BANK OF IRELAND

SAP® BANK ANALYZER SUPPORTS BASEL II COMPLIANCE AND FINANCE AND RISK MANAGEMENT

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Michael Rabbitt, Senior Architect for Basel II, Bank of Ireland

QUICK FACTS

Company
- Name: Bank of Ireland
- Location: Dublin, Ireland
- Industry: Banking
- Products and services: Retail, wholesale, and corporate banking
- Revenue: €146 billion
- Employees: 16,000
- Web site: www.boi.ie
- Implementation partners: SAP® Services organization and Hewlett-Packard

Challenges and Opportunities
- Change business processes throughout the organization to help ensure compliance with Basel II
- Gain flexibility to adjust to new requirements as they evolve

Objective
Automate processes and centralize reporting data to accommodate calculations required by Basel II

SAP Solutions and Services
- SAP Bank Analyzer set of applications – including the SAP Basel II for Banking package
- SAP NetWeaver® Business Intelligence component (functionality that is now known as SAP NetWeaver Business Warehouse)
- SAP Consulting
- SAP Custom Development organization
- SAP Education organization
- SAP Safeguarding services
- SAP Ramp-Up program
- SAP Active Global Support organization

Implementation Highlights
- Was first deployment of the latest release of SAP Basel II for Banking
- Supported customized development of Bank of Ireland pricing system
- Included total rollout to 11 sites and about 300 specialist users
- Enabled initial monthly calculations that were faster than expected

Why SAP
- Previous success with implementation of the SAP® ERP application
- Long-term strategic partnership between SAP and Bank of Ireland
- Depth of experience with Basel II
- Complete integration of SAP software and compliance with Basel II requirements
- Prebuilt data model

Benefits
- Short- and long-term compliance with Basel II requirements
- Possibility for enhanced risk management
- Potential for a competitive edge that affords better pricing for risk
- Centralized monthly credit data and other reporting needs
- New functionality for trend analysis

Existing Environment
Multiple SAP applications

Third-Party Integration
- Database: Microsoft SQL Server
- Hardware: Hewlett-Packard Integrity
- Operating system: Microsoft Windows

Bank of Ireland Group

Basel II, a revision of the capital adequacy framework established under the 1988 Basel Accord (Basel I), expands the guidelines that international banks must follow for managing risk and disclosing key risk calculations. Bank of Ireland had handled Basel I calculations manually using spreadsheets. The greater sophistication in calculations required by Basel II demanded a more automated approach. "Basel II introduced a huge degree of complexity that our existing system just could not handle," says Bank of Ireland communications manager and senior architect Fiona Carvill. "Just understanding the new accord was an enormous challenge." At the same time, data management was fairly fragmented, says Michael Rabbitt, the bank's senior architect for Basel II. "It was difficult to get information from independent islands around the bank to one spot for regulatory reporting," he notes. After reviewing internal and external IT options, Bank of Ireland chose the SAP® Bank Analyzer set of applications to address these issues, becoming the first bank to go live with the latest release of the SAP Basel II for Banking package.

A Long-Term Strategic Partnership

With assets of €146 billion, the bank is the leading financial institution in Ireland. Founded by royal charter in 1783, the company is today within Ireland involved in retail, wholesale, and corporate banking – as well as corporate finance and life insurance. Global affiliates include a diversified financial services firm that handles mortgages and business and consumer banking throughout the United Kingdom, as well as institutions in other countries that offer fund management and international lending.

Bank of Ireland faces a dynamic regulatory environment that has increased its compliance requirements significantly. The bank must address, in addition to Basel II, new Sarbanes-Oxley Act requirements, the financial regulatory compliance statement, new international accounting standards, and revisions in domestic consumer rules. This regulatory environment had created tension between the bank's business and compliance needs.

A positive effect of Basel II is the opportunity it gives banks to reduce capital requirements through sophisticated measures of credit risk based on internal credit rating models. To take advantage of this, Bank of Ireland required IT support that could handle the more complex calculations. Finding that it would have been quite onerous to enhance the existing system, Bank of Ireland explored options with several software providers. The bank reviewed products available from SAP, Hyperion Solutions Corporation, and SAS Institute Inc.

"We chose the SAP software in part because of the company's strategic partnership with the banking industry," says Rabbitt. In addition, Bank of Ireland had just finished a successful implementation of the SAP ERP application – which had helped the bank streamline core business processes in finance, payroll, human resources, and procurement. "We felt SAP would make a strong long-term strategic partner," Rabbitt adds. Of additional importance were the integration of SAP software with the bank's existing systems, the complete compliance of SAP Bank Analyzer with Basel II requirements, and the application's prebuilt data model.

Early Selection of Software Key to Project Success

The deployment, which was the first ever to include the latest release of SAP Basel II for Banking, took place in August 2006. The full implementation plan involved 11 sites and 200 to 300 users.

