



Credit Risk Programme

Module 2

Risk Control and Process

Learning Objectives

At the end of this module, you will be able to:

- Appreciate how the Risk Management Framework is applied in RB
- Identify elements and process used for Credit Approval Documents (CAD) and Campaign Recommendation Documents (CRD)
- Recognize the triggers used to ensure appropriate tracking of portfolio shapes as approved in the CADs

RB Risk Control

Scenario

You are launching the Visa Infinite card in your country. This product is targeted to your Priority Banking customers most of whom already hold your standard card product. As we go through the next sequence of the Risk Management Framework components, ask yourself:

What actions are available to you in RBI?

What are the differences in those actions as compared to Corporate and Institutional Clients ?

How can you leverage the RB risk reports and tools to ensure a successful and sustainable product?

Applying the Risk Management Framework to RB

| | |
|--------------------|--|
| Plan | Set risk appetite in line with strategic objectives |
| Inform | Identity, measure and monitor all material risks |
| Control | Constrain risk profile within risk tolerances and risk appetite |
| Originate | Structure and document transactions |
| Optimize | Balance risk and return to best effect |
| Communicate | Influence, interpret and demonstrate compliance with external stakeholder requirements relating to risk management |

Applying the Risk Management Framework to RB

Plan

Set risk appetite in line with strategic objectives

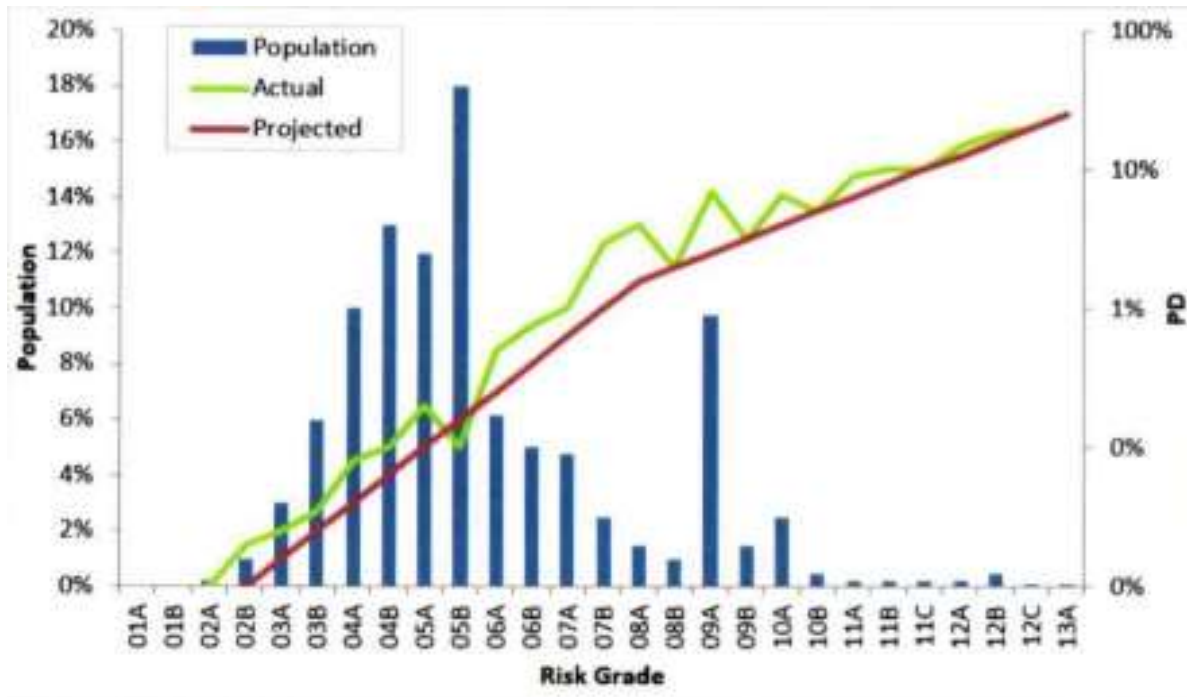
| Risk Appetite Metrics | Unit | YTD |
|--|------|---------|
| Key Risk Appetite Metrics (YTD Annualized View) | | |
| Risk Adjusted Return on RWA | % | 8.12% |
| Recession Loss (1 in 25) | \$m | 2,123 |
| Recession Loss Multiplier (WP) | x | 1.1x |
| Components of RoRWA | | |
| ENR | \$m | 126,557 |
| PD - Good Book | % | 1.74% |
| PD - All | % | 2.52% |
| LGD (DT) - Good Book* | % | 32.0% |
| LGD (DT) - All* | % | 32.1% |
| EAD (DT) - Good Book* | \$m | 142,591 |
| EAD (DT) - All* | \$m | 143,734 |
| Expected Loss (TTC) - Good Book | \$m | 1,052 |
| Expected Loss (TTC) - All | \$m | 1,480 |
| Credit Risk Weighted Assets | \$m | 61,148 |
| Annualized Net Revenue | \$m | 6,653 |
| Annualized Direct Cost | \$m | 4,646 |
| Expected Loss (EL) / ENR | % | 1.17% |
| Risk Weighted Assets (RWA) / ENR | % | 55% |
| Net Revenue / ANR | % | 5.24% |
| Loan Impairment / ANR | % | 0.41% |

From our Visa Infinite example: Since you'll be upgrading all of your Priority Banking Credit Card holders to the new Infinite product, you have historical data on that customer segment performance. You'll want to see estimates of key risk appetite measures from the recent historical data of that group of customers.

