

**SAP Solution Brief
SAP for Banking**



BANKING ANALYTICS WITH SAP® FOR BANKING

Improving Risk and Financial Management

Analytical applications within the SAP® for Banking solution portfolio provide crucial support for enterprise-wide reporting and strategic management, as well as management of your organization and financial products. This support can help you meet the credit risk challenges of Basel II, the valuation and hedge accounting challenges of IAS/IFRS, and the operational challenges of the U.S. Sarbanes-Oxley Act. In addition, SAP for Banking can provide consistent information for measuring risk-adjusted performance.

Banks face many challenges in today's dynamic financial services marketplace. A global economy that is increasingly competitive requires clear strategies that differentiate a bank from its peers – as well as business processes that make the bank more cost-efficient, effective, and agile. Banks must continuously enhance capabilities for risk and financial management to address market, credit, and regulatory environments that have become more complex.

Analytical applications within the SAP® for Banking solution portfolio provide crucial process support for your business strategies thanks to integrated tools for financial accounting, cost controlling, risk management, asset-liability management, and profitability analysis. These applications can also help banks address legal compliance challenges. With this support, you can streamline the handling of portfolio and market data, improve the speed and quality of both internal and external reporting, and more easily comply with changing regulatory requirements such as international accounting and financial reporting standards and the Basel Capital Accord (Basel II).

The analytical applications within SAP for Banking provide a powerful, comprehensive, open platform for effectively handling the data and processes involved in portfolio, risk, and financial management. A framework of data management software and calculation engines gives you maximum flexibility and openness. You can seamlessly integrate your in-house solutions and third-party applications into this framework. Data for transactions, contracts, and business partners is available at the lowest level of detail for use with analytical tools from SAP or third parties.

Effective Tools for Consolidating, Planning, and Accounting

SAP for Banking includes comprehensive consolidation functions that operate on multidimensional data structures. For example, you can define organizational units such as companies, business areas, or profit centers to support a matrix organization.

The consolidation system is easy to use, thanks to a monitor that controls the entire process – from data collection through consolidation – and to decentralized system access.

SAP for Banking offers best-in-class capabilities for strategic planning. The solutions span the entire performance management cycle, from business planning to performance measurement. By integrating tools for business consolidation, performance measurement, and strategy management with tools for business planning, SAP for Banking delivers one of the few closed-loop environments for performance management available today.

In addition, SAP for Banking includes proven general ledger capabilities that can improve financial reporting transparency and reduce expenses for reconciliation and internal communication. Support for legal, segment, and management reporting through a consistent, multidimensional database leaves more time for financial analysis.

Address Compliance Rules Head-On

Banks face an increasingly complex set of national and international regulations that require ever-more detailed information about their business structures and key performance indicators.

With SAP for Banking, you get a comprehensive analytic and reporting platform that can help you meet the Basel II requirements for risk exposure and capital adequacy and enable you to implement new supervisory review and disclosure processes. Based on Basel II best practices and updated as the rules change, the software makes it easy to integrate internal and external processes for credit risk management. There is support for all credit risk calculation methods specified by Basel II – from

standard calculations to calculations based on internal ratings. SAP for Banking also supports preprocessing for national legal reporting to close the gap between Basel II and non-Basel-II reporting requirements.

The software can help you conform to International Financial Reporting Standards (IFRS) – a set of financial reporting regulations formerly referred to as International Accounting Standards (IAS). Specifically, there is support for meeting the requirements of IAS rules 32 and 39, which deal with the treatment of financial instruments. You can value, post, and report diverse financial instruments on a single platform to ensure consistent master data, methods, and market data. This centralized database can be particularly helpful in meeting the complicated hedge accounting requirements of IAS 39, which mandate a common value for financial data that may come from different systems and subledgers.

There is support for managing all hedging activities. You can identify hedged items and their instruments and designate hedging relationships. You can calculate fair-value hedges, including those for interest rate risk, as well as cash flow hedges. In keeping with IAS/IFRS guidelines, you can integrate prospective and retrospective effectiveness tests and hedge accounting functions of valuation and posting to support your entire hedging process.

