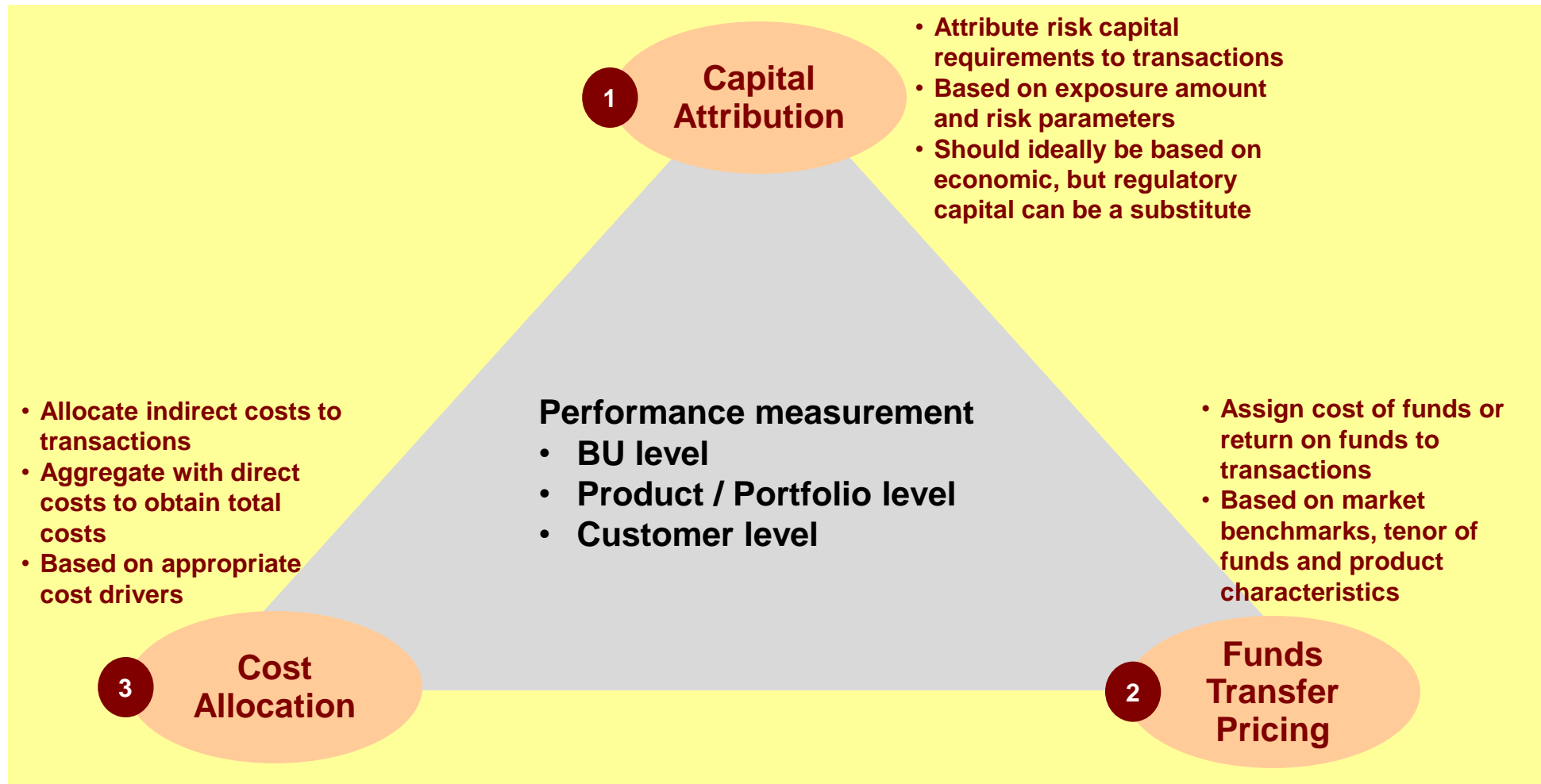


Our Consulting Services for Performance Measurement in Banks:

- 1) Capital Attribution**
- 2) Funds Transfer Pricing (FTP)**
- 3) Cost Allocation**

