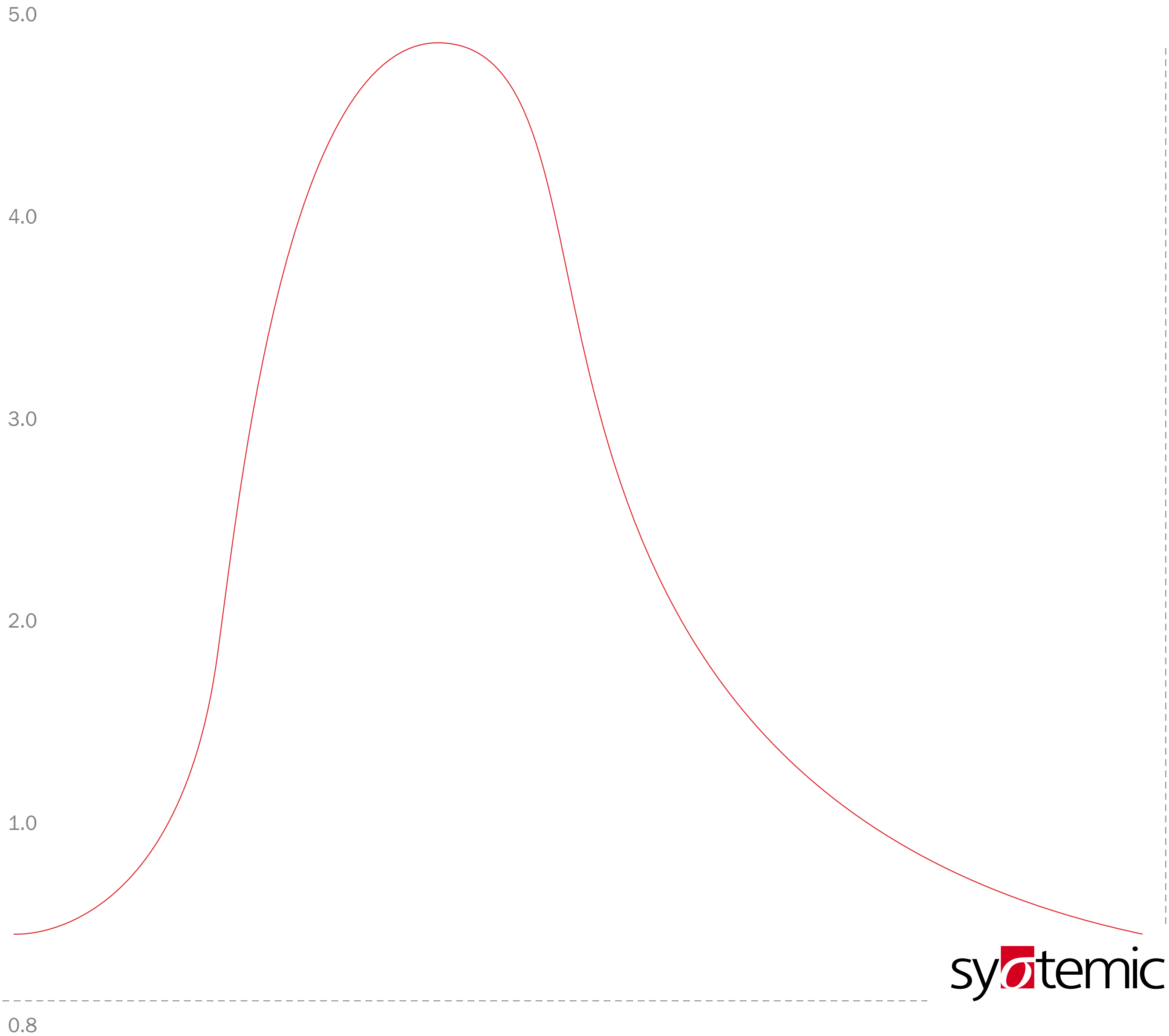
RISKVALUE
PLATFORM

rvCredit

Portfolio **Credit** Risk



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Portfolio Credit Risk

RV Credit© provides advanced functionalities and analytics for credit risk measurement and management in banking corporations and other financial institutions exposed to credit risk. It covers both Regulatory and Internal requirements, by applying the best practices and latest approaches used today by the industry's leading practitioners.

Its configuration is highly customizable as it may incorporate in a seamlessly integrated manner any mix of the following modules:

- Regulatory Capital Calculator
- Economic Capital Allocator
- Exposure Pricing Tool
- Credit Administration Manager

Integrated Portfolio Management

RV Credit© is based on the RiskValue Platform©, which allows it to be fully integrated with a broader family of solutions addressing other areas in the risk management spectrum, including Obligor Risk Rating, Market Risk, and others.

