

Oracle Financial Services Funds Transfer Pricing



Oracle Financial Services Funds Transfer Pricing application builds on Oracle's history as the industry's first matched maturity funds transfer pricing application, enabling financial institutions to determine the spread earned on assets and liabilities, and the spread earned as a result of interest rate exposure for each and every customer relationship. This enables accurate assessment of profitability along product, channel, and business lines, as well as the centralization of interest rate risk so it can be effectively managed. Oracle Financial Services Funds Transfer Pricing is fully integrated with Oracle's Financial Services Analytical Applications and shares a common customer account level data model.

KEY FEATURES

- Industry leading Transfer Pricing Methods support base transfer rates
- TP methods available for ALM Forecasting and Budgeting
- Option, Liquidity, and Breakage Charges
- Integration of Risk, Performance Management, Customer Insight, and Financial Compliance
- Visibility into the components of net interest margin
- Shared data model and platform
- Enterprise class scalability

KEY BENEFITS

- Set transfer rates for a wide range of financial instruments
- Actively incorporate risk into decision making
- Flexibly assign transfer rates to individual customer relationships
- Develop a deeper understanding of option and liquidity costs
- Identify break events and compute economic loss
- Price loan commitments using forward rates and calculate rate lock option costs
- Easy-to-use interfaces and business

Transfer Pricing as a Profit-Enriching Tool

The transfer pricing process isolates the four major sources of a bank's margin:

- The spread earned on assets
- The spread earned on liabilities
- The spread earned or lost as a result of interest rate risk exposure
- The spread earned or lost as a result of embedded options, such as prepayments

Measuring and managing interest margin offers tremendous profit opportunities. By separating the components of net interest income, Oracle Financial Services Funds Transfer Pricing isolates rate risk into your funding center, where it can be centrally managed. In turn, business units are held accountable for what they can control: pricing and profitability. Armed with this highly accurate information, companies make solid, supportable decisions that lead to increased success.

Precision and Flexibility at the Lowest Level

Oracle Financial Services Funds Transfer Pricing assigns a transfer rate to each customer relationship by applying the transfer pricing technique you specify for the specific type of product. There are twelve methodologies to choose from, enabling you to match the right method to every product. These methodologies incorporate user-driven transfer pricing yield curves, unique account characteristics, and customized prepayment expectations into the final transfer rate.

Multiple transfer pricing Add-On rates allow you to isolate the impact of individual market risks (such as basis, option, and liquidity risk), enabling you to better understand the risk profile of individual instruments, selected portfolios, and the entire organization.

logic requires minimal maintenance

- Publish web based daily FTP rate cards for standard products

RELATED PRODUCTS

The following products are also available from Oracle Financial Services Analytical Applications:

- Oracle Financial Services Profitability Management
- Oracle Financial Services Asset Liability Management
- Oracle Financial Services Price Creation and Discovery
- Oracle Financial Services Asset Liability Management Analytics
- Oracle Financial Services Enterprise Performance Analytics
- Oracle Financial Services Retail Performance Analytics
- Oracle Financial Services Institutional Performance Analytics
- Oracle Financial Services Analytical Applications Infrastructure

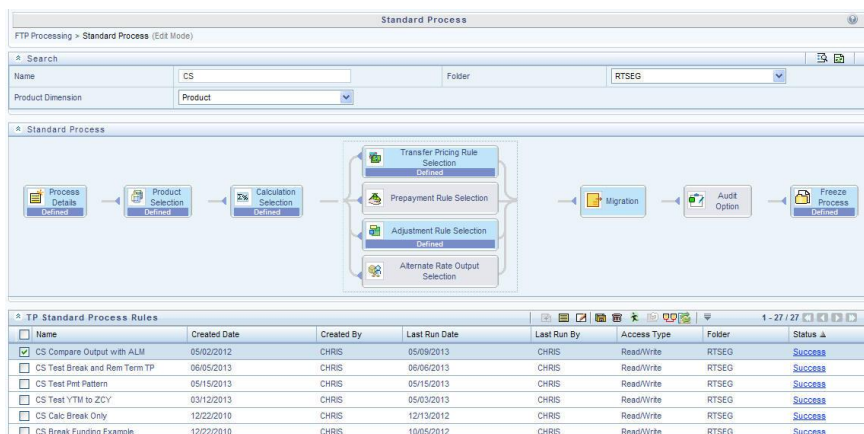


Figure 1. Defining an Funds Transfer Pricing Process through guided rule selection

Reconciling Current Rate Risk with the Historical Transfer Pricing Perspective

To clearly explain today's treasury profit, transfer prices must be calculated to reflect both current rate risk and historical balance sheet management actions. Oracle Financial Services Funds Transfer Pricing can apply today's yield curve to the remaining life of the instrument to compare embedded and current risk profiles. Both historical and current transfer rates are stored on each individual customer record. By comparing these two perspectives, current risk profit and historical risk profit can be isolated.

Centralized Interest Rate Risk

Oracle Financial Services Funds Transfer Pricing isolates each source of interest rate risk and concentrates rate risk management in your bank's funding center. Ongoing access, at any frequency desired, to vital information about rate risk, is an essential part of effective treasury management.

Deep Understanding of Option Costs

One of the most advanced features of Oracle Financial Services Funds Transfer Pricing is its ability to calculate option costs. These calculations quantify the cost of an option, in terms of a spread over the transfer rate, for a single instrument at the time of funding. An instrument with an option feature can exhibit changes in its cash flow behavior under various interest rate environments and, can be priced accordingly once the option cost is defined. Examples of optionality contained on a bank's balance sheet include prepayments, the impact of rate caps and floors, and early redemptions on deposits.

