

Development of a framework for value-based management and balance sheet management

Globally operating German universal bank

CUSTOMER SITUATION

- Despite their clear business strategy, a clear focus on ROE, EPS, capital ratios and top management reporting, the bank faced a significant decline in total shareholder value
- The bank wanted to implement the lessons learned from the crisis and manage shareholder value creation accordingly
- Key priority therein was to identify new metrics with a high explanatory link to total shareholder return

PROJECT CHALLENGE

- Identify the metrics and investigate as well as quantify the link between business drivers and shareholder value creation
- Integrate these new metrics in an E2E-based steering framework and external / internal reporting systems

APPROACH

- Metric identification using statistical/financial analysis
- Establishment of a market link using sophisticated valuation models. Link business drivers and shareholder value using value driver trees
- Design a new value-based management (VBM) system with a new visually well arranged financial reporting system
- Develop a balance sheet management (BSM) framework used for management discipline, monitoring ratios and preventing outlier position via e.g. peer benchmarking and risk reporting

VALUE ADDED BY ZEB

1 Analysis

TSR (empirical)

2 KPI derivation

3 Annual reports

Mgmt. reporting

- 1** Statistical modeling to understand the dynamics and metrics of shareholder value creation
- 2** Subsequent derivation of a tailored KPI set
- 3** Integration into annual reports (P&L and B/S) and top management reporting (e.g. KPI cockpit, planning & forecasting, business unit info)

Optimization and design of processes at top-tier international financial services provider to ensure legal / regulatory compliance

Top-tier global financial institution

CUSTOMER SITUATION

- Large services provider in financial markets needed to align the processes regarding Financial Accounting and Controlling, HR and Purchasing in several European countries, incl. Germany, Luxembourg and Ireland
- Client has assigned zeb to carry out the necessary process review and measures
- Particular attention to compliance with the relevant legal and regulatory environment was requested

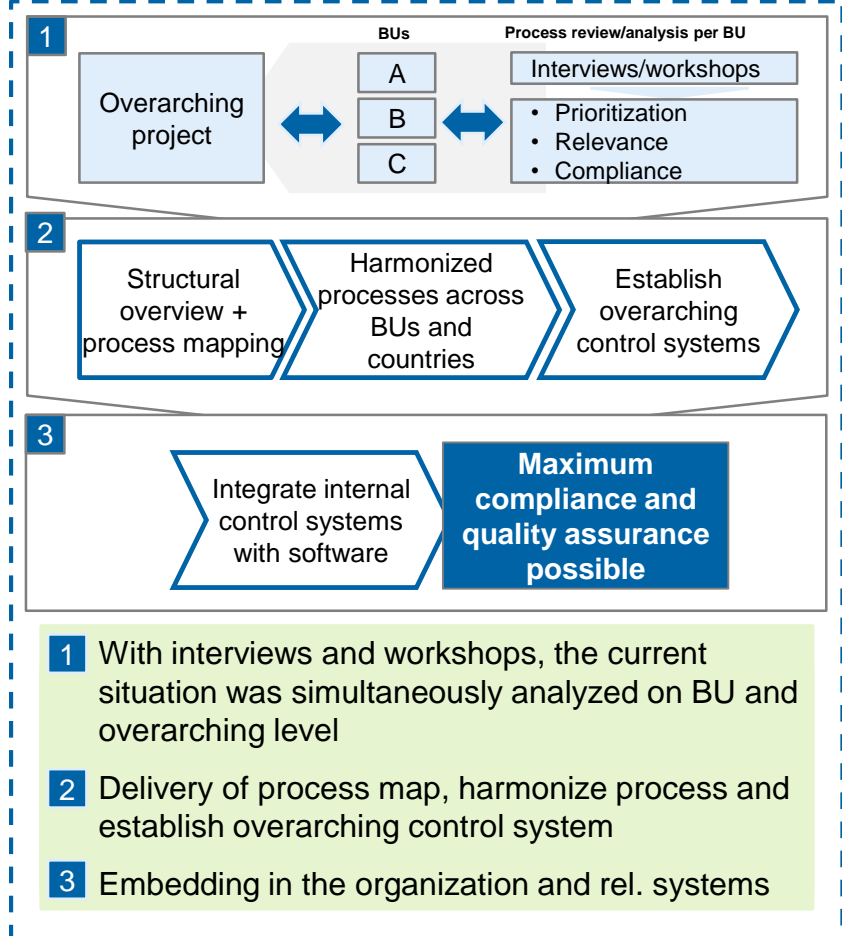
PROJECT CHALLENGE

- Harmonize and implement processes across multiple BUs in multiple countries simultaneously
- Integrate and embed an internal control system into the existing software to ensure future legal / regulatory compliance

APPROACH

- Establish 3 “sub-projects” in line with the 3 (int.) BUs involved and determine document standards
- Conduct expert interviews to map existing processes landscape
- Analyze, assess and prioritize processes
- Organize expert workshops to assess legal / regulatory conformity of processes and identify optimization potential
- Establish overarching process monitoring tool
- Integrate with existing software to ensure future compliance

