



INCERTUS

Credit Limits and Credit Mark-up
in Proactive Counterparty
Risk Management



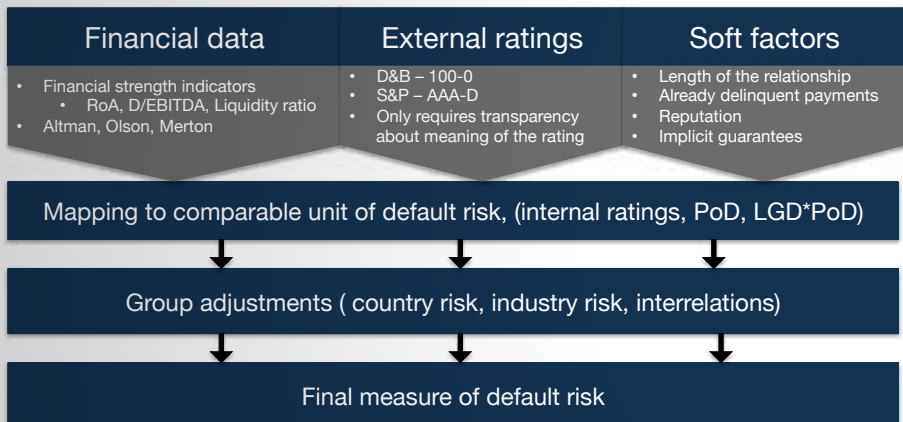
KEY ASPECTS

- Allows directing sales to economically most profitable counterparties.
- Calculates price markup needed for each of the counterparties.
- Enables fine tuning of the credit exposure on portfolio level.
- Can use financial statement data to form an internal credit rating of the counterparty, which can then be unified with external credit ratings.
- Is flexible and accommodates the addition of new predictors or changes in operational situation.

DESCRIPTION

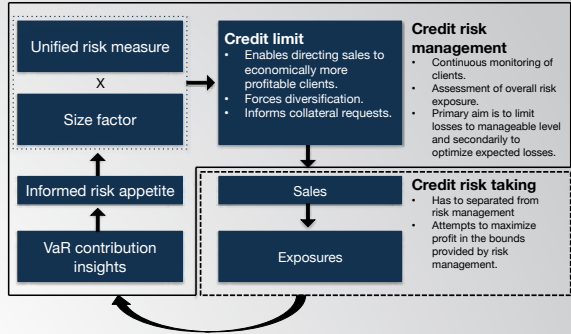
Our credit limit model merges various risk indicators to a unified risk measure, which can then be combined with counterparty characteristics to form a consistent credit limit for all counterparties in the trading portfolio. Furthermore the model allows the fine-tuning of counterparty exposure on the portfolio level.

In addition to limiting the credit exposure the model can segment counterparties and assign the required markup for them based on the expected credit losses and economic capital contributions.



CREDIT LIMITS

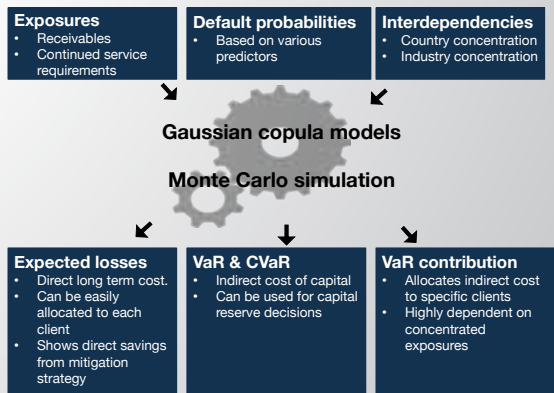
There are a myriad of vendors offering credit risk information but in order to effectively use this information one must transform it to actionable form. The most common way to do this is to set exposure limits based on the riskiness of the counterparty.

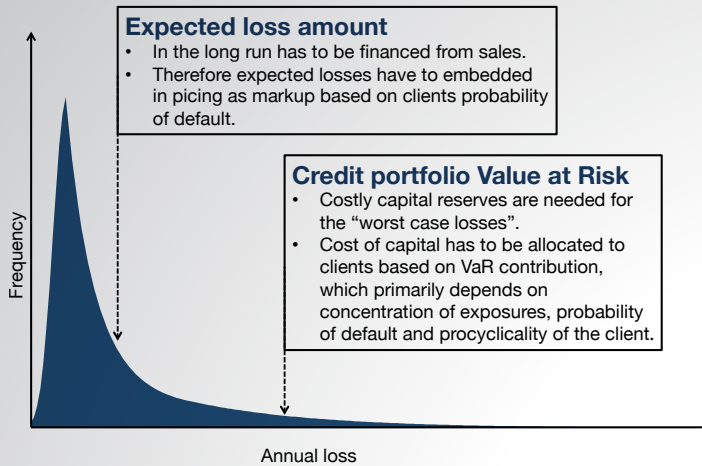


However in most companies the process of translating risk information to a limit is done in a haphazard way resulting in inconsistent limits and therefore causing unnecessary losses as well as missed profit opportunities. Incertus has developed a solution to this problem that ensures that all the counterparties in the portfolio are given limits based on the same set of criteria. Added advantage of this is that one can finetune the portfolio risk characteristics as a group, which allows greater flexibility to curb risk taking when it is needed or to relax the criteria when this is deemed profitable. Furthermore the model can explicitly take into account the fact that certain market segments are more profitable than others and relaxes the limit criteria accordingly.

CREDIT MARKUP

In addition to limiting risk one would optimally want to get compensated for the risk taken. It is clear for all market participants that credit losses have to be compensated from usual margin, therefore in addition to credit limit the Incertus credit risk management models allocate the credit losses to individual customers based on their expected loss amounts. In addition to this company needs capital to buffer against abnormally large credit losses, which in the long run is costly. Therefore our credit risk solution determines the extent of economic capital needed as well as is able to allocate it to specific counterparties. This opens many doors to enhance profitability; first by directing traders towards economically more profitable counterparties and secondly by informing to account for credit markup when such price differentiation is possible.





BENEFITS

- Higher expected profit.
- Lower volatility of business results.
- Reduced need for economic capital and therefore higher ROE.
- Increased value of the company.
- Allows credit risk to be accounted for in performance evaluation.

CONTACT

If you are interested in our credit risk models and want to know more about their operation or suitability to your trading activities don't hesitate to contact us on:

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