

LIC Solution® for calculating Expected Credit Loss

EY provides its proprietary robust IT solution for regular ECL calculations



What is the LIC Solution®?

The LIC Solution® is EY's premier IT solution for financial institutions meeting the IFRS 9 or US GAAP standard for ECL calculation. It is a flexible solution which can be easily integrated into an institution's IT architecture. Based on the institution-specific input data and the best fitting calculation approach, the LIC Solution® provides granular expected credit loss outputs, calculates the risk parameters and unwinding of interest.

Its key competitive advantage is the wide variety of pre-coded alternative calculation approaches allowing an institution to choose the best fitting approach and to deploy the solution in a short time.

The LIC Solution® has been successfully implemented in numerous banks, consumer credit institutions, leasing companies and insurance companies across Europe, Asia and the U.S.



The key concepts of the LIC Solution® are IFRS9 (or US GAAP) compliance, and ease of use while at the same time, all the major challenges of ECL calculation are covered. The solution supports full auditability of ECL calculations through complex management of user access rights and the tracking of action made by authorized users, otherwise known as the audit log function.

Few examples EY LIC Solution® flexibility

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Individual assessment

- ▶ Configuration of automatic selection and de-selection criteria for Individual Assessment
- ▶ Configuration of traffic lights indicating the need for re-assessment
- ▶ Definition of work flow (roles & rules) in Individual Assessment, e.g. Inputter, Reviewer, Approver

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Multiple probability weighted collective scenarios and Sensitivity analysis

- ▶ Performing calculation runs with different parameter's forward looking calibrations allows to weight them into the multiple probability weighted scenario ECL calculation
- ▶ Calculating runs with different parameter's configuration supports the sensitivity analysis as well as the specific ECL calculations for Stress Testing purposes

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Segmentation and staging

IFRS9 staging criteria can reflect institution-specific and asset portfolio-specific Days Past Due thresholds, Significant Increase in Credit Risk since origination with editable thresholds for rating grade deterioration or lifetime PD deterioration or 12-month PD deterioration, various risk flags and customized handling of special cases like a missing risk assessment at origination or assets still recorded on balance after their contractual maturity

EY LIC Solution® stand out from other solutions

The audit log function allows us to differentiate from immature Excel based solutions

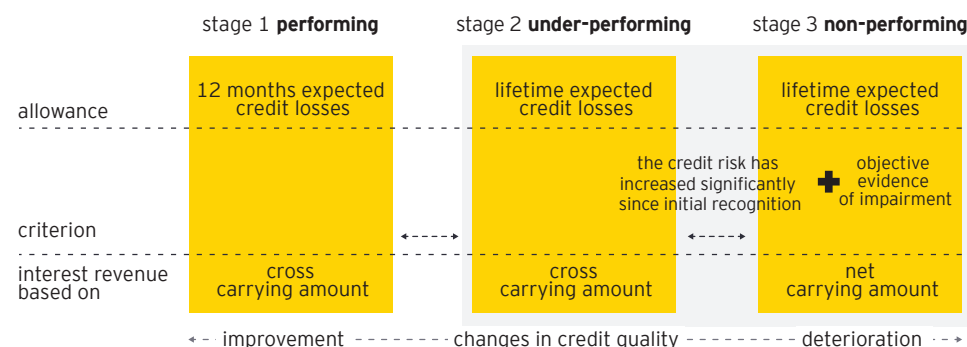
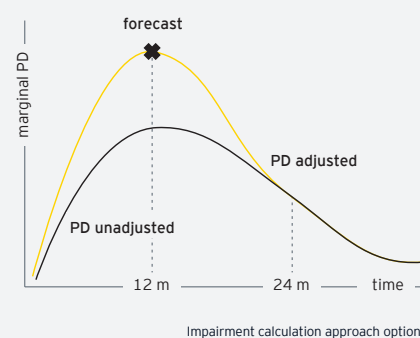
- ▶ The LIC Solution® supports Active Directory authentication of users. It enables a seamless single-sign-on user experience and centrally managed access rights within the institution.
- ▶ Permissions for roles are set by selecting them from the list of atomic permissions (e.g. view permission for particular screens, data modification permissions).
- ▶ General auditing functionality - tracking all user and administrator actions in the solution.
- ▶ Audit reports - visualize/look up the user's activity data.

The flexible configuration of calculation and assessment approaches makes the solution quick and easy to deploy while reflecting the specifics and the data availability of each portfolio of the institution's assets.

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IFRS 9 ECL calculation approach options

- ▶ Several alternative ECL calculation formulas for the Collective assessment method and approaches for special classes of assets like POCI and IFRS 9 Simplified Approach for receivables
- ▶ Multiple risk parameter's calculation options for PD, LGD, EAD, Prepayments and Forward Looking Adjustments



Why EY

Our Financial Services (FS) are an integrated offering that includes many professionals and experts across all the continents, and collaborates across competencies (Consulting, Assurance, Tax, Strategy and Transaction Advisory).

EY has been engaged by many global institutions for accounting change projects on a group-wide basis. We thus understand the complexities, challenges and opportunities of implementing ECL calculations across geographies, business units and diverse portfolios.

We are the market-leading organizations for accounting related consulting services with a focus on end-to-end implementation projects

We have gathered extensive project experience and knowledge regarding key accounting and project decisions to be taken to allow quick and robust ECL calculation implementation.

EY has developed tools and enablers on all key ECL calculation challenges, such as calculations of specific risk parameters, auditing provisions and ECL adequacy assessment and back-testing.

Our team



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