Modeling Default Probabilities of the Chosen Czech Banks in the Time of the Financial Crisis

Petr Gurný

Abstract—One of the most important tasks in the risk management is the correct determination of probability of default (PD) of particular financial subjects. In this paper a possibility of determination of financial institution’s PD according to the credit-scoring models is discussed. The paper is divided into the two parts. The first part is devoted to the estimation of the three different models (based on the linear discriminant analysis, logit regression and probit regression) from the sample of almost three hundred US commercial banks. Afterwards these models are compared and verified on the control sample with the view to choose the best one.

The second part of the paper is aimed at the application of the chosen model on the portfolio of three key Czech banks to estimate their present financial stability. However, it is not less important to be able to estimate the evolution of PD in the future. For this reason, the second task in this paper is to estimate the probability distribution of the future PD for the Czech banks. So, there are sampled randomly the values of particular indicators and estimated the PDs’ distribution, while it’s assumed that the indicators are distributed according to the multidimensional subordinated Lévy model (Variance Gamma model and Normal Inverse Gaussian model, particularly). Although the obtained results show that all banks are relatively healthy, there is still high chance that “a financial crisis” will occur, at least in terms of probability. This is indicated by estimation of the various quantiles in the estimated distributions. Finally, it should be noted that the applicability of the estimated model (with respect to the used data) is limited to the recessionary phase of the financial market.

Keywords—Credit-scoring Models, Multidimensional Subordinated Lévy Model, Probability of Default.

I. INTRODUCTION

The internationalization of financial markets has significantly expanded investment opportunities and risk. No doubt, the probability of default (PD) is one of the key input factors of credit risk modeling and measuring. Estimating the borrower’s risk level by assigning a different PD to each borrower is now widely employed in many banks (especially since 2008, when most of the world has been going through a period of financial and economic turmoil). The false estimation of PD leads to unreasonable rating; incorrect pricing of financial instruments and thereby it was one of the causes of the financial crisis.

There are a lot of models to estimate the probability of default in financial world. Among the most widely used ones are models, generally known as credit-scoring models. These are multivariate models which use the main financial indicators of a company as input, attributing a weight to each of them that reflects its relative importance in forecasting default. This paper is related to a number of other studies focused on the credit-scoring models. Decisive boost to the development and spread of these models came in the 1960s, with studies by [1], [2]. Other important contributions in that field are [3]-[8]. The vast majority of already proposed credit scoring models were derived on a sample of non-financial institutions, mainly due to the fact that defaults of financial institutions occur relatively scarcely and not all the data are publicly available. Nevertheless, there were several more or less sufficient attempts to identify the key factors for healthy financial institutions, originating from financial statements, see e.g. [9] and references therein.

The goal of the paper is the application and verification of possibility usage of the chosen credit-scoring models (linear discriminant analysis, logit regression and probit regression) to modeling default probabilities of the commercial banks during the financial crisis period. Within these methods they are arranged three models for determination of probability of default of financial institutions on the basis of sample of almost 300 American commercial banks and consequently the chosen model is applied on three Czech commercial banks with a view to estimate their probability distribution of PD with one year prediction. Finally, there is calculated risk of the PD on the various level of probability.

To estimate PDs’ prediction it is necessary to simulate particular financial indicators. While till lately the geometric Brownian motion was the most used model for the description of the progress of the particular underlying factor, presently it is tendency to analyze and to simulate the time series of the particular variables by means of Lévy processes as it could be helpful to better predictor of the models ability, see [10] or [11].

The paper is organized as follows. In the theoretical part of the paper we explain shortly the linear discriminant analysis and regression models (logit and probit approach) at first. Next, Lévy processes and copula function will be more detailed presented. Further we will apply the theoretical knowledge on the chosen sample of the US banks, we will determine the model and consequently we will apply the model on the portfolio of three Czech commercial banks to determine their distributions of the PDs.