Part of the project's success, according to Carvill, was selecting software early in the move to Basel II. To understand what Basel II meant at both the IT and business levels, the bank sought early counsel from a small team of internal

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Fiona Carvill, Communications Manager and Senior Architect, Bank of Ireland

experts – as well as from outside sources such as the Irish Banking Federation, the nation's leading industry trade group. Over the course of a two-year preinstallation process, the bank worked through key business issues and translated those needs into IT requirements.

SAP Consulting was also involved early in the project. "SAP Consulting led the implementation," says Carvill. "The team members brought a lot of breadth to the program in terms of their technical expertise, their knowledge of Basel II requirements, and their understanding of our data needs."

Of particular help was the SAP Solution Manager application management solution – a centralized tool set that facilitates technical support for distributed systems. It provides functionality that covers all key aspects of solution deployment, operation, and continuous improvement. "This helped us establish a good audit trail for key documents and decisions," Carvill says.

SAP Safeguarding services, delivered by the SAP Active Global Support organization, were heavily involved in performance testing and helped fine-tune production and hardware related to the new system. This support option focusing on technical risk management safeguarded the implementation and operation of SAP Bank Analyzer. The SAP Ramp-Up program provided assistance and was especially helpful as the bank addressed unexpected implementation issues. Hewlett-Packard served as an additional implementation partner, managing the system's infrastructure. This partnership has helped ensure that the speed at which SAP Bank Analyzer runs has exceeded expectations.

Customized Risk Pricing for Loans

With help from the SAP Custom Development organization, part of the SAP Services organization, Bank of Ireland created a proprietary application for risk-related pricing of loans. The bank had determined that the stand-alone software it had been running on individual desktops could not handle the volume of data and integrity required by the new Basel II calculations. Nor could it handle the customer identification required under Basel II. "We realized early on," Rabbitt says, "how crucial these areas were and replatformed the existing application onto the server running SAP software."

With the Bank of Ireland pricing system (BIPS), Bank of Ireland can integrate sophisticated risk assumptions into the pricing of loans and generate customer ratings of creditworthiness. The tool, developed in Java on the SAP NetWeaver® technology platform, is fully Basel II compliant and integrates with SAP Bank Analyzer to identify overall risk for the company. The centralized solution provides real-time access to the most up-to-date risk assessments. By replacing local desktop client software with standard browser access, it has helped reduce administrative times and costs.

Bank of Ireland installed a third-party tool for data loading from paricon AG as part of the SAP Bank Analyzer implementation. The paricon STS (Standard Transformation System) software can accept data from a variety of sources for use by SAP Bank Analyzer and is useful for processing high volumes of data efficiently.

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Michael Rabbitt, Senior Architect for Basel II, Bank of Ireland

Key Support for Massive Business Restructuring

The new system provides critical support for the large-scale business restructuring that Basel II requires. "The bank's larger business program will change a variety of processes, practices, and behaviors, with the goal of enhancing risk management and freeing up capital," says Carvill. "Basel II affects everything from our credit approval processes to loan decision making, pricing, approval, and management."

From the start of the project, Bank of Ireland has engaged both internal and external change-management experts to help with related business and technical issues. This part of the program will continue for some time, Carvill notes. Of additional help has been the

SAP Education organization. SAP Education is providing specialized training, including customized classes and materials delivered on-site, in the use of the SAP NetWeaver Business Intelligence component (functionality that is now known as SAP NetWeaver Business Warehouse). Bank of Ireland will use internal resources for training in the new processes and procedures for Basel II.

Additional Benefits Expected

Besides helping Bank of Ireland meet ongoing changes in Basel II and optimize its credit requirements, the new system is expected to provide several key business benefits, including:

- Greater sophistication over time in risk management expertise
- Increased advantage over competitors through the new BIPS tool for loan pricing when calculating loan margins and risks
- A centralized resource for monthly (versus quarterly) credit data reports and other reporting needs
- New functionality for trend analysis

Ongoing Support

Implementation of the new system proceeded on time and within budget. Following completion of the licensing agreement in November 2004, scenario testing began in November 2005. Testing of the SAP software occurred between February and April 2006. The system went live in August 2006 and has exceeded expectations. Initial monthly calculations were completed in four and a half hours, versus the six hours Bank of Ireland had anticipated.

SAP continued to provide and even exceed additional deliverables. These included updated versions of SAP Bank Analyzer that will comply with the new Capital Requirements Directive, released in June 2006. In addition to supporting the 33 different reports required to meet the regulation, Bank of Ireland can deliver more than 180 management reports and 60 different views for reporting on the finance and credit side – using data stored in a central database. "It's comforting to know that SAP has a large team of people who are continuously analyzing the new Basel II requirements and preparing new software to conform with the latest developments," says Rabbitt.

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