SUPERVISION and EXAMINATION SECTOR
Department of Rural Banks

Camels Rating System

September 1999

CAMELS RATING SYSTEM

The supervisory processes of the Bangko Sentral over the banking system must continue to evolve and be responsive to the changing financial environment for such processes to be effective. It is in this context that the CAMEL Rating System being utilized as a supervisory tool was revised to address changes in the banking services industry and in supervisory policies and procedures. The revisions to the CAMEL Rating System include the addition of a sixth component (**S**) addressing *sensitivity to market risks*, the explicit reference to the quality of risk management processes in the management component, and the identification of risk elements within the composite and component rating descriptions. Hence, the rating system is referred to as the **CAMELS Rating System**.

The revisions are not intended to add to the regulatory burden of institutions nor require additional policies or processes. The revisions are intended to promote and complement efficient examination processes. The revisions have been made to update the rating system, while retaining the basic framework of the original rating system.

The System takes into consideration certain financial, managerial, and compliance factors that are common to all institutions. Under the System, SES endeavors to ensure that all financial institutions are evaluated in a comprehensive and uniform manner, and that supervisory attention is appropriately focused on the financial institutions exhibiting financial and operational weaknesses or adverse trends.

OVERVIEW

Under the System, each financial institution is assigned a composite rating based on an evaluation and rating of six (6) essential components of an institution's financial condition and operations. These component factors address the adequacy of **C**apital, the quality of **A**ssets, the capability of **M**anagement, the quality and level of **E**arnings, the adequacy of **L**iquidity, and the **S**ensitivity to market risk. Evaluations of the components take into consideration the institution's size and sophistication, the nature and complexity of its activities, and its risk profile.

Composite and component ratings are assigned based on a 5 to 1 numerical scale. A 5 indicates the highest rating, strongest performance and risk management processes, and least degree of supervisory concern, while a 1 indicates the lowest rating, weakest performance, inadequate risk management practices and, therefore, the highest degree of supervisory concern.

The composite rating generally bears a close relationship to the component ratings assigned. However, the composite rating is not derived by computing an arithmetic average of the component ratings. Each component rating is based on a qualitative analysis, as well as quantitative assessment, whenever applicable, of the factors comprising that component and its interrelationship with the other components. When assigning a composite rating, some components may be given more weight than others depending on the situation at the institution. In general, assignment of a composite rating may incorporate any factor that bears significantly on the overall condition and soundness of the institution.

The ability of management to respond to changing circumstances and to address the risks that may arise from changing business conditions, or the initiation of new activities or products, is an important factor in evaluating an institution's overall risk profile and the level of supervisory attention warranted. For this reason, the management component is given special consideration when assigning a composite rating.

The ability of management to identify, measure, monitor, and control the risks of its operations is also taken into account when assigning each composite rating, It is recognized, however, that appropriate management practices vary considerably among financial institutions, depending on their size, complexity, and risk profile. For less complex institutions engaged solely in traditional banking activities and whose directors and senior managers, in their respective roles, are actively involved in the oversight and management of day-to-day operations, relatively basic management systems and controls may be adequate. At more complex institutions, on the other hand, detailed and formal management systems and controls are needed to address their broader range of financial activities and to provide senior managers and directors, in their respective roles, with the information they need to monitor and direct day-to-day activities. All institutions are expected to properly manage their risks. For less complex institutions engaging in less sophisticated risk taking activities, detailed or highly formalized management systems and controls are not required to receive strong or satisfactory component or composite ratings.

COMPOSITE RATINGS

The rating scale ranges from 5 to 1, with a rating of 5 indicating: the strongest performance and risk management practices relative to the institution's size, complexity, and risk profile; and the level of least supervisory concern. A 1 rating indicates: the most critically deficient level of performance; inadequate risk management practices relative to the institution's size, complexity, and risk profile; and the greatest supervisory concern. The composite ratings are defined as follows:

Composite 5

Financial institutions in this group are sound in every respect and generally have components rated 4 or 5. Any weaknesses are minor and can be handled in a routine manner by the board of directors and management. These institutions are the most capable of withstanding the vagaries of business conditions and are resistant to outside influences such as economic instability in their trade area. These institutions are in substantial compliance with laws and regulations. As a result, these institutions exhibit the strongest performance and risk management practices relative to the institution's size, complexity, and risk profile, and give no cause for supervisory concern.

Composite 4

Financial institutions in this group are fundamentally sound. For an institution to receive this rating, generally no component rating should be more severe than 3. Only moderate weaknesses are present and are well within the board of directors' and management's capabilities and willingness to correct. These institutions are stable and are capable of withstanding business fluctuations. These institutions are in substantial compliance with laws and regulations. Overall risk management practices are satisfactory relative to the institution's size, complexity, and risk profile. There are no material supervisory concerns and, as a result, the supervisory response is informal and limited.

Composite 3

Financial institutions in this group exhibit some degree of supervisory concern in one or more of the component areas. These institutions exhibit a combination of weaknesses that may range from moderate to severe; however, the magnitude of the deficiencies generally will not cause a component to be rated more severely than 2. Management may lack the ability or willingness to effectively address weaknesses within appropriate time frames. Institutions in this group generally are less capable of withstanding business fluctuations and are more vulnerable to outside influences than those institutions rated a composite 5 or 4. Additionally, these institutions may be in significant noncompliance with laws and regulations. Risk management practices may be less than satisfactory relative to the institution's size, complexity, and risk profile. These institutions require more than normal supervision, which may include formal or informal enforcement actions. Failure appears unlikely, however, given the overall strength and financial capacity of these institutions.

Composite 2

Financial institutions in this group generally exhibit unsafe and unsound practices or conditions. There are serious financial or managerial deficiencies that result in unsatisfactory performance. The problems range from severe to critically deficient. The weaknesses and problems are not being satisfactorily addressed or resolved by the board of directors and management. Financial institutions in this group generally are not capable of withstanding business fluctuations. There may be significant noncompliance with laws and regulations. Risk management practices are generally unacceptable relative to the institution's size, complexity, and risk profile. Close supervisory attention is required, which means, in most cases, formal enforcement action is necessary to address the problems. Institutions in this group pose a risk to the deposit insurance fund. Failure is a distinct possibility if the problems and weaknesses are not satisfactorily addressed and resolved.

Composite 1

Financial institutions in this group exhibit extremely unsafe and unsound practices or conditions; exhibit a critically deficient performance; often contain inadequate risk management practices relative to the institution's size, complexity, and risk profile; and are of the greatest supervisory concern. The volume and severity of problems are beyond management's ability or willingness to control or correct. Immediate outside financial or other assistance is needed in order for the institution to be viable. Ongoing supervisory attention is necessary. Institutions in this group pose a significant risk to the deposit insurance fund and failure is highly probable.

COMPONENT RATINGS

Each of the component rating descriptions is divided into three sections: an introductory paragraph; a list of the principal evaluation factors that relate to that component; and, a brief description of each numerical rating for that component. Some of the evaluation factors are reiterated under one or more of the other components to reinforce the interrelationship between components. The listing of evaluation factors for each component rating is in no particular order of importance.

Capital Adequacy

A financial institution is expected to maintain capital commensurate with the nature and extent of risks to the institution and the ability of management to identify, measure, monitor, and control these risks. The effect of credit, market, and other risks on the institution's financial condition should be considered when evaluating the adequacy of capital. The types and quantity of risk inherent in an institution's activities will determine the extent to which it may be necessary to maintain capital at levels above required minimums to properly reflect the potentially adverse consequences that these risks may have on the institution's capital.