II. METHODOLOGY AND LITERATURE REVIEW

First, there will be briefly introduced the credit scoring model in this part of the paper, then we will give more detail the Lévy processes (focusing on subordinated Lévy processes)
and copula functions (focusing on Gaussian copula function).

A. Credit Scoring Models

Credit scoring models are statistical models derived by means of econometric methods, such as regression analysis, discriminant analysis, logit and probit models, or even neural networks or panel models – see any econometric textbook or credit risk handbook, such as [12] or [13]. They work on the principle of assigning weights to financial and economic indicators. Weights express the significance of these indicators in the estimation of the borrower's default.

1. Logit and Probit Models

Logit and probit regression analysis are the multivariate techniques which allow for estimating the probability that an event occurs or not, by predicting a binary dependent outcome from a set of independent variables. Thus the goal is to model probability \( P_i \) that default occurs, for the given borrower \( i \), by specifying the model

\[
P_i = f\left(a + \sum_{j=1}^{n} \beta_j x_{ij}\right),
\]

where \( x_j \) are particular financial indicators for \( i \)-th borrower and \( a, \beta_j \) are estimated parameters.

There are a lot of ways of specifying \( P_i \), but in this paper we will focus on the logit and probit transformation, thus logit and probit model.

In logit model we use logistic transformation:

\[
P_i = \frac{1}{1 + \exp(-a - \sum_{j=1}^{n} \beta_j x_{ij})},
\]

In the case of probit model we use the cumulative distribution function of normal distribution:

\[
P_i = \Phi\left(\sum_{j=1}^{n} \beta_j x_{ij}\right),
\]

where \( x_j \) are particular financial indicators and \( \gamma_j \) is the vector of estimated parameters.

Linear discriminant analysis can be used to produce a direct estimate of the probability of default. See [2] or [14] for calculation and more details.

B. Multidimensional Subordinated Lévy Processes

The first focus at Lévy models with jumps goes back to 1930's. The most recent and complete monographs on the theory behind and/or application of Lévy models are [10] and [15]-[17]. In this section, we first describe the marginal distributions of subordinated Lévy models. Then, we will show, how to obtain multidimensional distribution from marginal distributions by means of copula functions.

1. Marginal Distribution

We can define a Lévy process \( \{X(t)\}_{t \geq 0} \) as càdlàg real value stochastic process with \( X(0) = 0 \) which is stochastically continuous and has stationary independent increments. For a given infinitely divisible distribution, we can define the triplet of Lévy characteristics, \( \{\gamma, \sigma^2, \nu(dx)\} \), where the former two define the drift of the process (deterministic part) and its diffusion. The latter is a Lévy measure. If it can be formulated as \( \nu(dx) = u(x)dx \), it is a Lévy density. It is similar to the probability density, with the exception that it need not be integrable and zero at origin.

Let \( X \) be a Brownian motion. If we replace standard time \( t \) in Brownian motion \( X \), \( X(t; \mu, \sigma) = \mu t + \sigma Z(t) \), by its suitable function \( l(t) \) as follows:

\[
X(l(t); \theta, \nu) = \theta l(t) + \nu Z(l(t)) = \theta l(t) + \nu \sqrt{\theta l(t)},
\]

we get a subordinated Lévy model. Due to the simplicity one of the most suitable candidates for the function \( l(t) \) seem to be either the variance gamma model (VG) – the overall process is driven by a gamma process from the gamma distribution with shape \( a \) and scale \( b \) depending solely on variance \( k, c[a, b] \), or normal inverse Gaussian model (NIG) – the subordinator is given by an inverse Gaussian process based on the inverse Gaussian distribution, \( IG[a, b] \).

