

FINANCIAL SERVICES— REPORTING ON RISK

A FINANCIAL SERVICES
APPLICATION BRIEF



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THE NEXT LEVEL OF PERFORMANCE™

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EXECUTIVE SUMMARY

With over 1,000 financial services customers worldwide, including nine of the top 10 banks in the US and nine of the top 10 banks in Europe, Cognos understands the challenges facing financial services institutions (FSIs). We are the leader in providing performance management solutions to the financial services industry.

Cognos has a proven track record of helping FSIs:

- Identify, analyze, and enhance customer, product and channel profitability
- Quickly and effectively manage and reduce risk
- Address compliance and trust issues and even turn compliance into competitive advantage
- Understand and compete in new global markets
- Implement best practices for the consumption and dissemination of information to stakeholders worldwide.

Of these imperatives, managing risk has moved to the forefront of demands. Managing risk is not just good business; it now can protect FSIs from the penalties associated with the governance legislation that has become the new reality at banks today. Sarbanes-Oxley, the Myners Report in the UK, and the US Patriot Act all demand greater control and visibility. The price can be high: significant fines, reputational risk, lost revenue opportunities, and personal liability.

The challenge doesn't end here. With legislation such as Basel II, the EU's Capital Adequacy Directive, and other national and international reporting obligations, FSIs have been challenged to make optimum use of their data assets.

With Cognos banks can:

- Aggregate risk (credit, operational, market, country) data from multiple silos, diverse business lines, all regions and across the organization to deliver enterprise risk reporting to support a broad range of reporting requirements from a central, consistent source
- Undertake "what-if" analysis to identify best use of capital, both on the basis of product and customer profitability and in the wider context of the customer relationship across the business as a whole
- Analyze enterprise risk patterns and proactively alert managers and senior executives to predetermined risk events or breaches
- Respond to external key influencers, such as rating agencies and supervisors, to ensure a lower cost of capital.

With Cognos, you can eliminate the silos in credit risk, operational risk, and country and market risk, while providing risk analysts with the robust analytical capabilities necessary to spot trends and quickly react to changing market conditions. With these capabilities, banks can use capital more efficiently, which in turn boosts profitability and benefits shareholders.

This application brief will show you how easy and effective risk management can be with Cognos software.

OVERVIEW

Managed reporting provides an effective way to deliver information out to users, especially where user communities are varied.

Key audience for risk reports may include:

- Traders
- Executives and senior managers
- Analysts
- External rating agencies
- Customers, suppliers, and partners.

Predefined reports can be published from the central management group and distributed via the intranet or extranet to risk managers, traders, and any other group.

Ad hoc reports can be created by individual power users and shared as necessary.

Cognos ReportNet™ lets any person within the organization, whether a technical or business user, create, modify, and distribute managed reports and ad hoc queries quickly and easily. It is simple to use—anyone can build any manner of report, in multiple languages, with drag-and-drop simplicity.

As a result of these reports, risk managers can make better decisions regarding credit extension, securities and currency trading, and operations. Sample reports include global consolidated report by risk position, early warnings, reports by a risk manager, and many more. These reports tie the organization together with one version of the truth.

For the purposes of this application brief, we will take you through various scenarios that traders face on a daily basis. We will take you through several sample reports including:

- A Counterparty Summary Report
- A Rating Change Report
- An Unrated Counterparty Report
- A Stress Test Scenario Analysis.

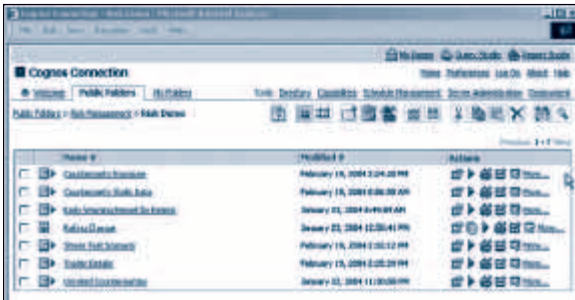
COUNTERPARTY SUMMARY REPORT

Using Cognos ReportNet, traders, senior managers, and analysts can access real-time data. As a trader, you need information quickly. When a counterparty contacts you and wants to conduct a trade, you need to act fast. Prior to doing so you need to understand your bank's exposure to that counterparty. You need to access a Counterparty Summary Report.

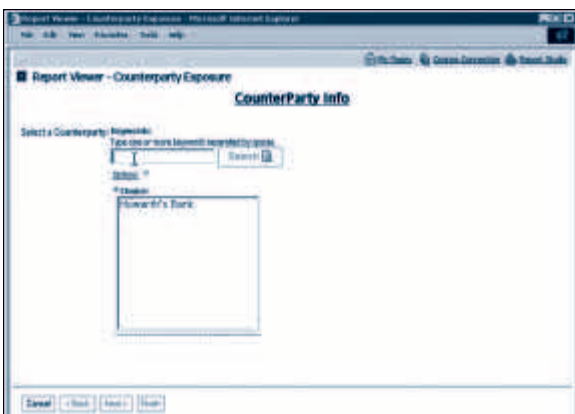
In this scenario we will conduct a counterparty summary for the financial institution of Howarth's Bank of New York.