"…the first step in the risk management process is to acknowledgethe reality of risk. Denial is a common tactic that substitutes deliberate ignorance for thoughtful planning."

Charles Tremper

1. Regulatory Capital Calculator

This module allows the evaluation of regulatory capital for credit risk, under any one of the three approaches proposed by the Basel II framework. **(Screen 1)**

> Features

- Incorporates regulation detailed in the Basel committee recommendations, the relevant EU Directive and the consultation papers of the Committee of European Banking Supervisors (CEBS) and Local authorities.
- Allows easy understanding and control of capital requirements, thanks to a straightforward presentation and a drill-down analysis of all intermediary calculation steps.
- Being a highly parametric tool, it accommodates all options available to different jurisdictions as well as potential future amendments.

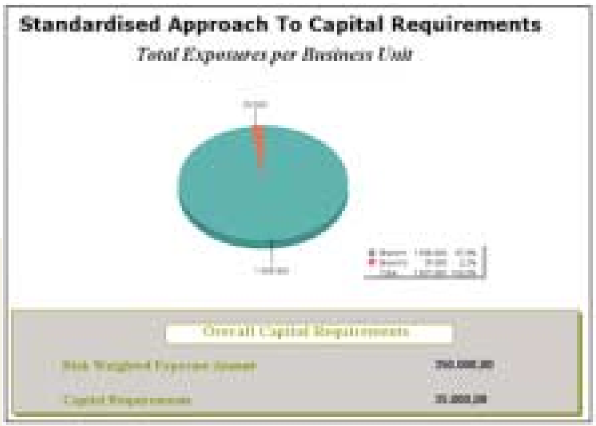
> Benefits

- Easy application of what-if scenarios to measure the effects of different strategies in the regulatory capital.
- Parallel run of more than one Basel II approach (for example both the Standardized and the IRB methods) allowing the financial institution to choose the optimal timing for migrating to the new approach.
- Reduces both the possibility of programming errors and the costs related to internal training, updates' tracking and tedious calculations.
- Your organization will benefit from our experience with other banks and different jurisdictions.

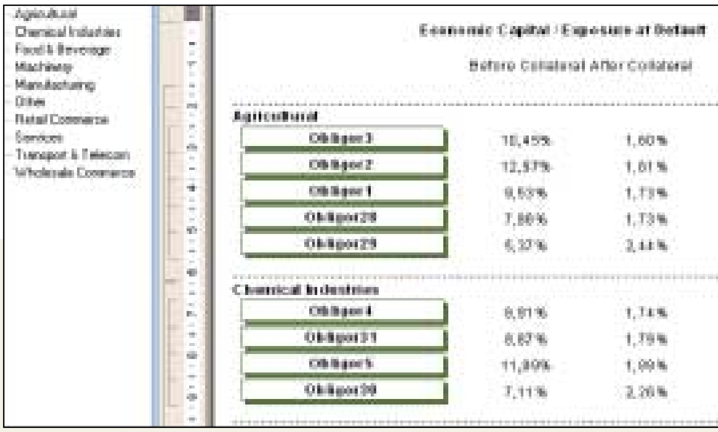
2. Economic Capital Allocator

In many cases, the minimum regulatory capital does not represent an accurate enough risk measure. This is particularly true for Banks following the Standardized approach, especially in economies with many unrated exposures, mostly to small and medium-sized enterprises (SME). Furthermore, the current regulatory framework does not account for risk

Screen 1



Screen 2



reductions due to portfolio diversification. This is why Basel II recommends under Pilar 2 to implement an *"Internal Capital Assessment Process"* to account for all risks not adequately captured under the minimum regulatory capital.

This module addresses all above issues and allows answering the following questions:

- Which are the most profitable relationships in risk-adjusted terms? **(Screen 2)**
  - ✔ Which relationships do I need to safeguard?
  - ✔ Which of the less profitable relationships can I work on?
- To which market segments and/or to which relationships am I most exposed to?
  - ✔ Do I have room to lend to this sector, geography, relationship?
  - ✔ Where do I have unused capacity?
- Which businesses are generating / destroying shareholder value? **(Screen 3)**
  - ✔ Where should the bank increase / decrease its focus?
  - ✔ Which departments should get the highest bonuses?