The final step to get a model for a marginal distribution depends on the issue we are going to solve. For example, if the task is to model the prices of a financial asset, i.e. strictly positive value, we should evaluate the Lévy model (4) in the exponential part:

\[
S(t) = S_0 \exp\left(\mu t + X(l(t)) + \omega t\right),
\]

where \( \mu \) states a long-term drift of the price (average return) and is the mean correcting parameter. By contrast, if we model a variable, which can be both positive and negative (e.g. price returns), we can proceed as follows:

\[
x(t) = \mu t + X(l(t)) - \theta t,
\]
so that the long-term drift is fit again.

2. Copula Function

A useful tool of dependency modeling is the copula function. In this paper, we restricted ourselves to ordinary copula functions. Basic reference for the theory of copula functions is [18], while [19] and [20] target mainly on the application issues in finance.

First we will define a $n$-variate copula $C$ as the joint distribution function of $n$ Uniform $(0,1)$ random variables. If we label the $n$ random variables as $(U_1, U_2, ..., U_n)$ then we can write down the copula $C$ as

$$C(u_1, ..., u_n) = \Pr(U_1 \leq u_1, ..., U_n \leq u_n).$$

Well known Sklar’s theorem states that for any joint distribution function $F$, there is a unique copula $C$ that satisfies:

$$F(x_1, ..., x_n) = C(F_1(x_1), ..., F_n(x_n)).$$

Sklar’s theorem proves that in examining multivariate distributions, we can separate the dependence structure from the marginal distributions. Conversely, we can construct a multivariate joint distribution from a set of the marginal distributions. We label the copula function as

$$F(x_1, ..., x_n) = C(F_1(x_1), ..., F_n(x_n)).$$

The multivariate joint distribution from a set of the marginal distributions is captured in the copula function and is independent of the marginal distributions. Alternatively, we can separate the dependence structure from the marginal distributions, we can compute a copula function based on the marginal distributions and parameters for the copula function separately. While assuming IFM, empirical distributions are estimated in the first step and the copula function in the second one, for CML instead of parametric margins empirical distributions are used. For more details, see any of the empirically oriented literature such as [20].

In this paper we will assume IFM approach. In order to estimate the parameters of marginal distributions, generalized method of moments will be used. Table I shows the basic characteristics of the VG distribution, NIG distribution and GBM (Geometric Brownian Motion) for comparison.

<table>
<thead>
<tr>
<th>TABLE I</th>
<th>FIRST FOUR MOMENTS OF THE VG, NIG AND GBM DISTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>VG $(\theta, \sigma, \nu)$</td>
</tr>
<tr>
<td></td>
<td>NIG $(\theta, \sigma, \nu)$</td>
</tr>
<tr>
<td></td>
<td>GBM $(\mu, \sigma^2)$</td>
</tr>
<tr>
<td>Moments</td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>$\theta$</td>
</tr>
<tr>
<td>Variance</td>
<td>$\sigma^2 + \nu \sigma^2$</td>
</tr>
<tr>
<td>Skewness</td>
<td>$\mu \left(3\sigma^2 + 2\nu \sigma^2 + \nu^2 \sigma^2\right)^{1/2}$</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>$\frac{1 + 2\nu - \frac{\nu \sigma^2}{\left(\sigma^2 + \nu \sigma^2\right)^2}}{\left(\sigma^2 + \nu \sigma^2\right)^2}$</td>
</tr>
<tr>
<td></td>
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<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

III. CREDIT MODELS ESTIMATION AND VERIFICATION

First, there will be the models from empirical sample derived in this part of the paper. Estimated models will be verified on the control sample and finally the best fitted model will be chosen.

A. Data Description

In this paper we will work with a sample of 298 financial institutions. We can observe basic characteristics of the empirical sample of the banks in the Table II. The defaulted banks are thought the financial institutions which have gone into liquidation or undergone financial restructuring processes (e.g. take-over by another company or by government). The samples of the financial institutions were chosen randomly pursuant to the publicly available information (www.federalreserve.gov, www.failedbankreporter.com). As a second step the financial indicators from financial statements were identified, see [9]. In addition to financial indicators of particular banks, three macroeconomic indicators (particularly the growth of the GDP, long-term interest rate and unemployment rate) were included among the independent variables to better reflect the economic situation on the market. It’s necessary to note that all the data were collected during the financial crisis during the years 2008 - 2010. Due to large sensitivity of the models on the input data, it’s necessary to understand the limitations of the estimated models and reached results only on this phase of the market evolution.

