

Specification of Competency Standards
for the Banking Industry
Unit of Competency

Functional Area - 3. General Enterprise Banking Credit Management
(Key Function – 3.3 Portfolio Management)

Title	Conduct stress testing and analyse the results
Code	109267L5
Range	Conducting different types of stress testing at different complexity level. This applies to testing conducted on individual loans offered to clients or different portfolio segments.
Level	5
Credit	4 (For Reference Only)
Competency	<p>Performance Requirements</p> <p>1. Knowledge in the Subject Area</p> <p>Be able to:</p> <ul style="list-style-type: none"> • Possess specialized knowledge in stress testing and apply it to evaluate different methods of execution in order to develop a suitable approach for the bank; • Understand the credit strategies and portfolio objectives of the bank and based on that evaluate the existing portfolio of credit assets; • Understand the current macroeconomic environment and trends and consider these as key factors of stress testing. <p>2. Applications</p> <p>Be able to:</p> <ul style="list-style-type: none"> • Identify factors (e.g. financial data, economic variables) that can impose effects on risk level of loan portfolio and develop financial models to quantify the sensitivity of loan performance to different scenarios; • Analyse existing performance / potential risks of the portfolio in order to determine the objectives for stress testing; • Design methodology, analysis framework and tools on stress testing which are aligned with the objectives of the testing; • Develop testing plan and conduct the test by altering assumptions in different variables and record the effect on portfolio credit quality; • Analyse the performance of different assets and liabilities under the various hypothetical scenarios; • Analyse the results of stress testing and identify the vulnerability of different segments of loan portfolio. <p>3. Professional Behaviour and Attitude</p> <p>Be able to:</p> <ul style="list-style-type: none"> • Consolidate the results of stress testing into the risk management process and develop suitable measures; • Develop contingency plans for vulnerable segments, e.g. strengthening the supervision process, imposing limits, devising existing strategies.
Assessment Criteria	<p>The integral outcome requirements of this UoC are:</p> <ul style="list-style-type: none"> • Development of stress test which specifies the methodology, analysis framework and execution plan. These should be based on analysis on issues faced by the bank, strategies of the bank and existing performance of the portfolio; • Provision of Recommendations on contingency plan / risk management measures for the portfolio based on the analysis on the findings of different stress tests.

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Remark	
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