ICAAP & ILAAP INTERNAL SELF-ASSESSMENT

Scorecard approach
AGENDA

1. Objectives
2. Process overview
3. Self-assessment
4. Aggregation of results
Leveraging on its experience and in line with market practices, Avantage Reply has developed ICAAP & ILAAP self assessments tools.

Interactive and easy to use, the self-assessment tools cover the key building blocks of ICAAP and ILAAP frameworks and provide an overview that will help benchmarking frameworks in place against supervisory expectations and best practices.

ICAAP and ILAAP integrated at the highest level of the organization is key for a proper use of both processes into the decision-making process.

Harmonized framework for both self-assessment tools

Combined quantitative and qualitative self rating at a granular and aggregated level

Graphical presentation of the results

Collection of qualitative statements for each questions
OBJECTIVES

• In order to help financial institutions to identify key weaknesses and areas of improvement on their ICAAP and ILAAP but also to meet the supervisory requirements within the scope of SREP, these self – assessments aim to:

✓ Ensure that institutions have adequate business model assessments, governance arrangements, risk identification processes and modeling capabilities for capital and liquidity assessments ;
✓ Ensure a proper integration of both ICAAP and ILAAP frameworks into strategic planning and decision-making processes ;
✓ Provide financial institutions with the ability to conduct self-assessments through a scorecard approach on their current ICAAP and ILAAP frameworks in order to identify areas of improvements and to implement remediation actions for their future exercises.
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Process Overview

- The exercise is articulated in **three consecutive interdependent phases** based on supervisory requirements, benchmarks and best practices.
- The **process is iterative** and allows an assessment at a specific level as well as at a broader level composed of homogeneous areas.
- **Adjusted results and recommendations** are obtained through the end of the outcomes of the process.

**Assessment**
- Workshops in the form of interviews
- Assess the different stages of the ICAAP and ILAAP

**Aggregation**
- Calculation of scores per block and aggregation into a final score
- Identification of strengths and areas of improvements

**Solutions**
- Communication of results
- Formulation of recommendations
- Presentation of an action plan
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*Preparation and approach*

<table>
<thead>
<tr>
<th>Step 1</th>
<th>Workshops - Interviews</th>
</tr>
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<tbody>
<tr>
<td>Step 2</td>
<td>Score aggregation - adjustment</td>
</tr>
<tr>
<td>Step 3</td>
<td>Recommendations – action plan</td>
</tr>
</tbody>
</table>

Informal iterations with the sponsor and the key stakeholders of ICAAP / ILAAP processes for the collection of relevant informations and the targeted materials to conduct the self assessment

Estimated workload and number of workshops required

Workshops wave (tool implementation)
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Scorecard approach – ICAAP & ILAAP questionnaire

> Questionnaires address a number of relevant topics per key building blocks
> Hereafter are described the macro areas for each self-assessment
> In each process, an assessment is conducted through a score per macro area to calculate an average score for the questions in that category

<table>
<thead>
<tr>
<th>ICAAP questionnaire</th>
<th>ILAAP questionnaire</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Business Model Analysis</td>
<td>1. Liquidity risk management framework</td>
</tr>
<tr>
<td>2. Risk Identification</td>
<td>2. Liquidity risk strategy - BMA</td>
</tr>
<tr>
<td>3. Risk Management Framework</td>
<td>3. Liquidity buffers &amp; collaterals</td>
</tr>
<tr>
<td>5. Capital Management Framework</td>
<td>5. Liquidity Stress testing</td>
</tr>
<tr>
<td>7. Data, Infrastructure &amp; Reporting</td>
<td>7. Liquidity management (intra group &amp; intraday)</td>
</tr>
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Consolidation and analyses of the outcomes

- Answers verification and certification
- Adjustment of scores if necessary, based on comments received, expert judgment, or the size/business model of the institution.
- Formalization of scores and their presentation - Demonstration of weaknesses - Drafting of recommendations
> Four possible answers ranging within a level of 0% to 100% for each question, and corresponding scores from 1 to 4 for each answer

<table>
<thead>
<tr>
<th>Possible answers</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>(0% to 25%): No/Na - Preliminary state</td>
<td>1</td>
</tr>
<tr>
<td>(26% to 50%): Partially - need to be completed</td>
<td>2</td>
</tr>
<tr>
<td>(51% to 75%): Mostly - need to be improved</td>
<td>3</td>
</tr>
<tr>
<td>(76% to 100%) Fully - Compliant</td>
<td>4</td>
</tr>
</tbody>
</table>

> Example of a sample of questions of ICAAP questionnaire

<table>
<thead>
<tr>
<th>Risk Identification</th>
<th>Q</th>
<th>Question</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>6</td>
<td>Is there a taxonomy listing all of the bank’s risks by combining top-down and bottom-up approaches within the bank? (51% to 75%): Mostly - need to be improved</td>
<td>3.00</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>Does the Bank identify risks at least once a year? (76% to 100%): Fully - Compliant</td>
<td>4.00</td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>Are the business lines well integrated into the risk identification process? (51% to 75%): Mostly - need to be improved</td>
<td>3.00</td>
</tr>
<tr>
<td></td>
<td>9</td>
<td>Is there a uniform risk identification process for all business lines within the Bank? (76% to 100%): Fully - Compliant</td>
<td>4.00</td>
</tr>
</tbody>
</table>
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Outcomes aggregation

The calculated scores for the questions of each main area are aggregated and presented through a heatmap to:

> Help institution have a brief overview on the degree of maturity of their current ICAAP/ILAAP

> Highlighting areas of weaknesses
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Presentation of the outcomes and action plan

- Presentation of the outcomes
  - Score per building blocks
  - Entity score presentation
  - Main conclusions
- Recommendations summary presentation and analysis
- Detailed action plan articulated through streams to improve ICAAP and ILAAP frameworks efficiency, integration and compliance

| Step 1 | Workshops - Interviews |
| Step 2 | Score aggregation - adjustment |
| Step 3 | Recommendations – action plan |
Our service offering

Expert and methodological support in ALM, Finance and Risk around strategic risk management and management processes, governance of Finance and Risk functions, risk modeling and scarce resources (capital, liquidity) and stress tests.

- Our teams support CROs and CFOs from the design of target systems to operational implementation at Group or entity level.
- Our missions last from 1 month to 1 year. On average, they last 6 months.
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