<table>
<thead>
<tr>
<th>TABLE II</th>
<th>BASICS CHARACTERISTIC OF THE EMPirical SAMPLE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>number of observation</td>
</tr>
<tr>
<td>non-defaulted banks</td>
<td>137</td>
</tr>
<tr>
<td>defaulted banks</td>
<td>161</td>
</tr>
<tr>
<td>total</td>
<td>298</td>
</tr>
</tbody>
</table>
Table II illustrates that the ratio between defaulted and non-
defaulted banks in the sample input is roughly the same (i.e. 
certainly not empirical). This also implies that the resulting 
estimated models will not suitable for direct estimation of real 
PD, since they will be obviously biased. For the estimation of 
the real PD would be necessary to perform a calibration. 
However, this does not affect the conclusions reached in this 
paper.

B. Model Estimation

The results of the logit analysis specified in the previous 
methodology section are summarized in Table III, where the 
variables are as defined in Table X (Appendix A).

<table>
<thead>
<tr>
<th>TABLE III</th>
<th>ESTIMATION RESULTS FOR LOGIT MODEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status</td>
<td>Coefficient</td>
</tr>
<tr>
<td>x17_GDP</td>
<td>-399.0495</td>
</tr>
<tr>
<td>x5_ROAA</td>
<td>-82.79004</td>
</tr>
<tr>
<td>x10_PL_GL</td>
<td>113.3444</td>
</tr>
<tr>
<td>x14_EQ_TA</td>
<td>-237.7291</td>
</tr>
<tr>
<td>_cons</td>
<td>18.39238</td>
</tr>
</tbody>
</table>

where x5, x10, x14 and x17 denotes ROAA (Return on 
Average Assets), PL GL (Problem Loans on Gross Loans), EQ 
TA (Shareholders’ Equity / Total Assets) and GDP (year 
growth rate of GDP), respectively. These indicators were 
selected on the basis of stepwise method (forward selection 
followed by backward elimination) with significance levels 
5% for adding variable into the model and 10% for removing 
variable from the model. The value of the Log likelihood is 
-7.7047 and the pseudo R2 is equal to 0.9637. The value of the 
likelihood-ratio test statistic (\( \chi^2 \) distributed with 4 degrees 
of freedom) is 395.74 and \( P_\chi^2 = 0.0000 \).

The results of the probit analysis are summarized in Table IV.

<table>
<thead>
<tr>
<th>TABLE IV</th>
<th>ESTIMATION RESULTS FOR PROBIT MODEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status</td>
<td>Coefficient</td>
</tr>
<tr>
<td>x17_GDP</td>
<td>-225.2364</td>
</tr>
<tr>
<td>x5_ROAA</td>
<td>-42.95094</td>
</tr>
<tr>
<td>x10_PL_GL</td>
<td>58.81323</td>
</tr>
<tr>
<td>x14_EQ_TA</td>
<td>-129.9351</td>
</tr>
<tr>
<td>_cons</td>
<td>10.3022</td>
</tr>
</tbody>
</table>

The value of the Log likelihood is -7.7896 and the pseudo 
R2 is equal to 0.9621. The value of the likelihood-ratio test 
statistic is 395.56 and \( P_\chi^2 = 0.0000 \).

Table V presents the results of the linear discriminant 
analysis.

