CL & Fronting Risk workshops: main objectives

1. Product Set Up

- Required attributes for booking a RCF and TermB as commitment letter
- Determination of product codes to be created (MISCO, Partenon...)
- Specs for the **set-up** of the **new partenon** contract
- Business events
- For Commitment Letters:
 - Design the **financial position**
- For <u>Fronting Risk</u>:
 - Booking ring fencing
 - Fronting outstanding control

2&3. Finance & Capital

- Identification of the new chart of accounts for both products
- Determine ALCO requirements
- Additional fields for extracontable
- Specific requirements for reporting capital credit
- Additional requirements for **BDR**
- Any other special consideration for Finance & Capital

4. Credit Risk

- Methodology to calculate credit exposure for underwriting risk
- Methodology to calculate credit exposure for settlement risk
- Based on above's findings, identification of new fields required for Cream
- Any other special consideration for Credit Risk

5. Market Risk

For commitment letters:

- Valuation model for the tactical solution.
- Methodology of the valuation model for the strategical solution

For **fronting risk:**

- · Valuation model for the tactical solution.
- Methodology of the valuation model for the strategical solution

For both:

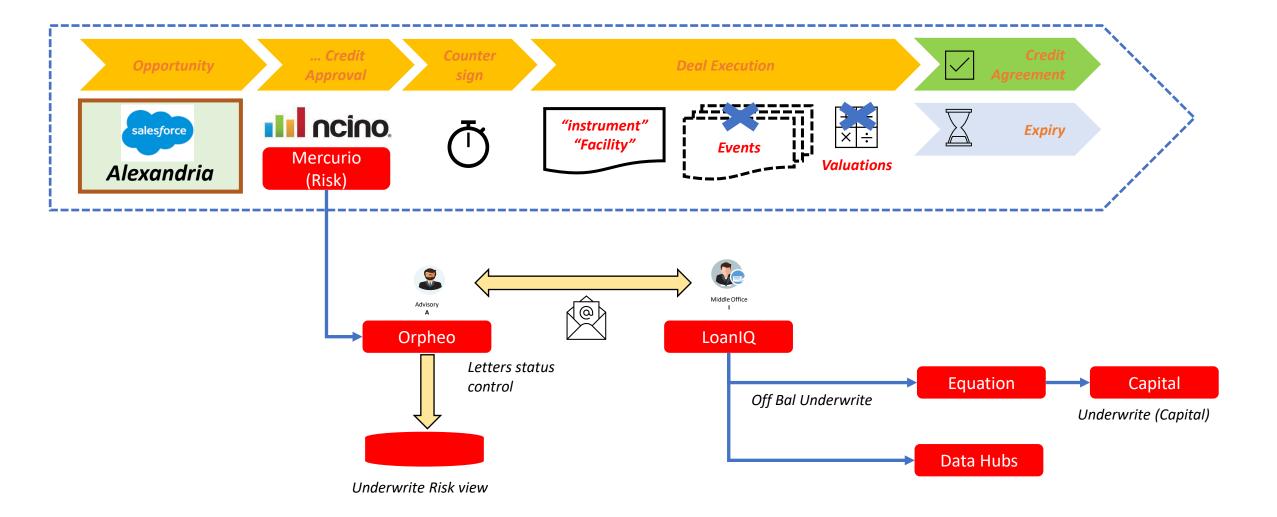
- Additional requirements for reporting purposes
- · Any other special consideration for Market Risk

6. IT Session

Based on the previous sessions:

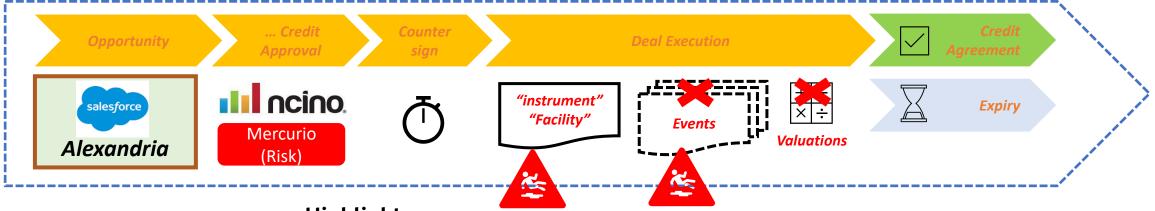
- Financial position design and feeding to BDH3, potential changes identified in the current DNA
- Accounting attestation between the accounting generated from OneStopShop and BDH3 (RETO)
- **Solutions** for specific **requirements** raised by users and consumers during the workshops
- Set the **target architecture** and **intermediate phases** of implementation.

Credit Letters and Deal Execution Mid Term



Credit Letters and Deal Execution

Mid-term challenges.... Scenario around 20 deals in execution simultaneously



Data points to ensure a proper scalable solution:

- Commitment letters:
 - average 2/week,
 - busy week up to 4
- Simultaneous deals in execution:
 - up to 20.
- Deals events:
 - Average 2-3 per week,
 - pick 6-10.