Applying the Risk Management Framework to RB

Inform

Identity, measure and monitor all material risks



From our Visa Infinite example: You'll monitor the incoming bookings, receivables, and other key measures through the RIR and other reports. We can test, then use the scorecard from the standard credit card population for underwriting but will need to monitor its effectiveness on this population.

What metrics should we watch to ensure the scorecard is working on this population?

Applying the Risk Management Framework to RB

Control

Set parameters to keep our risk profile within risk appetite

| Current Segment | | | Threshold < 0.8 | Threshold > 3X | Threshold > 0 | Threshold > 6% |
|-----------------|----------|-----------|----------------------|-----------------------------------|-----------------|---|
| Score | Bad Rate | RLM (Rev) | Cumulative RLM (Rev) | Cumulative Loss Coverage (Rev/EL) | Economic Profit | Risk Adjusted RzRWA (Current Rev-ELRWA) |
| 01 Low – 332 | 0.00% | 1.50 | 0.45 | 6.67 | -2,675 | 1% |
| 02 333 – 359 | 6.28% | 0.92 | 0.45 | 6.68 | 68,434 | 5% |
| 03 360 – 375 | 3.88% | 0.68 | 0.45 | 6.73 | 163,820 | 7% |
| 04 376 – 395 | 4.32% | 0.77 | 0.45 | 6.78 | 375,904 | 8% |
| 05 396 – 413 | 3.93% | 0.85 | 0.44 | 6.94 | 518,574 | 7% |
| 06 414 – 428 | 3.48% | 0.78 | 0.43 | 7.26 | 681,532 | 7% |
| 07 429 – 444 | 2.52% | 0.74 | 0.42 | 7.59 | 1,068,658 | 8% |
| 08 445 – 469 | 2.00% | 0.58 | 0.40 | 8.12 | 2,845,093 | 9% |
| 09 470 – 491 | 1.41% | 0.52 | 0.38 | 8.91 | 3,387,952 | 10% |
| 10 492 – 527 | 1.01% | 0.56 | 0.36 | 10.00 | 2,365,378 | 10% |
| 11 528 – 566 | 0.62% | 0.54 | 0.33 | 11.48 | 2,517,901 | 10% |
| 12 528 – 565 | 0.29% | 0.40 | 0.27 | 14.56 | 5,178,434 | 11% |
| 13 567 – 627 | 0.06% | 0.24 | 0.18 | 24.58 | 5,838,837 | 12% |
| 14 628 – High | 0.02% | 0.02 | 0.02 | 212.14 | 2,646,511 | 13% |
| Total | 0.29% | 0.45 | | 5.57 | 27,682,725 | 26% |

From our Visa Infinite example: We'll need to approve a cut-off score for our application scorecard. We'll base this decision on recent historical data. Going forward, we'll confirm that volumes are as expected, and that the observed profitability by score band is within our threshold - positive EP

Applying the Risk Management Framework to RB

Originate

Structure and book transactions

From Our Visa Intinite example: The CAD will detail our product structure, rates, limits, etc.



Credit Approval Document <CREDIT CARD/INFINITE>

CAD

| | | | | | | | | |
|---|------------------|-----------------------|------------------|----------------------------------|---|-------------|-----------------|-------------|
| SECTION A - APPROVALS | | | | | | | | |
| Country : <i>My country</i> | | | | | | | | |
| Product / Segment : CREDIT CARD/INFINITE | | | | | Last Approval Date : 15 JAN 2012 | | | |
| Existing Since : 15 JAN 2012 | | | | | Last Audit Date & Rating : N/A | | | |
| Current DEFCON Status : 4 | | | | | Portfolio Classification : NEW | | | |
| | | | | PROPOSAL For Next 2 Years | | | CURRENT | |
| 1 USD=LCY | Peak Stress Loss | Peak Limits/Exposures | Peak Outstanding | Peak Stress Loss | Approved Peak Limit/Exposure | Outstanding | Limits/Exposure | Stress Loss |