<table>
<thead>
<tr>
<th>TABLE V</th>
<th>ESTIMATION RESULTS FOR LINEAR DISCRIMINANT ANALYSIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status</td>
<td>Coefficient</td>
</tr>
<tr>
<td>x17_GDP</td>
<td>34.635</td>
</tr>
<tr>
<td>x5_ROAA</td>
<td>6.967</td>
</tr>
<tr>
<td>x10_PL_GL</td>
<td>-4.881</td>
</tr>
<tr>
<td>x14_EQ_TA</td>
<td>19.615</td>
</tr>
</tbody>
</table>

The results of the LDA model appears as the least appropriate for the 
model for prediction of the banks default. On the other hand, 
the LDA model appears as the least appropriate for the 
prediction of the banks’ failure. For the above reason, we will 
use for subsequent application the logit model estimated in 
Table III.

C. Verification and Comparison of the Estimated Models on 
the Control Sample

For verification of the success rate of the estimated models 
we will apply these models on the control sample of 100 
American commercial banks. These banks were chosen 
randomly in such way that the control sample contained 50 
non-default and 50 default banks. For the verification of the 
predicting abilities of the estimated models, they were applied 
on the data one year before decisive day. ROC analysis is used 
for measure of the model’s quality prediction in this study, see 
Table VI for results. For more detailed description of ROC 
curve see [21].

The asymptotic significance of each model is less than 0.05, 
so all are doing better than guessing. Nevertheless, from the 
results it is clear that logit model shows the best results in 
application on the control sample (regardless to the probit 
model) and so we can say this model is the most appropriate 
model for prediction of the banks default. On the other hand, 
the LDA model appears as the least appropriate for the 
prediction of the banks’ failure. For the above reason, we will 
use for subsequent application the logit model estimated in 
Table III.

IV. ESTIMATION OF PD DISTRIBUTION

In this section we will proceed to the main task of the paper. 
First, it will be describe the data set – financial indicators. 
Then, we estimate their future marginal distribution and put 
them together by a given copula function and estimate the 
distribution of future PD as based on logit model estimated in 
previous section. Finally, knowing the PD distribution, we will 
focus on the tail of these distributions with a view to estimate 
the extreme value of the PD on the various levels of 
significance for every particular bank from the portfolio.

A. Data

We collected four financial indicators of three key Czech 
banks on the quarterly basis over the last thirteen years. In 
particular, ČSOB (Československá obchodní banka), KB 
(Komerční banka), and GE (GE Money Bank) were studied on 
the basis of financial indicators identified in Table III.

The indicators, which have been already identified as 
significant, are annual growth rate of GDP (GDP), Return on 
average assets (ROAA), Problem loans relative to gross loans 
(PL GL) and Shareholders’ Equity to Total Assets (EQ TA). We 
can observe their evolution during the last thirteen years in 
Fig. 1.
We can observe that most of the indicators were very instable over the time. This is especially apparent in the case of KB and GE bank, while indicators of ČSOB seem to be relatively stable. The evolution of the GDP growth is well known, including recession around years 1998 and 2009. These facts also result into variability of PD over the time, see Fig. 2. According to the model, all analyzed banks had relatively close to default stage during 1998-1999 (PDs were 40%, except ČSOB) and during 2009 (their PDs were around 60%). This was caused by the recession stage of Czech economy. Nevertheless, these high PDs may also be consequence of the estimation of the model from the set of US banks (because of the lack of defaulted banks data for original sample in Central Europe). GE had a problem also over 2000 a 2001, which was probably caused by higher proportion of problem loans relative to gross loans and by lower proportion of equity on total assets.

**Marginal Distribution**

In order to get the future distribution of particular financial indicators $x_i$, we will assume $n = 100000$ independent scenarios for (i) geometric Brownian motion, $x_i \in \mathcal{N}(\mu, \sigma^2)$, (ii) variance gamma model, $x_i \in \mathcal{V}(\theta, \sigma, \nu)$ and (iii) normal inverse Gaussian model, $x_i \in \mathcal{NIG}(\theta, \sigma, \nu)$. It is generally recommended to use maximum likelihood approach for estimation of the model parameters. However, since our data set consists of only few values, we will follow the generalized method of moments. In this paper we are interested solely in the distribution of PD for the next time moment. We therefore sample just once from the estimated distribution to get one scenario, i.e. the future value of a given indicator $x_i$.

