

Sagora...

Lease & Risk Management

Risk Management in Leasing

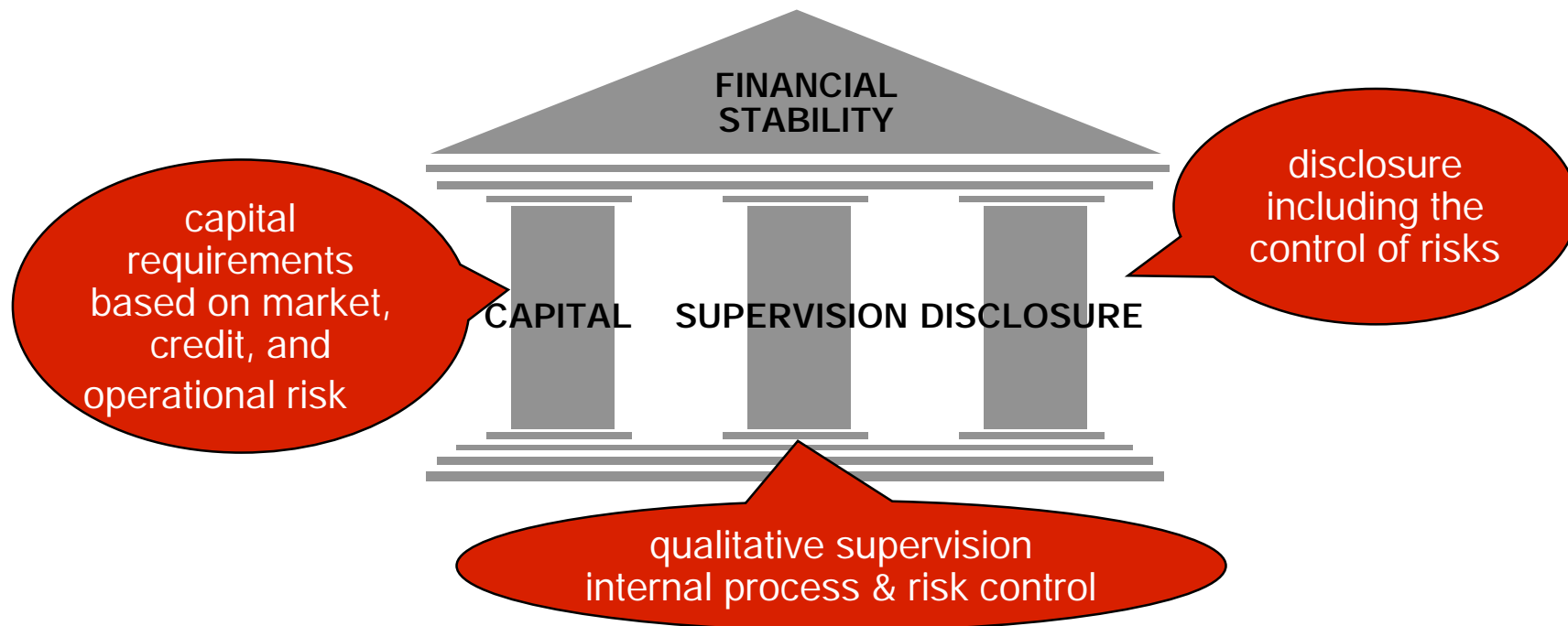
From regulatory compliance to value creation

Dr. Mathias Schmit

Agenda

- **Basel II / CRD: A New Framework**
- Impact of the CRD on Leasing Companies' Performance
- Implementation of the CRD
- An integrated Risk Management Framework
 - Some Experience From the Market

