



THE SAP® BASEL II FOR BANKING PACKAGE – QUICK SUPPORT FOR YOUR COMPLIANCE NEEDS

The SAP® Basel II for Banking package provides world-class support for financial services institutions seeking to become compliant with the Basel Capital Accord (Basel II). Based on the SAP for Banking solution portfolio, the standard package can be implemented within five months, which helps ensure rapid ROI. The package enhances your bank's performance by delivering flexible reporting functions, embedded best practices, and support for all credit-risk calculation methods permitted under Basel II.

As chief risk officer, your difficult assignment is to minimize risk for your financial institution as it extends credit, invests capital, and makes commitments about assuming the credit and liabilities of other financial institutions. In order to make shrewd, prompt decisions about credit risk and capital adequacy you must be well informed. Recently, another factor has been added to the equation: international regulations, such as the Basel Capital Accord (Basel II), which strives to make regulatory capital more risk sensitive and to promote risk management practices within financial institutions. Compliance with Basel II would benefit both your business and your clients.

However, compliance with Basel II is not accomplished once. It requires a commitment to maintaining consistent, continuous, and timely compliance. That suggests an automated solution should be considered. Compliance requires a wealth of high-quality information and sophisticated algorithms, for example, to calculate risk-weighted assets to determine the minimum capital requirements on a case-by-case basis. Again, that kind of performance for a large financial institution is only possible today through a software-based solution.

The SAP® Basel II for Banking package helps financial services institutions address both the fundamental business issues and the IT challenges at the same time.

Modern Risk Management and Basel II

Basel II is a revision of the capital adequacy framework established under the 1988 Basel Accord (Basel I). It expands the guidelines that international banks must follow for managing risk and disclosing key risk calculations. The capital requirements are intended to improve capabilities to manage and assess risk. Supervisory review rules under Basel II encourage use of best practices to manage and reduce risk in business strategy, while market-discipline rules require detailed public disclosure of capital structures, risk exposures, ratings models, and capital adequacies.

Banks wanting to be successful under Basel II will have to adapt their organizations, business processes, and technology in order to be able to perform the enhanced processing and disclose the portfolio information required. That, in turn, calls for improved data collection, data management, data quality, and data analysis in order to achieve greater accuracy, consistency, and transparency across all risk types and business divisions the bank handles. The institution must also be prepared to align its corporate governance with the new requirements and integrate information within its IT systems to satisfy the new documentation and reporting rules.

Achieving Basel II Compliance in a Fixed Time Frame

The SAP Basel II for Banking package combines software in the SAP for Banking solution portfolio with expert services to ensure that the scoped implementation is accomplished within a fixed time frame. Preconfigured to comply with Basel II, the package reflects the comprehensive business experience SAP has accumulated in working with numerous customers who have required support for Basel II. At an affordable price, the package enables banks to implement a solution that streamlines their business processes, increases efficiency, and achieves a fast time to benefit with minimal disruption to their business.

With calculations for credit risk and related capital adequacy integrated, the package is the ideal IT solution for Basel II compliance. It supports a wide array of asset classes and calculation methods, and provides a framework for performing stress tests that probe the impact of potential changes in your credit-risk parameters. The package supports another aspect of Basel II—market discipline—with standard reports, while giving your bank the flexibility to produce both effective internal reports and reports for external disclosure.

An Out-of-the-Box Solution

The SAP Basel II for Banking package is based on the SAP for Banking set of solutions. The scope of the implementation is fixed to accelerate time to benefit, but includes the flexibility required to allow you to add functions as your business needs evolve. The package delivers predefined business content—a distillation of business expertise rendered into packaged methodologies and documentation—that make it possible for you to introduce repeatable, low-risk, low-cost deployment. Finally, the package comes with all the expertise embodied in the SAP Services organization. Along with that expertise comes a rapid, proven implementation offering that ensures your go-live within a fixed time frame.

The SAP Basel II application included in SAP for Banking supports the centralized processes financial institutions require to perform credit-risk governance, and provides the granularity and consistency of information that Basel II calls for.