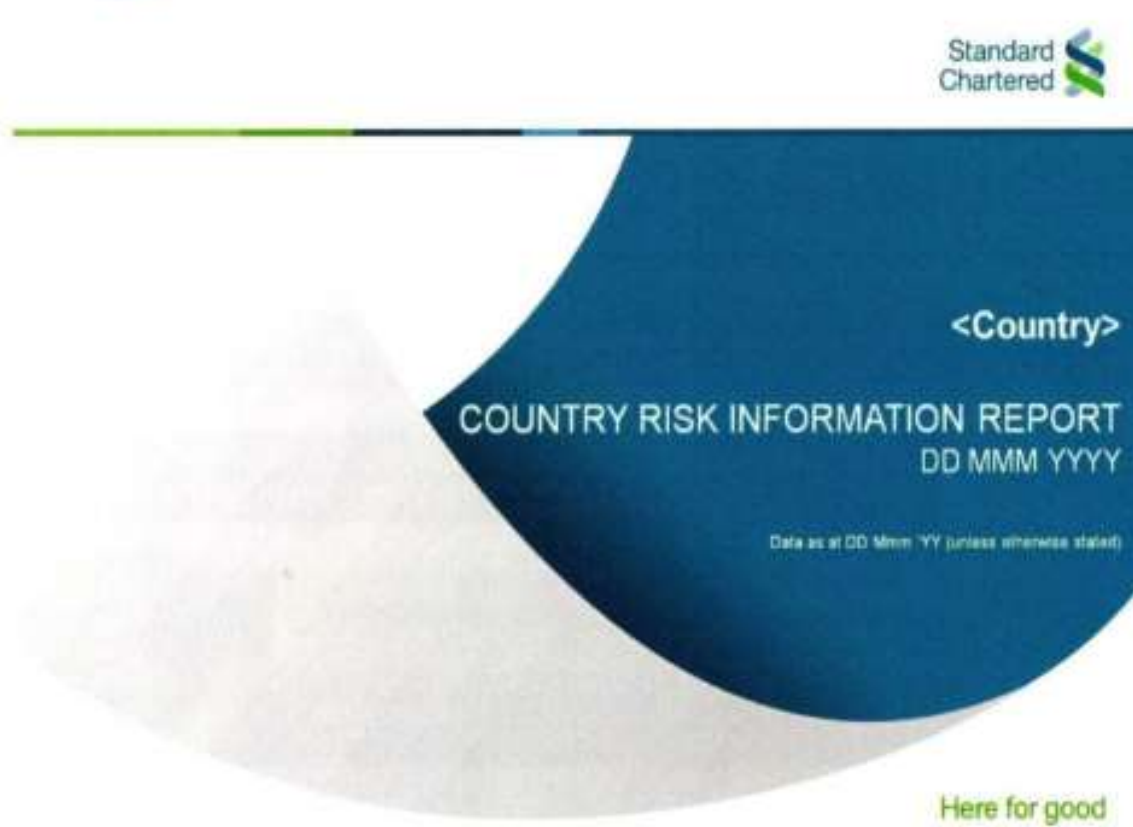
| |
|--|
| Optimize |
| Balance risk and return to best effect |

The RCO report (and others) provide an ongoing risk appetite report on key metrics.

Applying the Risk Management Framework to RB

Communicate

Influence, interpret and demonstrate compliance with external stakeholder requirements relating to risk management



The RIR (Country Risk Information Report) provides portfolio monitoring communication.

Delegated Authority

| Approval Level | Definition |
|----------------------|---|
| L1 | To approve individual transactions which meet the minimum eligibility criteria as prescribed in the CAD |
| L2 | To approve individual transactions with permitted deviations / exceptions mentioned in the CAD |
| L3 | To approve transactions that are outside the credit parameters specified in the CAD, but within Group policies To approve one-off transactional exceptions on policies / procedures |
| Portfolio Limit - L4 | To approve CADs and CRD programs |

- Authorities must be delegated to an individual on an ad personam basis.
- Delegated authorities must not exceed the level of authority held by the delegator.
- Delegations do not remove the responsibilities of the delegator; and ongoing oversights are required.
- Risk approval authority must not be delegated to committees or individuals whose primary responsibilities relate to revenue generation


CAD, CRG and PRG

Asset Side

- The Credit Approval Document (CAD) is the principal approval vehicle for risk acceptance criteria and underwriting standards for all lending products within Retail Banking (RB)
- During the course of a product life cycle, campaigns and solicitation schemes can be launched to either introduce changes to credit parameters or to test new initiatives. The Campaign Recommendation Document (CRD) covers such offerings, and has to identify risks, and set financial performance benchmarks prior to its launch.

Liability Side

- The Product Programme Guideline (PPG) is the Enterprise Risk approval document that covers all risks, infrastructure requirements and end-to-end processes except for credit. Each product offered in RB must have a Global PPG and a country addendum for countries offering the products. It comes under purview of Product Governance Committee.



Credit Approval Document (CAD) & Campaign Recommendation Document (CRD) Process

Credit Approval Documents (CADs)

Overview



Types of CADs

Approval Authority

Portfolio Classification

Triggers

Thresholds

Monitoring

Changes

Renewal

- The CAD is the principal approval vehicle for risk acceptance criteria and underwriting standards for all lending products within RB.
- Every product that actually or potentially exposes the Bank to any credit risk must have an approved CAD or Global CAD and its associated Product Programme (PPG) with country addendum before it can be offered.
- Products must be consistent with approved business strategy and risk appetite. Prior to rolling out any product, all stakeholders must understand and agree with the product risks, product design, support processes, infrastructure and resource requirements.

Credit Approval Documents (CADs)