Basel II: A new framework



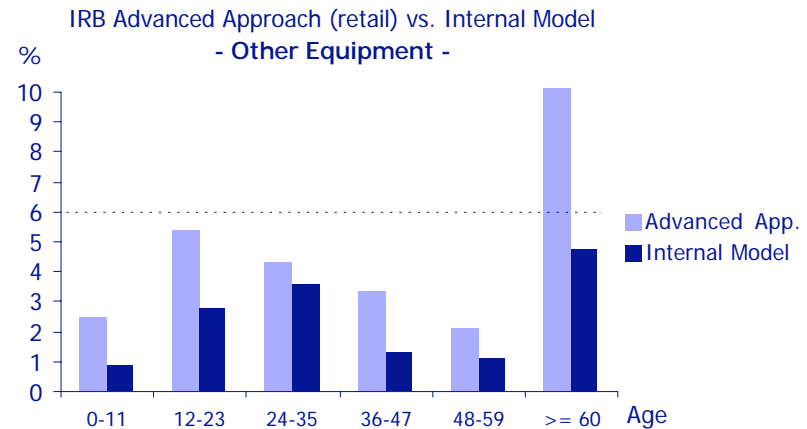
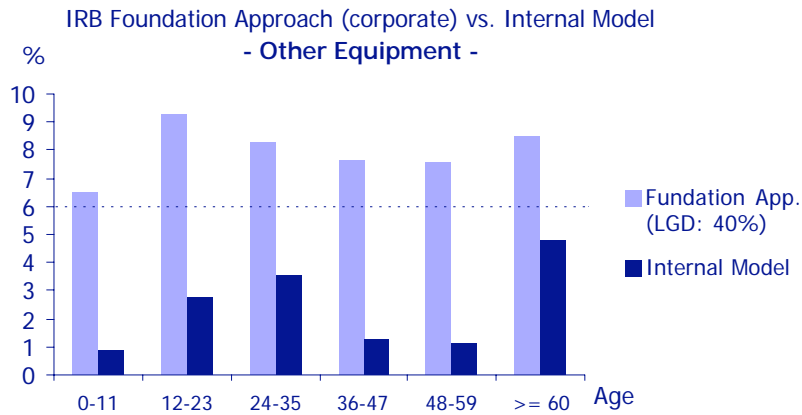
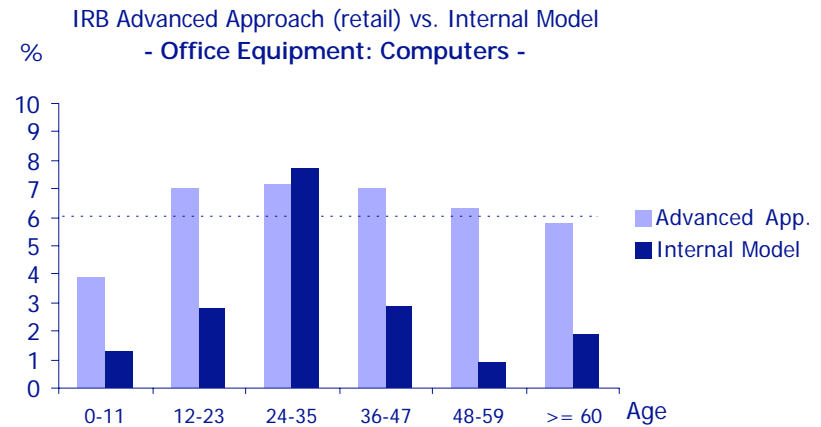
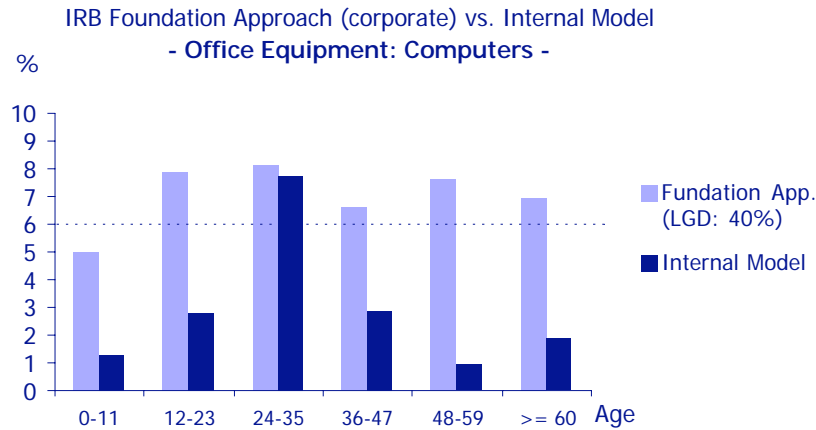
Timetable

