage 	<ul style="list-style-type: none"> • Leverage acceptable based on industry and peer group 	<ul style="list-style-type: none"> • Leverage above average
	2	<ul style="list-style-type: none"> • Excess cash flow for debt service 	<ul style="list-style-type: none"> • Ample debt service capacity 	<ul style="list-style-type: none"> • Adequate debt service capacity 	<ul style="list-style-type: none"> • Satisfactory banking relationships

Financial reporting	2	<ul style="list-style-type: none"> • Clean audit report with no qualifications, from major audit firm and all interim reports available 	<ul style="list-style-type: none"> • Clean audit with no qualifications from reputable CA firm and interim financial and reports. 	<ul style="list-style-type: none"> • Audit by other than CA and interim reports are generally available 	<ul style="list-style-type: none"> • Audit contains serious qualifications or • Internally prepared or compiled financial statements or Other financial data not always reliable in terms of quality or timeliness
Collateral quality and value	2 3	Highly saleable collateral. Superior quality. <ul style="list-style-type: none"> • Estimated realizable value \geq 150% 	<ul style="list-style-type: none"> • Easily saleable. Good quality • Estimated realizable value \geq 120% or 	<ul style="list-style-type: none"> • Average quality. Mix of all types of assets. • Estimated realizable value covering loan amount 	<ul style="list-style-type: none"> • Majority collateral is stock and/or receivable. • Estimated realizable value less than loan amount, secondary source is personal guarantee

Loan secured by Cash or near cash collateral covering interest and principle can be categorized as low risk irrespective of grading. If only principle amount is covered fully, loan may be categorized as modest risk.

Collateral may be graded separately also.

Score	Risk Grade
25%- 40%	1
41%- 60%	2
61%- 80%	3
81%-100%	4