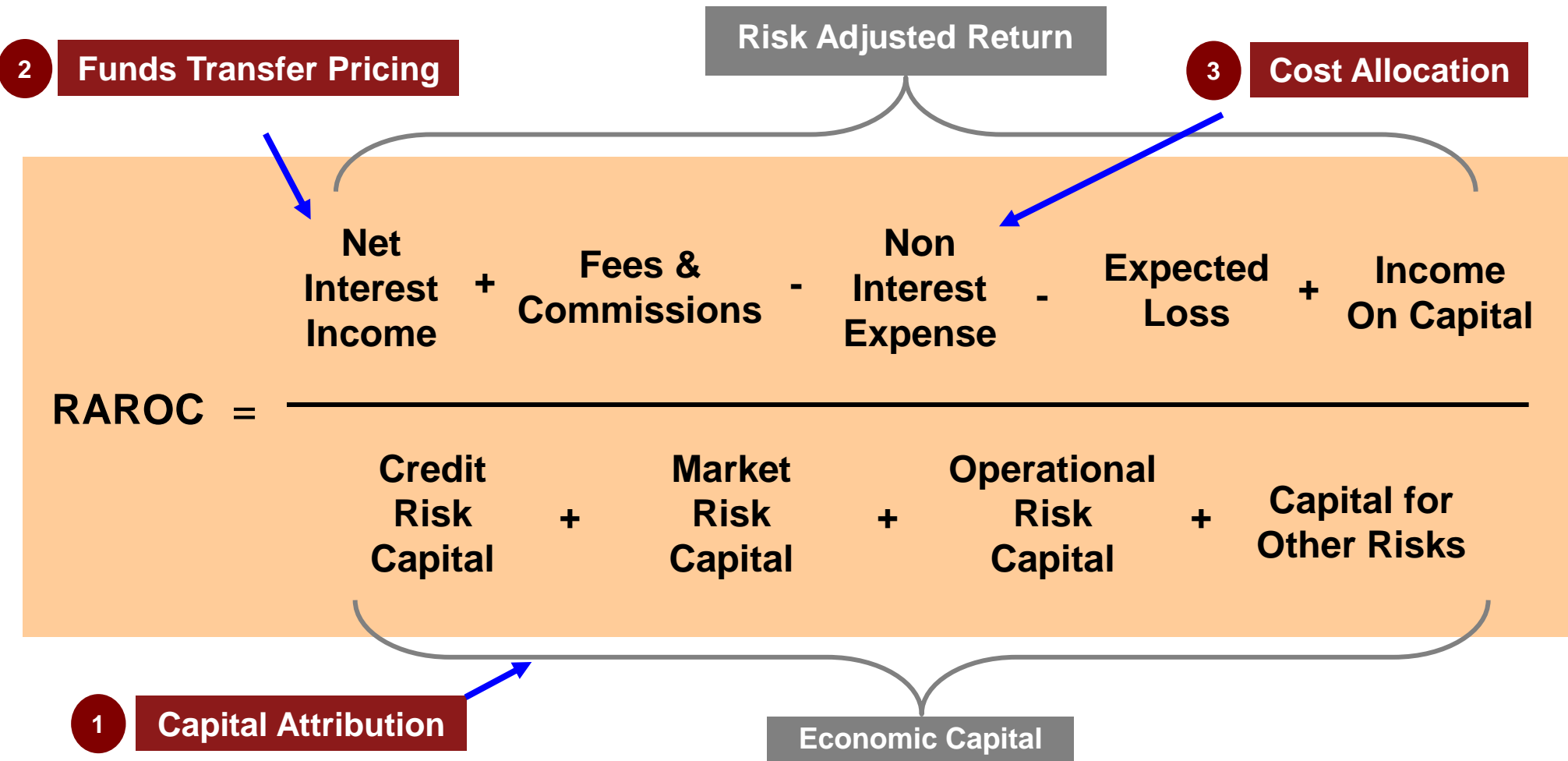
Three Key Components of Performance Measurement

- Proper performance measurement is a prerequisite to optimal capital allocation.
- Capital attribution, FTP and cost allocation are key components of performance measurement:



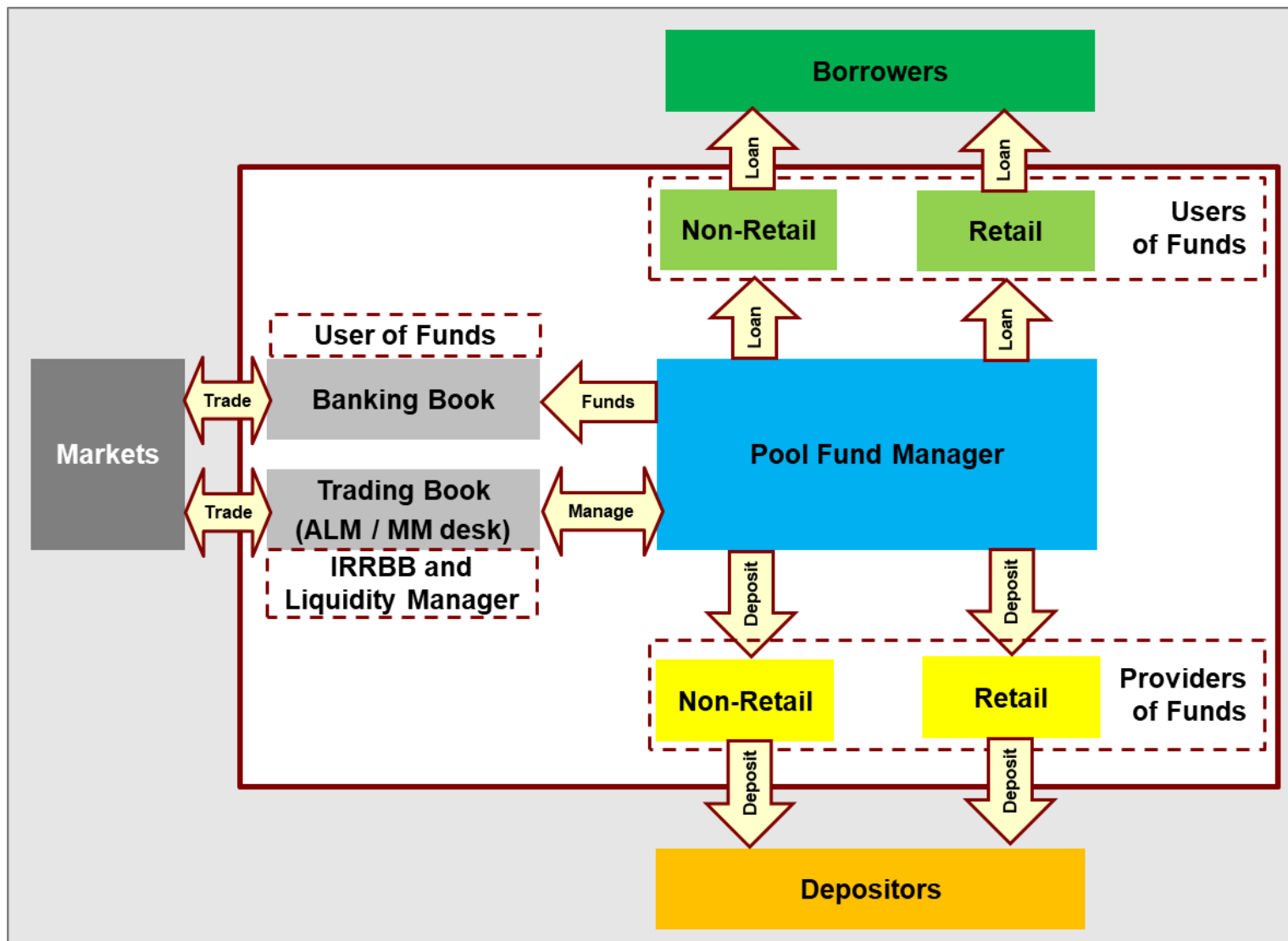
Key Inputs in Computation of RAROC and EP

- The inputs required for computation of RAROC are generated through different management processes within the bank