- A two-stage implementation in the EU:
 - 2007: Option to use simple and intermediate approaches or wait 2008
 - 2008: Banks planning to use the most advanced would apply the new rules
- US implementation postponed

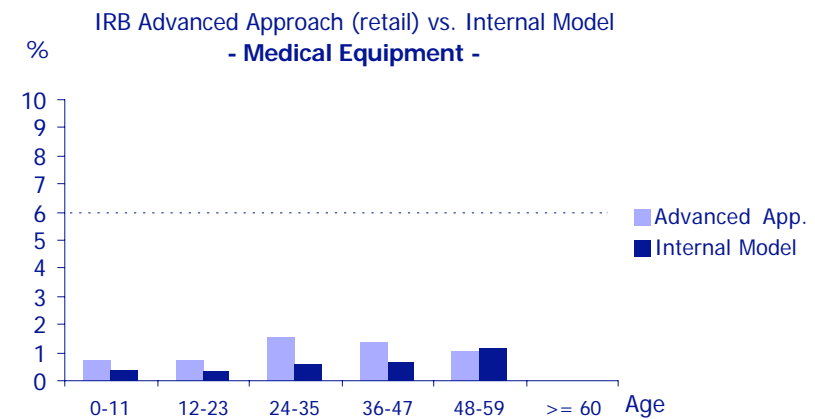