Such flexibility given to the borrower can raise the bank's cost of funding the loan and affect the underlying profit. You can use the calculated cost of these options in conjunction with the transfer rate to better analyze profitability.

The same sophisticated, stochastic techniques that are used in Oracle Financial Services Asset Liability Management are used to calculate option costs in Oracle Financial Services Funds Transfer Pricing. You can choose between two numerical techniques: Monte Carlo with pseudo-random numbers, or Monte Carlo with low discrepancy sequences. Four term-structure models are available: Ho and Lee, Merton, Vasicek, and Extended Vasicek. Three smoothing methods are offered: Straight Line,

Cubic Spline and Quartic Spline. Taken together, these features constitute the strongest transfer pricing and option cost package on the market today.

Enterprise-Wide Analysis and Reporting

All of this analytical power and flexibility is of no use if the results cannot be widely delivered across the enterprise to enable managers to act. Oracle provides the capabilities to support rich reporting and analysis, with built-in reporting support from Oracle Business Intelligence. Additionally, Oracle's open standards and adherence to industry best practice allow integration with any third-party reporting tool.

Unified Infrastructure and Data Model

Oracle Financial Services Funds Transfer Pricing shares a common infrastructure and analytical data model with the other Oracle Financial Services Analytical Applications, including Oracle Financial Services Profitability Management, Oracle Financial Services Pricing Management, and Oracle Financial Services Asset Liability Management. This ensures that results generated from across the suite of analytical applications begin with a common, reconciled data source, providing management with confidence that results are valid and consistent.

The underlying set of tools in the Oracle Financial Services Analytical Applications Infrastructure assists with loading, validating, categorizing, selection, and processing of data. Oracle Financial Services Analytical Applications Infrastructure helps control data quality, and provides a consistent approach across applications for assigning business assumptions and accessing shared data for computations underlying Oracle's Financial Services Analytical Applications.

Delivered in an Operational Environment

With Oracle Financial Services Funds Transfer Pricing, enterprises can move beyond simply managing interest margin to being able to improve it, by delivering better transfer pricing results as part of a continuous improvement process. This includes security, centralized administration, auditing of processes and results, and changes to Transfer Pricing rules. In order to make the tough decisions today's business environment requires, you need to have 100 percent confidence in your results, something spreadsheet and PC-based applications simply cannot deliver.

Summary

Oracle's Financial Services Analytical Applications are integrated solutions based on "industry best practice" components. Solutions can be deployed with confidence because all the pieces fit together: data, analytics, business rules, hierarchies, and reporting. Although the solution was designed to be delivered on an integrated basis, each of these product components can:

- Stand on its own as a best-of-breed solution
- Undergo implementation on either a simple or sophisticated basis and support ongoing evolution of analytical methodologies
- Undergo implementation in any order

The core strengths of Oracle Financial Services Funds Transfer Pricing—its scalability, ability to accept data from any source, trustworthy results, multidimensional reporting,

and sophisticated analysis capabilities—enable your organization to understand and then act upon the knowledge to deliver real results.

Key Features Summary

Process Management

- Account level matched rate transfer pricing
- Transfer pricing of indeterminate maturity instruments
- Prime loan transfer pricing pools
- Pre-quoted cost of funds
- Separable processes for rate migration and propagation
- Daily or Monthly processing

Multiple Transfer Pricing Methods

- Cash Flow Weighted Term: Match each cash flow at the rate from the appropriate term on the transfer pricing yield curve
- Cash Flow Zero Discount Factor: Solve for the appropriate rate to match the present value of principal cash flows
- Cash Flow Duration: Match the duration to the matching term point of the transfer pricing yield curve
- Cash Flow Average Life: Match the average life to the matching term point of the transfer pricing yield curve
- Caterpillar: Applies strip funding concept to indeterminate maturity products based on product specific behavior models
- Tractor: Incorporates a replicating portfolio concept into transfer pricing of indeterminate maturity accounts
- Moving Average: Calculate the historical average of a selected point on the transfer pricing yield curve over periods of time
- Spread from Interest Rate Code: Fix a spread from a selected point on the transfer pricing yield curve
- Spread from Note Rate: Fix the spread from the transaction's current rate
- Straight Term: Match the actual transaction term with the corresponding point on the transfer pricing yield curve
- Redemption Curve: Calculate a weighted average rate
- Weighted Average Perpetual: Calculate a weighted average rate on indeterminate maturity products based on product specific behavior models
- Unpriced Account: Price from the average transfer rate on a pool of accounts

Integrated Architecture

- Use with Oracle Financial Services Profitability Management: For multi-dimensional profitability analysis
- Transfer Pricing methods are available to forecast balances within both Oracle Financial Services Asset Liability Management and Oracle Financial Services Balance Sheet Planning

About Oracle Financial Services Analytical Applications

Oracle Financial Services Analytical Applications bring financial institutions best-of-breed capabilities to proactively manage Financial Crime, Compliance, Risk, Treasury, Finance and the Front Office. The applications are built upon a commonly available

analytical infrastructure consisting of a unified financial services data model, analytical computations, a Metadata driven “R” modeling platform, and the industry-leading Oracle Business Intelligence platform.





A single, unified data model and infrastructure provides one version of the analytical “truth” to business users throughout the entire enterprise. This enables financial services institutions to confidently manage performance, governance, risk and compliance. Shared data, metadata, computations and business rules enable institutions to meet emerging business and regulatory requirements with reduced expenses and the unified platform helps financial institutions to leverage existing investments.



CONTACT US

For more information about Oracle Financial Services Funds Transfer Pricing, visit oracle.com/financialservices or call +1.800.633.0738 to speak to an Oracle representative.

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