Steps:

1. Click on the Counterparty Exposure link.



2. Type in the name Howarth's and click on Search to find out if there are multiple legal entities in the system under that name.



3. Click on Howarth's Bank from the select box and click Finish to run the Counterparty Summary Report.

Counterparty	Cpty ID	Legal Entity	Internal Rating	Extry	Next Credit Review Date	Total Committed	Total Drawn	Unutilized
Howarth's Bank	122826	Howarth's Bank New York	AA-	United States	4/26/2009	\$10,000,000	\$5,816,222	\$4,183,778
	122826	Howarth's Bank London	AA-	Great Britain	4/9/2004	\$20,000,000	\$15,000,000	\$5,000,000
	122826	Howarth's Bank Frankfurt	AA-	Germany	4/9/2005	\$5,000,000	\$1,353,819	\$3,646,181
	122826	Howarth's Bank Tokyo	AA-	Japan	1/14/2000	\$15,000,000	\$1,396,000	\$13,604,000

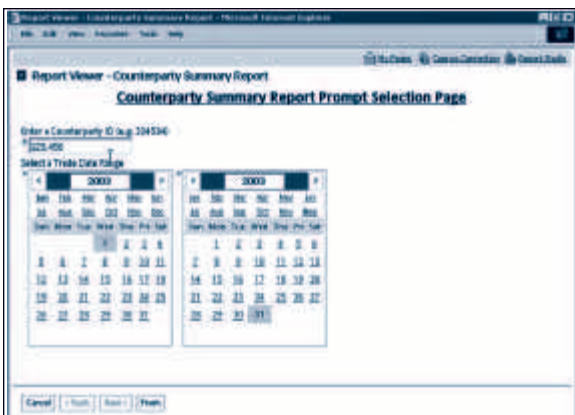
These actions create a Counterparty Summary Report, where traders can see at-a-glance the internal rating for Howarth's Bank, their external rating, where they are domiciled, total dollars committed, their total drawn, loans utilized, and unutilized loans.

In this scenario, your financial institution has committed \$10 million to Howarth's Bank of New York, but they have only used just over \$5.8 million. This means that \$4.1 million in trades can be safely conducted.

As a next step, it would be prudent to review any outstanding collateral. This ensures that the loan is properly backed up, and you really understand where the exposure for Howarth's Bank exists regionally.

Steps:

1. Return to main reporting list.
2. Click on **Counterparty Summary Report**.
3. When prompted enter the counterparty ID and the time you are interested in.



4. Click **Finish**.

The report created contains three sections of information including:

- Exposure by Country Risk
- Exposure by Collateral Risk
- Trade History with Howarth's Bank.



In this scenario, no red flags exist. Howarth's Bank does not present a country risk since their business is geographically diversified. They do not present a collateralizing risk since the majority of exposure is backed up by pensions. Finally, their trade history indicates a healthy and active business relationship.

This report gives a great deal of information about Howarth's Bank, but some users may want to interact with the information to learn even more. Using Cognos PowerPlay allows the central risk group, traders, and other users to slice and dice the data to access further information.



This screen depicts the MTM limit by region, but users can review any of the measures displayed—such as number of customers, limit to exposure, drawn loans utilized, etc.—to get a better feel for the true situation at Howarth's Bank. Any of those measures can be further sliced by any of the dimensions listed at the top, such as region (shown), industry, rating by the desired source, or date.

RATING CHANGE REPORT

A Rating Change Report is one that indicates any changes to credit rating or anomalies to credit rating data. This report ensures that traders get the most up-to-date information on changes to ratings from both internal and external sources.

Steps:

1. Return to the main reporting menu.
2. Click on Ratings Change Report link.



Counterparty	Ratings Agency	Last SAP Rating	Current SAP Rating	Change	Internal Rating	M1M (USD)
Abn-Amro Bank	Standard & Poor's	BBB	CCC-	Downgrade	CCC-	\$3.08
Chubb Ltd	Standard & Poor's	BBB-	AAA	Upgrade	AA	\$3,680,808.08
Corning Inc	Standard & Poor's	BB+	BBB+	Upgrade	BB	\$14,190,808.28
Edi-Header Corp.	Standard & Poor's	AA	AAA	Upgrade	AAA	\$65,683,825.08
T.O. Johnson Companies Inc.	Standard & Poor's	BBB	B-	Downgrade	AAA	\$244,232.58
Stamps International	Standard & Poor's	A	AAA	Upgrade	BBB	\$1,676,541.08
The Bank of Montreal	Standard & Poor's	BBB	BB	Downgrade	B	\$23,571,814.48

This report shows seven counterparties that have recently been upgraded or downgraded by Standard and Poor's. Since Howarth's Bank does not appear, we can be assured that they don't pose any substantial risk, according to external ratings agencies. Bank of Baileys, on the other hand, does pose a risk due to its downgrade from a BBB rating to a BB, and the fact that it has \$33 million in outstanding limits. In addition, the internal rating given to Bank of Baileys by our financial institution is even lower than Standard & Poor's, indicating that this is not a bank we want to do business with.

