



Algo Credit Data Services

Critical data for the credit portfolio manager

ACDS Credit Data Consortia & Basel II Learning from Best Practice

Convergence Romania Financial Sector Modernization
Special Projects Initiative

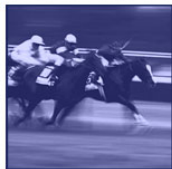
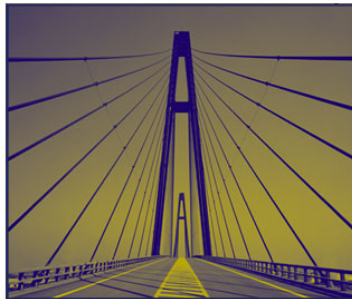
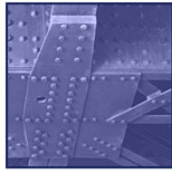
11 April 2007

Andrew Fishman (credit solutions)

+44 777 1818 767

Bart Piron (credit & capital specialist)

+44 7811456830



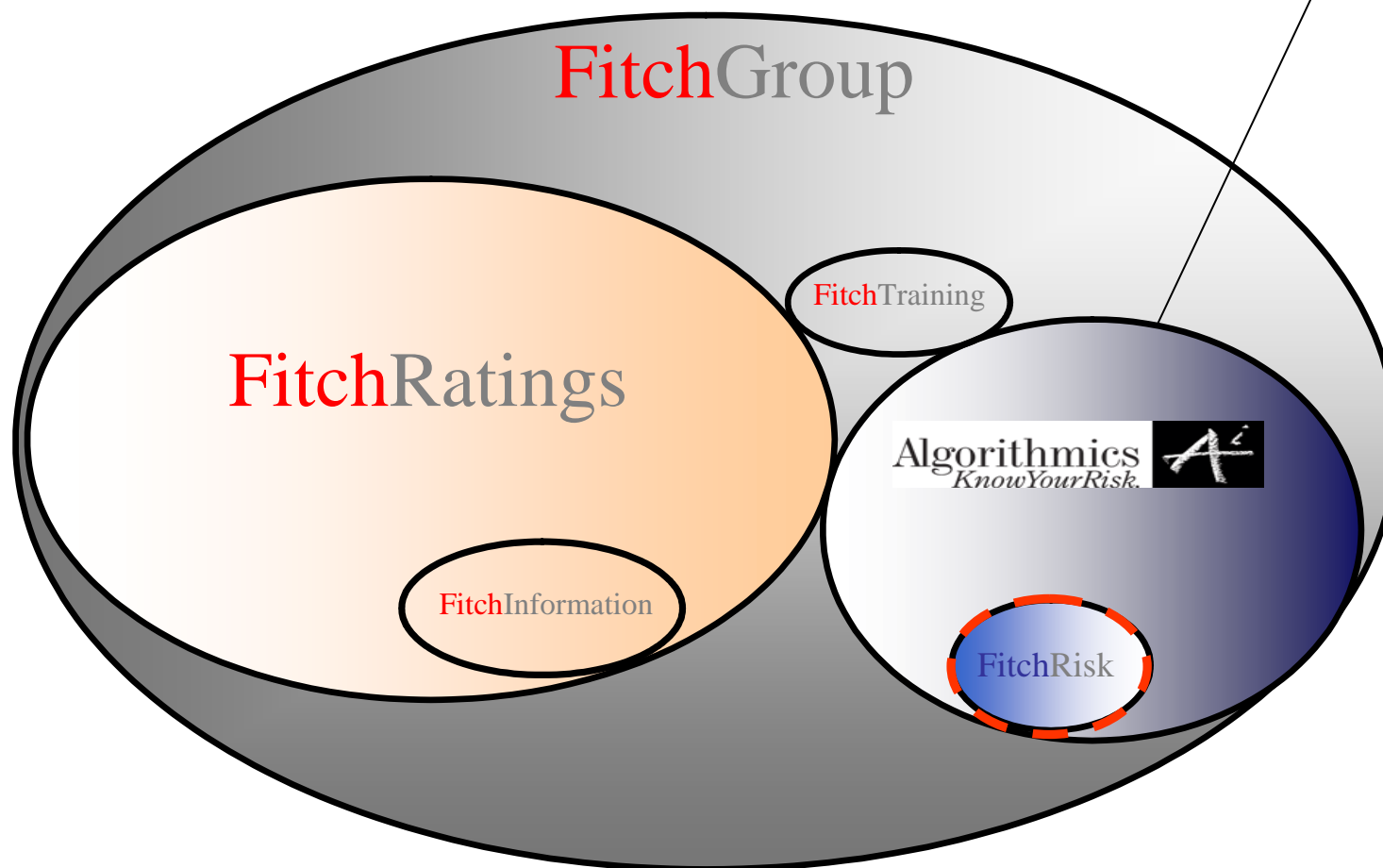


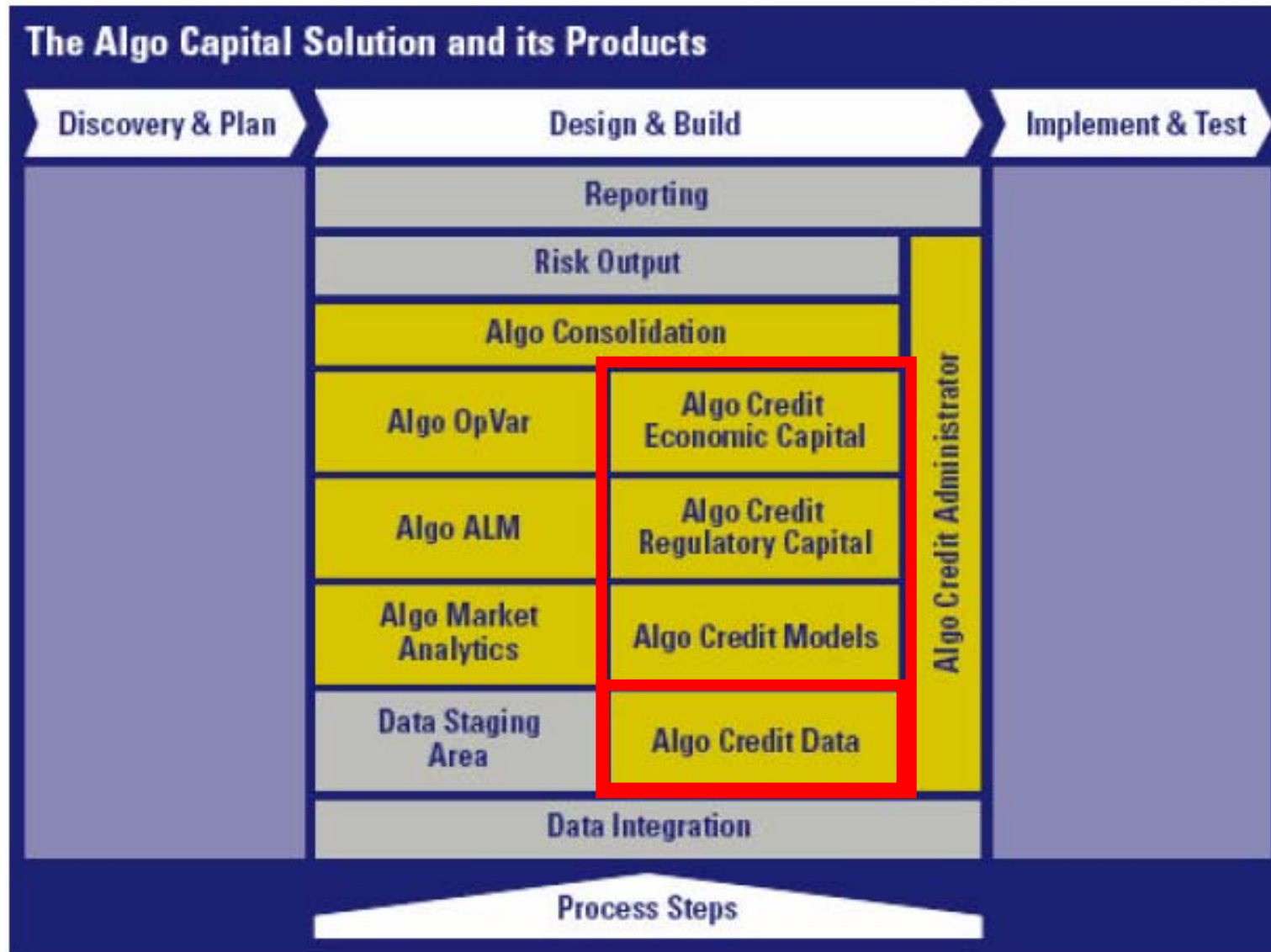
1. Practical implementation of Basel II requirements- 15 minutes
2. Setting up of industry databases for mortgage loan servicing database and the loss given default (LGD) database
 - 2.1 Explore the opportunity of an off-the-shelf solution
 - 2.2 Demonstrate the concepts in practice with a case study on the efforts needed to set up the two databases.