In the Table VII we can observe descriptive statistics of returns of modeled distributions for each particular indicator. It is very important to compare these characteristics with the empirical ones. In particular, we have to notice insufficient skewness and kurtosis within GBM. Gaussian process is not able to model skewness and kurtosis as compared to Lévy processes, which allow modeling of the higher moments of probability distribution.

<table>
<thead>
<tr>
<th></th>
<th>ROAA</th>
<th>PL</th>
<th>GL</th>
<th>EQ</th>
<th>TA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mean</strong></td>
<td>NVG</td>
<td>NIG</td>
<td>GBM</td>
<td>empirc.</td>
<td>VG</td>
</tr>
<tr>
<td><strong>STD</strong></td>
<td>1.23</td>
<td>0.0049</td>
<td>0.0042</td>
<td>0.0049</td>
<td>0.0265</td>
</tr>
<tr>
<td><strong>SKEW</strong></td>
<td>0.0298</td>
<td>-0.0217</td>
<td>-0.0372</td>
<td>-0.0021</td>
<td>-0.0574</td>
</tr>
<tr>
<td><strong>KURT</strong></td>
<td>1.23</td>
<td>0.0224</td>
<td>0.0456</td>
<td>0.0457</td>
<td>0.0725</td>
</tr>
</tbody>
</table>

**Comparison of the Probability Distribution Moments of the Empirical and Modeled Distribution**
From observable results we have clearly stated that the Lévy process models empirical distribution better than the traditional GBM, while the differences between the VG and NIG are negligible.

C. Linear Dependency among Variables (Gaussian Copula)

In order to estimate the probability of default of any of the banks, the dependency among particular indicators must be taken into account. We consider the Gaussian copula function, i.e. the inputs are marginal distributions and empirical correlation matrix. Applying this copula on the particular marginal distribution we get the progression of the indicators with required dependencies. Afterwards by applying the simulated indicators into the estimated logit model we easily get the probability distribution of PDs of analyzed banks. The resulting descriptive statistics is depicted in Table VIII.

<table>
<thead>
<tr>
<th></th>
<th>E (PD)</th>
<th>stdev (PD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ČSOB</td>
<td>VG 4.83%</td>
<td>NIG 4.70%</td>
</tr>
<tr>
<td></td>
<td>0.1481</td>
<td>0.1467</td>
</tr>
<tr>
<td>KB</td>
<td>VG 4.02%</td>
<td>NIG 4.51%</td>
</tr>
<tr>
<td></td>
<td>0.1703</td>
<td>0.1815</td>
</tr>
<tr>
<td>GE</td>
<td>VG 2.98%</td>
<td>NIG 2.80%</td>
</tr>
<tr>
<td></td>
<td>0.1392</td>
<td>0.1331</td>
</tr>
</tbody>
</table>

For example, we can say that with probability 5% it will be the future PD of ČSOB greater than 31.00% within VG model. From the results it is clear, that GBM undervalues the PD values especially for the low quantiles (see difference on the 0.01 quantile within ČSOB for e.g. VG and GBM, 86.97% and 59.49%), which can be very critical in risk management. The PD values for VG and NIG model are again similar. Generally we can say that it is much more convenient to use more sophisticated models such as Lévy processes to model probability of PD distribution, at least in time of financial crisis.

V. CONCLUSION

The main reason for estimating the probability of default is use in risk management, valuation of the credit derivatives, estimation of the creditworthiness of borrowers and estimation of a bank’s capital adequacy. Incorrect estimation of the PD can lead to an incorrect valuation of risk and financial problems of a company. In this paper, we attempted to estimate the distributions of PD for the next stages of three Czech banks assuming that the PD was determined by the evolution of financial indicators in estimated credit-scoring models.

