



Business impact

Financial institutions see credit risk management as critical and anticipate significant, quantifiable economic rewards, including:

- 10 percent reduction in economic capital.
- 14 percent reduction in cost of losses.*

Challenges

- **Inefficient data management.** Inability to access the right data when it's needed causes problematic delays.
- **No groupwide risk modeling framework.** Without it, banks can't generate complex, meaningful risk measures and can't get a big picture of groupwide risk.
- **Constant rework.** Analysts can't change model parameters easily, which results in too much duplication of effort and negatively impacts your efficiency ratio.
- **Insufficient risk tools.** Without a robust risk solution, banks can't identify portfolio concentrations or re-grade portfolios often enough to effectively manage risk.
- **Cumbersome reporting.** Manual, spreadsheet-based reporting processes overburden analysts and IT.

* International Credit Risk Management in the Financial Services Industry, International Benchmark Survey, by SAS and *Risk* magazine, June 2004.



**THE
POWER
TO KNOW®**

How can we manage our credit risk proactively and ensure that our capital reserves adequately reflect our risk profile?

YOUR GOAL: Identify, measure and manage capital and loan loss reserves and portfolio concentrations

Credit risk is the single most important source of potential losses for banks, and determining the adequacy of both the bank's capital and loan loss reserves at any given time has long been a big challenge. The first step is to gain a complete understanding of your bank's overall credit risk by viewing risk not only at the individual account level, but at the customer and portfolio levels as well.

While banks strive for an integrated understanding of their risk profiles, silos still remain within most banks, and information is scattered among business units. But without a thorough risk assessment, you have no way of knowing if your capital reserves accurately reflect the risks you face or if your loan loss reserves adequately cover potential short-term credit losses. And vulnerable banks are targets for close scrutiny by regulators and investors as well as debilitating losses.

OUR APPROACH

The key to reducing loan losses—and ensuring that your capital reserves appropriately reflect your risk profile—is to implement an integrated, quantitative credit risk solution, rather than cobbling together a series of mismatched technologies. This solution should get you up and running quickly with simple portfolio measures. It should also accommodate a path to more sophisticated credit risk management measures as your needs evolve.

We approach the problem by delivering software and services to help you:

- **Automate data consolidation and reconciliation** for access to timely data that is clean and ready for meaningful analysis.
- **Establish a simple, flexible risk modeling environment** that is fully customizable so you can get reliable models for forecasting loan losses, nonperforming assets and capital reserves into production quickly.
- **Implement a powerful, yet easy-to-use portfolio analysis risk engine** to identify credit risk and evaluate revenue opportunities at multiple levels under varying circumstances from within a single environment.
- **Deliver timely, interactive reports** to management and regulators in a form that works best for them, with the ability to drill down through the data to learn more.

SAS' unified framework integrates each step in the process with the next, avoiding the technology gaps that can negatively impact processing time, data accuracy and IT resource demands. And because the system provides built-in transparency, you can troubleshoot more quickly and offer interactive review by relevant parties on demand—from executives, to board members, to regulators.

THE SAS® DIFFERENCE: Data management, analytics and reporting within an integrated, transparent framework

Only SAS offers a modular, end-to-end solution for managing credit risk that lets you oversee the whole process with ease. With SAS, you can:

- **Accurately identify your portfolio risk exposures earlier than ever before**, so you can take preemptive action to stop losses before they occur.
- **Gain a complete view of your overall risk**, so you can ensure adequate capital reserves and free up unnecessary funds for more profit-making activities.
- **Create visual workflows with automated documentation that deliver complete transparency**, enabling you to track data from final reports all the way back to the source and interactively drill down to find answers quickly.

SAS plugs the gaps in your current risk environment as you evolve incrementally toward a single, unified platform. There's no need for complex technological workarounds to get different systems to talk to each other, and you can implement the solution in a modular fashion using a phased approach, depending on your needs. And because the best approach today may change six months from now, we don't lock you into a solution that will be difficult to modify as your portfolio grows and regulatory requirements change.

CASE STUDY: A top-10 US bank

Situation

The bank's risk data was fragmented in silos, and risk calculations were done piecemeal in a spreadsheet environment. With no ability to develop models in-house or perform the data analysis necessary for more advanced credit risk modeling, the bank couldn't re-grade risk exposures in a timely manner and couldn't accurately calculate their loan loss and capital reserves groupwide.

Solution

SAS provided the bank with a technology platform and software solution that:

- Utilizes a self-service, Web-based reporting environment.
- Facilitates groupwide data aggregation.
- Enables the development of in-house predictive risk models.
- Delivers the ability to re-grade the bank's portfolio quickly.

Results

- Fewer staff resources required to manage credit risk projects.
- Huge time savings in calculating reserves and producing management reports.
- Reduction in loan loss reserves and capital reserves.

The vision

Automated data consolidation and reconciliation

What if you could automatically pull together all the data you need – from both internal and third-party sources – transform and organize it so that it's ready for calculating reserves accurately, and track it from reports all the way back to the source, without overburdening IT?

Flexible risk modeling

What if you could better predict default and delinquency on your through-the-door population, as well as get new risk models into production in days vs. months?

A powerful portfolio analysis risk engine

What if you could consistently predict the impact different scenarios would have on your risk exposure, identify portfolio concentrations on multiple dimensions and know with certainty that your capital reserves were commensurate with the risk that you face?

Timely, interactive reports

What if you could respond to board-level and management inquiries by drilling down through a report and deconstructing your risk calculations to show exactly how you arrived at your numbers – in a matter of minutes or hours vs. weeks or months?

SAS FACTS

- More than 2,900 financial institutions worldwide are SAS customers.
- 96 percent of banks on the 2006 FORTUNE Global 500® use SAS®.
- SAS has more than three decades of experience working with financial institutions all over the world.

Learn more about SAS® software and services for banking at:

www.sas.com/industry/fsi/



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