

Risk Management Use Case

# Investkredit Trusts in GAIN Risk Management for Credit Risk

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**Investkredit Bank AG in Vienna has enjoyed a tradition as a long-term loan financier for medium- and large-scale enterprises. AIM Software's GAIN Risk Management financial analysis platform serves as the credit risk management solution for Investkredit Bank AG.**

- Integrated market and credit risk management
- Complete automation of business processes
- Incremental credit risk & attribution analysis
- CreditMetrics® model

The Investkredit group specializes in innovative finance solutions in the area of corporates, local government and real estate. This has created a combination that is unique in Austria and the surrounding core markets (Germany, Switzerland, Poland, the Czech Republic, Slovakia and Hungary). The future strategy of the Investkredit group is to position itself in the relevant areas as a specialized bank, and to enforce its position as a long-term, quality-focused market leader in Central Europe.

## The need for a flexible solution

The manifold requirements of a specialized commercial bank demand standard solutions with a high degree of flexibility and a reliable partner with a strong track record to guarantee rapid customization of the immediate and future requirements due to Basel II. The most important selection criteria of Investkredit in choosing a credit risk management solution, were a complete automation of the manual business processes and a quality-tested data management system, as well as a good price/performance ratio.

## The solution: GAIN Risk Management

Thanks to the solution provided by AIM Software, the Investkredit Bank AG can now calculate its economic capital and credit risk. In addition, the incremental credit

risk is derived not only on a subportfolio level but also on the level of single instruments. From the multiple standard models offered by GAIN Risk Management, the CreditMetrics® model of the RiskMetrics group for credit risk analysis and credit risk control was given preference. This approach is consistent with market risk characteristics and allows for an integrated market and credit risk assessment of a portfolio.

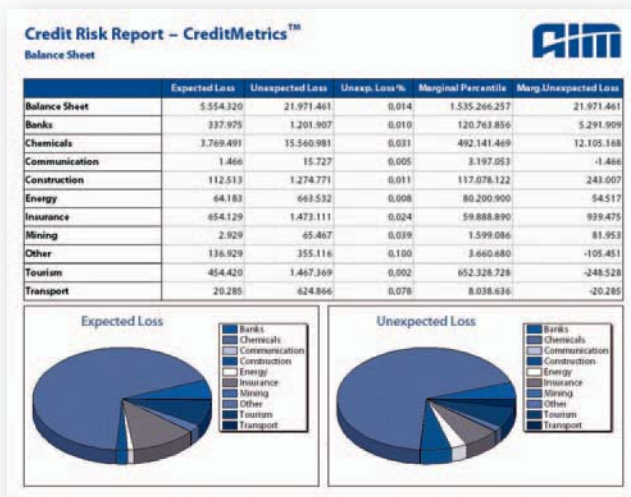
GAIN Risk management offers a crucial advantage in presenting the results on the sub-portfolio and single instrument level. The flexible framework allows for the definition of bank-specific risk sectors and risk classes

**“The comprehensive GAIN Framework allows for a flexible risk presentation in consideration of bank specific risk sectors and classes.”**

Wolfgang Wainig, Investkredit Bank AG

of the Investkredit Bank AG. Depending on the financial instruments in the credit portfolio, it is not always possible to obtain satisfactory results with other software products when the available risk classes and indices are a priori limited.





Sample: Credit Risk Evaluation

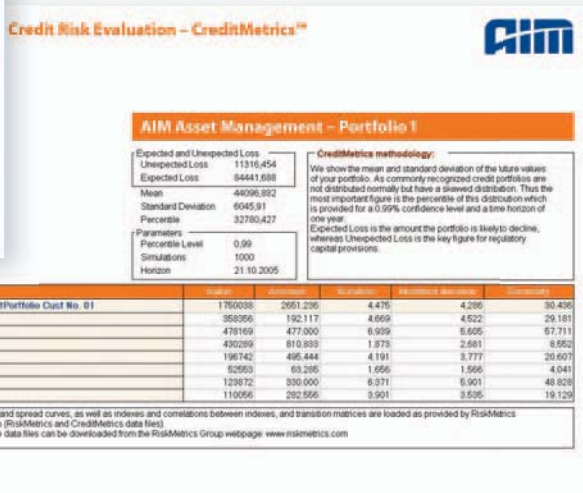
Sample: Credit Risk Report

Through the evaluation of credit risks for the aggregated portfolio, the sub-portfolios and the single investments, it is possible to gain valuable attribution insights based on multiple selection criteria, such as countries, industries, sectors and security classes. In addition, marginal credit risk measures provide information about the influence of every individual position on the credit risk in the aggregated portfolio. Thus, the descriptive quality of the key risk measures can be improved considerably.

**Complete automation of business processes**

In this project, strong emphasis has additionally been put on the complete automation of all relevant business processes. It is frequently underestimated that a crucial part of risk analyses is the quality of the underlying data, creating a need of up front data management. AIM Software's solutions focus precisely on these issues, which have not been fully perceived by other providers, or where other solutions reach technical limits.

"GAIN Risk Management identifies potential sources of errors through the use of a completely integrated data quality control system handling the import and pre-



processing of input data," states Wolfgang Wainig, Head of Portfolio & Risk Management of Investkredit Bank AG. Thereby, errors are not only reduced but can be tracked down to their origins.

**Implementing GAIN**

The test phase for the project started at the beginning of 2005 and the GAIN platform became operational shortly thereafter. AIM Software showed to be a competent partner swiftly reacting on the current, specific requirements of Investkredit. In 2005, additional extensions to the system were performed step by step. Through the integration of expanded Basel II specifics, a higher and finer precision of determining the results was achieved. At the same time, a quality control of the simulated loss distribution through analytically determined key measures takes place and the simulation functions were extended. In line with additional reporting functions an integration into the enterprise-wide reporting will be pursued. ■

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	Credit Risk+™	Credit Metrics™
<b>Originator</b>	Credit Suisse	JP Morgan
<b>Approach</b>	Actuarial	Reduced-form inspired by the Merton model
<b>Risk drivers</b>	Default rates	Asset values
<b>Correlation</b>	Implicitly from sector assignments	From equities
<b>Solution</b>	Analytical	Monte-Carlo Simulation
<b>Implementation expenses</b>	Relatively low	Average
<b>Computational speed</b>	Very high	Medium

Difference between Credit Risk Calculation Models