Highlights

Events recording and tracking:



no system for events and associated documentation recording.

Underwrite exposure:



2 sources of information for Risk and Capital calculation.



Risk information 100% reliant on FO updating Orfeo – no 4 eyes validation by independent function.

MO Loan IQ booking and reporting 100%:



reliant on FO/Advisory providing timely and precise updates of the events



FO-MO communication: based on emails.

Valuations (FVPL): understood as fair value, are not part of the current scope

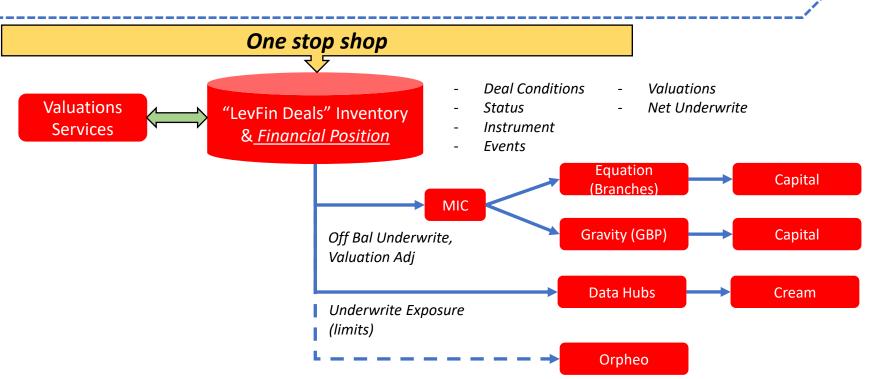
Credit Letters and Deal Execution

Long Term proposal



Data points to ensure a proper scalable solution:

- Commitment letters:
 - average 2/week,
 - busy week up to 4
- Simultaneous deals in execution:
 - up to 20.
- Deals events:
 - Average 2-3 per week,
 - pick 6-10.



Leverage Finance: Deal Execution term B fully distributed

DEAL EXECUTION

Prev. Stages

Syndication period

Credit Agreement Exec.

One stop shop



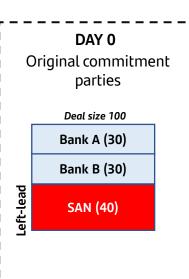
Credit Approval



Commit. Letter issued by SAN

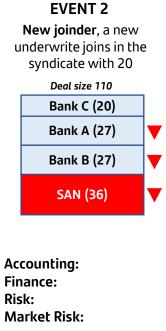


Commit. Letter Countersigned by the client



Accounting:
Finance:
Risk:
Market Risk:

EVENT 1 Underwrite ammendment, notional increased 10 respect initial terms Deal size 110 Bank A (33) Bank B (33) SAN (44) Accounting: Finance: Risk: Market Risk:



Left-lead and sponsor decide the final allocations. Deal size 110 A. Mngr. A (15) A. Mngr. B (15) A. Mngr. C (20) A. Mngr. D (20) A. Mngr. E (30) Accounting:

Allocation published

Accounting: Finance: Risk: Market Risk:

Closing

Left-lead and borrower decide the final allocations to FM. UW exposure ends here.

Deal size 110

A. Mngr. A (15)
A. Mngr. B (15)
A. Mngr. C (20)
A. Mngr. D (20)
A. Mngr. E (30)

Accounting: Finance: Risk: Market Risk:

Leverage Finance: Deal Execution term B partially distributed

DEAL EXECUTION

Prev.

Syndication period

Credit Agreement Exec.

One stop shop



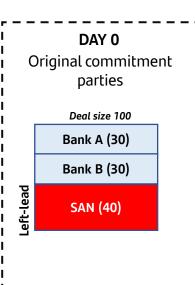
Credit Approval



Commit. Letter issued by SAN

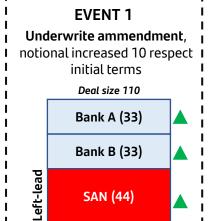


Commit. Letter Countersigned by the client



Accounting: Finance: ı Risk:

I Market Risk:



Accounting: Finance: Risk: **Market Risk:**

EVENT 2 New joinder, a new underwrite joins in the syndicate with 20 Deal size 110 Bank C (20) Bank A (27) Bank B (27)

SAN (36)

Accounting: Finance: Risk: **Market Risk:**

Allocation published

Left-lead and borrower decide the final allocations to AM.

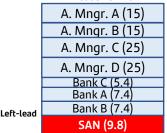


Accounting: Finance: Risk: **Market Risk:**

Closing

Left-lead and borrower decide the final allocations to FM. UW exposure ends here.