In the first section of the application portion of the paper, we estimated three credit-scoring models (logit model, probit model and linear discriminant analysis model) from a set of 298 US commercial banks. After verification and comparison with the control sample, the logit model was chosen as the most appropriate model for the prediction of commercial banks’ PDs in stages of market depression. Similar statistical significance was also produced by the probit model. LDA appeared to be the least appropriate model. It is important to note the assumptions of the estimated models, and hence, the possibilities and limitations of their utilization. All three prediction models were estimated from a dataset obtained during a time of financial crisis; therefore, the utilization of these models is also restricted to this particular phase of market evolution. Another limitation is attributable to the lag between the calculation of relevant indicators and the date of each bank’s default. From this perspective, the estimated models are one-period prediction models, with a rather short time of prediction of default (1-2 years). Taking into account these limitations and the obtained results, the estimated logit model was chosen as the most appropriate model for predicting a bank’s default.

The estimated logit model was then applied to a portfolio of three key Czech banks with the intention to estimate their future PD probability distributions. We assumed three candidates for the evolution of financial indicators, a Gaussian distribution, VG distribution and NIG distribution. It was
found that the VG and NIG processes fit the empirical statistics better than the traditional GBM.

From the results, according to the estimated model, all of the analysed Czech banks appear to be relatively financially stable, with a slight undervaluation of PD using the GBM. Finally, analysis of the extreme quantiles of modelled distributions was performed. Based on the results, we can state that in terms of risk management, it seems safer to use more sophisticated models, such as Lévy processes, to model PD probability distributions to avoid a possible underestimation of the risk, at least in times of financial crisis.

APPENDIX

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description of the indicator</th>
<th>Indicator’s group</th>
</tr>
</thead>
<tbody>
<tr>
<td>LT A</td>
<td>Logarithm of total assets</td>
<td>Size</td>
</tr>
<tr>
<td>YAE A</td>
<td>Interest income / Average Interest</td>
<td>Profitability</td>
</tr>
<tr>
<td>CIBL</td>
<td>Interest Expense / Average Interest</td>
<td>Profitability</td>
</tr>
<tr>
<td>NIM</td>
<td>Net Interest Margin</td>
<td>Profitability</td>
</tr>
<tr>
<td>ROAA</td>
<td>Return on Average Assets</td>
<td>Profitability</td>
</tr>
<tr>
<td>ROAE</td>
<td>Return on Equity</td>
<td>Profitability</td>
</tr>
<tr>
<td>IE</td>
<td>Interest Expense / Interest Income</td>
<td>Profitability</td>
</tr>
<tr>
<td>CIR</td>
<td>Cost to Income Ratio</td>
<td>Efficiency</td>
</tr>
<tr>
<td>PE OI</td>
<td>Personnel Expenses / Operating Income</td>
<td>Efficiency</td>
</tr>
<tr>
<td>PL GL</td>
<td>Problem Loans / Gross Loans</td>
<td>Assets Quality</td>
</tr>
<tr>
<td>PL EQ</td>
<td>Problem Loans / (Shareholders’ Equity + Tier 1)</td>
<td>Assets Quality</td>
</tr>
<tr>
<td>LLR</td>
<td>Loan Loss Reserve / Gross Loans</td>
<td>Assets Quality</td>
</tr>
<tr>
<td>TI</td>
<td>Tier 1 ratio</td>
<td>Capital adequacy</td>
</tr>
<tr>
<td>EQ TA</td>
<td>Shareholders’ Equity / Total Assets</td>
<td>Capital adequacy</td>
</tr>
<tr>
<td>CAR</td>
<td>Capital Adequacy</td>
<td>Capital adequacy</td>
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<tr>
<td>D EQ</td>
<td>Total Deposits / Shareholders’ Equity</td>
<td>Capital adequacy</td>
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REFERENCES


