



**Joris De Backer**  
Risk Manager

# Smarter risk management enables more business

Landbouwkrediet implements SAS® for Basel II compliance

## Industry

Banking

## Business Issue

Meeting Basel II regulations and improving risk management.

## Solution

SAS® Credit Risk Management for Banking

## Benefits

- **Better and faster decision making:** The new SAS solution gives detailed insight into risk exposure, enabling management to take timely and appropriate actions.
- **More banking business:** More stringent risk management frees up capital for additional transactions.
- **Easier switch to Internal Ratings Based (IRB) calculations:** SAS supports risk modeling with its built-in analytical capabilities.

Landbouwkrediet is among the first banks to meet Basel II regulations. Triggered by increasing regulatory pressure from banking authorities, Landbouwkrediet initiated a project aimed at smarter risk management. Together with SAS, the bank implemented a solution in only nine months that generates better and faster reporting. It will also help calculate required capital reserves and risks more accurately, enabling more banking business. Philippe Eulaerts (Director Reporting and Control) and Joris De Backer (Risk Manager) explain how SAS offered the perfect solution.

Landbouwkrediet, a member of the Credit Agricole group, is a 70-year-old Belgian bank with roots in agriculture. Its retail banking and commercial enterprises have grown to almost equal its agricultural interests. In 2006, the bank reported a growth rate of 49 percent, according to International Financial Reporting Standards (IFRS), with a net result of 52 million euros. In recent years, it acquired Europabank and Keytrade Bank. Landbouwkrediet was officially recognized as a bank insurance company in 2007, further strengthening its market position. It now has 1,700 employees, 280 branches and 430,000 customers.

### Fully support the requirements

As a major player, Landbouwkrediet has had to face the challenge of meeting the new regulations of the Basel Committee on Banking Supervision. These regulations, commonly referred to as Basel II, were first issued in 2004. Basel II requires that banks meticulously calculate the required capital reserves

they must maintain in order to cover their major risks. Banks must also clearly report their risks and capital reserves to financial markets.

Basel II has been an important trigger for Landbouwkrediet to upgrade its risk calculation and reporting. “Our first phase was aimed at complying with Basel II as quickly as possible,” says De Backer. “The second phase was to refine the calculation method. SAS proved to be the only solution that fully supported both steps.”

### Basel II compliant in nine months

The first hurdle was cleared by October 2007. Landbouwkrediet implemented the SAS credit risk tool in only nine months and now calculates and reports according to Basel II regulations. Landbouwkrediet is among the first 20 percent of the banks that are active in Belgium to do so.

This was possible because SAS provided both the necessary tools and the right people to implement them. De Backer explains, “Our SAS consultant had a great deal of experience in similar projects. This proved particularly helpful in the development of the so-called Common Solvency Ratio Reporting (COREP), the Basel II regulations on financial risk reporting and capital reserves. In fact we were able to implement the regulatory COREP reports per source system, fully in line with our internal organization. This enabled us to reconcile the general ledger of the bank. This is a major issue for most banks, but it only took us one day to realize it. To our mind, this

“Thanks to SAS we were fully compliant with Basel II in only nine months. In the future, we intend to go further and calculate our required capital reserves even more accurately, also using SAS.”

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was unequivocal proof of the power of SAS reporting and the business knowledge of the SAS consultant.”

### Successful project approach

The project approach was another key to success. Eulaerts wanted to ensure that the complete Landbouwkrediet business was covered right from the start. The objective was to avoid unpleasant surprises later on. So the project team initially concentrated on defining a series of 36 business cases, creating accurate specifications for the bank’s ICT staff and the SAS consultant. “This was crucial,” said Eulaerts. “Landbouwkrediet management had to ensure that the defined cases completely covered their business. Our SAS consultant guaranteed proper uploading of this data and the correct Basel II standard calculations. It was a perfect match: We knew where to find the necessary information and SAS knew how to process it. We were pleased – and frankly surprised – to see such steady and rapid progress.”

### Detailed insight in risk exposures

Basel II may have been the trigger, but smarter risk management was certainly

the target. Part of what has already been achieved is due to the improved SAS reporting capabilities. “I can easily create my own reports with the SAS reporting tools and keep bank management informed,” says De Backer. “The tools are user-friendly and have great potential. My reports immediately show our risk exposures. They improve our insight, help us spot any weak points and find optimal solutions.”

Basel II also provides an opportunity for banks to better calculate their risks. DeBacker notes that a more stringent calculation of required capital reserves tends to free up capital for additional transactions and thereby enable new banking business. In fact, Basel II allows banks to propose their own calculation methods and have them validated by the appropriate authorities. This is known as Internal Ratings Based (IRB) calculation. Landbouwkrediet now plans to switch to IRB calculations within two years. The bank will simply take advantage of the analytical data mining capabilities already built into the SAS tool. “SAS offers a very powerful instrument which has all the required tools to support risk modeling,

“With SAS in place, Landbouwkrediet plans to switch to IRB calculations within two years, enabling them to calculate their required capital reserves more stringently while complying with regulations.”

including ROC curves, Lorenz curves, the Gini coefficient, logical regressions and decision trees,” said De Backer.

Staff from the Landbouwkrediet business lines is currently developing the risk models in SAS, while Risk Management validates them using the same tool. Eulaerts has great confidence. “We have top-quality staff, consultants and software,” he said. “I am certain we will succeed.”



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