VALUE ADDED BY ZEB



- 1** With interviews and workshops, the current situation was simultaneously analyzed on BU and overarching level
- 2** Delivery of process map, harmonize process and establish overarching control system
- 3** Embedding in the organization and rel. systems

Design and implementation of a scenario-based interest income simulation—requirements of IRRBB and EBA stress tests covered

Large German wholesale bank

CUSTOMER SITUATION

- Need to implement regulatory initiatives that require a net interest income simulation and periodical risk measurement on group level
- IT architecture did not cover the necessary data requirements with respect to the product calculation and FINREP reporting
- Periodical risk measurement of interest income needs to be established in a consistent manner to the value-based approach

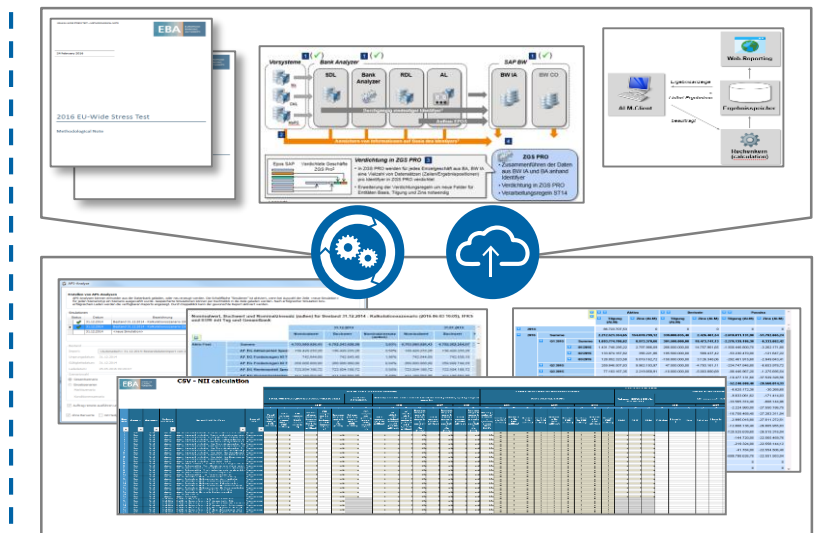
PROJECT CHALLENGES

- Covering a huge product portfolio across banking and trading book positions and definitions of methodological approaches to simulate the interest income and expenses
- Ensuring that controlling and risk data requirements are available and can be merged into an entire data model
- Subdividing interest income into maturity transformation and customer margin contributions

APPROACH

- Focus of conceptual work on the design and development of a net interest income simulation for regulatory and internal purposes
- Extend professional expertise in order to sharpen the understanding of periodical risk measurement as well as the reconciliation with value based calculations
- Implementation of the software zeb.control.ALM in accordance with the respective IT architecture

VALUE ADDED BY ZEB



- Automatic computation of EBA stress test template (net interest income module)
- Awareness of income contributions driven by maturity transformation and customer margins
- Risk simulations provide detailed information about sensitivity of income in case of shifting interest rates, credit spreads and migration probabilities

Preparation and support of audit of IRB methodology

Top-tier global consumer bank

CUSTOMER SITUATION

- Supervisory authorities have announced to review the IRB implementation
- Project objective has been to ensure regulatory approval of the IRB approach
- Preparation supported by zeb to minimize the risk of failure