Deal size 110



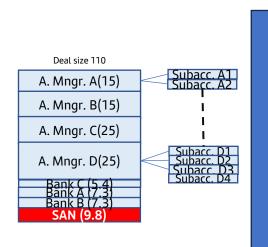
Accounting: Finance:

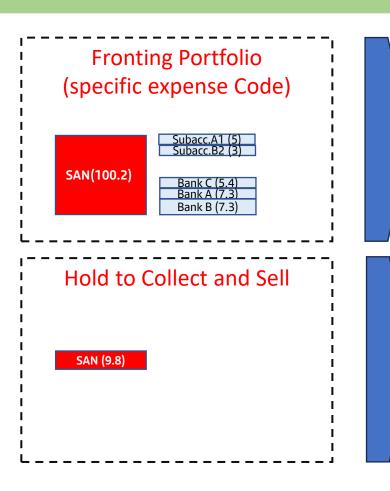
Market Risk:

Risk:

Leverage Finance: Term B - Fronting general booking proposition

Credit Agreement Servicing (Loan IQ)



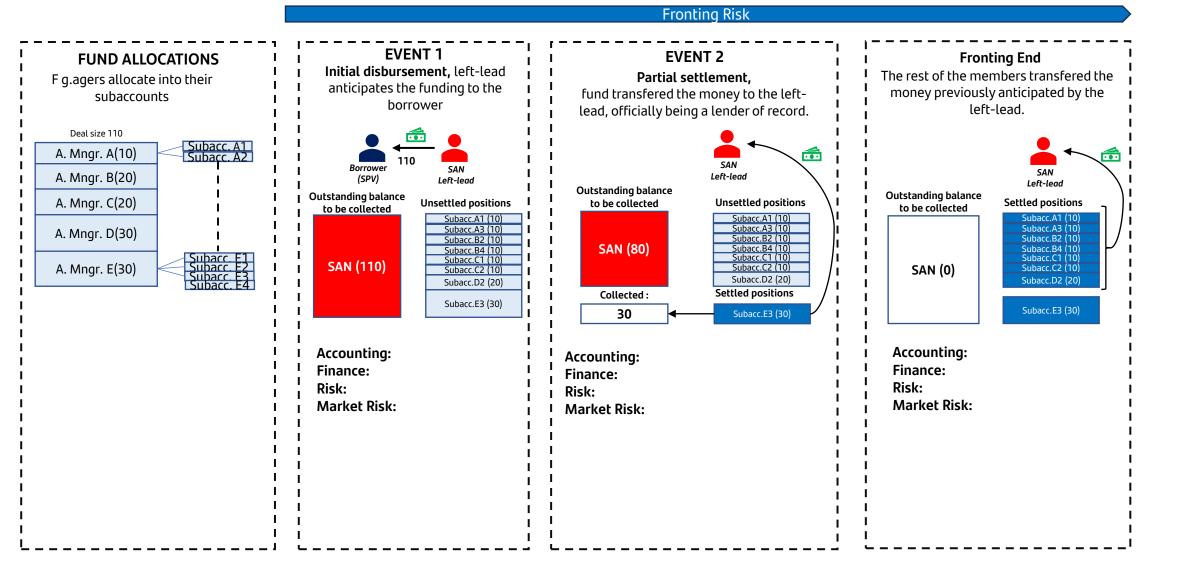


"Secondary Market treatment"
Ringfence booking (product, portfolio)
Specific capital treatment & reporting
100% ETE control for Fronting

- Sum book Balances = 0
- Fronting settlements control.

Treatment as any other lending investment for the residual part not distributed

Credit Agreement Execution



Credit Agreement Execution

Fronting Risk

EVENT 1 EVENT 2 FUND ALLOCATIONS Initial disbursement, left-lead Partial settlement, F g.agers allocate into their anticipates the funding to the fund transfered the money to the leftsubaccounts borrower lead, officially being a lender of record. Deal size 110 Subacc. A1 Subacc. A2 A. Mngr. A(10) SAN Borrower A. Mngr. B(20) Left-lead (SPV) Left-lead Outstanding balance **Unsettled positions** Outstanding balance A. Mngr. C(20) **Unsettled positions** to be collected to be collected Subacc.A1(5) Subacc.A1 (5) Subacc.B2 (3) Subacc. D1 Subacc. D2 Subacc. D3 Subacc. D4 A. Mngr. D(30) SAN(97.2) SAN(100.2) Bank C (5.4) Bank A (7.3) Bank B (7.3) Bank C (5.4) Bank A (7.3) Bank C (5.4) Bank A (7.3) Bank B (7.3) Collected: **SAN (9.8)** Bank B (7.3) SAN formal position SAN formal position SAN formal position Subacc.B2 (3) **SAN (9.8) SAN (9.8)** SAN(9.8) **Accounting: Accounting: Accounting:** Finance: Finance: Finance: Risk: Risk: Risk: Market Risk: Market Risk: Market Risk:

Fronting End The rest of the members transfered the money previously anticipated by the left-lead. Outstanding balance to be collected SAN (0) Sank C (5.4) Bank A (7.3) Bank B (7.3) Subacc.B2 (3)