

IFRS 9 differentiates between three stages of impairment.

- Stage 1: Healthy, performing deals
- Stage 2: Sensitive, under-performing deals that show significant deterioration in credit quality since deal conclusion
- Stage 3: Defaulted, impaired deals with objective evidence of impairment

These stages reflect the deterioration in credit quality since deal origination. The assignment to a stage has to reflect quantitative and qualitative criteria.

The impairment stage reflects the current deterioration in credit quality since deal origination. The stage is always assigned at individual deal level.

The solution takes the significant impact on risk provision into account while supporting:

- a) Precise rules to identify significant deterioration in credit quality
- b) Detailed analyses showing the impact of changes in stage assignment for risk provisioning incl. tracking of movements caused by
 - Deal changes
 - Model changes
 - Changes in macroeconomic parameters
- c) Simulation of alternative sets of stage assignment rules 'analysing' the cliff effect.

In a later process step in ECL calculation, statistical methods are assigned to combinations of

- a) Segment and
- b) Impairment stage

The entire setup of the impairment stages is organised in different versions of application configuration.

A new version must be created if additional impairment stages are introduced or stages are removed or assignment rules are maintained.

The solution provides several components, each taking specific quantitative and qualitative criteria into account. For a heterogeneous portfolio of financial assets, it is possible to use different components for different product types, e.g. retail and corporate. On request, additional components can be provided, taking specific quantitative and qualitative criteria into account.

If the ECL Workbench is not in charge of assigning the impairment stage, no component for staging needs to be selected. In this case, stage information can be provided from a source as input for further steps in the process chain in ECL calculation.

In general, FlexFinance provides seamless options for configuring quantitative and qualitative absolute and relative criteria for stage assignment in IFRS 9.

The following standard components have been defined:

Component 'Staging DPD'

The functionality provided assigns individual deals to a stage using the information on the days past due. For this purpose, the number of days past due have to be delivered at individual deal level from the source. As an alternative option, a non-performing date can be delivered which marks the date of the oldest overdue payment that occurred.

If the number of "Days past due (DPD)" exceeds 30 days, a significant deterioration in credit quality is assumed and the individual deal will be assigned to stage 2. If the number of days past due exceeds 90 days, the individual deal will be assigned to stage 3. The underlying configuration is performed in a separate table and can be adjusted. If necessary, different rules can be applied for different portfolios. However, these assumptions may differ in individual cases: For example, public households are often accused of "sluggish payment behaviour". For this reason, the number of overdraft days for public-sector customers that suggest a deterioration in credit quality may exceed the usual 30 days.

Component 'Staging DPD & PD'

The component 'Staging DPD & PD' considers both the number of days past due (equal to component 'Staging DPD') and the probability of default (PD) for stage assignment. The PD is considered as 'PD changes since deal origination'. Both, the percentage of PD change since deal origination and the number of days past due are considered as stage assignment rules. The component assigns the stage with minor credit quality if at least one configured criterion is fulfilled.

Component 'Staging DPD & Scoring'

The component 'Staging DPD & Scoring' considers both the number of days past due (equal to component 'Staging DPD') and the change in scoring. Similar to the component 'Staging DPD & PD', this component links a quantitative and qualitative parameter for stage assignment. It works with relative changes in score points since deal origination.