Overview

Types of CADs

Approval Authority

Portfolio Classification

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Thresholds

Monitoring

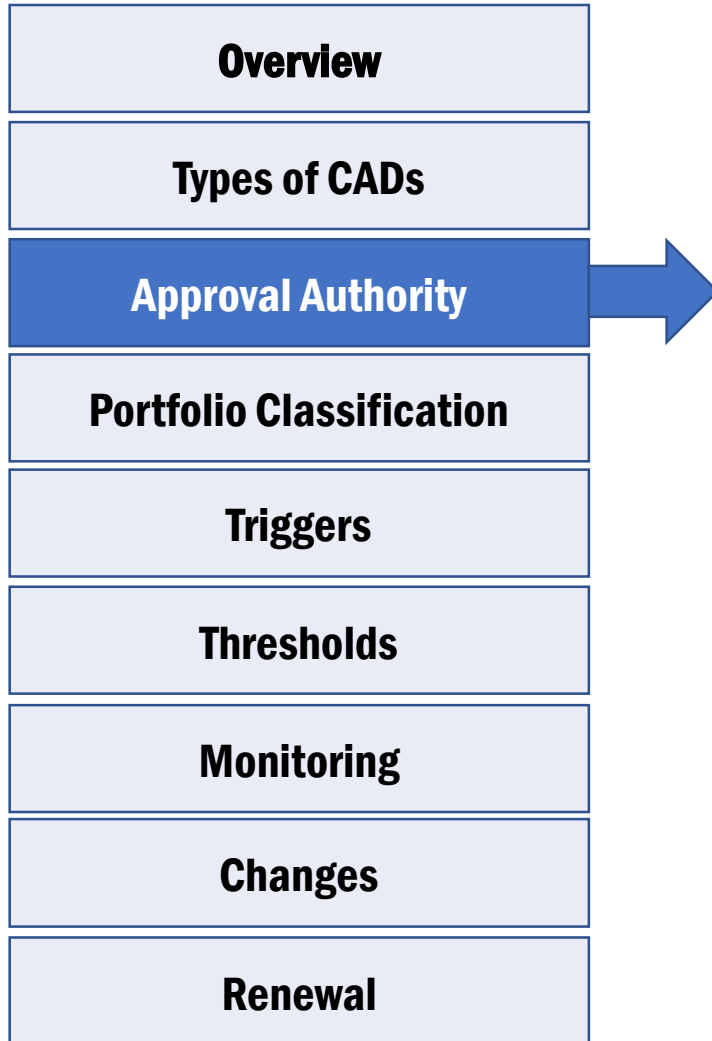
Changes

Renewal

CADs are required for the following portfolio categories

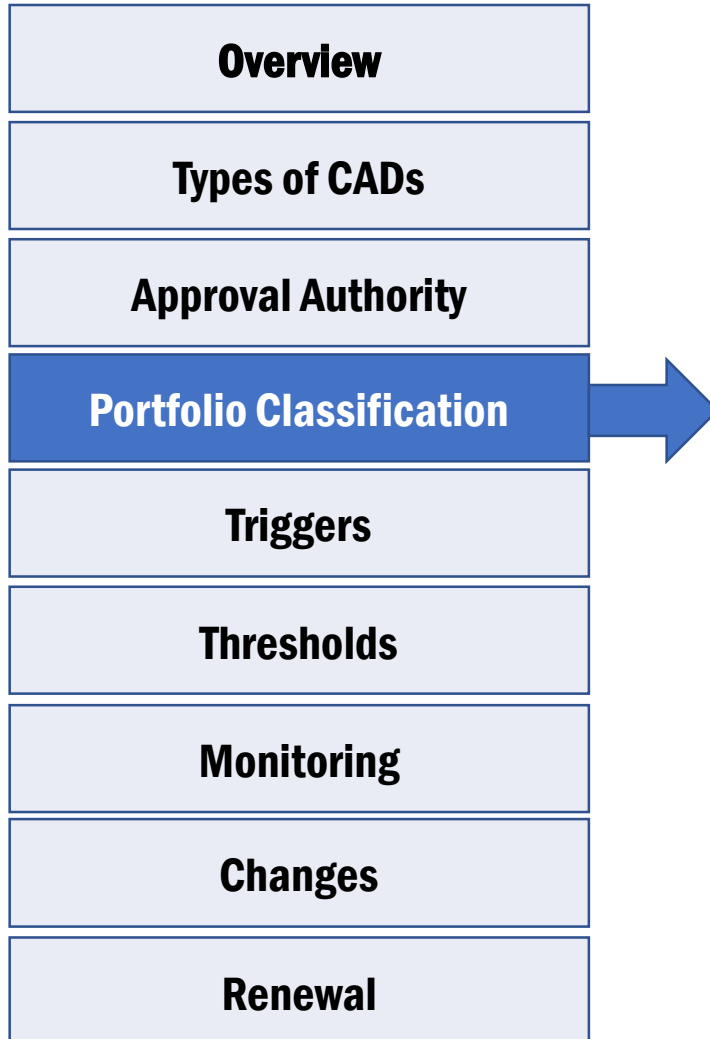
| Portfolio | Scope |
|------------------------|---------------------------|
| Retail Unsecured | All unsecured products |
| Retail Secured | Mortgages |
| Retail Secured | Auto financing |
| Business Banking | All products |
| Wealth Management (WM) | All WM lending activities |

Credit Approval Documents (CADs)



- CADs should be approved by relevant L4 authority (based on peak recession loss) post endorsement by respective Heads, Credit Policy and Risk Review.
- CADs with recession loss greater than \$150m should be endorsed by Global CCO-Retail Banking and approved by Credit Approval Committee (CAC).
- Global CADs will be approved by Global CCO-Retail Banking post endorsement and support by Regional Chief Risk Officer.
- All CADs should have in-country business support through appropriate sign-offs

Credit Approval Documents (CADs)