Handle Risk Management More Effectively

In today's banking market, risk management is linked increasingly to profitability. With SAP for Banking, you can analyze and control risk for all your trading and nontrading products. Analytic applications help you value credit risk – including counterparty or issuer risk, country risk, and settlement risk – using a variety of calculations. You can calculate credit risk that arises from classic loan and trading products, as well as from products that are more complex.

You can differentiate between primary and secondary risks. There is comprehensive support for risk mitigation – including the handling of collateral, guarantees, and netting agreements. You can monitor a portfolio using multiple parallel views simultaneously, based on – for example – gross versus net exposure, nominal versus present value, or expected loss versus risk.

Features for managing market risk help you analyze net present value and value at risk. Both of these calculations are also available in the bank's nontrading book area. You can measure and control market risk based on different simulation scenarios. For grid scenarios that support the analysis of option price risks, you can use any number of interest rate, volatility, and currency factors. Through portfolio hierarchies, you can tailor your analyses to the needs of particular business groups. In addition, there is full support for meeting the capital adequacy directives of Basel II. You can easily integrate a broad range of risk engine calculations.

Limit management features help you create an active limit management process for both trading and commercial banking products, giving you greater control over risk limits for your bank as a whole as well as control at the portfolio and business partner levels. You can measure, analyze, and control credit default risks throughout your enterprise using flexible limit structures that you can update online.

Features for asset-liability management let you weigh a broad range of business opportunities against the costs and risks involved. The capabilities help you analyze the effects of interest rate and foreign exchange risks, and control revenue per period.

Enhance Profitability Through Better Measurement

Features for profitability management can help you analyze the profitability of various distribution channels, organizational units, products, and clients. The software calculates costs for individual transactions, using a market rate approach to transfer pricing or net present value. You can assign revenues and

expenses to single transactions and positions according to their source to calculate profitability for particular products, customers, or profit centers.

SAP for Banking lets you model cash flows from loans, deposits, and other instruments using either duration or discounted cash flow analysis to generate transfer rates that reflect economic characteristics of the particular instruments. Through activity-based costing, you can allocate overhead expenses to their underlying processes for more precise product evaluation. Interactive drill-down reports let you examine, allocate, and compare all profit-and-loss information – from results for a single transaction to those for any aggregation that you define.

A Wide Range of Business Benefits

By enabling your bank to comply with a constantly changing array of accounting and regulatory reporting requirements, SAP for Banking can help you align capital more closely with market, credit, and operational risk to improve your bank's bottom line. In the process, you can also increase stakeholder confidence.

By improving the accountability and transparency of your financial and profitability data, SAP for Banking helps managers make business choices that are more informed. Data analysis that is more automatic and streamlined can also be more cost-effective. In addition, you can handle large amounts of complex data more efficiently. Enhanced reconciliation of information for management, statutory, risk, and regulatory reporting can improve operational efficiency.

Using the same market data, transaction data, and calculation engines for risk analysis means that risk management within your bank can be more consistent and effective. You gain greater control over both static and dynamic market risks and can handle risk for a broad range of products. You can perform nominal or book value, present value, and risk-adjusted calculations simultaneously and apply the results to other risk

evaluations. Inclusion of risk-reducing measures in the display of net exposure gives you a complete risk picture for greater accuracy in other business calculations.

At the same time, SAP for Banking makes it easy to adapt risk calculations to the needs of various internal users of risk reports. Analyses of credit risk can be based on book value for users in the lending area, for example, and on present value for users in the trading area. You can further customize your analyses with external price calculators.

Take Control of Your Analytics Today

SAP leads the world in market share for enterprise applications in the finance and insurance industries. More than 550 customers in 60 countries have implemented SAP for Banking – including 33 of the 50-largest European banks. SAP for Banking provides an integrated set of tools for managing today's front- and back-office banking environments – from high-volume transactional banking processes and customer management to financial accounting, cost controlling, and profitability and risk analysis.

Powered by SAP NetWeaver™

SAP for Banking is powered by SAP NetWeaver™, the integration platform that supports both SAP and non-SAP systems. The open architecture of the SAP NetWeaver platform lets banks transform their business processes incrementally, with step-by-step migration, to achieve fast return on investment. The highly intuitive, role-based environment of SAP NetWeaver lets users access information from different sources through a single interactive format.

For more information about the many ways that the analytic applications in SAP for Banking can help your business, call your SAP representative or visit us online at www.sap.com/banking.