The capital adequacy of an institution is based upon, but not limited to, an assessment of the following evaluation factors:

* The level and quality of capital and the overall financial condition of the institution;
* The ability of management to address emerging needs for additional capital;
* The nature, trend, and volume of problem assets, and the adequacy of allowances for loan losses and other valuation reserves;
* Balance sheet composition, including the nature and amount of intangible assets, market risk, concentration risk, and risks associated withnontraditional activities;
* Risk exposure represented by off-balance sheet activities;
* The quality and strength of earnings, and the reasonableness of dividends;
* Prospects and plans for growth, as well as past experience in managing growth;
* Access to capital markets and other sources of capital, including support provided by parent company, if any.

Ratings

5 A rating of 5 indicates a strong capital level relative to the institution's risk profile.

4 A rating of 4 indicates a satisfactory capital level relative to the institution's risk profile

3 A rating of 3 indicates a less than satisfactory level of capital that does not fullysupport the institution's risk profile. The rating indicates a need for improvement, even if the institution's capital level exceeds minimum regulatory and statutory requirements.

2 A rating of 2 indicates a deficient level of capital. In light of the institution's risk profile, viability of the institution may be threatened. Assistance from shareholders or other external sources of financial support may be required.

1 A rating of 1 indicates a critically deficient level of capital such that the institution's viability is threatened. Immediate assistance from shareholdersor other external sources of financial support is required.

ASSET QUALITY

The asset quality rating reflects the quantity of existing and potential credit risk associated with the loan and investment portfolios, other real estate owned, and other assets, as well as off-balance sheet transactions. The ability of management to identify, measure, monitor, and control credit risk is also reflected here. The evaluation of asset quality should consider the adequacy of the allowance for loan losses and weigh the exposure to counterparty, issuer, or borrower default under actual or implied contractual agreements. All other risks that may affect the value or marketability of an institution's assets, including but not limited to, operating, market, reputation, strategic, or compliance risks should also be considered.

The asset quality of a financial institution is rated based upon, but not limited to, an assessment of the following evaluation factors:

* The adequacy of underwriting standards, soundness of credit administration practices, and appropriateness of risk identification practices;
* The level, distribution, severity, and trend of problem, classified, nonaccrual, restructured, delinquent, and nonperforming assets for both on- and off-balance sheet transactions;
* The adequacy of the allowance for loan losses and other asset valuation reserves;
* The credit risk arising from or reduced by off-balance sheet transactions, such as unfunded commitments, credit derivatives, commercial and standby letters of credit, and lines of credit;
* The diversification and quality of the loan and investment portfolios;
* The extent of securities underwriting activities and exposure to counterparties in trading activities;
* The existence of asset concentrations;
* The adequacy of loan and investment policies, procedures, and practices;
* The ability of management to properly administer its assets, including the timely identification and collection of problem assets;
* The adequacy of internal controls and management information systems;
* The volume and nature of credit documentation exceptions.

Ratings

5 A rating of 5 indicates strong asset quality and credit administration practices.Identified weaknesses are minor in nature and risk exposure is modest in relation to capital protection and management's abilities. Asset quality in such institutions is of minimal supervisory concern.

4 A rating of 4 indicates satisfactory asset quality and credit administration practices. The level and severity of classifications and other weaknesses warrant a limited level of supervisory attention. Risk exposure is commensurate with capital protection and management's abilities.

3 A rating of 3 is assigned when asset quality or credit administration practices are less than satisfactory. Trends may be stable or indicate deterioration in asset quality or an increase in risk exposure. The level and severity of classified assets, other weaknesses, and risks require an elevated level of supervisory concern. There is generally a need to improve credit administration and risk management practices.

2 A rating of 2 is assigned to financial institutions with deficient asset quality or credit administration practices. The levels of risk and problem assets are significant, inadequately controlled, and subject the institution to potential losses that, if left unchecked, may threaten its viability.

1 A rating of 1 represents critically deficient asset quality or credit administration practices that present an imminent threat to the institution's viability.

MANAGEMENT

The capability of the board of directors and management, in their respective roles, to identify, measure, monitor, and control the risks of an institution's activities and to ensure a financial institution's safe, sound and efficient operation in compliance with applicable laws and regulations is reflected in this rating. Generally, directors need not be actively involved in day-to-day operations; however, they must provide clear guidance regarding acceptable risk exposure levels and ensure that appropriate policies, procedures, and practices have been established. Senior management is responsible for developing and implementing polices, procedures, and practices that translate the board's goals, objectives, and risk limits into prudent operating standards.

Depending on the nature and scope of an institution's activities, management practices may need to address some or all of the following risks: credit, market, operating or transaction, reputation, strategic, compliance, legal, liquidity, and other risks. Sound management practices are demonstrated by active oversight by the board of directors and management; competent personnel; adequate policies, processes, and controls taking into consideration the size and sophistication of the institution; maintenance of an appropriate audit program and internal control environment; and effective risk monitoring and management information systems. This rating should reflect the board's and management's ability as it applies to all aspects of banking operations as well as other financial service activities in which the institution is involved.

The capability and performance of management and the board of directors is rated based upon, but not limited to, an assessment of the following evaluation factors:

* The level and quality of oversight and support of all institution activities by the board of directors and management;
* The ability of the board of directors and management, in their respective roles, to plan for, and respond to, risks that may arise from changing business conditions or the initiation of new activities or products;
* The adequacy of, and conformance with, appropriate internal policies and controls addressing the operations and risks of significant activities;

* The accuracy, timeliness, and effectiveness of management information and risk monitoring systems appropriate for the institution's size, complexity, and risk profile;
* The adequacy of audits and internal controls to: promote effective operations and reliable financial and regulatory reporting; safeguard assets and ensure compliance with laws, regulations, and internal policies;
* Compliance with laws and regulations;
* Responsiveness to recommendations from auditors and supervisory authorities;
* Management depth and succession;
* The extent that the board of directors and management is affected by, or susceptible to, dominant influence or concentration of authority;
* Reasonableness of compensation policies and avoidance of self-dealing;
* Demonstrated willingness to serve the legitimate banking needs of the community;
* The overall performance of the institution and its risk profile.

Ratings

5 A rating of 5 indicates strong performance by management and the board of directors and strong risk management practices relative to the institution's size, complexity, and risk profile. All significant risks are consistently and effectively identified, measured, monitored, and controlled. Management and the board have demonstrated the ability to promptly and successfully address existing and potential problems and risks.

4 A rating of 4 indicates satisfactory management and board performance and risk management practices relative to the institution's size, complexity, and risk profile. Minor weaknesses may exist, but are not material to the safety and soundness of the institution and are being addressed. In general, significant risks and problems are effectively identified, measured, monitored, and controlled.

3 A rating of 3 indicates management and board performance that need improvement or risk management practices that are less than satisfactory given the nature of the institution's activities. The capabilities of management or the board of directors may be insufficient for the type, size, or condition of the institution. Problems and significant risks may be inadequately identified, measured, monitored, or controlled.

2 A rating of 2 indicates delicate management and board performance or risk management practices that are inadequate considering the nature of the institution's activities. The level of problems and risk exposure is excessive. Problems and significant risks are inadequately identified, measured, monitored, or controlled and require immediate action by the board and management to preserve the soundness of the institution. Replacing or strengthening management or the board may be necessary.