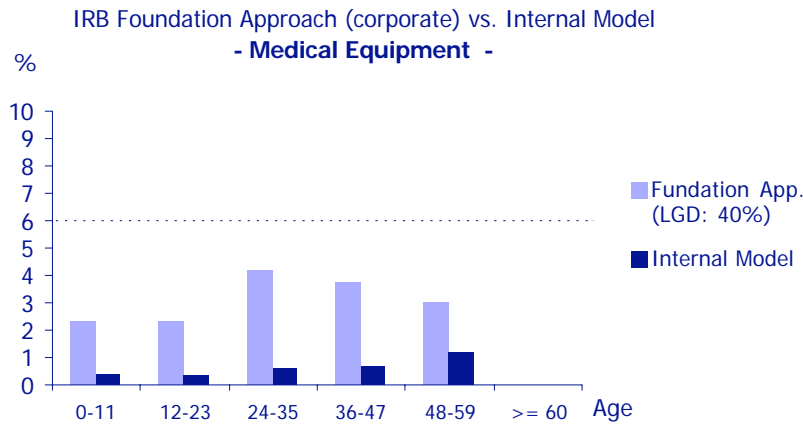
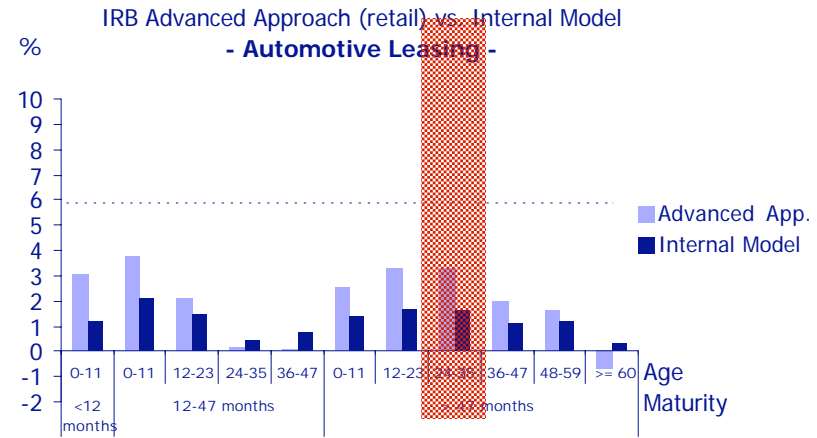
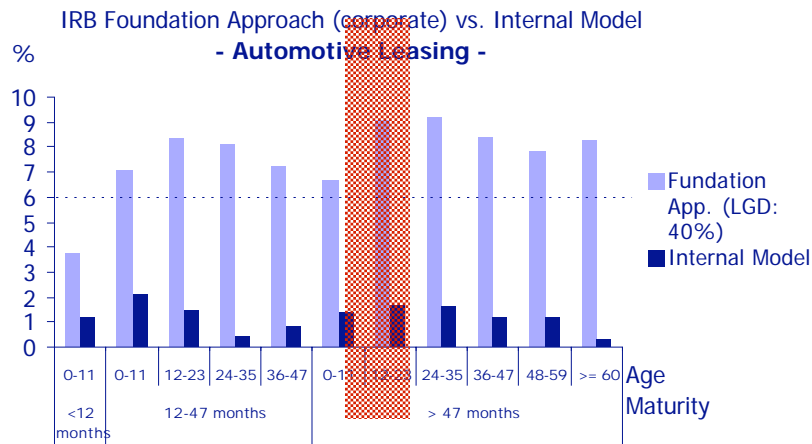
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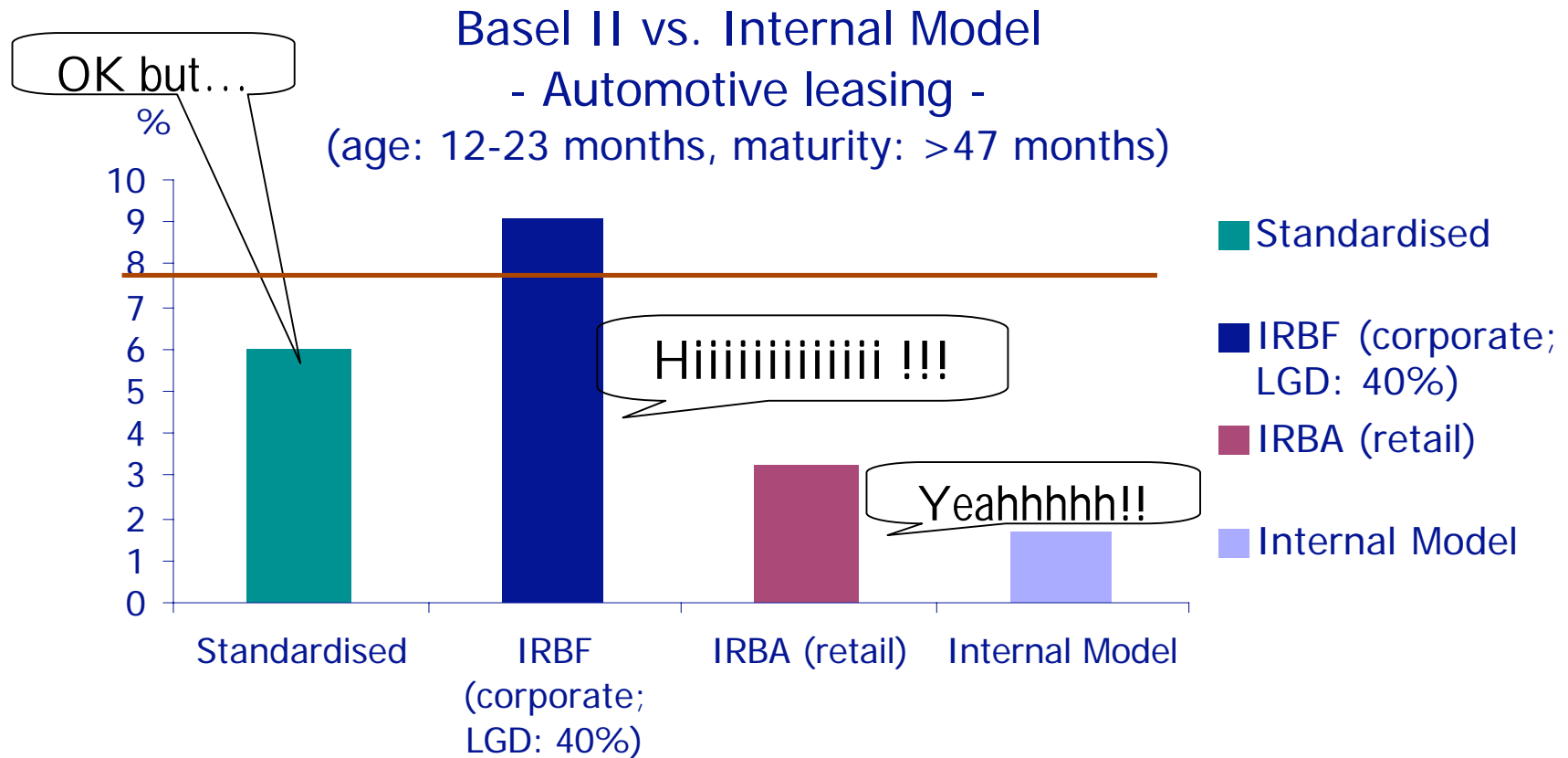
Basel II: Impact on Leasing (I)



