

# Oracle Transfer Pricing Data Sheet

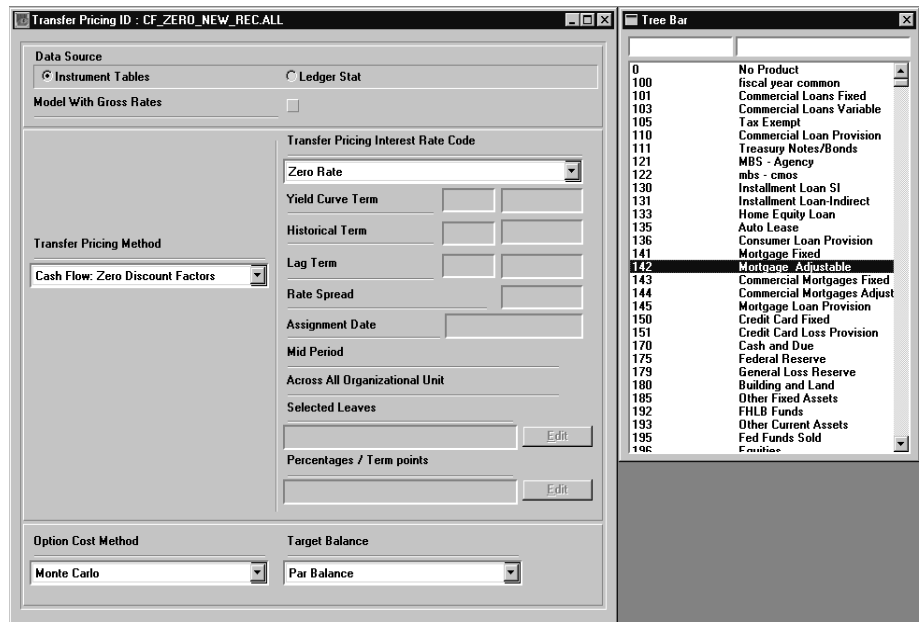
*Oracle Transfer Pricing, the first commercially available funds transfer pricing system, continues to be an industry standard for determining the account level spread earned on assets and liabilities, and the spread earned as a result of interest rate exposure. Oracle Transfer Pricing supports a comprehensive range of transfer pricing methodologies, using the industry's best practices, to calculate accurate results at the lowest available level of detail. Results and methodologies are also integrated with Oracle Risk Manager, Oracle Performance Analyzer, and Oracle Budgeting & Planning. Oracle Transfer Pricing is part of the Oracle E-Business Suite, an integrated set of applications, which is designed to transform your business to an e-business.*

## **Transfer Pricing as a Profit-Enriching Tool**

The transfer pricing process isolates the four major sources of your margin:

- The spread earned on assets
- The spread earned on liabilities
- The spread earned or lost as a result of interest rate risk exposure
- The spread earned or lost as result of embedded options

Measuring and managing isolated elements of margin offers tremendous profit opportunities. By separating the components of net interest income, Oracle Transfer Pricing isolates rate risk into your funding center where it can be centrally managed. In turn, business units are held accountable for what they can control: pricing and profitability. Armed with this highly accurate information, you can make solid, supportable decisions, which lead to increased success for your organization.



### Transfer Pricing ID

*Defines the transfer pricing method for each product in your portfolio*

### Precision and Flexibility at the Lowest Level

Oracle Transfer Pricing assigns a transfer rate to each instrument by applying the transfer pricing technique you specify for that instrument type. Oracle Transfer Pricing provides nine possible methodologies to set the right level of precision for each account. These methodologies incorporate user-driven transfer pricing yield curves, individual instrument characteristics, and customized prepayment expectations into the final transfer rate.

Multiple transfer rates allow separation of individual components of the transfer rate (such as basis risk, option spread, and liquidity premiums) to enable you to further understand the risk profile of individual instruments, selected portfolios, and the entire organization. Using this information, you can allocate costs in accordance with the risk taken by different business operations.

### Reconciling Current Rate Risk with the Historical Transfer Pricing Perspective

To clearly explain today's Treasury profit, transfer prices must be calculated to reflect both current rate risk and historical balance sheet management actions. Oracle Transfer Pricing can apply today's yield curve to the remaining life of the instrument to compare embedded and current risk profiles. Both historical and current transfer rates are stored on the individual transaction record. By comparing these two perspectives, current risk profit and historical risk profit can be isolated.

### Flexible Future Business Pricing

With Oracle Transfer Pricing, transaction pricing can be based on a similar recent transaction or on a set of parameters that you establish. The result is a matched cash flow transfer price that allows you to quote the cost of funds for similar products.

Regardless of how you do your pricing, Oracle Transfer Pricing can make sure you assign the appropriate cost of funds when those transactions are actually booked.

#### **Centralized Interest Rate Risk**

Oracle Transfer Pricing isolates each source of interest rate risk and concentrates rate risk management in your bank's funding center. Oracle Transfer Pricing creates ongoing access, at any frequency you desire, to vital information on rate risk margin that is an essential part of effective treasury management.

#### **Deep Understanding of Option Costs**

One of the most advanced features of Oracle Transfer Pricing is its ability to calculate option costs. Option cost calculations quantify the cost of optionality, in terms of a spread over the transfer rate, for a single instrument at the time of funding. An instrument with an optionality feature can exhibit changes in its cash flow behavior under different interest rate environments and thus, should be priced accordingly.

For example, many mortgages may be prepaid by the borrower at any time without penalty. In effect, the lender has granted the borrower an option to buy back the mortgage at par at any time, even when interest rates have fallen, which would have normally raised its value.

In another case, an adjustable rate loan may be issued with rate caps (floors) which limit its maximum (minimum) periodic cash flows. These caps and floors also constitute options issued to the borrower.