1 A rating of 1 indicates critically deficient management and board performance or risk management practices. Management and the board of directors have not demonstrated the ability to correct problems and implement appropriate risk management practices. Problems and significant risks are inadequately identified, measured, monitored, or controlled and now threaten the continued viability of the institution. Replacing or strengthening management or the board of directors is necessary.

EARNINGS

This rating reflects not only the quantity and trend of earnings, but also factors that may affect the sustainability or quality of earnings. The quantity as well as the quality of earnings can be affected by excessive or inadequately managed credit risk that may result in loan losses and require additions to the allowance for loan losses, or by high levels of market risk that may unduly expose an institution's earnings to volatility in interest rates. The quality of earnings may also be diminished by undue reliance on extraordinary gains, nonrecurring events, or favorable tax effects. Future earnings may be adversely affected by an inability to forecast or control funding and operating expenses, improperly executed or ill-advised business strategies or poorly managed or uncontrolled exposure to other risks.

The rating of an institution's earnings is based upon, but not limited to, an assessment of the following evaluation factors:

* The level of earnings, including trends and stability;
* The ability to provide for adequate capital through retained earnings;
* The quality and source of earnings;
* The level of expenses in relation to operations;
* The adequacy of the budgeting systems, forecasting processes, and management information systems in general;
* The adequacy of provisions to maintain the allowance for loan losses andother valuation reserves;
* The earnings exposure to market risk factors such as interest rate, foreign exchange, and price risks.

Ratings

5 A rating of 5 indicates earnings that are strong. Earnings are more than sufficient to support operations and maintain adequate capital and allowance levels after consideration is given to asset quality, growth, and other factors affecting the quality, quantity, and trend of earnings.

4 A rating of 4 indicates earnings that are satisfactory. Earnings are sufficient to support operations and maintain adequate capital and allowance levels after consideration is given to asset quality, growth, and other factors affecting the quality, quantity, and trend of earnings. Earnings that are relatively static, or even experiencing a slight decline, may receive a 4 rating provided the institution's level of earnings is adequate in view of the assessment factors aforementioned.

3 A rating of 3 indicates earnings that need to be improved. Earnings may not fully support operations and provide for the accretion of capital and allowance levels in relation to the institution's overall condition, growth, and other factors affecting the quality, quantity, and trend of earnings.

2 A rating of 2 indicates earnings that are deficient. Earnings are insufficient to support operations and maintain appropriate capital and allowance levels. Institutions so rated may be characterized by erratic fluctuations in net income or net interest margin, the development of significant negative trends, nominal or unsustainable earnings, intermittent losses, or a substantive drop in earnings from the previous years.

1 A rating of 1 indicates earnings that are critically deficient. A financial institution with earnings rated 1 is experiencing losses that represent a distinct threat to its viability through the erosion of capital.

LIQUIDITY

In evaluating the adequacy of a financial institution's liquidity position, consideration should be given to the current level and prospective sources of liquidity compared to funding needs, as well as to the adequacy of funds management practices relative to the institution's size, complexity, and risk profile. In general, funds management practices should ensure that an institution is able to maintain a level of liquidity sufficient to meet its financial obligations in a timely manner and to fulfill the legitimate banking needs of its community. Practices should reflect the ability of the institution to manage unplanned changes in funding sources, as well as react to changes in market conditions that affect the ability to quickly liquidate assets with minimal loss. In addition, funds management practices should ensure that liquidity is not maintained at a high cost, or through undue reliance on funding sources that may not be available in times of financial stress or adverse changes in market conditions.

Liquidity is rated based upon, but not limited to, an assessment of the following evaluation factors:

* The adequacy of liquidity sources compared to present and future needs and the ability of the institution to meet liquidity needs without adversely affecting its operations or condition;
* The availability of assets readily convertible to cash without undue loss;
* Access to money markets and other sources of funding;
* The level of diversification of funding sources, both on- and off-balance sheet;
* The degree of reliance on short-term, volatile sources of funds, including borrowings, to fund longer term assets;
* The ability to securitize and sell certain pools of assets;
* The capability of management to properly identify, measure, monitor and control the institution's liquidity position, including the effectiveness of funds management strategies, liquidity policies, management information systems, and contingency funding plans.

Ratings

5 A rating of 5 indicates strong liquidity levels and well-developed funds management practices. The institution has reliable access to sufficient sources of funds on favorable terms to meet present and anticipated liquidity needs.

4 A rating of 4 indicates satisfactory liquidity levels and funds management practices. The institution has access to sufficient sources of funds on acceptable terms to meet present and anticipated liquidity needs. Modest weaknesses may be evident in funds management practices.

3 A rating of 3 indicates liquidity levels or funds management practices in need of improvement. Institutions rated 3 may lack ready access to funds on reasonable terms or may evidence significant weaknesses in funds management practices.

2 A rating of 2 indicates deficient liquidity levels or inadequate funds management practices. Institutions rated 2 may not have or be able to obtain a sufficient volume of funds on reasonable terms to meet liquidity needs.

1 A rating of 1 indicates liquidity levels or funds management practices so critically deficient that the continued viability of the institution is threatened. Institutions rated 1 require immediate external financial assistance to meet maturing obligations or other liquidity needs.

SENSITIVITY TO MARKET RISK

The sensitivity to market risk component reflects the degree to which changes in interest rates, foreign exchange rates, commodity prices, or equity prices can adversely affect a financial institution's earnings or economic capital. When evaluating this component, consideration should be given to: management's ability to identify, measure, monitor, and control market risk; the institution's size; the nature and complexity of its activities; and the adequacy of its capital and earnings in relation to its level of market risk exposure.

For many institutions, the primary source of market risk arises from nontrading positions and their sensitivity to changes in interest rates. In some larger institutions, foreign operations can be a significant source of market risk. For some institutions, trading activities are a major source of market risk.

Market risk is rated based upon, but not limited to, an assessment of the following evaluation factors:

* The sensitivity of the financial institution's earnings or the economic value of its capital to adverse changes in interest rates, foreign exchange rates, commodity prices, or equity prices;
* The ability of management to identify, measure, monitor, and control exposure to market risk given the institution's size, complexity,. and risk profile;
* The nature and complexity of interest rate risk exposure arising from nontrading positions;
* Where appropriate, the nature and complexity of market risk exposure arising from trading and foreign operations.

Ratings

5 A rating of 5 indicates that market risk sensitivity is well controlled and that there is minimal potential that the earnings performance or capital position will be adversely affected. Risk management practices are strong for the size, sophistication, and market risk accepted by the institution. The level of earnings and capital provide substantial support for the degree of market risk taken by the institution.

4 A rating of 4 indicates that market risk sensitivity is adequately controlled and that there is only moderate potential that the earnings performance or capital position will be adversely affected. Risk management practices are satisfactory for the size, sophistication, and market risk accepted by the institution. The level of earnings and capital provide adequate support for the degree of market risk taken by the institution.

3 A rating of 3 indicates that control of market risk sensitivity needs improvement or that there is significant potential that the earnings performance or capital position will be adversely affected. Risk management practices need to be improved given the size, sophistication, and level of market risk accepted by the institution. The level of earnings and capital may not adequately support the degree or market risk taken by the institution.

2 A rating of 2 indicates that control of market risk sensitivity is unacceptable or that there is high potential that the earnings performance or capital position will be adversely affected. Risk management practices are deficient for the size, sophistication, and level of market risk accepted by the institution. The level of earnings and capital provide inadequate support for the degree of market risk taken by the institution.