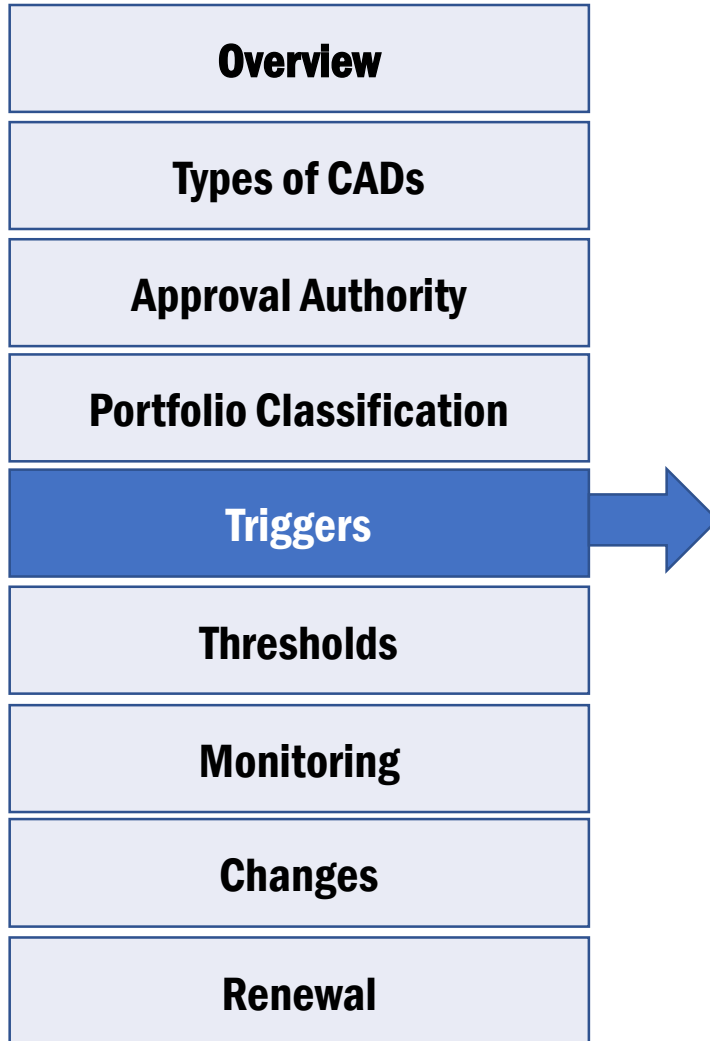


All portfolios must be classified as:

- New - less than 6 months since launch.
- Adverse - e.g. Mortgage portfolio with 2 CAD performance triggers breached for 2 consecutive quarters.
- Liquidating / Suspended - In run-off, no new bookings or limited bookings to preserve franchise.
- Mature and Stable - if it is none of the above.

All portfolios under DEFCON 1 and 2 should be on the watch list. Additionally, watch list portfolios can be based on discretion of relevant CCO-Retail

Credit Approval Documents (CADs)



CCH's are responsible for proposing well calibrated performance triggers to ensure ongoing monitoring of the CAD program and timely escalation and remedial actions.

Performance triggers are as follow:

All portfolios (except Wealth Management)

- Gross Charge off rate
- 30+ dpd % (\$)
- Risk Adjusted RoRWA

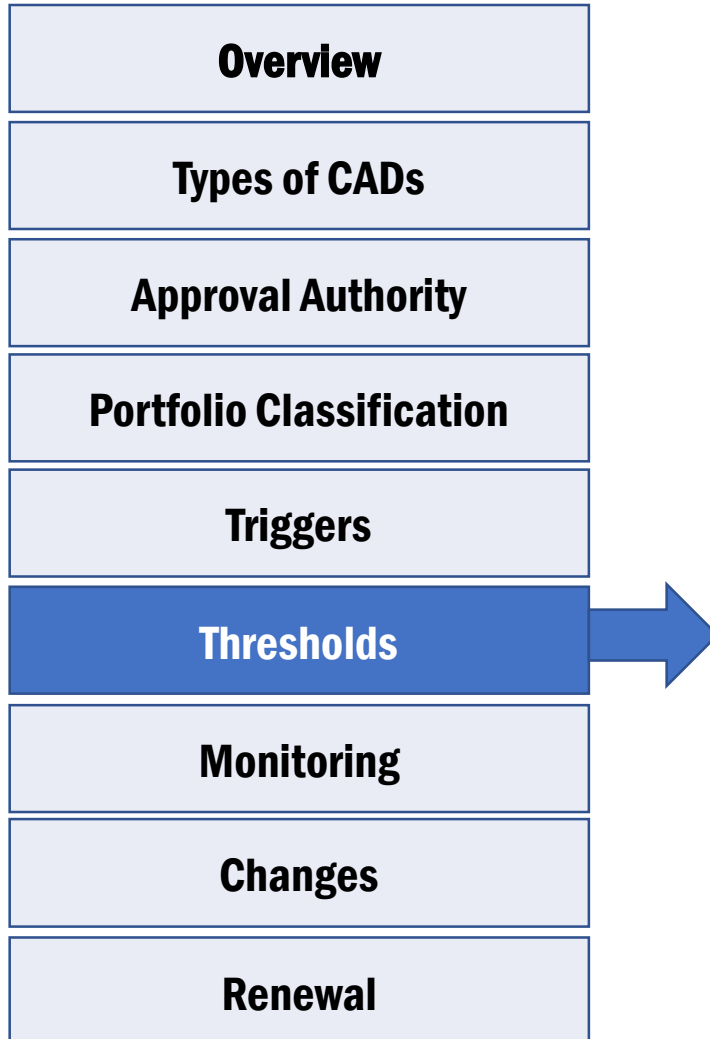
Wealth Management (WM) portfolio triggers:

Lending secured by WM products, other than cash / cash equivalent –

- a. Top Up % \$ portfolio > 2%
- b. Sell down % \$ Portfolio > 0.5%

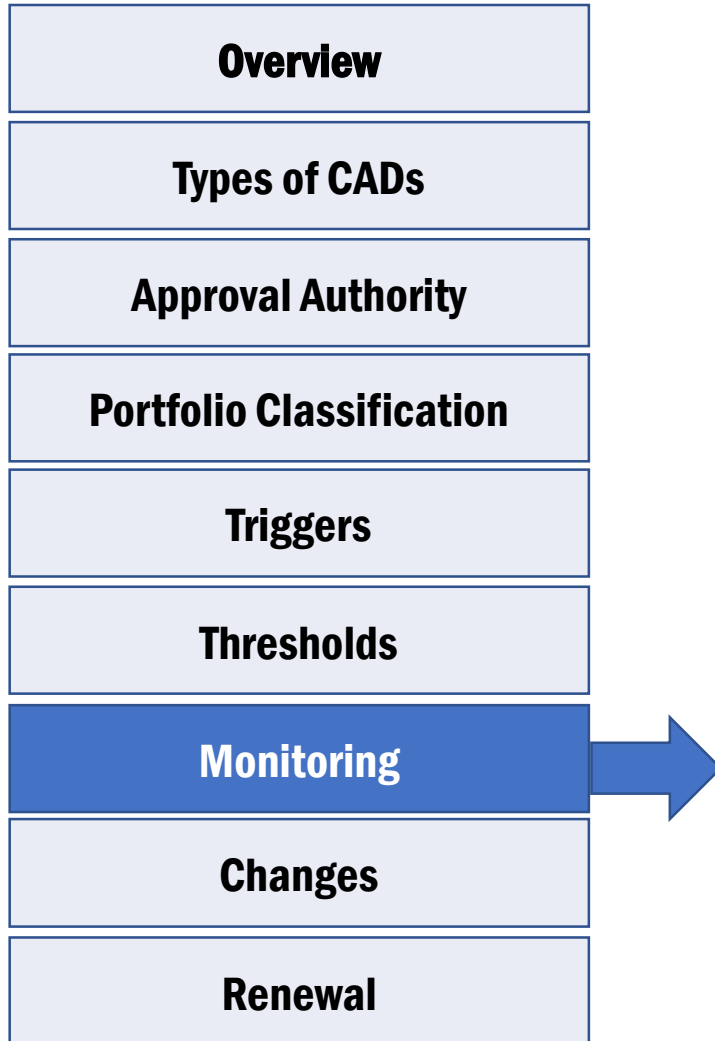
Lending secured by cash / cash equivalent - \$ operational losses incurred associated with lien establishment and release

Credit Approval Documents (CADs)



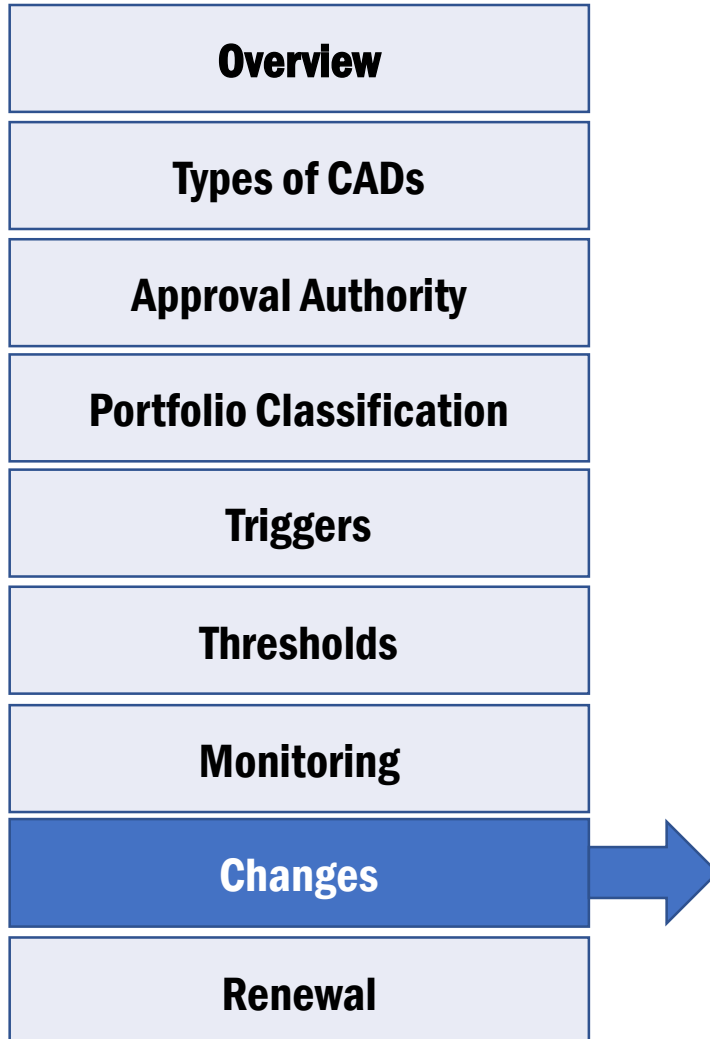
In addition to the triggers mentioned in previous slide, the CAD should specify thresholds for various risk appetite measures like LAR./., RLM and asset quality indicators such as credit grade, LTV, DSR and collateral type.