A version of the presentation may be available upon contact & request



Merger of Algorithmics and Fitch Risk highlights the separation of the Algorithmics and the Fitch Ratings organizations







✓ Enterprise risk credit systems for processes, measurement & capital

Off-the-shelf Credit Models

- CRS Rating Models (CRS Corporate and Bank Suites)
- Citi PD Models (Citi)

Credit Consulting

- Custom credit model build
- Consulting and model calibration
- Basel 2 Internal Rating Validation Service

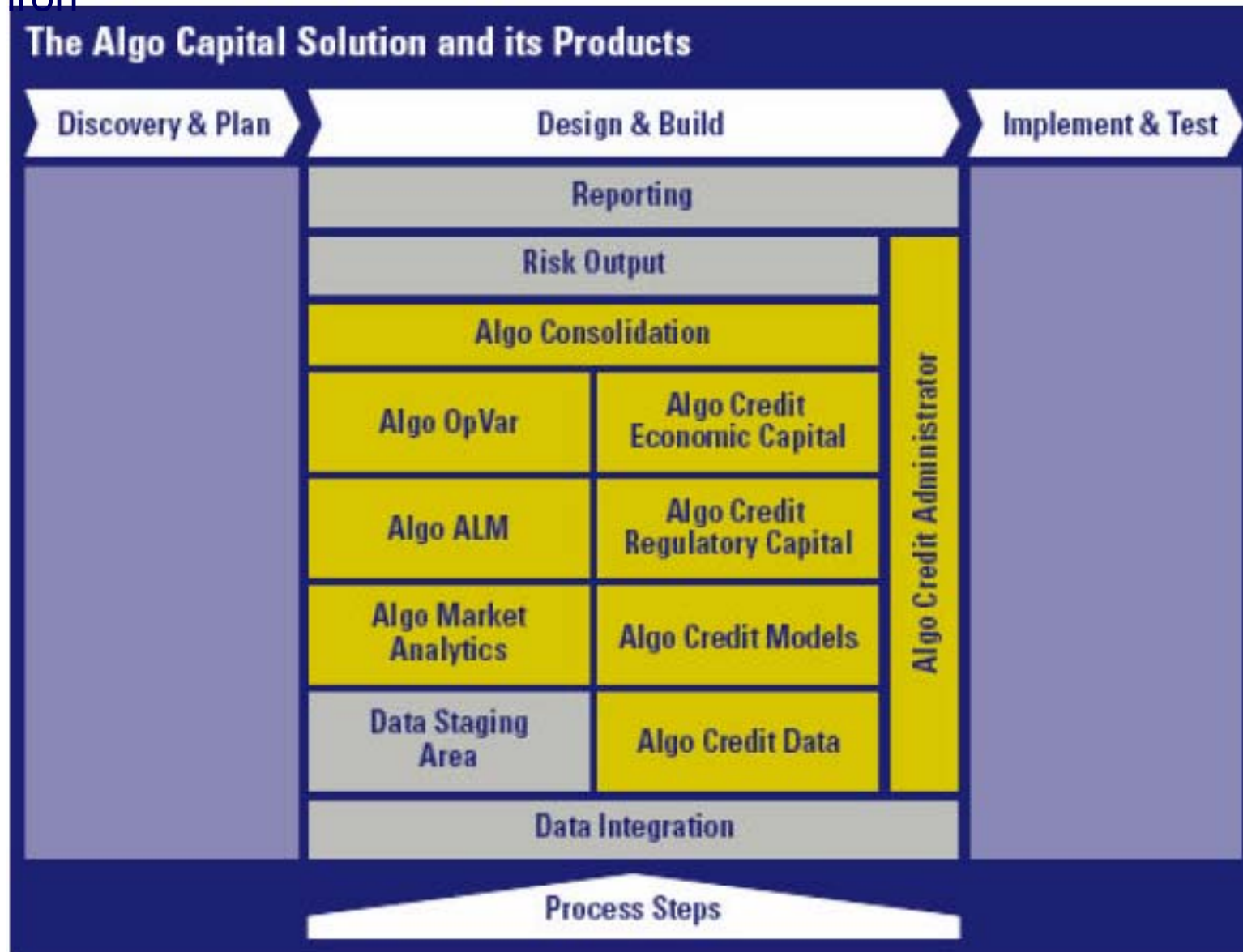
Credit Data

✓ Data Consortium Management

1. Basel II Implementation

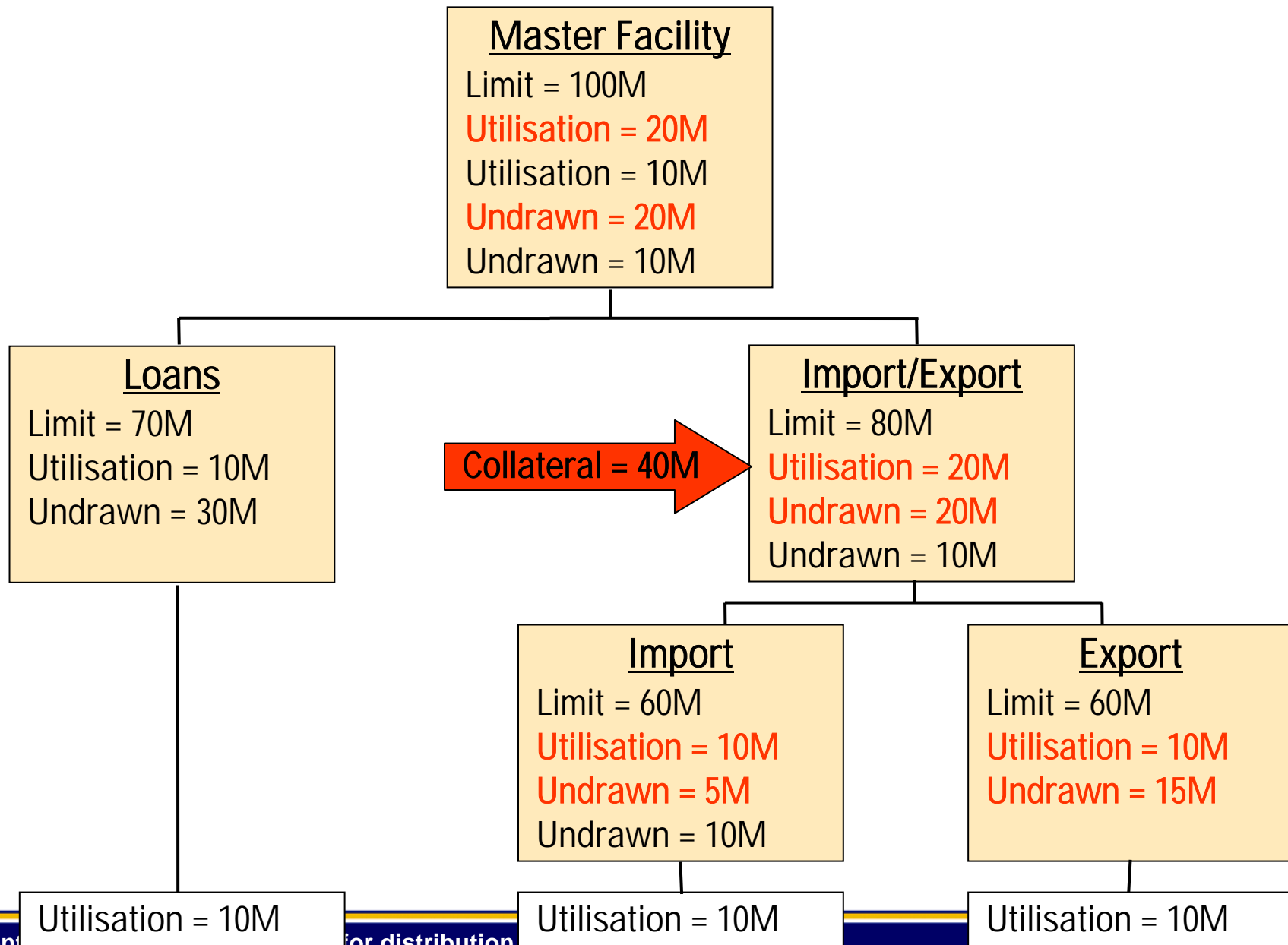