1 A rating of 1 indicates that control of market risk sensitivity is unacceptable or that the level of market risk taken by the institution is an imminent threat to its viability. Risk management practices are wholly inadequate for the size, sophistication, and level of market risk accepted by the institution.

INSTRUCTIONAL GUIDELINES FOR THE CAMELS RATING SYSTEM:

These guidelines are intended to assist the examining Bank Officer in rating the financial institution. It must be emphasized, however, that while the quantitative aspect involves the computation of ratios, percentages and trends, the qualitative assessment depends largely on the Bank Officer's understanding of the activities of the institution and his skills in analyzing and interpreting the various factors considered in assigning a rating.

The following points must be remembered:

1. No two institutions are alike. Each differs in size and sophistication, complexity of activities, and risk profile, all of which must be considered in analyzing responses to the questions, ratios and trends. The component factors may, therefore, have different weights when used in rating institutions. Thus, It is, important that the Bank Officer possess a clear picture of the institution in these respects and exercise sound judgment in assigning weights to the components.

2. Rating components are interrelated. Some evaluation factors are considered in several components.

3. Analysis of ratios should focus on the factors which determine the ratios, rather than on the ratios themselves.

4. Other factors affecting significantly the overall condition of the institution may be incorporated in the evaluation. These include labor problems, local economic conditions and peace and order situation, and the like.

5. The procedures prescribed in these guidelines are not restrictive. The Bank Officer is given flexibility in utilizing other procedures in his evaluation and assessment.

6. Because of certain peculiarities in the different financial institutions and depending on the circumstances prevailing, some questions in the Questionnaires, as well as ratios for analysis, may not be applicable to the institution being rated. The Bank Officer is free to rephrase the questions or redefine the ratios to enhance his assessment.

7. Depending on the size of the institution, amounts may be shown in thousands, millions or billions with three (3) decimal places. The format should be consistent throughout the presentation in the Questionnaires and in the Ratio Analyses. Percentages should have one (1) decimal place only.

8. Unless otherwise indicated, the reference date for the required data is the current examination date and the period under review is reckoned from the immediately preceding examination date.

9. Component scores consist of the responses to the questionnaire (50%) and ratio analysis (50%), except in the case of Management the score of which is based solely on the questionnaire (100%).

Capital Adequacy (Annex A)

1. Determine compliance with regulatory capital (under Circular No. 156) and statutory capital (under Section 22 of the General Banking Act).

2. Determine level and composition of capital. Common voting stock should comprise a major component of capital.

3. Analyze capital in relation to volume and trend of classified/nonperforming assets. Weak and/or deteriorating asset quality increases the institution's need for capital. Consider also the adequacy of valuation reserves.

4. Analyze trend of capital over a three-year period. Assess capital growth with respect to growth from the various sources of capital such as retained earnings, new capital stock issue, capital injection by parent company, etc. Compare to growth in total assets, other balance sheet categories and off-balance-sheet items.

   Balance sheet composition refers to changes in the make-up of the institution's assets and/or liabilities. An institution's capital growth may keep pace with growth in total assets; however, a change in asset composition, by decreasing relatively low-risk assets (e.g. government securities) and increasing relatively high-risk assets (e.g. unsecured loans), can increase the risk exposure of the institution and thereby necessitate higher capital ratios. Likewise, a substantial shift in the composition of an institution's liabilities from stable core deposits to volatile short-term funding vehicles increases the institution's risk and necessitates higher capital ratios.

   Exposure to potential risk via growth in off-balance-sheet activities such as loan or foreign exchange commitments or standly letters of credit, or an excessively mismatched asset/liability structure, also increases the need for capital.

5. Consider growth experience and plans. Institutions with aggressive growth plans will need to ensure that adequate capital is available to support planned growth.

Asset Quality (Annex B)

1. The analysis of asset quality should be forward-looking rather than backward-looking. The Bank Officer should try to project the direction asset quality is moving.

2. Determine level, distribution, severity, and trend of non-performing/classified assets. (*Level* refers to total volume and amount in relation to capital. *Severity* refers to the relative distribution of credits subject to classification among the especially mentioned, substandard, doubtful, or loss classifications and the effect on the institution's financial condition. *Trend* refers to whether or not the overall asset quality has been improving or deteriorating over time or since the previous examination. *Distribution* refers to whether or not problem credits are concentrated in any particular type of loans, industry, geographic area, etc.)

3. Determine the adequacy of the valuation reserves set up by the institution. Compare the booked reserves with the reserves recommended in the on-site examination and check compliance with the general loan-loss provision required under Circular 164.

4. Assess the appropriateness/effectiveness of the methodology that management uses

to assess the adequacy of the loan loss reserves. Obtain a description, both written policies and practices. of the methodology.

5. Determine the quality and diversification of loan and investment portfolios, and total asset composition.

6. Assess the adequacy of the institution's policies, procedures, and practices regarding its lending and investment activities. Evaluate the effectiveness of internal loan review.

7. Assess the adequacy of credit risk management taking into consideration the strategy, organization and staffing, policies, procedures and limits, risk monitoring and information system, and internal controls.

8. Assess credit-related off-balance sheet items/activities. Determine the risks inherent in the activity and the adequacy of management, monitoring and control. Consider volume in relation to total assets, capital or other appropriate balance sheet categories.

Management (Annex C)

1. Determine the adequacy of supervision by the board of directors, including its role in establishing policies, and its responsiveness to recommendations from auditors and supervisory authorities.

2. Assess the adequacy of the institution's policies by reviewing the mechanism for formulating, approving, reviewing and updating policies; assess their appropriateness to particular operating functions; determine if the policies are in writing and properly communicated to all appropriate personnel; and determine if all policies are followed.

3. Determine the extent of management adherence to operating policies and procedures as established by the board of directors.

4. Determine the adequacy of the risk management system through the four (4) basic elements:
   a. active board and senior management oversight;
   b. adequate polices, procedures, and limits,
   c. adequate risk measurement, monitoring and management information systems, and
   d. comprehensive internal controls.

5. Determine the adequacy of the overall internal accounting control systems established by the institution and the audit function employed.

6. Establish the hierarchy of the institution by determining the functional responsibility levels of various officers and whether lines of authority are drawn in accordance with the organization chart.

7. Review plans (marketing, financial) of the institution.

Earnings (Annex D)

1. Assess the quality of earnings and fully understand the components of the institution's earnings stream. The strength of the core earnings (exclusive of nonrecurring or extraordinary items) and consistency over time are of primary concern. Earnings are a major indicator of how well management is performing in a number of areas, such as pricing, generating new sources of revenue, and control of overhead and loan losses.

2. Analyze the strength and trend of the net interest margin from both the interest income and interest expense aspect, being aware of the relationship between earnings and liquidity and the implications of the institution's funds management decisions, particularly as they relate to rate sensitivity.

3. Analyze components of noninterest income to identify any nonrecurring gains and fees.

4. Review components of noninterest expense for accuracy and propriety.

5. Review securities gains (or losses) in the context of the institution's long-term investment goals.

6. Determine the effectiveness of budgeting, forecasting, and the management information system.

Liquidity (Annex E)

1. Determine the composition and stability of deposits. Assess any deposit concentration and determine what method the institution has developed to monitor customer concentration. Analyze significant changes in the deposit and/or liability mix.

2. Review borrowings since the previous examination, giving consideration to the frequency, duration and volume of borrowings and management's reasons for borrowing.

3. Determine the adequacy of liquidity and funding policies and practices, including provisions for alternative sources of funds.