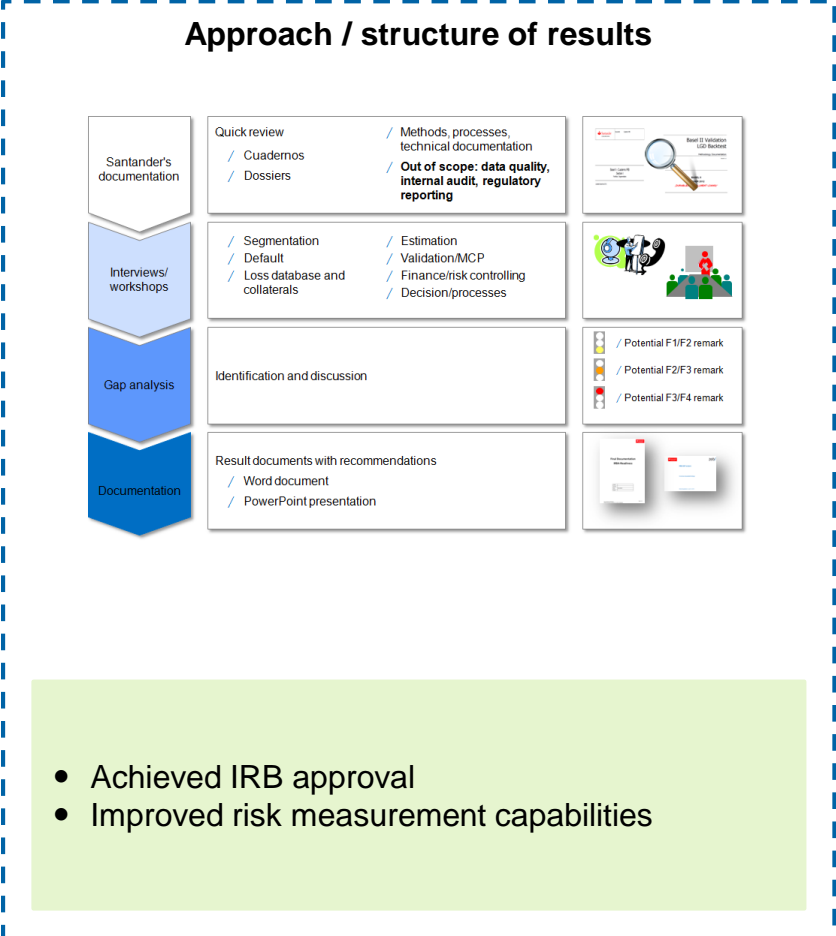
PROJECT CHALLENGE

- Involvement of all relevant departments (IT, Risk Controlling, Credit Risk Management for each business area, Internal Audit)
- Compliance with requirements of both the group as well as the local supervisory authorities
- Identification and fixing of potential gaps prior to the audit

APPROACH

- Based on our standard approach, all critical gaps have been identified
- Potential findings were identified through workshop with all relevant departments
- Early communication of potential findings and solutions to remedy these

VALUE ADDED BY ZEB



zeb developed a comprehensive balance sheet management concept covering methodology, governance and IT support

Eastern European D-SIB

CUSTOMER SITUATION

- Customer had no holistic view on profitability, growth and risk, limiting the ability of top management to make balanced decisions
- A “silo” attitude environment and disintegration between the bank’s units resulted in an inefficient use of financial resources
- Project objective was to investigate balance sheet management (BSM) best practices and develop a BSM framework

PROJECT CHALLENGE

- Aligning the “silo environment” within the bank when designing BSM best practices
- Build and design a holistic KPI and value driver library and integrate with BSM framework

APPROACH

- Analyze BSM best practices and develop a comprehensive framework covering strategic target setting, balance sheet optimization and BSM processes / governance
- Provide recommendations on the IT/ data requirements to support an integrated BSM
- Align the BSM concept with the management board

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1 Strategic financial goal setting

2 BSM framework flowchart

3 Planning frequencies and timeline

Frequency	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Strategic planning	Strategic commitment to stakeholders			Strategic commitment to stakeholders		
Business planning	Rolling strategy "pulse check" and extrapolation			Business planning		
Operational planning	Quarterly Review Process (QRP)			Quarterly Review Process (QRP)		
Irregular ALM requests	Monthly controlling and forecasting (MCF)			Monthly controlling and forecasting (MCF)		

- 1 Build a BSM framework
- 2 Created holistic KPI and value driver library
- 3 Integration of BSM processes

zeb supported a Nordic G-SIB with several topics regarding BCBS#239 program management, data governance setup and data modeling

Top-tier Nordic bank

CUSTOMER SITUATION

- Awareness of BCBS#239 very limited, implementation activities had been performed solely by each area/line function—central coordination and support was missing
- Data governance approach and framework not available
- No common definitions across the organization
- Missing commitment and clear agreement on delivery scope by line functions as well as missing transparency on progress, issues

PROJECT CHALLENGE

- Raising awareness of topics which are totally new to the client
- Alignment and coordination across the three large Nordic hubs and all relevant stakeholders from business and IT

APPROACH

- Follow-up and restructure existing BCBS#239 gap list
- Develop and implement tracking tools and establish overall BCBS#239 road map
- Develop group-wide data governance framework and target operating model
- Structured collection, harmonization and documentation of information requirements and consistent modeling down to attribute level

VALUE ADDED BY ZEB

Organization
People are indispensable when it comes to building and sustaining the defined organization

Processes
People are required for initiating defined processes

Systems
People play a key role in managing systems according to defined standards

BCBS#239 Roadmap

Activity	July	Aug.	Sep.	Oct.	Nov.	Dec.
Final plan developed	27	28	29	30	31	
Final check and crosscheck done						
Milestone check done, success results visible						
90% of gaps scheduled						
TS and stress landscape ready						
Final control ensured						
Final sign-off						

1. Country
2. Natural Person
3. Legal Entity
4. Organization
5. Financial Institution
6. Counterparty
7. Address
8. Agreement
9. MAND Classification
10. Countrywide Counterparty
11. Counterparty
12. Counterparty Sector
13. Counterparty Type
14. Counterparty Subtype
15. Counterparty Category
16. Counterparty Subcategory
17. Counterparty Group
18. Counterparty Subgroup
19. Counterparty Type Group
20. Counterparty Subgroup Group

- BCBS#239 road map and program structures
- Approved data governance policy and structures set in place/rolled out
- Harmonized business definitions and conceptual data model developed