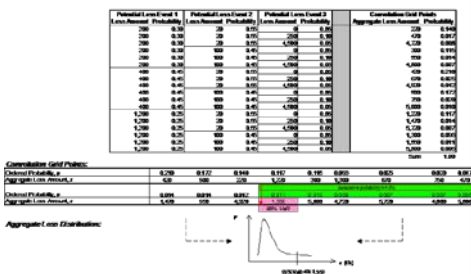


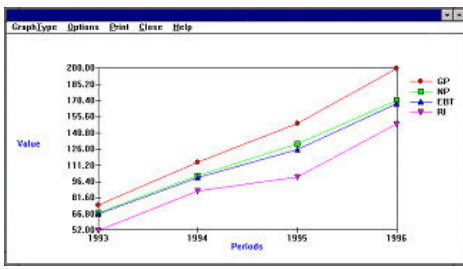
## Economic Analysis Service

The Economic Analysis Service has been designed to facilitate the ongoing risk and financial analysis of the firm, its industry and its competitors, through the real-life application of modern financial risk management theory in a standardised and user-friendly manner. Intended as a tool which forms part of every risk and/or financial manager's daily arsenal of tools, the Economic Analysis Service is capable of analysing historical, current and projected information in order to determine trends, cash flow patterns, the generation of corporate value, the validation of predictions and to manage economic capital requirements.

Through the various tools aimed at evaluation, the risk and/or financial manager can model a single business unit (or the firm as a whole) and once the user is satisfied with the accuracy and correctness of the evaluation, can then consolidate multiple business units into group structures. This also allows for the modelling of mergers and acquisitions, as well as of divestitures. Achieved through the definition of a chart of accounts for the business with associated risk drivers (strategic, business, market, credit, liquidity and operational in nature), coupled to user-definable forecasting techniques and calculations, output from such evaluation could be graphical trends, ratios, standardised reports such as income statements and balance sheets or custom reports for specific purposes, such as a rating agency's analysis or economic capital requirements.



The Economic Analysis Service also allows for peer analysis, in that once a competitor has been analysed using commonly available information, that analysis can be compared to an analysis of your own business and key differences identified. This can be extended to industry comparisons and market share analysis within an industry. Facility to model the firm's cost of capital on either a static or a dynamic basis is available and can be employed to measure financial benchmarks such as "corporate value generation" or "economic value added".



Through a detailed chart of accounts, coupled to user defined calculations and custom-designed reports and queries, the Economic Analysis Service provides for cash flow management and prediction, as well as discounted cash flows and changes to the corporate leverage structure. Facility is also available for a user to model three-dimensional impacts upon the business under both individual and combined changes to margin, sales volume and capital utilisation efficiency, both on a once-off and a prolonged basis. This can be effectively used to stress test the business at all levels under a broad range of conditions.

Utilising the historic performance of the business, the Economic Analysis Service allows for easy validation of budgets through trend analysis, as well as the creation of future forecasts based on straight-line, regression and moving average analysis of past performance, taking into account specific relationships such as gross profit, earnings before interest and taxation, depreciation and retained income. Specific performance indicators and risk indicators can also be incorporated.

Easily defined financial tools such as a weighted average cost of capital (WACC) analysis, a risk adjusted return on capital (RAROC) and a forward looking capital estimation model which employs historical internal and external loss data, scenario assessment and business environment and internal control factors deliver more sophisticated measures of the firm's financial soundness.

Once the overall risk and financing structure of the organisation has been defined, ongoing changes to key drivers will automatically generate revised impressions of overall performance, exposure and potential capital requirements. Using this, the Economic Analysis Service can also be used for credit evaluation, new business opportunity and project feasibility studies and for financial planning.

By marrying standard financial planning with risk capital allocation, the firm can easily monitor the actual contribution of each business entity to the overall group bottom line. In adding detailed risk drivers behind the key contributing areas of revenue, cost of sales and expenses, the immediate impact of changes in public and internal fiscal policies can be modelled, additional capital allocated (or capital relief granted) and revised targets set for the business to achieve. By feeding data - historical, current actual and projected - relating to key risks into the model, the model is essentially stressed and the firm can take steps to ensure that adequate capital levels are maintained at all times. Simultaneously, the complete set of risks faced by the firm can be modelled simultaneously to achieve a true enterprise-wide risk perspective and risk sensitive financial and capital implications.

	Year 4	Year 3	Year 2	Year 1	Current	Forecast 1	Forecast 2
Revenue from Services	150	160	145	155	150	155	165
Cost of Service Delivery	75	75	75	80	80	80	85
<b>GROSS MARGIN</b>	75	85	70	75	70	75	80
Expenses	38	40	36	39	38	39	41
NET (LOSS)/PROFIT (EBIT)	38	45	34	36	33	36	39
Non-Transactional Interest Earned	1	2	2	1	2	2	2
Interest Paid	1	1	3	2	1	1	2
NET (LOSS)/PROFIT (EBT)	38	46	33	35	34	37	39
Tax (30%)	15	23	16	18	17	19	19
NET (LOSS)/PROFIT after TAX	19	23	16	19	17	19	19
WACC (5%)	2	2	2	2	2	2	2
Regulatory Capital Allocation (2%)	2	2	1	2	1	2	2
<b>NET CONTRIBUTION</b>	16	20	13	14	13	15	16
Capital Employed	35	35	30	40	40	42	45

When used in conjunction with other components of the RiskBusiness RiskIntelliSet™, real-time information relating to internal risk events, risk/ performance/ control indicators, risk and control assessments, internal audit findings, litigation cases, assessments of business continuity, information security and outsourcing assessments, compliance issues, scenario analysis, public loss data, consortium data and industry business environment factors can be fed directly into the economic capital model, the implications determined and assessed and then communicated directly back to management for corrective action, if required.

For firms wishing to incorporate regulatory capital, when the Economic Analysis Service is used in conjunction with the RiskBusiness Capital Management Service, various forms of regulatory capital implications can be incorporated into the economic capital output and comparisons of capital adequacy between economic and regulatory capital can easily be performed, along with stress testing of the comparisons.

RiskBusiness also provides a full range of advisory services along with the Economic Advisory Service. For more information on the Economic Analysis Service, please contact RiskBusiness Service Limited through our website or email us at [info@RiskBusiness.com](mailto:info@RiskBusiness.com).