4. Determine the degree and trend of reliance on short-term, volatile sources of funds.

5. Evaluate the liquidity provided by securities and other assets. Identify assets which are readily convertible to cash without undue loss.

6. Assess (a) the overall interest-sensitivity of assets and liabilities to obtain insight into the level of interest rate risk exposure of the institution; (b) vulnerability of earnings to changes in interest rates; and (c) adequacy of policies and practices for monitoring and controlling overall balance sheet exposure to changes in interest rates. The GAP technique may be utilized in the sensitivity analysis. .

Sensitivity to Market Risk (Annex F)

1. Analyze the institution's exposure to market risk arising from
   a. the overall structure of its balance sheet, with particular emphasis on
      * the investment portfolio
      * the nature of overall funding
      * the asset-liability mismatch of the balance sheet
   b. the use of off-balance sheet instruments
   c. trading activities

2. Consider the interest rate risk in the overall balance sheet as measured by gap, simulation, duration and/or other methods.

3. Determine the composition of the investment portfolio, such as the amount of traditional securities versus that of more market-sensitive securities.

4. Assess the degree of the portfolio's sensitivity to movements in interest rates.

5. Evaluate the types of trading conducted, if any, along with the size, maturity, and complexity of positions taken.

6. Assess the quality of market risk management through the four (4) basic elements:

   a. active board and senior management oversight;
   b. adequate policies, procedures, and limits;
   c. adequate risk measurement, monitoring, and mangement information systems; and
   d. comprehensive internal controls.

SUPERVISION and EXAMINATION SECTOR
Department of Rural Banks

CAMELS RATING SHEET

____
Name of Institution

Examination as of____________________

Components	Score	Weight	Equivalent Rating
Capital Adequacy	____	____	____
Asset Quality	____	____	____
Management	____	____	____
Earnings	____	____	____
Liquidity	____	____	____
Sensitivity to Market Risk	____	____	____

Composite Rating ____________

Conclusion:
____
____
____
____

Evaluated by:

Evaluated by:	____________	____________
	Bank Officer	Date
Concurred In:	____________	____________
	Head of Division	Deputy Director
Approved:	____________	
	Director	

Annex A

CAPITAL ADEQUACY

Yes No

1. Has the institution developed methods and plans for maintaining adequate capital and correcting any deficiencies on capital requirements? ____ ____

2. Do these plans
   a. ensure that the institution's capital adequacy is monitored periodically in relation to present needs and risk characteristics and future asset growth plans and growth in off-balance-sheet activity? ____ ____
   b. provide for adequate capital over time? ____ ____

3. Has the institution complied with the
   a. regulatory capital/capital build-up program? ____ ____
   b. statutory capital (Sec. 22 of RA 357)? ____ ____

4. Is common voting stock a major component of capital? ____ ____

(voting stock)	₱________	/(capital)	₱________	=	____%	

5. Is capital on an upward trend? ____ ____

Examination dates	19___		19___		Current 19__	
	Amount	%	Amount	%	Amount	%
Total capital accounts	_______	__	_______	__	_______	__
Capital Stock	_______	__	_______	__	_______	__
Surplus/Surplus Reserves	_______	__	_______	__	_______	__
Undivided Profits	_______	__	_______	__	_______	__

6. Are classified/nonperforming assets on a downward trend? ____ ____

Examination dates	19___		19___		Current 19___	
	Amount	%	Amount	%	Amount	%
Total classified accounts	________	__	______	__	______	__
Total nonperforming assets	________	__	______	__	______	__

7. Is the growth in capital (item 5 above) at pace with the growth in

a. classified accounts ____ ____
b. nonperforming assets? ____ ____
c. total assets? ____ ____
d. off-balance-sheet transactions? ____ ____

Yes No

Examination dates	19___		19___		Current 19__	
	Amount	%	Amount	%	Amount	%
Total assets	______	__	_____	__	_____	__
Total off-balance-sheet Transactions	______	__	_____	__	_____	__

8. Is the ratio of classified assets to adjusted networth and loan-loss reserves less than 50%? ____ ____
(See Note e.)

9. Is planned growth of the institution reasonable based on growth experience? ____ ____

	% Average Growth	% Projected Growth
Assets	___	___
Capital	___	___

9. Are valuation reserves adequate? ____ ____

Booked valuation reserves	₱_______
Recommended reserves	₱_______
Excess (Deficiency)	₱_______

11. Is the general loan-loss provision requirement under Circular 164 being met? ____ ____

12. Does the balance sheet show
a. more low-risk assets than high-risk assets? ____ ____

Low-risk Assets		High-risk Assets	
_______________ _	₱_____	_______________ _	₱_____
_______________ _	₱_____	_______________ _	₱_____
Total	₱_____	Total	₱_____

b. more stable core deposits than volatile short-term funding sources? ____ ____

Core Deposits		Volatile Short-term Fund Sources	
_______________	₱_____	________________	₱_____

_ ______________	₱_____	________________	₱_____
_ Total	₱_____	Total	₱_____

13. Is the asset/liability structure properly matched as to
    a. rate? ____ ____
    b. maturity? ____ ____

    (Refer to Annex E of the Report of Examination.)

    If no, is the mismatch not considered excessive? ____ ____

14. Is the capital-to-risk assets ratio under the Basle Capital Accord met? ____ ____

Capital Adequacy (Annex "A")

Raw Score _____

(State reasons below.)

Equivalent Score (50% of raw score) _____

Add: Score of Ratio Analysis _____

Total Score _____

Weight of Component _____**%**

(State reasons below.)

Equivalent Component Rating ______

Notes:

a. Low-risk assets - assets whose potential for loss in value or earnings is minimal due to less vulnerability to market changes; unclassified loans (e.g.cash government securities; loans secured by government securities, etc.)

b. High-risk assets - rate sensitive assets with strong vulnerability to market changes and thus, greater potential for loss in value or earnings; classified/ non-performing assets; (repriceable loans, commercial papers, past due loans, unsecured loans, etc.)

c. Core deposits - stable deposits that are likely to remain with the bank regardless of market conditions (small savings deposits, long-term time deposits; demand deposits.)

d. Volatile funding sources - funding vehicles that react to market changes (interbank borrowings, commercial papers, etc).

e. A "no" answer requires further analysis to determine the impact on the institution's solvency and soundness

CAPITAL ADEQUACY - RATIO ANALYSIS

		STANDARD RATIOS				
		5	**4**	**3**	**2**	**1**
a. Adjusted networth to risk assets (Refer to CARE report.)	____					
b. Networth-to-risk assets ratio to industry ratio	____					
c. Classified loans to adjusted networth	____					
d. Classified assets to adjusted networth and reserves	____					
e. Loans to single borrower/family group to adjusted networth	____					
f. Recommended valuation reserves to adjusted networth	____					
g. Booked valuation reserves (loans) to total loans	____					
h. Aggregate deposits and borrowings to adjusted networth	____					
i. Borrowings to adjusted networth	____					

Note:
a. A networth-to-risk-assets ratio below the statutory minimum requirement is equivalent to a score of "1" in this component.
b. Computation of Score:
50% of Average of individual ratings (Sum of ratings divided by number of items)

Score: Sum of ratings - _____ / 9 = _____(Average)