Basel II: Impact on Leasing (II)



Basel II: Impact on Leasing (III)

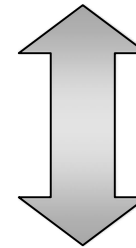


Source: Schmit M., Journal of Banking and Finance, April 2004.

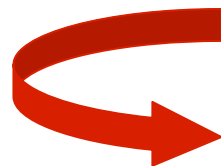
Impact on Performance

Risk Addjusted Return On Capital

$$\text{RAROC} = \frac{\text{Net Revenues} - \text{Expected Loss}}{\text{Economic capital}}$$



Regulatory capital

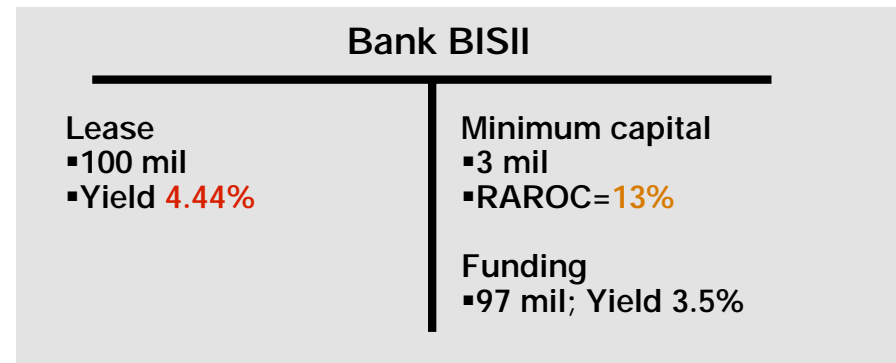
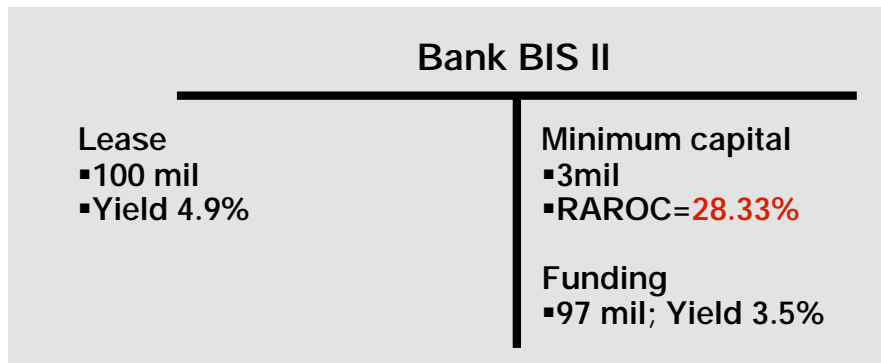
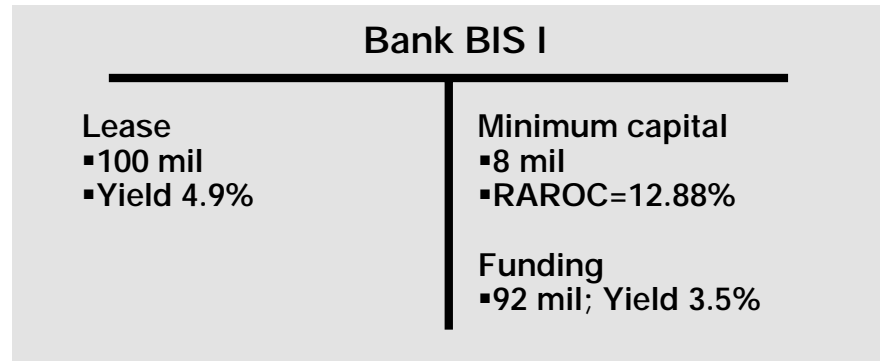