Furthermore, the Marginal Economic Capital is an excellent tool to identify unwanted concentrations, since it takes under account *all* risk components:

- Industry correlations
- Concentration risk
- Credit ratings
- Anticipated usage of credit lines
- Collateral & guarantees
- Tenor of Exposures

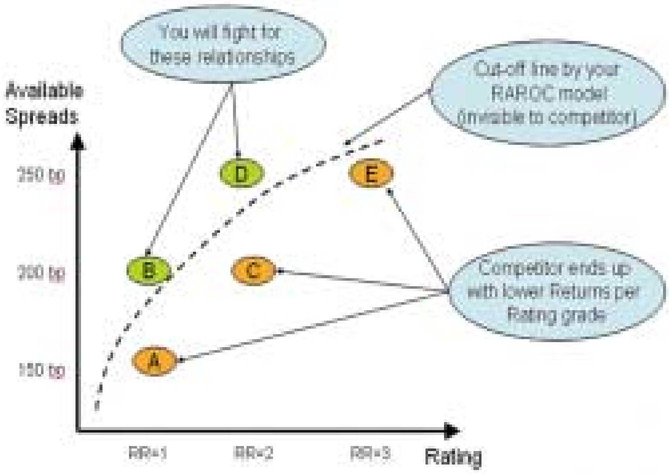
> Features

- Risk and Capital Usage indicators, such as Diversified vs. Stand-alone Economic Capital, Economic Capital over Exposure at Default (EAD)
- Profitability indicators such as Economic Profit & Loss, Risk-adjusted return on Capital (RAROC), Economic Value Added (EVA), Expected Loss.
- Grouping and Drill-down capabilities per Industry, Geography, Business Unit, Risk Rating, Relationship, Maturity, Size bucket and Currency.
- Management of concentration limits on the above subtotals
- Calculations are based on Multi-factor credit risk models using Monte Carlo simulation.

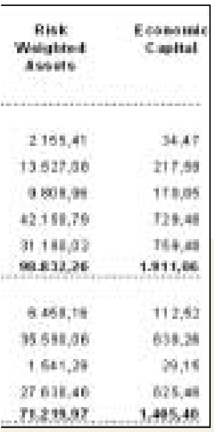
3. Exposure Pricing Tool

This module forms a vital component of any credit granting process as it calculates the minimum pricing for an exposure, which would generate a return on marginal capital consistent with the organization's strategy. It is therefore an essential decision making tool, both for those involved in the business process and those in the credit approval department . **(Screens 4-5)**
To derive the break-even pricing, the system considers:

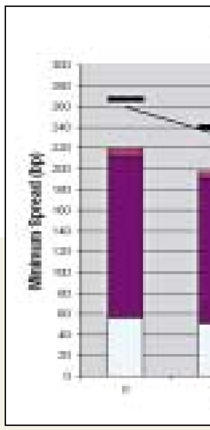
Screen 4



Screen 3



Risk Weighted Assets	Economic Capital
2.155,41	34,47
13.627,08	217,59
8.808,98	178,05
42.188,70	729,48
31.188,03	759,48
98.832,26	1.911,06
6.458,18	112,63
35.598,06	638,28
1.641,29	29,15
27.618,40	625,48
71.219,97	1.405,40



- Exposure characteristics and Funding cost.
- Collateral characteristics and estimated Loss Given Default (LGD).
- Average Expected Loss.
- Incremental Credit risk capital taking under account other booked exposures and inherent diversification level.
- Credit and non-credit revenues earned from this relationship.
- Incremental capital required for Operational risk
- Required return on equity.

4. Credit Admin Manager

This module allows managing facility approvals, revision processes, collateral, usage of credit lines and all other elements related to the credit extension process. The process of updating the system can be fully automated.

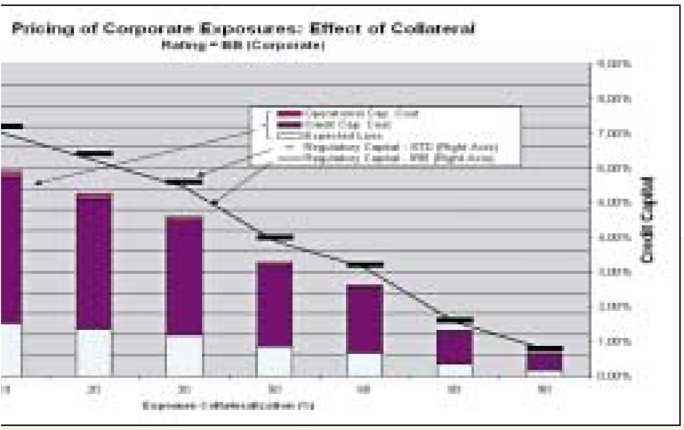
> Features:

- Can accommodate Multi-product facilities, including detailed Limit structures, Drawing and Commitment schedules, Fees, and Credit protection requirements.
- Supports multiple exposure types including On Balance sheet and Contingent instruments, Exchange traded and Over-the-Counter Derivatives.
- Supports multiple Collateral types and keeps track of full collateral history.

> Benefits

- Allows centralized management of all Exposures, Facilities, Collateral, and other risk elements.
- Flexibility to create custom reports and alerts on any combination of risk components.
- Straightforward feed of risk components to Regulatory Capital Calculator and to Economic Capital Allocator.

Screen 5



RVCredit

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