50% of Average = __________

Annex B

ASSET QUALITY

	Yes	No
1. Are the following loans and other risk assets on a downward trend -		
a. classified accounts?	____	____
b. nonperforming accounts? (Refer to item 6 of Annex A.)	____	____
2. Are growths in classified/nonperforming accounts coupled with parallel growths in capital? (Refer to item 7 of Annex A.)	____	____
3. Is there no concentration of classified/nonperforming loan accounts in a particular		
a. type of loan?	____	____
b. industry?	____	____
c. geographic area?	____	____
4. Are there more accounts (in terms of amount) classified especially mentioned/substandard than doubtful/loss?	____	____

	Amount	%
Especially mentioned	______	__
Substandard	______	__
Doubtful	______	__
Loss	______	__
Total Classified Accounts	______	__

	Yes	No
5. Are there more low-risk assets than high-risk assets? (Refer to item 11.a of Annex A.)	____	____
6. Is the past due loan ratio improving?	____	____

			Current
Examination dates	19__	19__	19__
Ratio of past due loans to total loan portfolio	____	____	____

	Yes	No
7. Are the past due loan ratios lower than the industry averages?	____	____

	Preceding Quarter-Ends			Exam.
	Q3	Q2	Q1	Date
Industry ratio	__	__	__	__
Past due loan ratio	__	__	__	__

	Yes	No
8. Are recommended valuation reserves fully booked? (Refer to item 10 of Annex A.)	____	____
9. Is the general loan-loss provision being met? (Refer to item 11 of Annex A.)	____	____
10. Is there a methodology for assessing the adequacy of the loan-loss reserves?	____	____
If yes, is such methodology appropriate and effective?	____	____
11. Are loan and investment portfolios diversified?	____	____
12. Are the lending and investment policies, procedures and practices adequate?	____	____
13. Is there an internal loan review system in place?	____	____
If yes, is the system effective?	____	____
14. Is there a credit risk management system in place?	____	____
If yes, is the system adequate?	____	____
15. Are risks inherent in off-balance sheet activities adequately monitored and controlled?	____	____

Asset Quality (Annex "B")

Raw Score _____
(State reasons below)

Equivalent Score (50% of raw score) _____

Add: Score of Ratio Analysis _____

Total Score _____

Weight of Component _____**%**
(State reasons below.)

Equivalent Component Rating _____

____

Notes:

a. Concentration - if the total exposure to a particular segment constitutes a sizeable portion of the base.

b. Diversification - variety in the composition of the portfolio with no undue concentration.

ASSET QUALITY - RATIO ANALYSIS

STANDARD RATIOS

5 **4** **3** **2** **1**

a. Past due loans to total loans[1] ____

b. Past due loan ratio to industry ratio ____

c. Unsecured loans to total loans ____

d. Classified loans to total loans ____

e. Classified loans and other risk assets to total loans and other risk assets ____

f. DOSRI loans to
   1) total loans ____
   2) capital ____

g. Unsecured DOSRI loans to
   1) total unsecured loans ____
   2) total DOSRI loans ____

h. Past due DOSRI loans to
   1) total past due loans ____
   2) total DOSRI loans ____

i. Classified DOSRI loans to
   1) total classified loans ____
   2) total DOSRI loans ____

STANDARD RATIOS

5 **4** **3** **2** **1**

[1] Refers to gross loan portfolio

j. Loans to single borrower/family group (largest) to
   1) total loans ____
   2) capital ____

j. Loans to business group (largest) to
   1) total loans ____
   2) capital ____

j. Loans to single industry (largest) to total loans
   1) Manufacturing ____
   2) Real Estate ____
   3) Others ____

m. Recommended valuation reserves (loans) to total loans ____

n. Total recommended valuation reserves to total loans and other risk assets ____

o. Recommended valuation reserves (loans) to classified loans ____

p. Recommended valuation reserves (loans) to nonperforming loans ____

q. Booked valuation reserves (loans) tot nonperforming loans ____

r. Booked valuation reserves (loans) to total loans ____

s. Booked valuation reserves (loans-specific) to recommended valuation reserves (loans-specific) ____

	STANDARD RATIOS				
	5	**4**	**3**	**2**	**1**
t. Booked valuation reserves (loans - specific and general) to total recommended valuation reserves (loans) and general loan-loss provision	____				
u. Total booked valuation reserves (loans and other risk assets) to total recommended valuation reserves (loans and other risk assets)	____				
v. Risk assets to total assets	____				
w. Non-earning assets to total assets	____				
x. Investment portfolio to total assets	____				

Score: Sum of ratings - _______ / 32 = _______ (Average)

50% of Average = ________

Annex C

MANAGEMENT

Yes No

Board of Directors

1. Do the directors perform the duties and responsibilities prescribed under Circular 130? (Refer to Questionnaire.) ____ ____

   If no, enumerate the areas where the directors fail to perform.
   ____
   ____

2. Does the Board hold regular meetings as provided in the by-laws? ____ ____
   Schedule of regular meetings per by-laws - ____

3. Is the number of directors constituting the present Board in accordance with the Articles of Incorporation? ____ ____

	Prescribed	Actual
Number of directors	______	______

4. Are changes in the composition of the Board duly reported to and approved by BSP? ____ ____

5. Is the Board actively involved in management? ____ ____

6. Does the Board take immediate action on auditors'/BSP's findings? ____ ____

Internal Administration

1. Does the institution have a full-time personnel manager? ____ ____

2. Does the institution utilize written personnel manuals? ____ ____

3. Does the institution utilize a system of written job descriptions, including descriptions for supervisory personnel? ____ ____

4. Does the institution perform background investigation of new employees? ____ ____

5. Does the institution have a formal training program? ____ ____

6. Are staff meetings held on a regular basis? ____ ____
   Frequency of meetings - ________________________________

7. Is the system of communication within the institution effective? ____ ____

Yes No

8. Is there a policy on succession of management and replacement of key personnel? ____ ____

9. Does the institution forecast manpower requirements? ____ ____

10. Are qualified people advanced from within? ____ ____

11. Is management training given to those persons likely to assume higher level positions? ____ ____

12. Are salaries competitive? ____ ____

13. Are employee benefit programs competitive? ____ ____

14. Are there appropriate officer hiring policies to meet current and future needs? ____ ____

15. Do directors, officers and employees appear to work in harmony? ____ ____

Management Supervision

1. Does management exhibit
   a. technical competence? ____ ____
   b. leadership? ____ ____
   c. administrative ability? ____ ____

2. Does the hierarchy of the organization show functional responsibility levels of the various officers and lines of authority consistent with the organization chart? ____ ____
   (Attach organization chart.)

3. Does the management structure
   a. establish accountability? ____ ____
   b. allow for effective control and communication? ____ ____

4. Are there written policies and procedures covering all areas of management? ____ ____

5. Are these policies and procedures consistent with the objectives and direction set by the Board? ____ ____

6. Are these policies and procedures properly implemented? ____ ____

7. Are there no inconsistencies in these policies and procedures? ____ ____

8. Does management address problems promptly and take corrective action in problem areas? ____ ____

Yes No

9. Does top management at least annually review lower management? ____ ____

Frequency of review - ________________________

10. Does top management receive:
    a. a brief statement of condition daily? ____ ____
    b. a daily liquidity report? ____ ____
    c. a listing of assets subject to quality limitations at least monthly? ____ ____
    d. an earnings statement on a comparative basis at least monthly? ____ ____

Management Performance

A. Compliance with Laws and Regulations

1. Has the institution appointed a Compliance Officer (approved by BSP)? ____ ____

2. Is there a Compliance Program in place? ____ ____

3. Were there no violations of laws and regulations committed for which the institution/any director or officer was sanctioned? ____ ____

   If no, describe instances of violation and sanctions imposed.

