PRODUCT SHEET

OneSumX® IFRS 9: Expected Credit Loss Impairment

The IFRS 9 expected credit loss (ECL) model published by the IASB in July 2014, is anticipated to directly impact the amount of provision for credit losses that financial institutions need in order to recognize expected losses earlier than under the current IAS 39 'incurred loss model.'

However, banks will still face considerable challenges to incorporate supportable and reasonable information about current conditions and forecasts of future conditions into these existing risk models. Our OneSumX IFRS 9 module allows for an end-to-end treatment of ECL, going from classification, stage assessment, and measurement of ECL to the accounting treatment and disclosure requirements.

Our IFRS 9 functionality is part of our comprehensive and modular OneSumX IFRS solution, which provides the financial industry with a solid framework to capture and store all relevant contractual information, manage events and transactions, IFRS calculations, accounting generation and processing up to the delivery of the disclosures.

Credit Risk Assessment – Stage Determination

IFRS 9 uses a "three stage model" for expected credit losses based on changes in credit risk from initial recognition and indicators of default. Stage assessment in our solution can be done on both individual as collective level and can be based on qualitative and quantitive indicators.

The credit risk assessment can be performed based on different techniques:

- Credit scoring and probabilities of default (PD) approach: In this option credit scoring is determined to identify the different sensitivities of the different risk factors making up the credit scoring. Credit risk assessement can then be done using a PD based approach, taking into account reasonable and supportable information of future events and economic conditions.
- Proxy methods: For contracts that have macro economic factors which cannot be gathered without significant costs (IFRS 9 §5.5.11), IFRS 9 allows practical expedients. Examples of such proxy methods are the provision matrix and loss rate approach.
- Rebuttable assumptions: Notification and workflow management capabilities inform relevant end-users such as credit officers about deals that breach the 30 and 90 day past due boundaries, which they can either confirm or rebut in a controlled and "4-eyes principle" governed process.

Expected Credit Losses Measurement

ECL measurement can be conducted on both an individual and collective basis in our solution. The solution allows users to leverage from existing segmentation logic and credit risk information available such as internal ratings and Through-the-Cycle PD.

Calculation of 12 month and Lifetime PDs

Different methods and models exist within our software to calculate (IFRS 9 compliant) probabilities of default (and loss given default). For example, a transition or Markov Chain method can be used to calculate the PDs related to different time horizons and per segment and rating grade. When the expected lifetime losses however are not within the range of calculation as a consequence of a lack of macro economic factors on the longer terms, a matrix multiplication logic can be applied to derive the lifetime expected PD.

Stressing Macro Economic Factors

By using a factor based model, macro economic and customer specific factors can be stressed, given certain risk sensitivities to these factors. The outcome of this model under various scenarios are stressed scores which are subsequently used to determine PD and ECL that incorporate forward looking information. By assigning weights that represent the probability of the various simulations, the model arrives at a properly weighted outcome of expected credit losses.