Performance - Shareholders

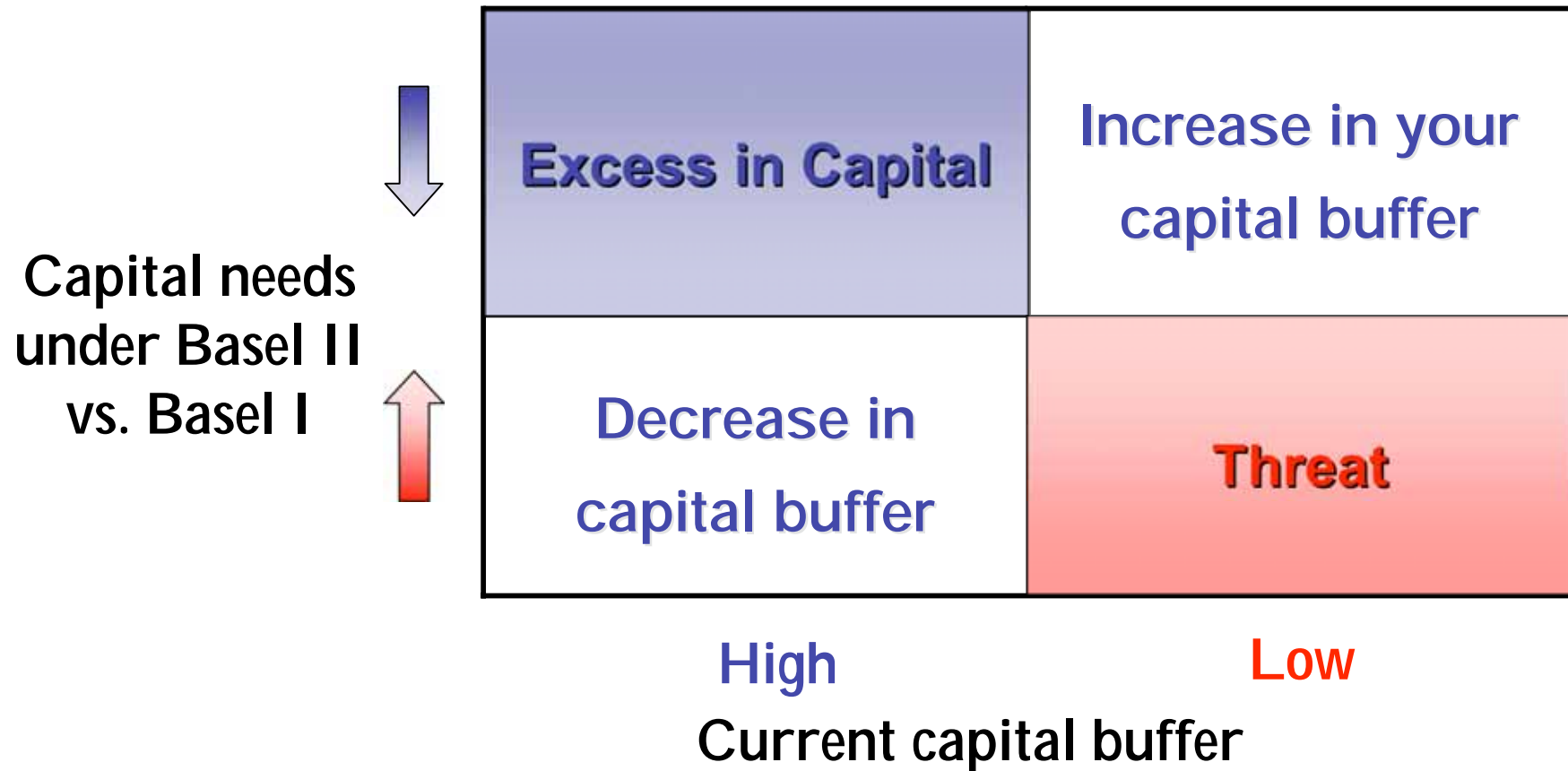
Impact on Pricing

Capital Requirement	RAROC / ROE	Pricing
↓	↗	= (margin constant)
↓	= =	↘ (decrease margin)

