



SAP for Banking Brief

LIMIT MANAGEMENT WITH SAP® FOR BANKING

SAP® for Banking offers a global limit management solution that helps control default risks by providing flexible limit structures that you can update online. You can easily integrate a broad range of risk engine calculations into the limit system and create an active limit management process that enhances your bank's bottom line.

In today's competitive global economy, banks must closely tie risk management to profitability. To do that, you must set appropriate limits that keep your exposure under tight control. The SAP® for Banking set of solutions delivers enhanced limit management features that help you measure, analyze, and control risk throughout your enterprise. This global limit solution is available practically around the clock and can handle calculations for all your transactions.

The software has a fully integrated framework that can manage limits for overall bank controlling. You gain greater control of risk limits for your bank as a whole, as well as control at the portfolio and business partner levels. SAP for Banking also offers an online limit solution with integrated limit control for trading book transactions.

Comprehensive Limit Management

Because limits absorb capital, it's important to set limits effectively. The SAP for Banking limit management features include 24-hour online availability, a key advantage for banks that operate in different time zones. In addition, you can set limits for a range of products in both the trading and commercial banking areas — even those with complex facility structures — and cover both counterparty and country risk.

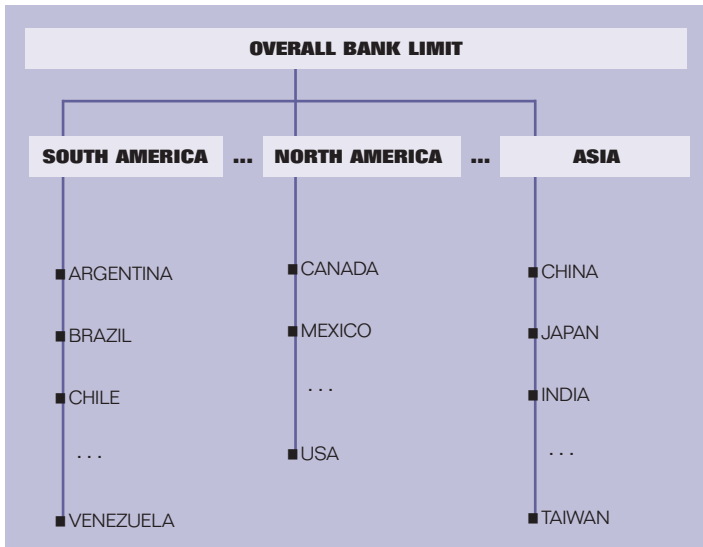


Figure 1: Example of a Multistage Limit Structure for Country Risk

You can easily adapt this limit structure to meet specific credit limit requirements. For example, you can set limits by country, groups of countries, product groups, or business partner structures, or you can use a combination of these configurations (see figure 1 and 2).

Comprehensive Calculations

SAP for Banking handles all methods of calculating exposure. A parallel limitation feature, for example, lets you simultaneously process calculations of nominal value, exposure plus add-on, expected loss, and value at risk (VaR). You can create different limits for counterparty and issuer risk, and you can also set limits for settlement risks.

SAP for Banking also lets you differentiate between primary and secondary credit risks and take into account whatever collateral items are necessary. You can take into account risk mitigating factors to calculate a net exposure.

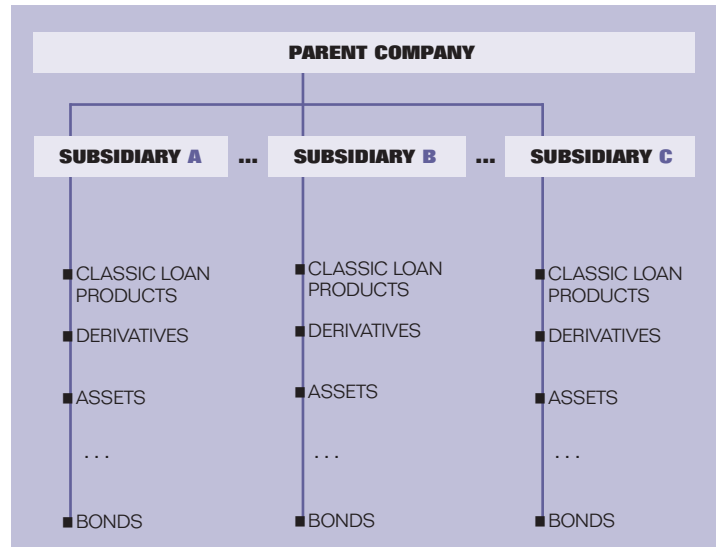


Figure 2: Example of a Limit Structure Combining Business Partner Hierarchies and Products

With SAP for Banking, you can value a transaction using different methods at the same time. With country risk, for example, you can simultaneously calculate gross exposure, net exposure, and VaR for one transaction and then compare those calculations with the corresponding limits.

