



Group-wide FTP & Margin Attribution Platform

REDESIGN OF
FUND
TRANSFER
PRICING
FRAMEWORK

DELIVERY OF A
FULL
INTEGRATED
FTP PLATFORM

PRODUCTION
OF MARGIN
ANALYSIS
REPORTING



Purpose of the project

The project was aimed at enhancing the **FTP framework of the Group, both in terms of methodologies and IT infrastructure**, to support Margin Attribution and Profitability Analysis.

The project included the **activation of ERMAS™ FTP and Margin Analysis Module**, the integrated profitability platform designed to calculate FTPs at single deal level and provide profitability reporting according to multiple MI dimensions.

Background

Funds transfer pricing can be considered as both a regulatory requirement and a tool for managing the market and liquidity risk embedded in commercial portfolios. From the strategic point of view, FTP can be used to steer the balance sheet structure and optimize the Bank's P&L.



Challenges

- The FTP framework must ensure transparency, risk neutrality, homogeneity of calculation rules across the BUs, and margin stability;
- The transition to a Value Based Performance Management requires an FTP system based on risk-based methodologies, and the ability to be quickly integrated with the Banks' source systems;
- The FTP reporting tool must support the analysis of the drivers behind the profitability dynamics: customer rates, FTP components, volume and rate effect, etc..

Why Prometeia

Although the Bank had a pre-existing ALM system provided by another vendor, the Finance and Treasury units selected Prometeia for their FTP program, believing that only ERMAS™ Suite could cover their specific needs, in particular in terms of behavioral modelling and reporting flexibility.

Leading commercial bank in Southern Europe, with strong presence in the domestic market, and a high market share in loans and deposits:

~60bn EUR of total assets;

~600 branches in its core market.

Project reference

Head of Finance Department

Project sponsor

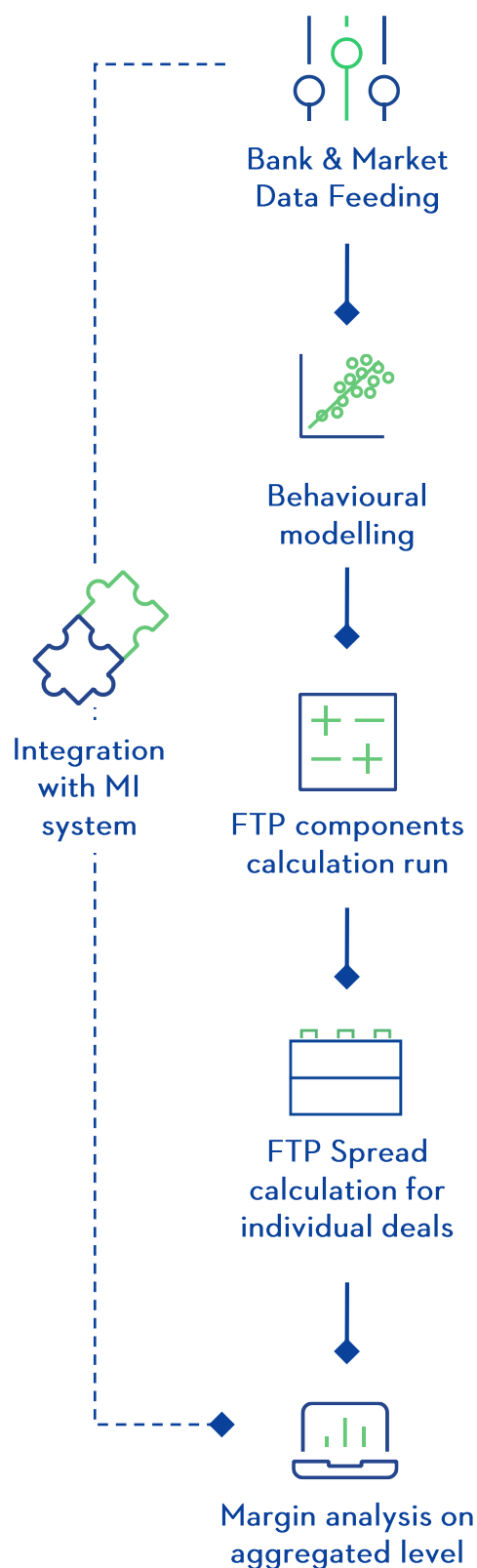
CFO departments

Implemented architecture

- **Financial Datamart** with common data dictionary for all Group entities, embedded ETL routines for data transformation, normalization, reconciliation and quality checks.
- **ERMAS System for FTP and Margin Analysis:**
 - Deal-based FTP engine, for calculating FTP rates and related components at single deal level;
 - Margin Analysis, for computing FTP virtual interest and BU's profitability on accrual basis.
- **System integration** with the Bank's internal profitability system (MIS).

Deliverables

- **FTP Rulebook** with FTP pricing rules and FTP organizational workflow.
- **Supply and implementation of a comprehensive FTP solution covering the whole process:**
 - **FTP engine for actual deals**, to calculate the financial cost originated by each transaction (base rate, liquidity spread, eligibility premium, LCR spread, managerial adjustments, etc.);
 - **Margin calculation & attribution** for the relevant MI dimensions (Business Units, Products, Client...) and calculation of break cost in case of prepayments, renegotiations, restructurings, early withdrawal.
- **Integration of the Margin accrual output with MI procedures.**



Achieved benefits

- Robust and consistent methodological framework to manage the internal pricing for all entities of the Group
- Automation of the FTP process through the adoption of a comprehensive solution supporting the calculation of internal transfer prices and virtual interest charges
- Multidimensional break down of product margins, supporting commercial business strategies as well as lending, funding and hedging decision-making processes
- Integration with the Bank's MI system, to complement FTP metrics with other P&L components (operational costs, impairment, cost of capital, etc.)

Product features

- Large variety of user-defined FTP methods and curve generation models, designed according to industry best practices
- User-friendly equation editor to set-up specific calculation functions
- Modelling capabilities for complex commercial products, including structured & multi-phase deals
- Integration of behavioral models, for NMDs, prepayments, pipelines
- Margin analysis from both accrual and mark to market perspective
- Virtual interest computation for all risk components at BU and pool level
- Results reported in pivot table, up to single deal and cash-flow level

SUPPORT TO
DAILY
PROFITABILITY
ANALYSIS FOR
ALL GROUP
ENTITIES

BREAKDOWN
OF FTP MARGIN
COMPONENTS
AT SINGLE DEAL
LEVEL

PROFITABILITY
ALLOCATION
TO BUSINESS
UNITS AND
OTHER
DIMENSIONS

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