The change in capital requirements



Basel II: Threats and Opportunities



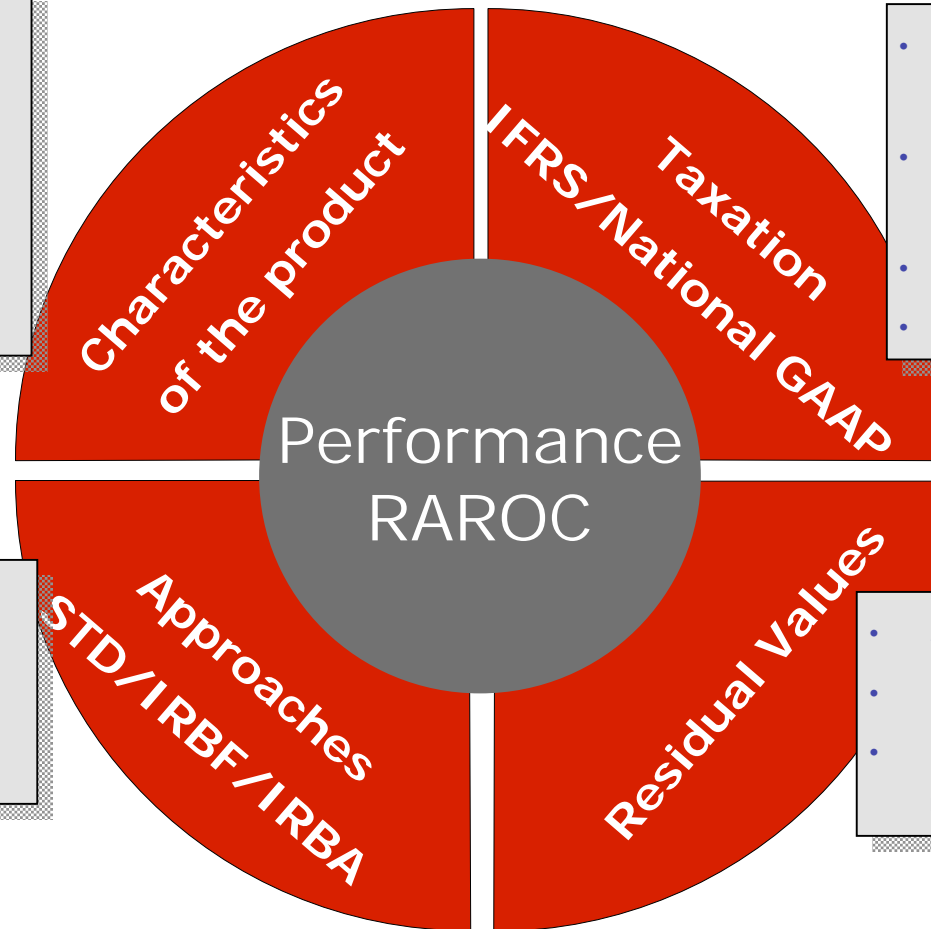
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Performance Drivers

- Asset type
- Age
- Size
- Systematic risk
- Country (EU / Non-EU)
- Etc.

