

## The only complete, Basel II compliant, integrated solution for specialized finance

Risk Integrated provides unparalleled expertise in **methodology, technology, and workflow management** for specialized finance.

The New Basel Accord requires a standardized rating process across all asset classes. The unique nature of specialized finance, including project finance and commercial real estate, makes it the most difficult set of credits for risk measurement.

The complexity of specialized finance creates a relatively inefficient market, with the potential for significant losses at banks less able to manage their risk and opportunities for large arbitrage profits for those who can. The **Risk Integrated Specialized Finance System (SFS)** provides full Basel compliance at the Advanced level as well as a clear competitive advantage in today's market.

## The Most Advanced Methodology Available

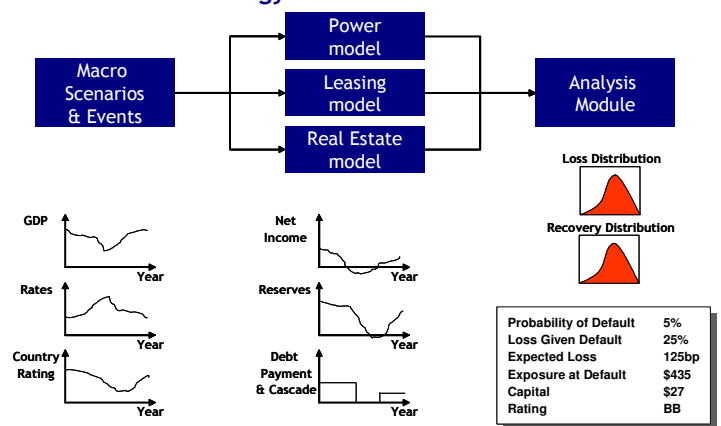
Unlike traditional approaches for measuring risk, the SFS simulation-based approach is **specifically designed for specialized finance**. Traditional methods are inadequate for specialized finance assets:

### Traditional methods compared to Risk Integrated

<b>Regression</b>	<ul style="list-style-type: none"> <li>Requires large batches of similar deals, unsuitable for specialized deals</li> <li>Fails to capture the deal complexity</li> </ul>
<b>Merton</b>	<ul style="list-style-type: none"> <li>Requires traded equity information, unavailable for specialized finance</li> </ul>
<b>Static cashflow model</b>	<ul style="list-style-type: none"> <li>No concept of probability or capital</li> </ul>
<b>Basic Monte Carlo</b>	<ul style="list-style-type: none"> <li>Does not include macro-economic correlations</li> <li>Too simplistic to yield accurate results</li> </ul>
<b>Risk Integrated SFS</b>	<ul style="list-style-type: none"> <li>Tailors to complex deal structures</li> <li>Uses all known information (e.g. legal structure, counterparty credit ratings, macro-economic market data, and historical default data)</li> <li>Gives estimates of PD and LGD</li> <li>Incorporates economic and counterparty default correlation</li> <li>Provides full payment cascade</li> </ul>

By using **macro-economic simulation and cashflow structures**, the Risk Integrated SFS minimizes the reliance on historical default data. However, any available default data may be used for calibration. The SFS provides risk statistics and reports that include the **metrics required for Basel capital** as well as more traditional metrics, such as the variation in loan-to-value. The SFS allows lending officers to aid their intuition and see the effects of individual scenarios and improve the deal structure.

### Overall Methodology: Cashflows with Macro Scenarios



The Risk Integrated SFS fully correlates economic effects and can be used to rate individual credits, manage the full portfolio, and structure sub-portfolios, such as project finance asset-backed securities. This comprehensive approach includes inter-asset correlations and easily allows the estimation of diversification effects with portfolios other than specialized finance (e.g., commercial lending or retail portfolios). The SFS includes variance-reduction and parallel-processing, allowing complete portfolios to be assessed within a practical timeframe.