Bart Piron





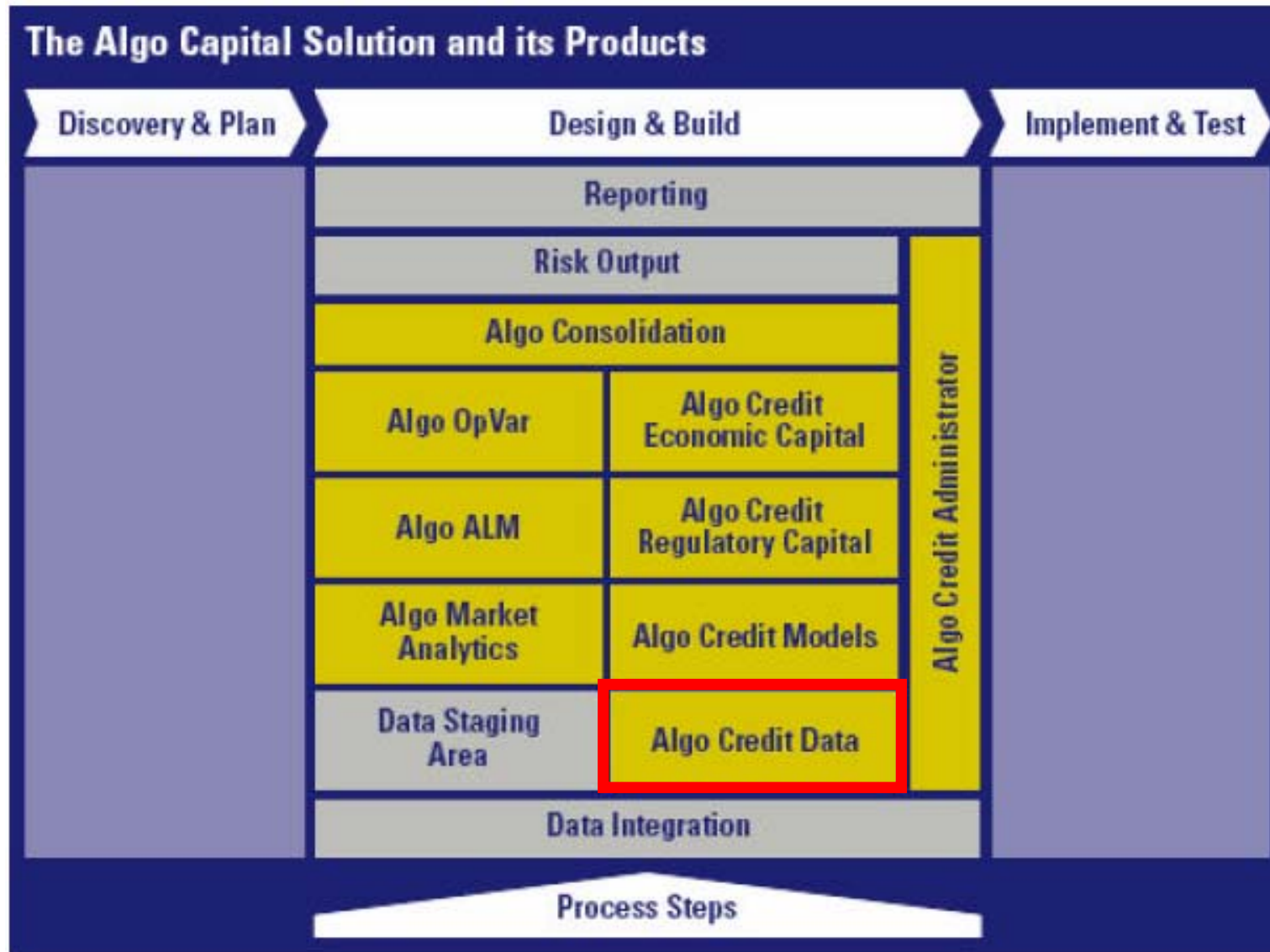
- Required Data:
 - Regulatory Parameters, for every regulator
 - Static data (e.g. counterparty structures)
 - Exposure data, preferably transactions
 - Credit Mitigation data
- Methodology Choices
- Procedures and workflow
- Collateral Allocation