Credit Approval Documents (CADs)



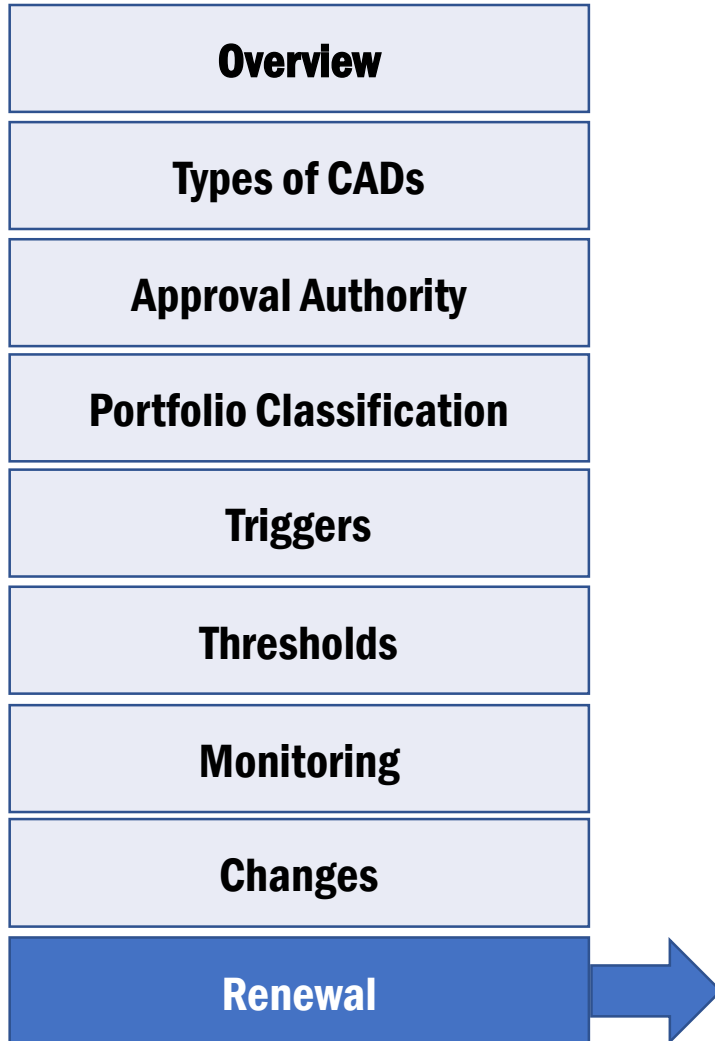
- CCH should regularly monitor actual portfolio exposure against approved peak exposure limit and ensure compliance at all times.
- CCH should monitor the CAD performance triggers and should report the CAD as adverse:
 - a. All products (except Wealth Management) when at least 2 performance triggers are breached for 2 consecutive quarters.
 - b. b. For Wealth Management when 1 of the performance triggers is breached for 2 consecutive months.
- CCH are responsible to escalate the CADs classified as adverse to the relevant CCO-Retail, respective Heads, Credit Policy and Risk Review, RCROs and Global CCO-Retail Banking.

Credit Approval Documents (CADs)



- Interim changes for CADs up to \$150m recession loss in triggers and credit acceptance criteria / thresholds (i.e. DTI / DSR, MUE, LTV, tenure and new market segment) must be approved by the original CAD approver.
 - a. For CADs approved by Credit Approval Committee (CAC), these interim changes must be jointly authorized by Global CCO-Retail Banking and the Group Chief Risk Officer.
 - b. For Global CADs, the approval can be delegated by Global CCO-Retail Banking for interim changes as documented in the approved CAD.
- Other CAD changes to credit acceptance criteria and thresholds shall be jointly approved by relevant CCO-Retail and respective Heads, Credit Policy and Risk Review.

Credit Approval Documents (CADs)



- CADs classified as "Adverse" or Watch List should be reviewed annually.
- The renewal frequency for all other CADs is 2 years unless the approver determines that an earlier review is required.
- Extensions of CAD review dates for portfolios up to \$'150m recession loss can only be granted at the same level of credit authority that approved the original CAD.
 - a. Maximum period of extension is 3 months
 - b. Further extension after 3 months can be permitted by Global CCO-Retail Banking.
- CAD extensions for portfolios greater than \$150m recession loss can be authorized by Global CCO-Retail Banking.
 - a. Maximum period of extension is 3 months
 - b. Further extension after 3 months can be permitted by Group Chief Risk Officer

Campaign Recommendation Document (CRD)



