

Under the collective impairment approach for stages 1 and 2 of IFRS 9, Point-In-Time ratios of PDs and LGDs are used collectively per segment during ECL calculation. These figures are computed by using historical payment, scoring and default data.

In order to ensure the Point-In-Time character of these ratios, historical data need to be newly updated on a regular basis, for instance once or twice each year. Subsequently, each individual PD or LGD model that is used in the ECL calculation of a master scenario, needs to be recalculated ("calibrated") in order to obtain newly adapted historical PD and LGD ratios per segment, which can reliably be projected into the future.

The PD and LGD models consider a regression analysis which turns the previously calculated **TTC** PDs and **TTC** LGDs into **PIT** PDs and **PIT** LGDs. In these regressions, the values of the macroeconomic parameters serve as independent variables.

In the case of n different macroeconomic parameters, there is a total number of

$$\sum_{k=0}^n \binom{n}{k} = (1 + 1)^n = 2^n$$

possible combinations concerning the use of parameters in the regression models. In the solution, the "best" combination of all of these possibilities is determined by regression which has the largest average **adjusted R-square value**.