Active Limit Management

SAP for Banking uses a dual control feature that requires active limit authorization by two users. You can further control the limit management process by automatically sending a message to any recipient you choose on a specified date. In addition, you can increase the limit amount for a specified period of time and lock the limits of a business partner.

Online Limit Check

SAP for Banking offers a cross-trading system that can check limits for all of your bank's products online against the relevant transaction exposure levels for individual calculations. This can make it easier to coordinate limits maintained in different trading systems. The limit checks for individual transactions are available almost around the clock – a particularly useful feature for banks trading in different time zones. After the online check, new transactions also appear in reports and can be called up directly.

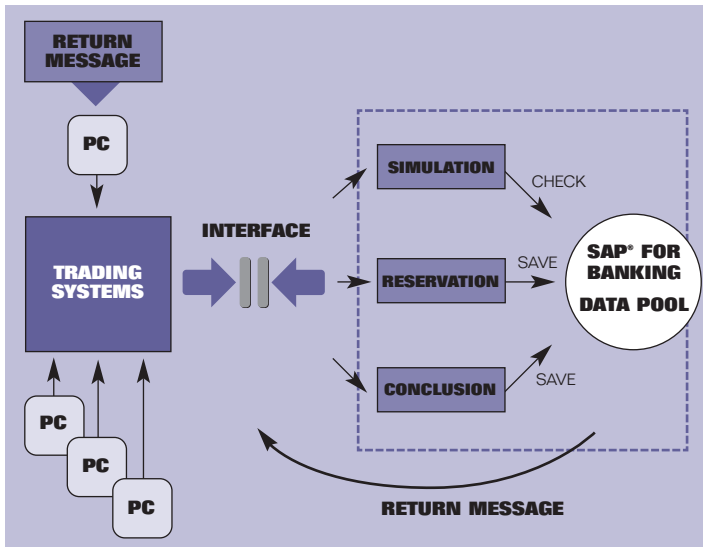


Figure 3: Example of an Infrastructure for an Online Limit Check

You can link external feeder trading systems to SAP for Banking through online interfaces (see figure 3). Standard reports of transaction utilizations apply both the determination procedures used to value risk and the market data that is valid at the relevant point in time. The software calculates exposure using the valuation methods and market data that are valid at the time of processing. SAP for Banking guarantees that transactions are valued according to the same market data.

Extensive Reporting Capacity

SAP for Banking provides standard limit management reports that show specific limits and their utilization, as well as reports based on individual risk characteristics. You can also access reports on individual transactions that provide exposure calculations in detail.

You can run these reports using any structure you choose, and you can run ad hoc reports for structures that have not been previously defined. You can restrict the view of report data to the particular areas of responsibility for individual staff members and display only those transactions that are relevant to that area.

SAP for Banking records historical limits, so you can see how limits have been used over time, and you can factor this information into future limit setting.

BUSINESS BENEFITS

By coordinating risk control across different bank divisions, SAP for Banking helps to allocate capital more efficiently, thus improving your bank's bottom line. Other benefits include:

- Seamless interaction between various risk engines and your management framework
- A single system with 24-hour availability for coordinating trading rooms across the world, eliminating the need to reconcile figures from different limit systems
- Integration of counterparty and country risk management into one system
- Regulatory reporting and near-time limit monitoring allowing employees across the enterprise to view current utilization levels
- A flexible limit and reporting structure that can be adjusted to meet the needs of your bank
- An integrated limit management framework that both portfolio managers and account managers can use

In an industry that is fraught with risk, you need an efficient, comprehensive limit management system that keeps risk under control. SAP for Banking provides a flexible, highly integrated tool that can handle the specific limit management needs of your entire organization – whenever those needs arise.

FOR MORE INFORMATION

To learn more about enhanced limit management and improved risk control for your bank, visit the SAP Web site at www.sap.com/industries/banking

www.sap.com/contactsap

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