

FINANCIAL INSTITUTIONS SOLUTION BRIEF

Funds Transfer Pricing

More accurately assess profitability

Not all growth creates sustainable value. In recent years, market trends have yielded painful results for many financial institutions. One of the critical building blocks in accurately measuring value creation for an individual loan portfolio or organizational unit, for example, is funds transfer pricing (FTP). Part of Kaufman Hall's Axiom FTP and Profitability software, our Funds Transfer Pricing solution is designed to calculate accurate FTP rates at the instrument/account level. This helps finance professionals measure margin contribution across any dimension, such as customers/members, products, organizational units, and channels.

The Funds Transfer Pricing solution brings together the modeling of FTP rates, credits, and charges—with data visualization, incremental analysis, segmentation, and other analytical methods—to help financial institutions:

- **Employ a transparent matched-term approach**, and allow for adjustments to transfer curve/rates based on instrument characteristics
- **Analyze the impacts** of various contributors to net interest margin and overall profitability, contributing to informed and precise decision making regarding product pricing
- **Focus on analytical reporting**, thus improving pricing decisions and allowing institutions to better analyze factors affecting performance

These capabilities enable financial institutions to maximize value from their FTP modeling, including real-time product pricing assistance and more effective incentive compensation programs.

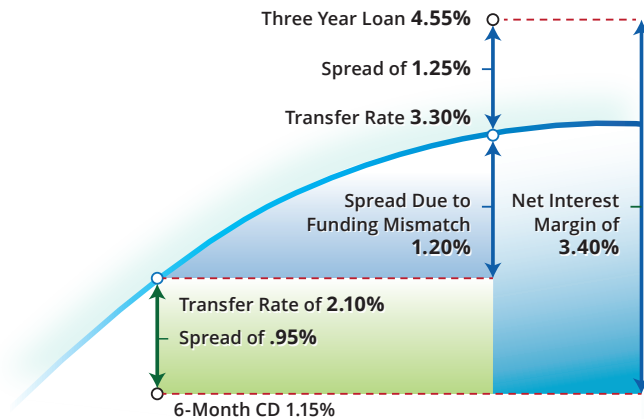


Understanding Margin Composition

The inclusion of funds transfer pricing radically changes a financial institution's understanding of the composition of net interest margin. The figure on the following page illustrates how FTP is used to assign margin to the activities of lending, deposit gathering, and interest rate risk management.

The Axiom Funds Transfer Pricing solution uses a matched-term approach. Each record is transfer priced, based on the contractual—and if desired, prepaid—cash flows. FTP practitioners have complete visibility into all the calculations and can alter their assumptions as warranted.

FUNDS TRANSFER PRICING



More Than a Calculation Engine

While our Funds Transfer Pricing solution is designed to calculate transfer rates quickly and accurately, it also is analytically friendly. In addition to a full complement of production reports, users can perform analyses such as:

- Incremental impact of the institution's most recent activity
- Ranking reports
- Risk/return analyses
- Funding center reports
- Rate volume analytics and other ad hoc analyses

Analytical results can then be aggregated by factors such as product type, organization, role, and geography, with point-and-click drill down to transaction-level detail.

Key benefits of the solution include:

- **Strong data management** – Easily configure and automate data imports from source tables, automatically flagging erroneous field values for correction during processing
- **Fast and scalable** – Price millions of transactions using the solution's robust multi-threaded processing engine
- **Transaction precision** – View cash flows and pricing at the record level
- **Easy to use** – Leverage architecture which grants users visibility into the pricing engine and enables robust reporting

- **Interactive results** – Dynamically drill down from consolidated results to account/instrument-level detail
- **Strong reporting and analytics** – Create and access a broad complement of reports online, or schedule report distribution

Our Funds Transfer Pricing solution allows you to:

Allocate margin with highest accuracy – Leverage robust matched-term pricing algorithms to price loans and deposits with accuracy you can trust.

Create margin accountability and transparency – Accurately ascribe value to funds users, funds providers, and funding center managers, easily identifying contribution assumptions as appropriate.

Analyze all dimensions – Understand origination, pricing activities, and margin contribution by customer/member, channel, product, organization, or officer.

Integrate with budgeting, planning, and profitability – Seamlessly include FTP in your budgeting and planning processes, and profitability analyses, on a single unified platform.

Leverage existing skills – Combine existing knowledge of Excel with familiar functionality that is intuitive for finance and other business users.

Implement roles-based security – Allow user access and permissions based on defined roles.

Our Funds Transfer Pricing solution is backed by deep knowledge of financial institutions and incorporates best practices in margin analysis, with superior, personalized customer service from the best trained EPM support staff in the industry.

To learn more about Kaufman Hall Axiom Software solutions, visit our [website](#) or request a [demo](#). Explore our Profitability Advisory Services [here](#).