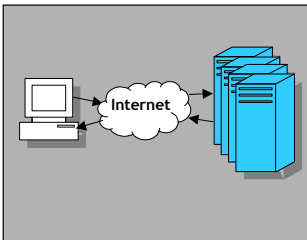
The SFS cashflow models are unique in that they capture the complex nature of specialized finance assets. For example, our commercial real estate model includes the effects of **location, sector, current leases, step, market and upwards-only rent reviews, tenant quality, sweep accounts, planned sales, refinancing, profit-sharing and interest rate derivatives**. The model can be used to assess customers who simultaneously hold a combination of multiple investment properties and development projects, providing the most complete solution for real estate professionals.

## Technology that is immediately usable, compatible, customizable, and secure

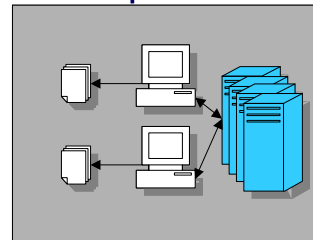
The Risk Integrated Specialized Finance System (SFS) has been specifically designed to be easily adapted to each bank's unique way of doing business. This highly practical, immediately usable system has been developed in close cooperation with front-line lending officers, risk managers, and IT managers. Our experience with a wide range of specialized finance projects and portfolios, combined with our fully-qualified proprietary software module library, enables us to **implement the SFS rapidly and effectively**.

The SFS is available in a variety of configurations. The SFS-Enterprise is a fully-integrated client-server platform deployed on your existing IT infrastructure with direct links to the core banking system. For an immediate, untailed solution, we also offer a subscription service accessible through any Web browser where the analytics can be fully outsourced. If desired, the SFS-Web can also be directly implemented on the Bank's intranet.

SFS-Web



SFS-Enterprise



Our unique system provides a fast, secure framework that **allows the cashflow models, parameters and ratings to be standardized, controlled and audited**. The framework is modular and flexible and can incorporate any existing models currently being used by the bank as well as prototypes in development.

The system software architecture embodies state-of-the-art enterprise computing technologies and utilizes industry-standard XML Web Service protocols for ease of integration with your existing IT infrastructure. The system is compatible with all leading enterprise database technologies such as IBM-DB2, Oracle, Microsoft-SQL-Server, and can be easily configured to operate with any other database. We are an official Independent Software Development Partner of IBM.

Our founding partners have graduate degrees from Princeton, MIT, and Stanford and over thirty years of experience in financial risk consulting and advanced software engineering.

## For more information

To learn more about Risk Integrated solutions, please visit our website at [www.RiskIntegrated.com](http://www.RiskIntegrated.com), or contact us at +1 (845) 598 1620.

The system is fully-scalable, designed to operate on a single computer (i.e. for rating individual deals) or across a large number of parallel servers (e.g. for rating large portfolios comprising thousands of deals).

## Seamless Workflow Management

The SFS is a fully-developed, flexible platform designed to be **seamlessly integrated with the bank's business processes and systems**. We work directly with your lending officers, risk managers, and IT managers to train them and customize the SFS.

Incorporating the SFS into your workflow improves efficiency, encourages lenders to use the system, and increases security. For example, deal data need only be entered once, into the banking system. It is then used by the SFS, allowing the lending teams to try new credit structures and explore potential pricing options **without additional data entry**. The SFS automatically generates the reports that lending officers and managers need to complete the lending and approval process (e.g. credit committee application).

The system can be used to dynamically re-grade the credit incorporating modifications at any point in the lending process. After draw-down, the SFS provides automatic portfolio monitoring and periodic reviews of grades for each credit, allowing management to focus on the credits with the most significant changes.

The workflow scenario below illustrates Risk Integrated SFS implementation with a current client. Risk Integrated provides full Use-Cases and Technical Specifications to facilitate integration of the system into each bank's processes.

Risk Integrated's SFS not only offers lending teams comprehensive information to effectively manage assets, but provides senior management with detailed reports to strategically control the portfolio. **The SFS is the only complete, integrated solution for specialized finance.**