2. Overall Basel 2 Solution



Andrew Fishman





ACDS Background

- What is Algo Credit Data Services
- The Evolution of Data Consortiums
 - How is ACDS Different
 - The ACDS “Philosophy”
 - Industry Best Practice
- Benefits of the ACDS Service
- ACDS Global Experience



What is Algo Credit Data Services?

- Service vs. Product
 - Global Service that provides support for the definition, collection, derivation, and aggregation of PD and LGD data pools for all Basel II commercial exposures types.
 - Support systems, infrastructure, consulting, credit risk expertise, and unparalleled experience delivered to a global audience of financial risk practitioners.
- Partnerships
 - Developed in partnership with 20 of the worlds leading banks and credit risk experts.
 - Ongoing partnership with 50+ institutions across 4 continents.
 - Various Regulators and Central Banks



What is Algo Credit Data Services?

- **Advanced Solution**
 - Developed from core Award Winning Algo Enterprise Risk Products.
 - Global Application Service Provider (ASP) platform: integration into any market.
 - Flexible and Scalable Solution.
 - Offers Complete Data Security and Confidentiality.



There are challenges in collecting, normalizing and aggregating observation data from many different institutions.

Challenges :

- **Standards;** definitions, methodology, technology, confidentiality,
- **Quality;** data quality, data quantity, validation, integrity, audit,
- **Logistics;** communications, organization and coordination.

Inter-bank data pooling, although logistically complex, is the market best practice approach to creation of the empirical data sets required to estimate Basel II risk components.



First, The “Old” Traditional Approach to Data Pooling:

The Traditional Approach

- Viewed as a “Fixed” Product
- Arduous Mostly Manual Process
- No Partnership
- Limited Oversight
- Lack of Consistency
- Vendors/Data Pooling Agents Working in a “Black Box”
- Recent Data? Quality Data? Uniform Data? Applicable Data?
- Lack of Industry Forum
- Vendor’s Unlimited Use of Data, Bank’s Limited “Say”



The Industry Best Practice Approach to Data Pooling:

The ACDS Approach

- Global Services Platform
- Automated Application Interface
- Work With Banks and For Banks
- Support System, Structure for Consortium Oversight
- Uniformity, Consistency Across all Member Banks
- Complete Transparency, Publish Definitions, Calculations, Performance Reporting
- Recent Data ✓ Quality Data ✓ Uniform Data ✓ Applicable Data ✓
- Global Industry Forum to Discuss Trends, Methodology, and Communicate to Regulators.
- Banks Own the Data, Banks have a “Say”



A solution for these challenges must draw on certain key requirements for collecting, normalizing and aggregating observation data from many different institutions.