Wolters Kluwer
Financial Services

Accounting Treatment

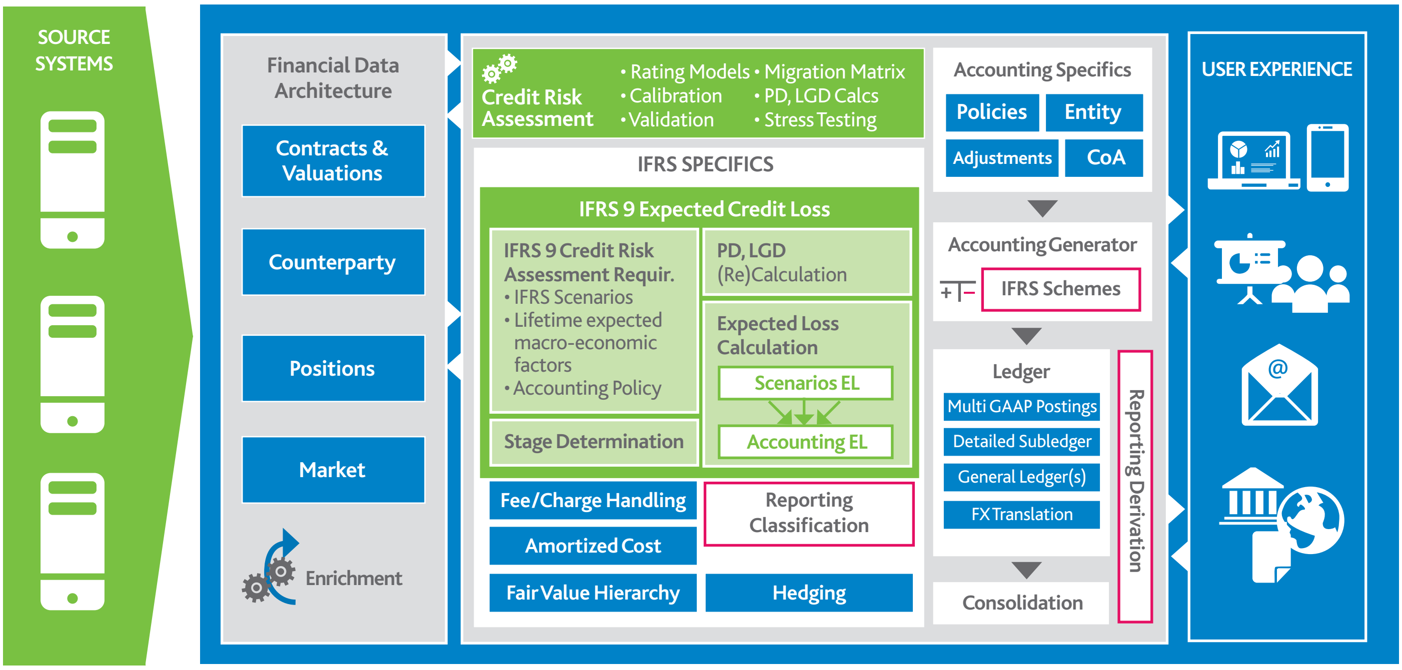
The solution includes predefined accounting templates for generating the related IFRS compliant booking entries. Detailed posting information or aggregated balances can be sourced to existing accounting/general ledger systems in the bank's own chart of accounts.

Disclosures

The solution includes the various reports for disclosure of the quantitative and qualitative information available in the system as required by the IFRS 9 standard.

The solution also provides support for the treatment of purchased or originated credit-impaired assets under IFRS 9 guidance, going from the CAEIR calculation over expected credit loss calculation to the accounting treatment and disclosures.

OneSumX IFRS Architecture



- ✓ Data validation
- ✓ Data enrichment
- ✓ Audit trail
- ✓ Reconciliation
- ✓ Security/access control
- ✓ Version control
- ✓ History management
- ✓ Documentation
- ✓ Business rules
- ✓ Workflow
- ✓ Web based
- ✓ Open and exportable

ABOUT WOLTERS KLUWER FINANCIAL SERVICES

Whether complying with regulatory requirements or managing financial transactions, addressing a single key risk, or working toward a holistic enterprise risk management strategy, Wolters Kluwer Financial Services works with customers worldwide to help them successfully navigate regulatory complexity, optimize risk and financial performance, and manage data to support critical decisions. Wolters Kluwer Financial Services provides risk management, compliance, finance and audit solutions that help financial organizations improve efficiency and effectiveness across their enterprise. With more than 30 offices in 20 countries, our prominent brands include: AppOne®, AuthenticWeb™, Bankers Systems®, Capital Changes, CASH Suite™, GainsKeeper®, NILS®, OneSumX®, TeamMate®, Uniform Forms™, VMP® Mortgage Solutions and Wiz®.

Wolters Kluwer Financial Services is part of Wolters Kluwer, which had 2014 annual revenues of €3.7 billion ($4.9 billion), employs 19,000 employees worldwide, and maintains operations in over 40 countries across Europe, North America, Asia Pacific, and Latin America. Wolters Kluwer is headquartered in Alphen aan den Rijn, the Netherlands. Its shares are quoted on Euronext Amsterdam (WKL) and are included in the AEX and Euronext 100 indices.

Please visit WoltersKluwerFS.com for more information.

Wolters Kluwer
Financial Services

When you have to be right