- Data & Models
- Retail / Corporate
- Counterparty / portfolio management



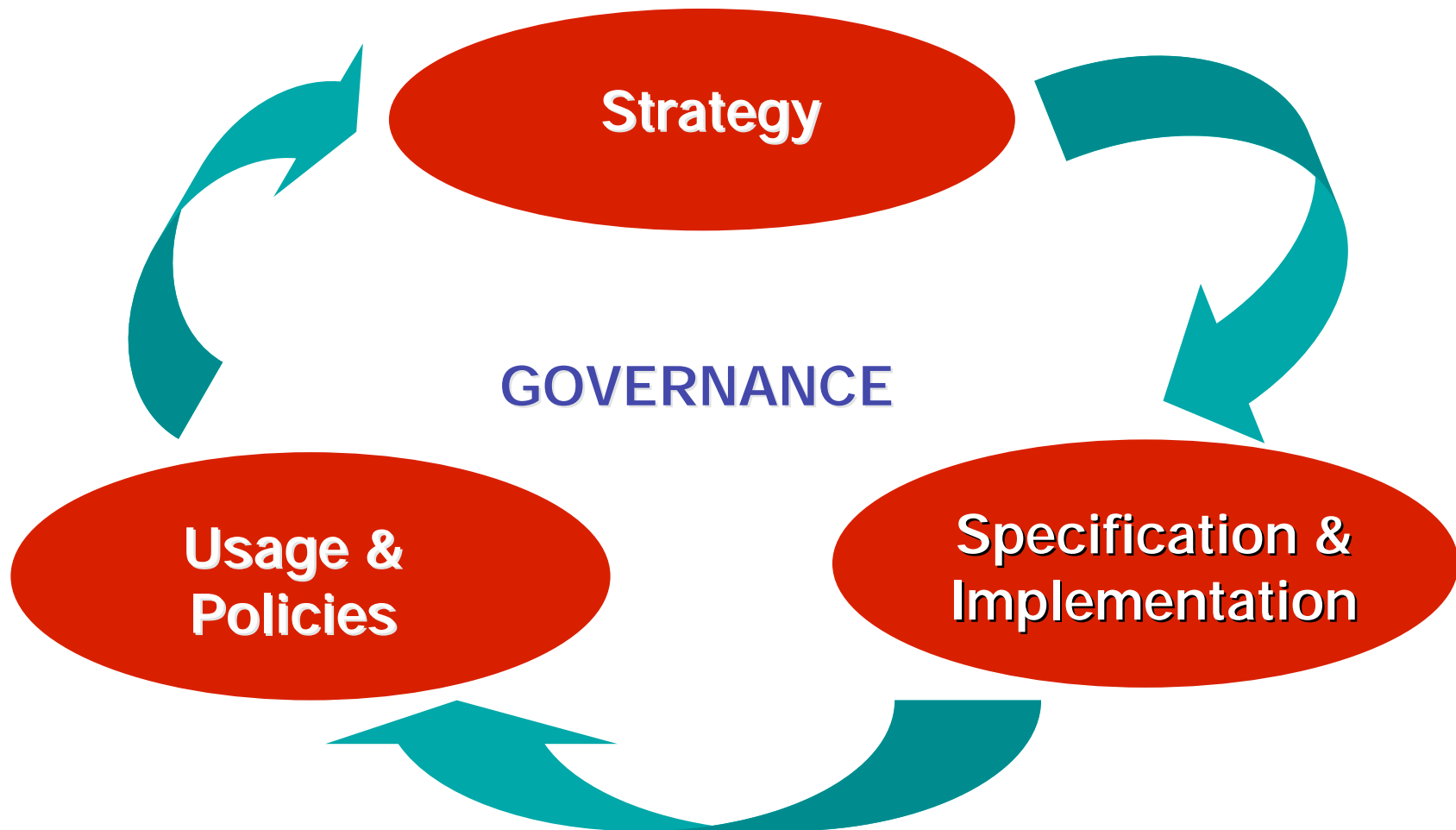
Don't forget the Use Test

- High level **business case must be fulfilled** in order to ensure that the model purpose and expected benefits are clearly understood
- **Information used or produced by the rating systems** to determine regulatory capital is **also used** in the course of conducting **regular business**
 - particularly in risk management
 - decision-making process, and in its credit approval,
 - internal capital allocation, and
 - corporate governance functions.

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An Integrated RMF



Some Experience from the Market

- Better **knowledge** of risk will allow **better allocation of capital** and thus a better performance at the group level but also at the **entity level**
- The **European leasing industry** has many strengths to exploit
 - Ownership
 - Good recovery rates (low LGD) for many assets even in downturns
 - Specific rules thanks to Leaseurope
- RMF is about delivering **quality** throughout the organization
 - This leads to **value creation** that comes on top of a pure regulatory compliance
 - The leaders will attract most of the **competitive advantages**

For More Information

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Thank you for your attention !

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www.sagora.eu

(in construction)