UNRATED COUNTERPARTIES REPORT

Exception reports are a good way of viewing counterparties that fit into a certain criteria. For example, it would be good to know of any counterparties that have limits but no credit rating. This could help minimize accidentally doing business without having enough information to determine if the counterparty is suitable for trading. This is the purpose of the Unrated Counterparties Report.

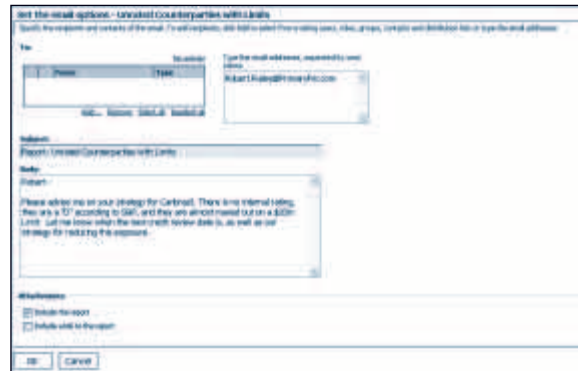
Steps:

1. Return to the main reporting menu.
2. Click on the Unrated Counterparties link.

Responsible Credit Officer	Legal Entity	Internal Rating	Current SAP Rating	Risk WCA	Moody Rating	L10 Limit	M10 Limit	Notional Limit
Just Grubbs	DMR Central De Bank	Not Rated	Not Rated	Not Rated	Not Rated	2,000,000	1,000,000	2,000,000
John Palmer	Bank of America	Not Rated	A	A	B1B	15,000,000	15,000,000	15,000,000
ROBERT FIALEY	Bank of America	Not Rated	D	Not Rated	CPI	20,000,000	15,400,000	20,000,000
	DMR Colombia	Not Rated	CCC	Not Rated	CPI	100,000	100,000	100,000
FRANK HANSEN	DMR the Club	Not Rated	1	Not Rated	Not Rated	6,000,000	5,000,000	6,000,000
Tom Trankin	Comcast Bank	Not Rated	BB	BB	B1B	2,000,000	1,000,000	2,000,000
Tom Malina	DMR CEMSA SA	Not Rated	BB	Not Rated	B1F	2,000,000	2,000,000	2,000,000
	Miliponts	Not Rated	Not Rated	Not	D	10,000,000	10,000,000	10,000,000

This report is geared towards company officials and analysts who need to identify counterparties that have not yet been rated internally or by any other external rating agencies, but have outstanding limits. This report indicates the clientele you are actively trading with, but do not have all the necessary information for.

To manage risk most effectively, insight must be shared across many people within the FSI. In the unrated counterparties example depicted here, the logical next step is for management to request follow-up on one or more of these unrated counterparties. Cognos ReportNet makes such collaboration easy by providing distribution capabilities that include saving the report to a public area, or emailing it to the necessary people within the FSI. The screen shown here is an email from management to Robert Fialey, requesting immediate action on Canbrazil.