Robust Calculations for Credit Risk and Capital Adequacy

The SAP Basel II application credit-risk framework provides robust support for calculating default, dilution, settlement, and residual-value risk. The application supports the standardized and the foundation internal ratings-based (IRB) approaches as well as the advanced IRB calculation approach, all of which provide values for risk-weighted assets and expected loss. Calculations based on individual financial transactions and positions offer drill-down potential for detailed risk analysis to

the transaction level. In addition to this, the application allows you to define parameters to reflect the specific requirements and discretionary choices of both regulatory supervisors and your bank.

Strong Support for Supervisory Review

SAP Basel II supports the reporting transparency and traceability necessary for the supervisory review required under Basel II – through which bank managers assess capital adequacy and analyze such potential responses as strengthening the processes for credit-risk management and improving internal controls. For this purpose, SAP Basel II offers drill-down functions – including those for individual transactions – as well as drill-through functions.

In addition to credit calculations based on current real data, SAP Basel II can determine potential capital requirements based on stress tests that explore changes in market data, business partner ratings, transactions, positions, and other parameters. Stress tests help you monitor and report on Basel II credit-risk parameters and exposure, and demonstrate the effects changes in your credit-risk profiles would have on capital adequacy.

Flexible Disclosure and Reporting

SAP Basel II generates standard reports that support Basel II requirements related to migrations in credit ratings, general credit risk, and risks from corporate holdings in the banking book, securitizations, and commercial real estate loans. Additionally, the application supports you in designing, creating, and expanding reports to address your specific policies for credit-risk management. Besides disclosure and external reporting, you can use data from SAP Basel II for internal credit-risk reporting and management.

Integrated Data Management

SAP Basel II integrates data management by incorporating both historical and financial databases, each of which serves a distinct function.

The historical database within SAP Basel II helps you collect and store data for Basel II credit-risk parameters, create a history of risk parameters and credit ratings for audits and regulatory reviews, manage historical time series, and meet regulatory requirements for reporting and plausibility. The application supports functions for creating internal models – including calibration and validation.

The financial database assures that the information is accurate, consistent, and available when needed for calculations and reporting. You can enhance and customize information within the database to meet your needs, and save versions of settings, data, and results to facilitate audits.

Services for Implementation and Support

In addition to the SAP Basel II application, the SAP Basel II for Banking package offers services and support to ensure that your institution becomes Basel II-compliant within a specific time frame at an agreed-upon cost. The services deliver the following:

- An easy-to-understand, step-by-step approach based on a clear methodology
- A predefined scope of functionalities
- Comprehensive business content
- Professionally prepared documentation, including configuration guides, data migration sheets, business process procedures, descriptions of scenarios, test catalogs for evaluation, and training materials for your project team and end users

Many Business Benefits

By properly addressing the Basel II credit-risk guidelines, your bank will be able to reduce regulatory capital and improve capital allocation. By introducing more effective risk management, you will improve risk-based pricing, which means you can accept greater risk for potentially higher returns. As an integral part of a larger credit-risk strategy, SAP Basel II helps you to expand your activities to managing limit and credit portfolios related to regulatory and economic capital requirements. And by incorporating regulatory requirements into your bank's internal credit-risk strategies, you ensure a sound basis for managing all areas of credit risk.

Handle Basel II Compliance Quickly and Efficiently

With over 10 years' experience in core banking applications and more than 550 banking customers worldwide, SAP is the best choice for institutions looking for a flexible Basel II solution to enable fast, cost-effective, and reliable compliance. For more information about the SAP Basel II for Banking package, please visit the SAP Web site at www.sap.com/banking.

Powered by SAP NetWeaver®

The SAP Basel II application is powered by the SAP NetWeaver® platform. SAP NetWeaver unifies technology components into a single platform, allowing organizations to reduce IT complexity and obtain more business value from their IT investments. It provides the best way to integrate all systems running SAP or non-SAP software.

SAP NetWeaver also helps organizations align IT with their business. With SAP NetWeaver, organizations can compose and enhance business applications rapidly using enterprise services. As the foundation for enterprise service-oriented architecture (enterprise SOA), SAP NetWeaver allows organizations to evolve their current IT landscapes into a strategic environment that drives business change.