   ____
   ____

4. Was there no supervisory action imposed on the institution? ____ ____

   If no, describe the supervisory action.

   ____
   ____

5. Has management satisfactorily explained/corrected all major violations and exceptions noted during previous on-site examinations? ____ ____

   If not, enumerate the findings still uncorrected.

   ____
   ____

6. Has management implemented/complied with BSP directives issued in connection with the off-site supervision of the institution? ____ ____

7. Are transactions involving DOSRI in compliance with applicable laws, rules and regulations? ____ ____

8. Are interlocking directorships/officerships duly approved by BSP? ____ ____

9. Are there no violations noted in the current examination for which sanctions may be recommended? ____ ____

Yes No

B. Overall Condition of the Institution

1. Has the institution been operating profitably during the past three (3) years? ____ ____

Year-	19__	19__	19__
Net income after tax	________	________	________
Return on equity	________	________	________

2. Is net income on an upward trend? ____ ____

3. Is the institution adequately capitalized? ____ ____
   Component rating of Capital Adequacy - ______

4. Is the liquidity position satisfactory? ____ ____
   Component rating of Liquidity - ______

5. Are nonperforming assets within reasonable levels? ____ ____
   (Refer to item 1.b of Annex B.)

6. Is the overall risk exposure of the institution low/moderate? ____ ____
   (Refer to the Institution Risk Profile.)

C. Plans and Projections

1. Does the institution have
   a. financial plans? ____ ____
   b. marketing plans? ____ ____

2. Does the institution prepare or utilize a long-range forecast of economic conditions in drawing its plans? ____ ____

3. Does the institution employ a marketing manager and/or outside marketing consultant? ____ ____

4. Does management review performance vis-a-vis projections? ____ ____
   Frequency of review - ___________

Risk Management System

A. Board and senior management oversight

1. Does the Board have a clear understanding and working knowledge of the risks to which the institution is exposed? ____ ____

2. Has the Board approved policies to limit those risks? ____ ____

Yes No

3. Does the Board periodically review risk exposure limits to conform with changes in strategies and in market conditions? ____ ____
   Frequency of review - ___________

4. Does management ensure that its lines of business are managed and staffed by personnel with knowledge, experience, and expertise consistent with the nature and scope of the institution's activities? ____ ____

5. Does management ensure that the depth of staff resources is sufficient to operate and manage soundly the institution's activities and that its employees have the integrity, ethical values, and competence that are consistent with a prudent management philosophy and operating style? ____ ____

6. Does management provide adequate supervision of the day-to-day activities of officers and eployees? ____ ____

7. Does management implement the procedures and controls necessary to comply with adopted policies? ____ ____

8 . Is management able to respond to risks that may arise from changes in the competitive environment or from innovations in markets in which the institution is active? ____ ____

9. Is there an independent Risk Management Unit tasked with the responsibility of identifying, measuring, monitoring, and controlling risks? ____ ____

B. Policies, Procedures and Limits

1. Do the policies, procedures, and limits provide for adequate identification, measurement, monitoring, and control of the risks posed by the lending, investing, trading, trust, fiduciary and other significant activities of the institution? ____ ____

2. Are the policies, procedures, and limits consistent with management's experience level, the institution's stated goals and objectives, and the overall financial strength of the organization? ____ ____

3. Do the policies clearly delineate accountability and lines of authority across the institution's activities? ____ ____

4. Do the policies provide for the review of activities new to the institution to ensure that the infrastructures necessary to identify, monitor, and control risks associated with an activity are in place before the activity is initiated? ____ ____

Yes No

C. Risk Monitoring and Management Information Systems

1. Do the risk monitoring practices and reports address all the material risks? ____ ____

2. Are the key assumptions, data sources, and procedures used in measuring and monitoring risk appropriate and adequately documented and tested for reliability on an on-going basis? ____ ____

3. Are reports and other forms of communication
   a. consistent with the institution's activities? ____ ____
   b. structured to monitor exposures and compliance with established limits, goals, or objectives? ____ ____

4. Do reports compare actual versus expected performance? ____ ____

5. Are reports accurate and timely? ____ ____

6. Do reports to management/directors contain sufficient information for decision-makers to identify any adverse trends and to evaluate adequately the level of risk faced by the institution? ____ ____

D. Internal Controls

1. Is the system of internal controls appropriate to the type and level of risks posed by the nature and scope of the organization's activities? ____ ____

2. Does the organizational structure establish clear lines of authority and responsibility for monitoring adherence to policies, procedures, and limits? ____ ____

3. Do reporting lines provide sufficient independence of the control areas from the business lines and adequate separation of duties throughout the organization? ____ ____

4. Do official organizational structures reflect actual operating practices? ____ ____

5. Are financial, operational, and regulatory reports
   a. reliable? ____ ____
   b. accurate? ____ ____
   c. timely ____ ____

6. Are exceptions noted and promptly investigated? ____ ____

7. Are there adequate procedures for ensuring compliance with applicable laws and regulations? ____ ____

Yes No

8. Do internal audits or other control review practices provide for independence and objectivity? ____ ____

9. Are internal controls and information systems adequately tested and reviewed? ____ ____

10. Are the coverage, procedures, findings, and responses to audits and review tests adequately documented? ____ ____

11. Are identified material weaknesses given appropriate and timely high level attention? ____ ____

12. Are management's actions to address material weaknesses objectively verified and reviewed? ____ ____

13. Does the institution's audit committee or board of directors review the effectiveness of internal audits and other control review activities on a regular basis? ____ ____

    Frequency of review - ________________________

.

Derivatives Activities

1. Are the Risk Management Guidelines for Derivatives prescribed under Circular 102 complied with? ____ ____

   If no, describe the areas of non-compliance

   ____
   ____.

Management (Annex "C")

Score ______

(State reasons below)

Weight of Component ______
(State reasons below.)

Equivalent Component Rating ______

Notes:
Assets subject to quality limitations are those assets which require closer management supervision due to deteriorating quality and may result in probable loss in value/earnings in the immediate future; including accounts for litigation.

Annex D

EARNINGS

	Yes	No
1. Does the earnings stream show consistently strong core earnings?	____	____

Year	19__		19__		19__	
Type of Operating Income	Amt	%	Amt	%	Amt	%
____________________	___	__	___	__	___	__
____________________	___	__	___	__	___	__

Strong core earnings refer to earnings that constitute the most essential and substantial income generated consistently over a period of time.
% - percentage of total income)

	Yes	No
2. Is operating income on an upward trend?	____	____

Year	19__		19__		19__	
	Amt	%	Amt	%	Amt	%
Total operating income	___	__	___	__	___	__

	Yes	No
3. Is the net interest margin on an upward trend?	____	____

Year-	19__		19__		19__	
	Amt	%	Amt	%	Amt	%
Interest income	___	__	___	__	___	__
Interest expense	___	__	___	__	___	__
Interest margin	___	__	___	__	___	__

	Yes	No
4. Are the provisions for loan losses and other valuation reserves adequate? (Refer to items 9 and 10 of Annex A.)	____	____
5. Is there no mismatch in the asset/liability rate structure? (Refer to item 12 of Annex A.)	____	____
6. Is the institution's exposure to market risk low/moderate?	____	____
7. Is there no undue reliance on nonrecurring/extraordinary items?	____	____

	Amount	%of Total
Nonreccuring/extraordinary income		
____________________________	______	____
____________________________	______	____
Nonrecurring/extraordinary expenses		
____________________________	______	____
____________________________	______	____

	Yes	No
8 . Are expenses maintained at reasonable levels?	____	____

Year	19__	19__	19__
Total Expense	_____	_____	_____
Percentage of Total Income	_____	_____	_____

9. Are reports that show/analyze the results of operation prepared on a periodic basis? Frequency of report - _________________	____	____
10. Are operating results compared with the budgets/forecasts?	____	____
11. Does management take appropriate action on material variances? (Enumerate material variances, if any.)	____	____

<u>Earnings</u> (Annex "D")

Raw Score ________
(State reasons below)

Equivalent Score (50% of raw score) ________

Add: Score of Ratio Analysis ________

Total Score ________

Weight of Component ________**%**
(State reasons below.)