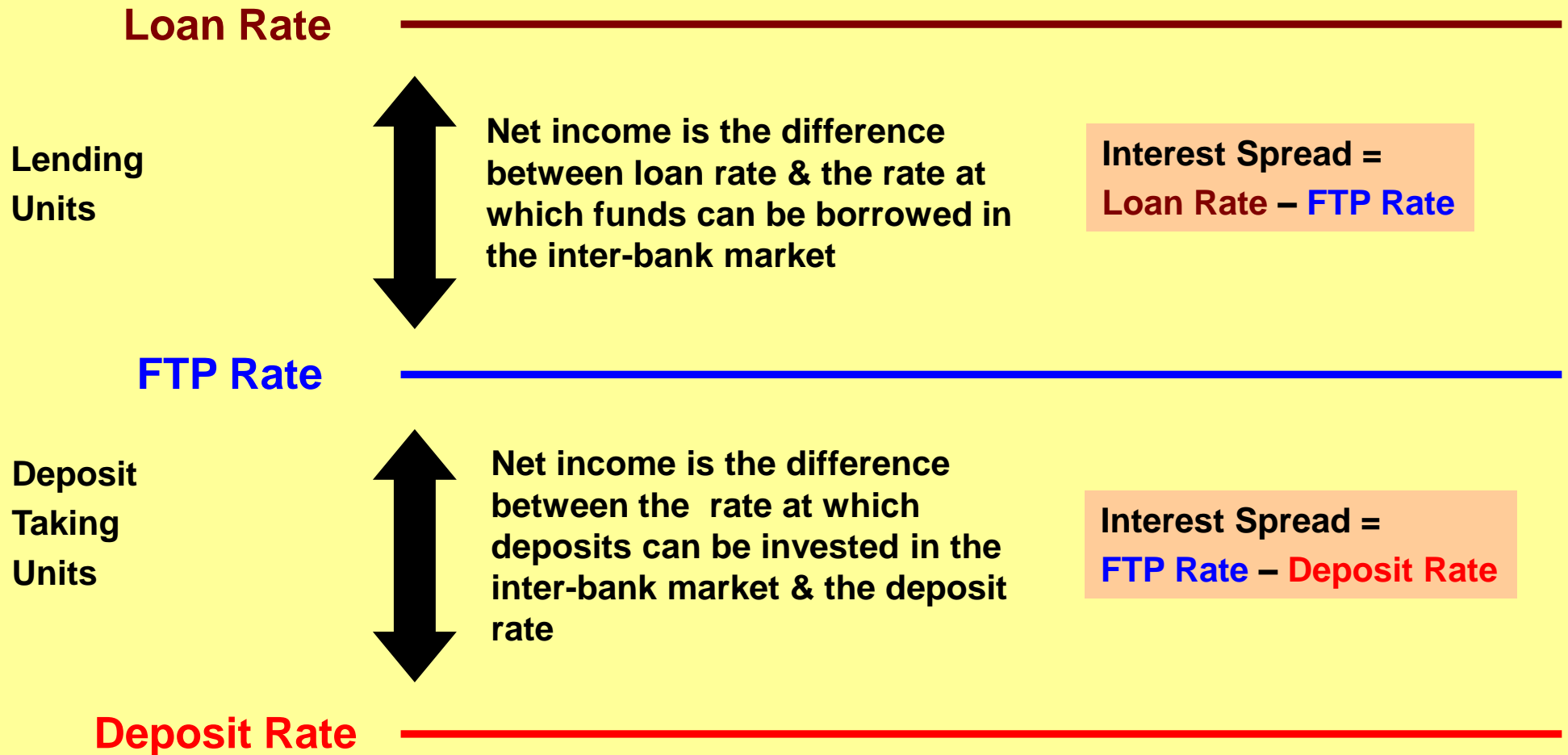
Overview of FTP: Parties Involved in a Bank's FTP Framework

- This illustrates how FTP works in a typical bank:



- Pool fund manager (PFM) buys funds from providers of funds (e.g. deposit collecting units) and sells funds to users of funds (e.g. lending units).

