Global financial services institutions need to accurately forecast credit losses and create provisions for such losses in accordance with rules specified under IAS/IFRS. Regulations such as Basel III & Dodd-Frank also require institutions to forecast credit losses under baseline and multiple adverse scenarios as part of the capital management process. Oracle Financial Services Loan Loss Forecasting & Provisioning provides pre-configured & extensive computations that enable institutions to effectively forecast credit losses under multiple scenarios and compute required provisions.

Comply with Regulatory Requirements on Loss Forecasting

Regulations put a lot of emphasis on stress testing and require institutions to forecast credit losses under baseline and stress scenarios. Stress testing of forecasted losses is an integral requirement of the capital plan rules issued in United States under the Dodd-Frank Act. Oracle Financial Services Loan Loss Forecasting & Provisioning provides pre-configured methodologies and an extensive modeling and stress testing framework that enables institutions to define multiple stress scenarios and forecast credit losses under such stress scenarios using pre-configured models and methods. The application supports multiple types of risk factors including macro-economic, equity, interest rate, categorical and idiosyncratic. Scenarios can be defined by specifying shocks to the risk factors.

Accurately Compute Loan Loss Provisions

Oracle Financial Services Loan Loss Forecasting & Provisioning provides pre-configured methods for estimating loan loss provisions that enable compliance with IAS/IFRS 9 regulations and other local accounting guidelines. This includes countercyclical methods that calculate amortized cost for each exposure based on its expected cash flows over its residual maturity. The application also enables users to analyze provisions and trends through an exhaustive set of pre-configured dashboards and reports that allow the user to drill-down to the most granular level.

Figure 1: Provision trends by asset class
Advanced Methods for Risk Calculations

Oracle Financial Service Loan Loss Forecasting & Provisioning estimates losses and calculates loan loss provisions using advanced built-in methods:

**Transition Matrix:** The application provides multiple techniques including regression and time-series for predicting transition probabilities. Regression models can be configured based on user specified risk factors. It also provides a multi-factor method that estimates transition probability across rating classes based on credit spreads. The application has the flexibility to “host” transition matrices developed using “in-house” models or directly use transition probabilities calculated using other applications. Oracle Financial Services Loan Loss Forecasting & Provisioning uses statistical methods based on the Poisson process to estimate forward probabilities.

**Cash Flow Estimation:** Oracle Financial Services Loan Loss Forecasting & Provisioning provides a built-in cash flow engine for estimating contractual cash flows at an exposure level granularity. Cash flows are estimated taking into consideration parameters such as interest rates, reset dates, spreads, and residual maturity. The application also provides the flexibility to estimate cash flows at a less granular level.

**Risk Measure Estimation:** Oracle Financial Services Loan Loss Forecasting & Provisioning enables institutions to estimate key measures such as amortized cost, effective interest rate (EIR) and effective interest spread (EIS) at an account-level or pool-level granularity. Forward losses are estimated using a combination of contractual cash flows and forward probabilities.

![Figure 2: Predicted transition probability across credit ratings](image)

**Comply with Multi-Jurisdictional Mandates**

Oracle Financial Services Loan Loss Forecasting & Provisioning offers the flexibility of defining multiple calculation runs, each catering to the requirements of a different regulation. The calculation process is flexible and parameterized and driven by a business user-friendly GUI. It is designed in a manner that allows for estimation of risk of a portfolio across multiple models/methods. Users can configure the calculations to run only on a subset or the entire portfolio. Exposures can be mapped to multiple runs and the provisions can be estimated under multiple sets of parameters thereby enabling multi-jurisdictional reporting.

**Advanced Analytics**

Oracle Financial Services Loan Loss Forecasting & Provisioning has strong dashboard capability that enables the delivery of advanced analytics through pre-configured reports, charts and graphs having drill-through capability. The risk metrics reported include provisions, contractual cash flows, expected cash flows, amortized cost, transition matrix, and stress test reports. Alerts are also displayed based on pre-specified rules.

The dashboard allows the comparison of risk and back testing measures across multiple

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**Figure 2:** Predicted transition probability across credit ratings
portfolios and market risk models. This allows the top management to compare the relative risk and performance of each portfolio and devise appropriate strategies.

![Figure 3: Charge off reports by line of business and trend over time](image)

**Oracle Analytic Applications for Enterprise Risk Management**

Oracle Financial Services Enterprise Risk Management suite enables financial institutions to establish a single view of risk across the organization, thereby optimizing capital requirements. It enables strategic capital decisions by deploying a consistent and comprehensive risk quantification & stress testing solution built using OFSAA suite of applications.

Oracle Financial Services Enterprise Risk Management suite includes best-of-breed applications for Credit Risk, Treasury Risk, Operational Risk, Regulatory and Economic Capital, all of which uniquely share a common analytical infrastructure comprising a unified financial services data model, shared analytical computations and finally, the industry-leading business intelligence platform.

**Contact Us**

For more information about Oracle Financial Services Loan Loss Forecasting & Provisioning visit oracle.com or call +1.800.ORACLE1 to speak to an Oracle representative.

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**Hardware and Software, Engineered to Work Together**