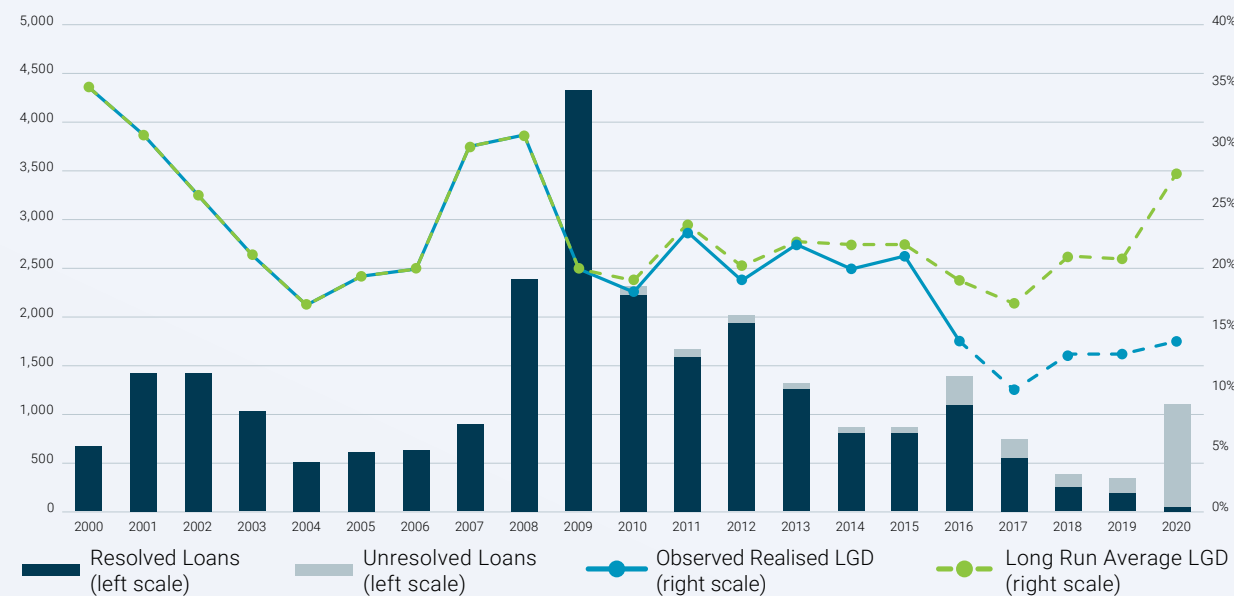


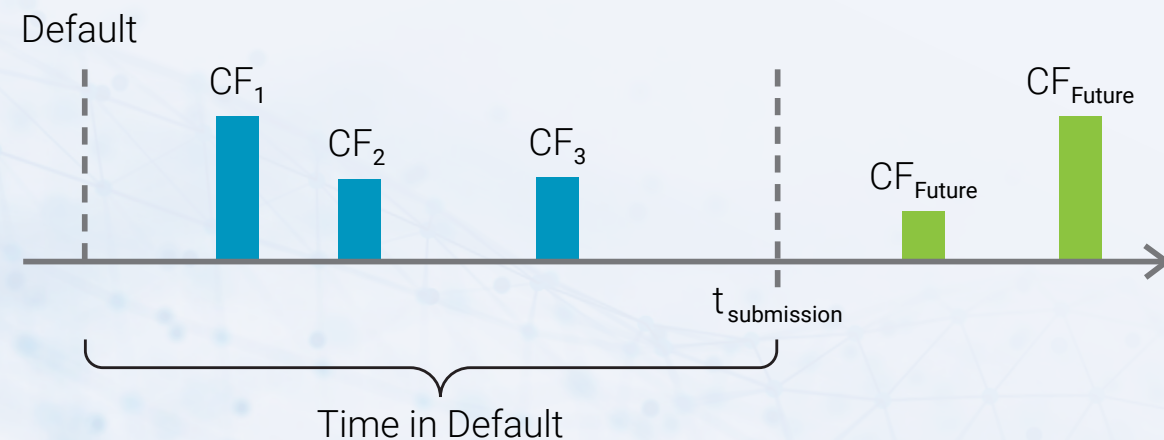
Global Credit Data established a methodology to calculate LGDs for unresolved defaults in 2020. The methodology addresses key requirements for the LGD calibration and specifically mitigates the impact of censored observations when recovery processes of defaulted loans are still ongoing. The calibration of the Unresolved LGD Model components is based on GCD's long data history ranging from 2000 to today. By leveraging the data distributed by GCD, this methodology can be replicated and tailored to meet specific portfolio criteria.

Methodology

Historical LGD by Year of Default



Resolved defaults provide objective historical evidence of losses experienced by a bank. Including only resolved defaults leads to underestimating recent losses, since only quickly resolved, cured cases (typically with lower losses) can be included (resolution bias). By including both observed losses and projections on incomplete recoveries, realistic and up-to-date LGDs, that includes all available information can be calculated.



GCD's methodology is based on an extrapolation approach that has been designed to make the best use of currently available data (blue cash flows) to estimate expected future cash flows (green cash flows).

[Details on the methodology can be found here.](#)

2021 Monitoring and Backtesting Report

In 2021, the Unresolved LGD projection methodology was monitored and backtested as of H2/2020 data, with one year of additional data compared to the initial development sample. The monitoring metrics are structured along regulators' dimensions such as EBA Regulatory Technical Standards 2016/03 and EBA Guidelines 2017/16 as well as SR Letter 11-7 "Supervisory guidance on model risk management".

✓ **Risk Classification:** All applied risk drivers are still valid

✓ **Risk Calibration:** The current calibration is stable and passes out-of-sample backtesting

✓ **Accuracy of Risk Projection:** The distributional comparison between forecasted and realized LGDs is successful

GCD's Unresolved LGD projection methodology passes the 2021 monitoring. Results are largely driven by the high stability of the underlying data. As the database grows, further elements can be integrated, such as a refined segmentation or factoring in more risk drivers.

Members can request a copy of the full methodology documentation and the Monitoring and Backtesting Report.