Interest Spreads to Lending Units and Deposit Taking Units



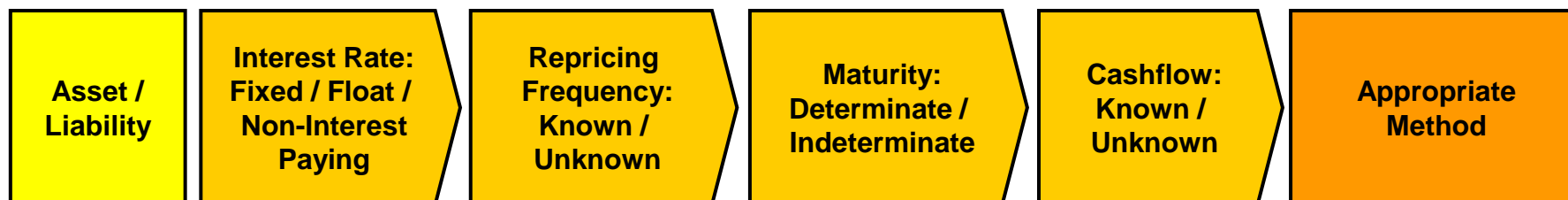
*We understand that the bank may grant loans at Prime Rate+ or Prime Rate-. The above chart illustrates the distribution of interest spread between lending units & deposit taking units when loan interest rate is at Prime Rate.

Process to Select Funds Transfer Pricing Methods for Products

- Factors to consider when selecting FTP method for a loan or deposit product:

- Cashflow
- Re-pricing interval
- Term to maturity
- Customer behavior, e.g. prepayment

- Process to select appropriate FTP method:



- Application of liquidity premium and other adjustments:

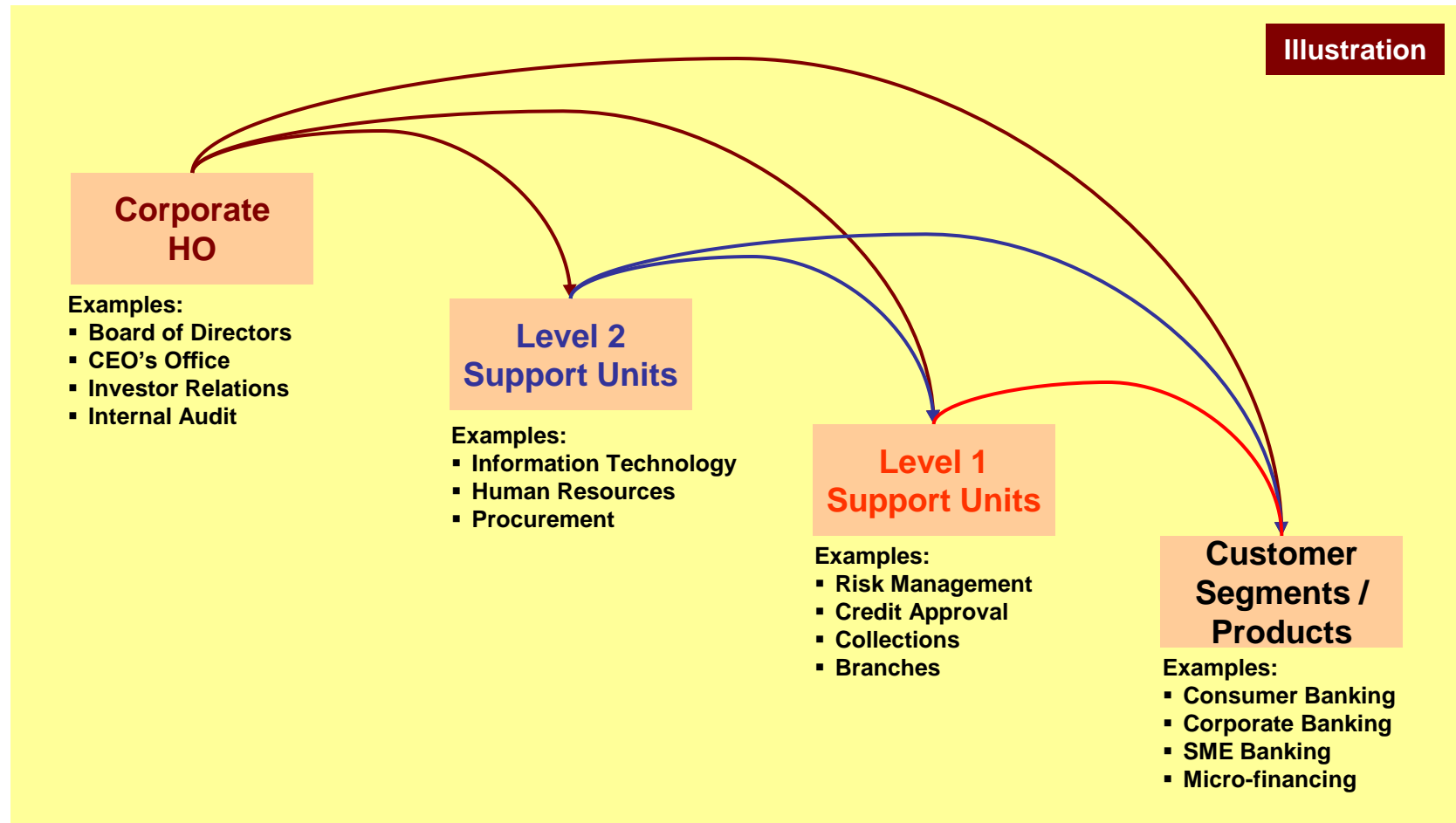
- Where the market benchmark curve does not fully reflect the cost of funds (for assets) or return on funds (for liabilities).