Key Requirements :

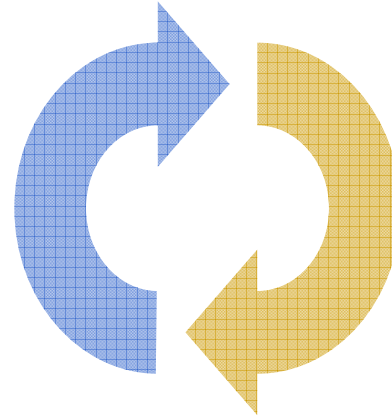
- **Established Standards;** established definitions, terminology, data models and methodologies,
- **Proven Technology;** automated data validation, submission and load tools ensure consistent data quality and provide complete audit trail,
- **Managed by Banks;** programme planning and logistics, member consultation, industry expertise and leading credit risk practitioners.

Inter-bank data pooling is the most reliable, accurate and cost-effective way to create the empirical data sets required to estimate Basel II risk components.



What is the 'Virtuous Cycle' ?

**Data Quality
Evolution**



**Market Best
Practices**

- Methodology Committee,
- Data Collection Templates,
- Uniform Interpretation of Data,
- Quality Standards,
- Expanded Explanatory Variable Set,
- Expanded Region / Asset Class
Differentiation.

- More Rigorous Data Validation,
- Market Performance & Peer
Group Benchmarking,
- Market Transparency,
- Better Model Build Data Sets,
- Better Model Build Process,
- Enhanced Model Statistics,
- Expanded Model Differentiation.



ACDS; Partners to Global Data Consortia:

- Data Consortiums have a in depth and Global Reach,
- Credit Portfolios are No Longer Confined to a Single Market or asset class,
- ACDS Platform Supports International Banks in Many Markets,
- Much of the Data is Global in Nature,
- Structure of ACDS Consortiums Supports Global Data Exchange and Inter Consortia Data Exchange & Benchmarking,
- ACDS Facilitates “Partnerships” between Banks and Consortia Organizations.



- Presented pages not included in handout





ACDS Global Platform:

- Client Consultation Service
 - Data Consortium Roundtable
 - Extensive one to one Client Consultations
- Client Side Web-Based Data Validation Process
 - Currently 250+ Validation Routines
 - Secure Online Data Submission
- Activity & Audit Logs
 - Ability to review client validation progress



ACDS Global Platform:

- Suite of Tools to Audit, Calculate, and Benchmark Data
 - Consistent application of methodology and quality standards
 - Delivers more comprehensive data and analytics to the Banks
 - Promotes efficiency; reduces lag in reporting to clients

- Algo Deliverables
 - Time-series Database
 - Complete “Normalized” datasets, not just benchmarks
 - Qualitative & Quantitative Analytics
 - Online Web Reporting and Benchmarking



- Presented pages not included in handout



Algo Credit Data Services is Setting the New Global Industry Standard with Leading Risk Practitioners. ACDS delivers unique benefits not available with any other partner or service provider:

- **Designed ‘by Banks for Banks’:**
 - data templates, quality controls, methodology, calculations, statistical analysis; All developed in consultation with industry leaders.
- **Inter-consortium Data Exchange:**
 - Only ACDS can deliver ‘off-the-shelf’ data exchange with leading North American, European and South African data pools.
- **No Black Boxes:**
 - All ACDS methodology is fully disclosed to our clients; Allows for consultation with regulators; Complete Transparency = No Surprises.
- **Proven Technology:**
 - ACDS platform is based on award-winning Algo Suite technology.
- **Unparalleled Experience:**
 - Used by 50+ major international banks. Consultation with Basel AIG validation sub-group and countless regulatory authorities.



- Presented pages not included in handout



Minimum Project Risk / minimum delays

Established procedure running in 4 regions

Years of experience with a proven

- credit data management process & quality control

- efficient infrastructure

- proven delivery capability in different languages & cultures

On par with the leading regions for future data sharing and methodology developments

Algorithmics commitment to the credit data business line



Sales Contacts

- Alexander Sirotin (Country Manager) +48 608313133
- Rainer Stockman (Regional Manager) +49 69 71718171

Specialists

- Andrew Fishman (Credit solutions) + 44 (0) 777 1818767
- Bart Piron (Credit & Capital Specialist) +44 (0) 7811456830