

<b>Bank</b>	The client is an international bank with European roots with a clear focus on consumer and commercial clients in some key local markets and a global focus on select multinational corporations and financial institutions, as well as private clients.
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<b>Project Name</b>	End to end evaluation of the collateral management process.
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<b>Project Start Date</b>	June 2007	<b>Project End Date</b>	ongoing
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<b>Industry</b>	<input checked="" type="checkbox"/> Commercial banking	<input type="checkbox"/> Insurance
	<input checked="" type="checkbox"/> Investment banking	
	<input type="checkbox"/> Private banking	<input type="checkbox"/> Asset and wealth management
	<input type="checkbox"/> Retail banking	
		<input type="checkbox"/> Corporate

<b>Category of Service</b>	<input type="checkbox"/> Performance measurement and monitoring	<input checked="" type="checkbox"/> Regulatory compliance and reporting
	<input type="checkbox"/> Portfolio risk management	<input checked="" type="checkbox"/> Business process improvement
	<input checked="" type="checkbox"/> Specialised risks	<input type="checkbox"/> Training and people change
	<input checked="" type="checkbox"/> Data Quality	<input checked="" type="checkbox"/> System selection and implementation

<b>The Challenge</b>	<p>The Basel II Accord imposes new standards for risk measurement and capital adequacy. For the client to achieve ‘Advanced’ status in this area, new data models, calculations and systems needed to be established. As part of the Basel II program the collateral management functions of the bank was reviewed and seen to be well short of the minimum standard required to uphold the banks AIRB application.</p> <p>The client engaged advantage to undertake a full review of the collateral management functions to ensure they were capable of achieving the required standards for AIRB status as well as ensuring the bank was aligned with industry best practice in this area.</p>
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<b>Approach and Solution</b>	<p>avantage’s approach and solution is based on the Basel II requirements as translated into local law, our broad industry experience of current best practice and a pragmatic approach to process improvement. The approach was broken down into five key streams of work:</p> <p><b>Policy</b></p> <p>The policy stream of work focused on several areas:</p> <ul style="list-style-type: none"> <li>• Ensuring that the policies as written were complete and compliant with the Basel regulations;</li> <li>• Ensuring that the polices as written were aligned with industry best practice; and</li> <li>• Ensuring that the policies were complied with.</li> </ul> <p>Where there were gaps in any of the above recommendations were put forward as to how they should be closed.</p>
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**Data**

The data stream of work was focused on the following areas:

- Ensuring that Basel data requirements in terms of breath of information were met;
- Understanding the timeliness and availability of the data in the bank's systems; and
- Assessing the quality of the data that was available (mostly from a business perspective but simply technical assessment were also conducted).

Where there were gaps in any of the above recommendations were put forward as to how they should be closed.

**Valuation**

The valuation stream focused on the collateral impact of the data and policies and assessed in detail the following areas:

- Understanding the construction of the valuation models (Liquidity, MtM, MtModel);
- How often the valuation was completed (timeliness);
- The mitigation effect both in terms of Regulatory and Economic Capital impact; and
- The collateral coverage of the portfolio.

The overall effectiveness of the current collateral management process was then determined and ways to improve the mitigation impact suggested.

**Systems**

The systems stream looked at the incumbent systems, how they support the collateral management process and the data interfaces both in and out. The focus of this stream was in three main areas:

- Suitability of the current system to meet Basel requirements
  - Scalability of the current system
  - Interfaces to other systems; and
- Review of systems in the market including, Algorithmics and Murex.

Based on the initial review recommendation were made as to whether the bank should pursue a buy or a build/enhance solution to meet the Basel and best practice requirements.

**Process**

The process stream looked at the workflow of the current people and processes and focussed on:

- Assessing the fit of the current processes with the operating model of Basel programme; and
- Assessing the processes operation model in terms of industry best practice.

Based on the process review recommendations were made as to how the people and process set up of the bank should be changed to be Basel and best practice aligned.

<b>Results and Benefits</b>	The client was extremely satisfied with the results and felt that a very high level of understanding of the issues and opportunities for improvement were drawn out. The client was particularly happy with the way the areas of work were broken down into manageable pieces but the streams were still all aligned. avantage were held over after the analysis phase to work on the implementation and change phase of the Collateral Change program.
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<b>Software used</b>	In-house Collateral Management software, Fermat, Algorithmics, Murex,
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