Equivalent Component Rating ________

EARNINGS - RATIO ANALYSIS

		STANDARD RATIOS				
		5	**4**	**3**	**2**	**1**
a. Net income (after tax) to average assets	____					
b. Net operating income (after tax) to average assets	____					
c. Net income (after tax) to average networth	____					
d. Net interest income to average earning assets	____					
e. Total noninterest expense to average assets	____					
f. Total interest expense to total operating income	____					
g. Interest income to total operating income	____					
h. Compensation/fringe benefits to total operating expenses	____					

Score: Sum of ratings - _______ / 8 = _______(Average)

50% of Average = _________

Note:
a. Average figure is based on four quarter-ends.
b. Net operating income (after tax) is net income before extraordinary items.

Annex E

LIQUIDITY

	Yes	No
1. Is there a board policy that defines the liquidity profile of the institution?	___	___
2. Is this policy supported by guidelines, limits, and procedures for management to follow?	___	___
3. Are there reports or controls provided to monitor compliance with these guidelines, limits, and procedures?	___	___
4. Are there tools used to measure liquidity? (Describe the tools used to measure liquidity.)	___	___
5. Are the liquidity measurement tools		
a. adequate?	___	___
b. timely?	___	___
6. Do they address the		
a. board's policy?	___	___
b. cash flow liquidity?	___	___
c. diversification of funding and concentration guidelines?	___	___
7. Is there a contingency funding plan approved by the board?	___	___
8. Is the contingency funding plan well-developed and effective?	___	___
9. Are there no asset/liability mismatches as to:		
a. rate?	___	___
b. maturity? (Refer to item 12 of Annex A.)	___	___
10. Does the balance sheet show adequate liquefiable assets?	___	___

Type of Asset	Amount
________________________	______
________________________	______
Total	______
% of total assets	______
Ratio to total current liabilities	______

	Yes	No
11. Is there no undue reliance on short-term, volatile sources of funds? (Refer to item 11.b of Annex A.)	___	___

	Yes	No
12. Are borrowing sources diversified?	___	___

Creditor/Type of Borrowing	Amount	% of Total Borrowings
______________________	______	________
______________________	______	________

	Yes	No
13. Are off-balance sheet acitivities considered in the liquidity risk management processes?	___	___
14. Is the interest rate risk exposure low/moderate?	___	___
15. Has the institution met all the reserve/liquidity requirements since the last examination?	___	___

If not, enumerate the instances of net reserve deficiencies.

Period Covered	Net Deficiency	Penalty
___________	___________	__________
___________	___________	__________

Liquidity (Annex "E")

Raw Score _____
(State reasons below)

Equivalent Score (50% of raw score) _____

Add: Score of Ratio Analysis _____

Total Score _____

Weight of Component _____**%**
(State reasons below.)

Equivalent Component Rating _____

LIQUIDITY - RATIO ANALYSIS

		STANDARD RATIOS				
		5	**4**	**3**	**2**	**1**
a. Primary reserves to demand deposits and other demand liabilities	_____					
b. Primary and secondary reserves to deposits and other demand liabilities	_____					
c. Adjusted networth to total assets	_____					
d. Core deposits to total assets	_____					
e. Volatile deposits to total assets	_____					
f. Net loans to total assets	_____					
g. Liquid assets to total assets	_____					
h. Borrowings to adjusted networth	_____					
i. Short-term securities to deposits	_____					
j. Volatile deposits to total deposits	_____					
k. Liquid assets less short-term borrowings to total deposits	_____					
l. Foreign currency assets to foreign currency liabilities	_____					
m. Foreign currency loans to foreign currency deposits and borrowings	_____					
n. Net loans to total deposits and borrowings	_____					

Score: Sum of ratings - ______/ 14 = ______ (Average)
50% of Average = _______

Annex F

SENSITIVITY TO MARKET RISK

Yes No

1. Does the balance sheet structure show a reasonable balance between rate-sensitive assets and liabilities? ____ ____

Rate-sensitive Assets	Amount	Rate-sensitive Liabilities	Amount
_____________________	_______	___________________	________
_____________________	_______	___________________	________
Total	_______	Total	________

2. Is there no negative asset-liability mismatch of the balance sheet on -
   a. peso accounts? ____ ____
   b. foreign currency accounts? ____ ____
   (Refer to Annex E of the Report of Examination.)

   If there is, is the mismatched position short-term? ____ ____

3. Is there no negative gap on off-balance sheet accounts, e.g. forwards? ____ ____

4. Is the investment portfolio largely traditional? ____ ____

Type of Investment	Amount	% of Total
_________________________	______	____
_________________________	______	____
Total	______	____

5. Do the portfolios show diversified holdings of rate-sensitive securities? ____ ____

6. Are earnings from rate-sensitive assets on an upward trend? ____ ____

Year	19__		19__		19__	
Type of Income	Amt	%	Amt	%	Amt	%
___________________	_____	__	______	__	______	__
___________________	_____	__	______	__	______	__

7. Is the institution's foreign exchange position within allowable limits? ____ ____

Total FX Owned	$____________

Total FX Owed		$____________
Net FX Position	$____________	(____% of capital)

	Yes	No
8. Are FCDU liabilities adequately covered by eligible assets?		

Total Eligible Assets	$__________
Total FCDU Liabilities	$__________
Net FCDU Assets/(Liabilities)	$__________

	Yes	No
9. Is exposure to market risk low/moderate? (Refer to item 6 of Annex D.)	____	____
10. Is there a market risk management process in place?	____	____
11. Does the risk management process for market risk cover both balance sheet and off-balance sheet transactions?	____	____
12. Is the market risk management process adequate with respect to -		
a. board and senior management oversight?	____	____
b. policies, procedures, and limits?	____	____
c. risk measurement, monitoring, and management information systems?	____	____
d. internal controls?	____	____

<u>Sensitivity to Market Risk</u> (Annex "F")

Raw Score _____
(State reasons below)

Equivalent Score (50% of raw score)) _____

Add: Score of Ratio Analysis _____

Total Score _____

Weight of Component _____**%**
(State reasons below.)

Equivalent Component Rating _____

Notes:

a. Rate-sensitive assets and liabilities refer to those assets and liabilities which react to changes in market conditions (such as changes in interest rate, foreign exchange rate and equity prices) that may lead to increase/decrease in value/earnings on the asset or costs/expenses on the liability.

SENSITIVITY TO MARKET RISK - RATIO ANALYSIS

			STANDARD RATIOS				
			5	**4**	**3**	**2**	**1**
a. Rate-sensitive assets/rate-sensitive liabilities	_____						
b. Rate-sensitive assets/total assets		_____					
c. Rate-sensitive liabilities to total assets	_____						

Score: Sum of Ratings - _________ / 3 = ________ (Average)

50% of Average = ________