Such flexibility given to the borrower can raise the bank's cost of funding the loan and affect the underlying profit. You can use the calculated cost of these options in conjunction with the transfer rate to better analyze profitability levels.

The same sophisticated stochastic techniques that are used in Oracle Risk Manager are used to calculate option costs in Oracle Transfer Pricing. You can choose between two numerical techniques: Monte Carlo with pseudo random numbers, or Monte Carlo with low discrepancy sequences. Four term structure models are available: Ho and Lee, Merton, Vasicek, and Extended Vasicek. Two smoothing methods are offered: Straight Line and Cubic Spline, and you can use up to 2000 rate paths. Taken together, these features constitute one of the strongest transfer pricing and option cost packages on the market today.

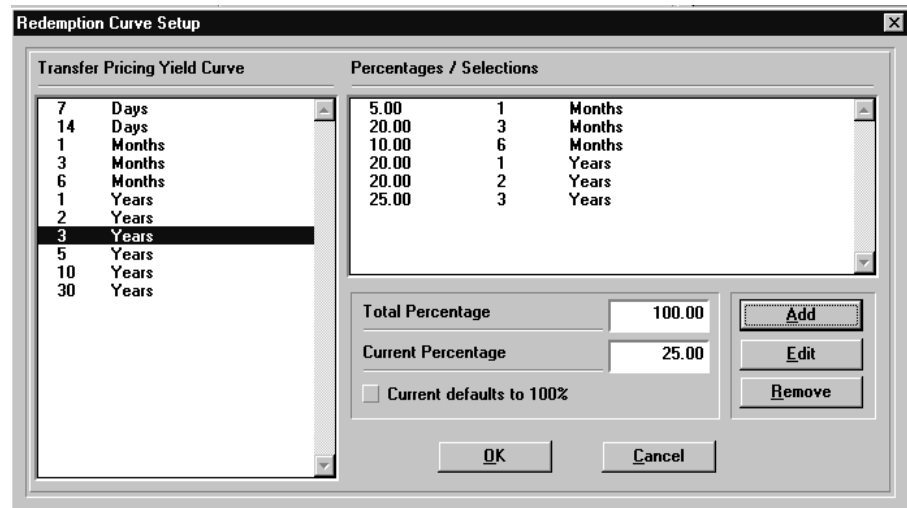
#### **Seeing Your Business Clearly and Flexibly**

The reporting capabilities of Oracle Transfer Pricing provide a deep, clear and complete understanding of the effects of transfer pricing on your bottom line.

These capabilities can delve deep into your data, providing:

- Powerful ways to drill down into the data
- Flexible batch running of model components and "what if" capabilities
- Stratification reports that identify patterns and outliers in the data

Comprehensive reports from Oracle Transfer Pricing provide a detailed picture of the dynamics of your business in a user-friendly spreadsheet environment. The results are clear, accessible and tailored to your needs.



#### Redemption Curve Setup

*One of nine transfer pricing methods offered by Oracle Transfer Pricing*

## Oracle E-Business—The Total Solution

Transform the way you conduct business with Oracle's internet-enabled e-business suite. Put your demand chain, supply chain, and internal operations online with Oracle's comprehensive and fully integrated solution. Combine the wide reach of the Internet with Oracle's fully globalized product to run your business consistently and accurately worldwide. Reduce costs and complexity by running on corporate Internets or the World Wide Web.

Oracle's revolutionary 8i database maximizes the emerging Internet computing technology. While using Oracle Transfer Pricing, you can select where and when to process results, based on your combination of business processes, data volumes, and technology infrastructure. The database and application are "globally enabled" with multi-byte support.

As a provider of global consulting, education, and support services, Oracle provides the most complete e-business solution available.

*The Oracle E-Business Suite: transforming your business into an e-business*

## Key Features

### Process Management

- Transaction level matched fund transfer pricing
- Transfer pricing of indeterminate maturity instruments
- Prime loan transfer pricing pools
- Pre quoted cost of funds
- Separable processes for rate migration and propagation

### Multiple Transfer Pricing Methodologies

- Cash Flow Weighted Term  
*Match fund each cash flow at the rate from the appropriate term on the transfer pricing yield curve*
- Cash Flow Zero Discount Factor  
*Solve for the appropriate rate to match the present value of principal cash flows to the initial balance*
- Cash Flow Duration  
*Match the duration point on the transfer pricing yield curve*
- Moving Averages  
*Calculate the historical average of a selected point on the transfer rate yield curve*
- Spread from Interest Rate Code  
*Fix a spread from a selected point on the transfer rate yield curve*
- Straight Term  
*Match the actual transaction term with the corresponding point on the transfer pricing yield curve*
- Spread from Note Rate  
*Fix the spread from the transaction's current rate*
- Redemption Curve  
*Calculate a weighted average rate*
- Unpriced Account  
*Price from the average transfer rate on a pool of accounts*

### Drill Down

- Tree filters for product analysis
- Data filters for instrument analysis
- Profitability analysis  
*Including account level detail, transfer rates, historical reporting*

### Batch Running

- Process batching
- Reusable processes

### Flexible Cell Definition in Reports

- Hierarchical summary reports
- Detailed stratification reports
- Flexible column definitions
- Filtering capabilities

### Integrated Architecture

- Use with Oracle Performance Analyzer  
*For business unit profitability analysis*
- Use with Oracle Risk Manager  
*For a prospective funding center view*
- Use with Oracle Budgeting & Planning  
*To see the impact of budget goals on risk*

Oracle Corporation  
World Headquarters  
500 Oracle Parkway  
Redwood Shores, CA 94065  
USA

Worldwide Inquiries:  
650.506.7000  
Fax 650.506.7200  
<http://www.oracle.com/>

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