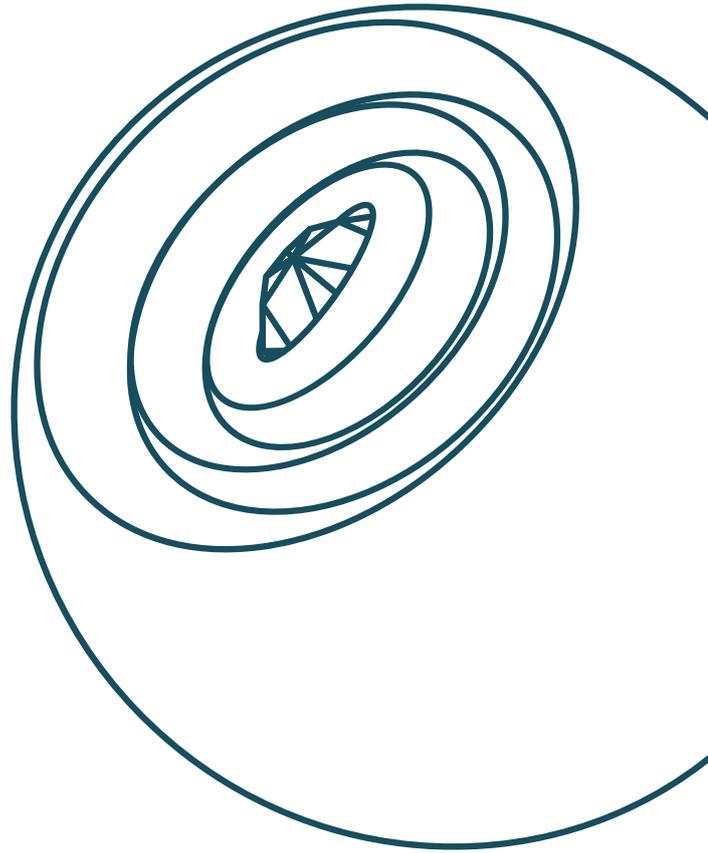


MACRO ANALYZER PD

Analysing macroeconomic scenarios in the context of IFRS 9



OVERVIEW

With the introduction of IFRS 9 on 1 January 2018 the incurred loss approach to credit impairment was replaced with a (lifetime) expected loss model. The key idea of the new approach is to calculate the expected loss on a financial instrument whose credit risk has significantly increased since its acquisition for the complete time to maturity. Possible future economic developments must be taken into account.

SCOPE

Macro Analyzer PD helps take into account macroeconomic and forward-looking information on lifetime expected credit loss for the purposes of IFRS 9. It allows to check current ratings and PD profiles against assumed country-specific macroeconomic developments. The future development of mean probabilities of default (central tendencies - CTs) indicated by the PD profiles is compared to the default rates forecast from the macroeconomic developments. If any discrepancies are found, the PD profiles can be adjusted.

METHODOLOGY

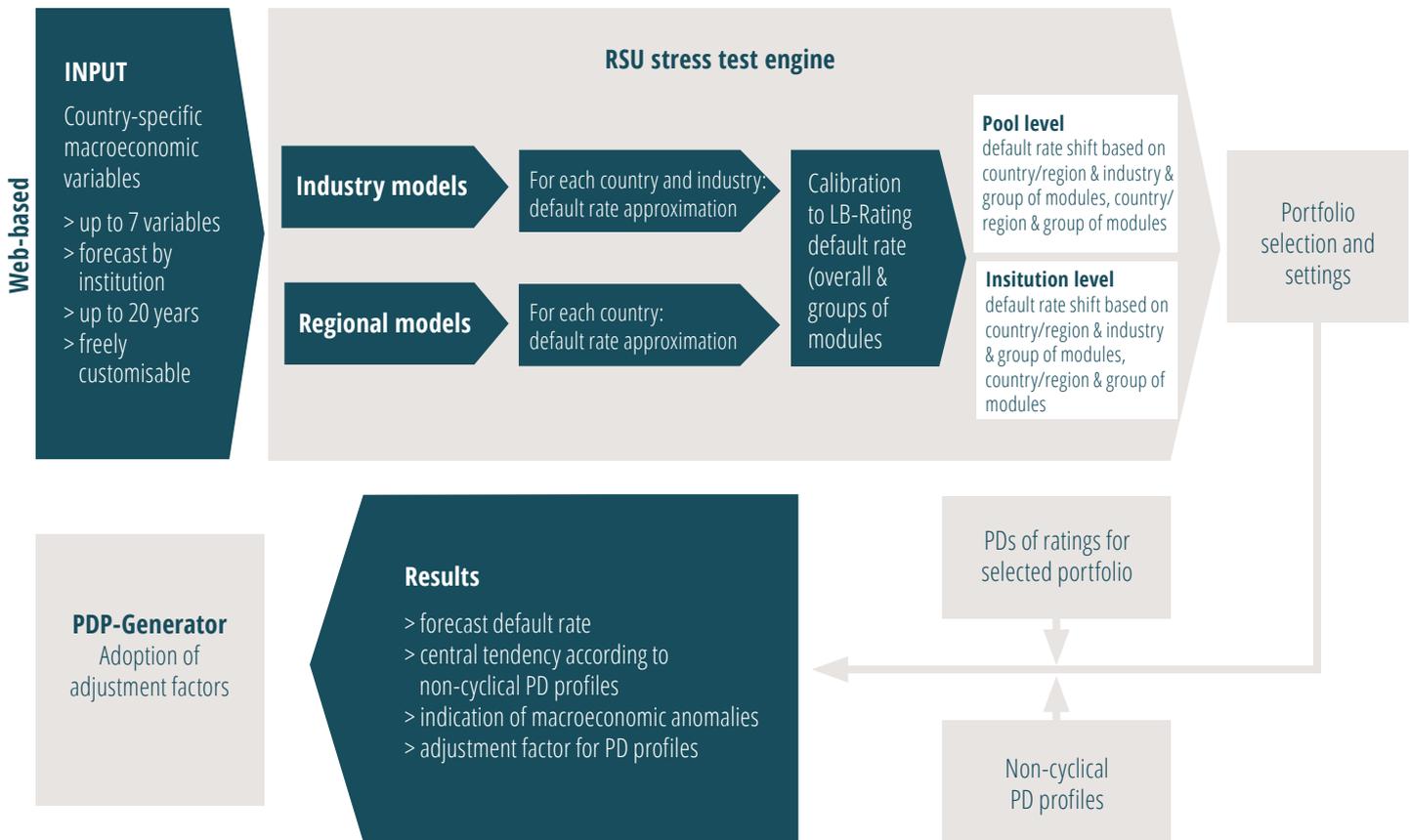
Institutions need to specify certain macroeconomic variables for each country, for example the development of the gross domestic product. The values entered can be checked for plausibility against past values stored in the system. In addition, forecasts for all necessary macroeconomic variables by Consensus Economics Inc. are available for the most important countries.

The macroeconomic scenarios specified are translated into default rates using industry-specific and regional models.

Future CTs are computed from the PD profiles. By comparing the predicted default rates and CT values it is possible to identify macroeconomic anomalies which require the PD profiles to be adjusted. The actual adjustments are made in a separate application, the PDP Generator.



PROCESS



IMPLEMENTATION

Macro Analyzer PD is a web-based application available with both German and English text; it only requires a VPN (or CredNet) connection. Like all applications provided by RSU, it is operated under the strict security standards customary in the banking industry.

Protected transmission channels and secure data storage at a level 3-certified data processing centre ensure a high degree of data security.