- Management actions to adjust FTP:

- To apply management incentives and subsidies to drive the BUs towards the desired business objectives, in the form of incentive spread.
- A range of management actions to be applied to cater to different circumstances.

Overview of Cost Allocation: Determining Hierarchy of Costs

- Costs are allocated through a hierarchy of cost pools.
- Costs should be allocated from pools at a higher level in the hierarchy to those at the same or a lower level.



Assigning Appropriate Cost Drivers to Various Cost Pools/Items

- Cost drivers selected should be intuitive, measurable and stable.

Categories of cost drivers	Common examples of cost drivers	Illustration
Manpower	<ul style="list-style-type: none"> Staff headcount Staff cost 	
System	<ul style="list-style-type: none"> System utilisation Cost of hardware required 	
Space	<ul style="list-style-type: none"> Office space occupied 	
Transaction	<ul style="list-style-type: none"> Number of transactions Value of transactions 	
Customer	<ul style="list-style-type: none"> Number of customer accounts Size of customer accounts 	
Incidence	<ul style="list-style-type: none"> Number of complaints Number of exception handling 	
Financial	<ul style="list-style-type: none"> Revenue Direct cost Gross profit 	

Our Consulting Services for Performance Measurement in Banks

- We customise our services for each bank depending on its current situation:
 - Design and develop for a bank without the relevant framework and methodology
 - Review and enhance where the bank has existing framework and methodology

No	Components of Performance Measurement	Scope of Services (Summary)		
		<ul style="list-style-type: none"> ▪ Governance, Roles and Responsibilities ▪ Framework and Policies 	<ul style="list-style-type: none"> ▪ Methodology ▪ Reporting 	<ul style="list-style-type: none"> ▪ Computation and Implementation ▪ Applications
1	Capital Attribution	<ul style="list-style-type: none"> ▪ Review and approval of scope, policies, methodology and use cases ▪ Rollout, maintenance and monitoring 	<ul style="list-style-type: none"> ▪ RAROC / RoRWA / EP computation methods ▪ RAROC / RoRWA / EP reports 	<ul style="list-style-type: none"> ▪ Ex-ante pricing ▪ Ex-post performance measurement ▪ Annual capital allocation ▪ Strategic capital allocation
2	Funds Transfer Pricing (FTP)	<ul style="list-style-type: none"> ▪ Treatments of deviations / exceptions ▪ Dispute resolution 	<ul style="list-style-type: none"> ▪ Market benchmarks ▪ FTP methods and reports for all products 	<ul style="list-style-type: none"> ▪ Product FTP ▪ Transaction FTP ▪ Residual FTP for ALCO book
3	Cost Allocation		<ul style="list-style-type: none"> ▪ Cost hierarchy, drivers and approaches ▪ Direct, indirect and total costs reports at various dimensions 	<ul style="list-style-type: none"> ▪ Business unit / Support unit costing ▪ Product costing ▪ Customer costing ▪ Transaction costing

| End