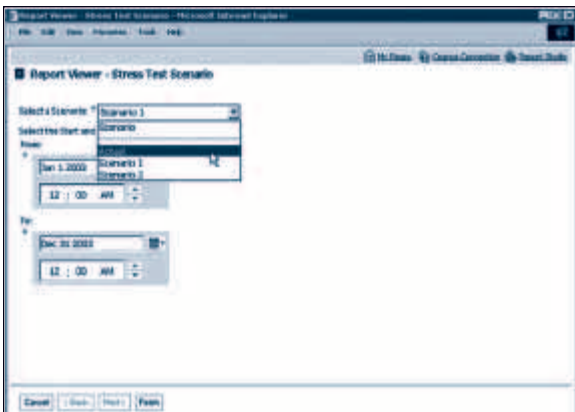


STRESS TEST SCENARIO REPORT

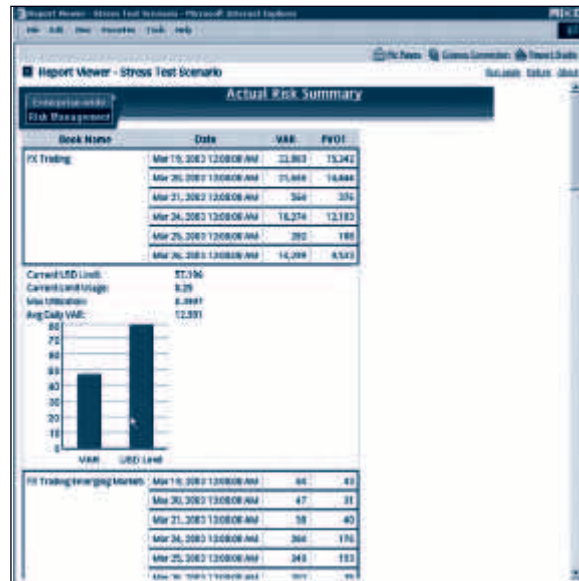
Managed reporting is also a good way of providing end-users with the results of scenario analysis. For example, what would happen to our existing positions should interest rates or other market conditions change? To understand scenario analysis we may want to run a Stress Test Scenario Report. This report allows us to select from either actual activity within the account, or from the perspective of two or more distinct scenarios.

Steps:

1. Return to the main reporting menu and click on the **Stress Test Scenario** link.
2. Select the **Actual** tab from the **Select a Scenario** dropdown menu.



3. Enter January 1, 2003 in the **From** box.
4. Enter December 31, 2003 in the **To** box.
5. Click **Finish**.



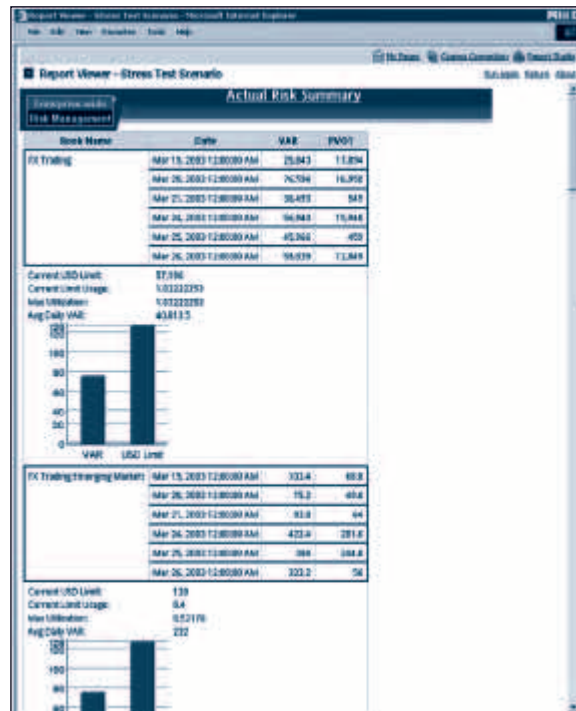
This report illustrates our value at risk and our present value of risk given a one percent basis point change in interest rates. It breaks out risk in terms of book, by trade date, and also provides some graphical information comparing our value at risk to our limits.

In the case of FX trading, we see that we have \$57 million in US limits. In order to truly understand our risk, we can explore it in the context of different scenarios. We decide to explore scenario one, which indicates a five percent change in interest rates.

Steps:

1. Click on the **Run Again** link at the top right hand of the screen.
2. Select the **Scenario One** tab from the drop down menu.
3. Click on the **Finish** tab.

When the report returns we can see that the limits remain the same, but the value at risk has changed substantially. For a market analyst, this report is critical to quickly understanding the direct impact of market fluctuations.



SUMMARY

The preceding series of situations and screenshots depicts only a few of the ways the Cognos reporting platform makes it possible for traders, senior managers, analysts, and other key staff members to gain visibility into present and future risk. At the same time, head office can quickly and easily see how individual branches measure up in terms of performance against goals. This alignment of execution with strategy is a critical element in the Cognos corporate performance management (CPM) approach.

Whatever the complexity or size of the financial services institution, Cognos can deliver a Web-based process for risk management. By capturing data on volume and spread across loan and deposit products, branch managers can create risk, operational, and profitability objectives and measure succeeding performance against those objectives. At the same time, branches can be held accountable for performance and profitability.

ABOUT COGNOS

Cognos customers include:

- **Nine of the top 10 U.S. banks**
- **Nine of the top 10 European banks**
- **Hundreds of financial services companies around the world.**

Cognos is the world leader in business intelligence and performance planning software for the enterprise. Our solutions let companies drive performance with enterprise planning and budgeting; monitor performance

with enterprise scorecarding; and understand their performance with the reporting and analysis of enterprise business intelligence. Cognos is the only company to support all of these key management activities as a complete solution from one vendor.

Founded in 1969, Cognos today serves more than 22,000 customers in over 135 countries around the world. Cognos enterprise business intelligence solutions and services are also available from more than 3,000 worldwide partners and resellers.

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