Overview

Approval Authority

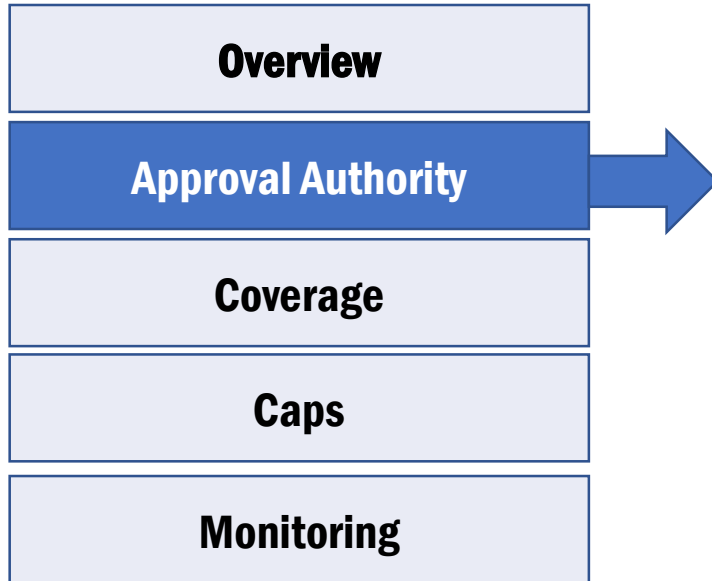
Coverage

Caps

Monitoring

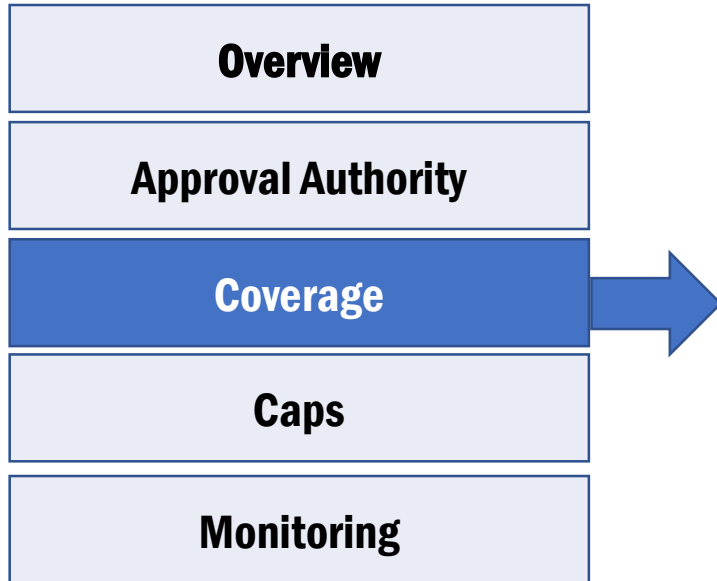
- During the course of a product life cycle, many campaigns and solicitation schemes are launched to either enhance existing product features or test new initiatives.
- These are limited product offerings to a specific customer group wherein terms offered vary from those of the approved CAD.
- The CRD covers such offerings, and has to identify risks, and set financial performance benchmarks prior to its launch.

Campaign Recommendation Document (CRD)



- All CRD programs and interim changes should be approved by relevant CCO-Retail and respective Head, Credit Policy and Risk Review.
- No test program is allowed on parameters where country is already operating outside the global policy caps. Exceptions to be authorized by Global CCO-Retail Banking, including any extensions of these CRDs.

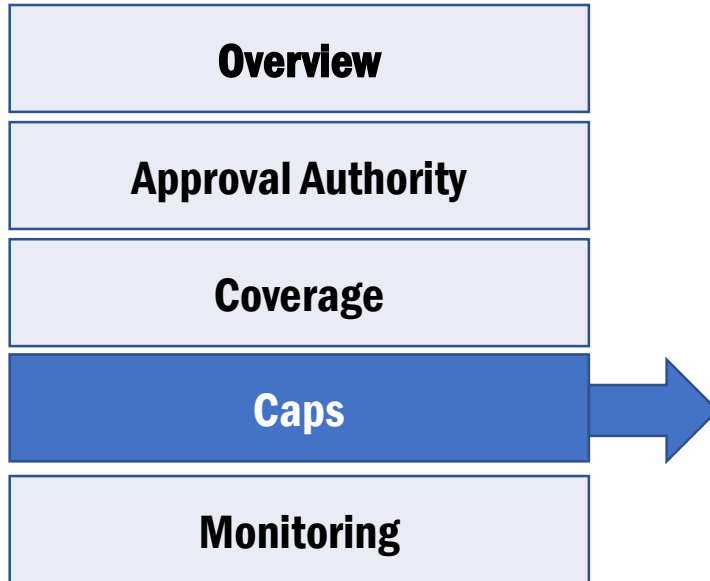
Campaign Recommendation Document (CRD)



A CRD should typically cover the following:

- Maximum exposure to be booked under the campaign.
- Performance metrics of the campaign portfolio. This must be compared to the control group performance metrics at periodic intervals.
- Triggers for a pre-defined set of indicators for on-going monitoring of test programs.
- Criteria for regularization including exit strategy.
- Clear definition of the control group or Reference group for the test program.

Campaign Recommendation Document (CRD)



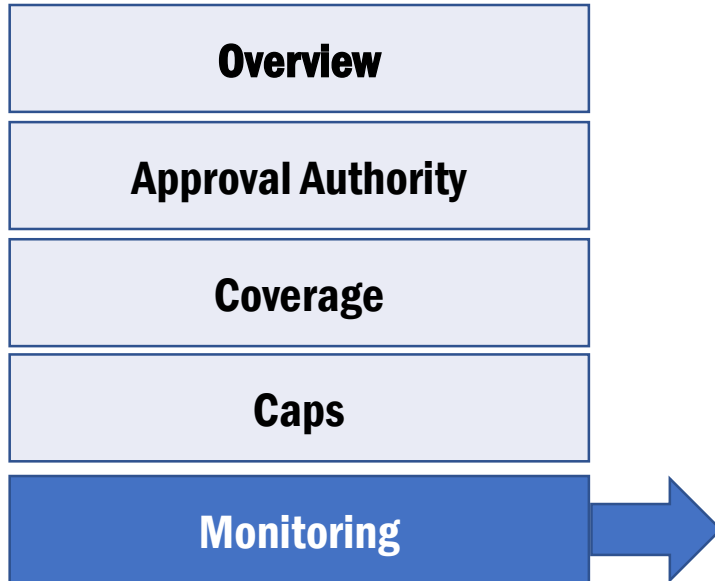
The following caps must be monitored within market at a product aggregate level. The aggregated campaigns running at any point in time should be within these caps.

- 20% of new bookings in value of the exposure approved.
- 10% of the portfolio value at any point in time based on outstanding.

The following exceptions to caps on new bookings or portfolio exposure can be approved explicitly by relevant CCO-Retail and Head, CP&RR jointly:

- New portfolios (< 5 years since launch) may be subject to higher cap up of 50% for new bookings or 20% of total product exposure value.
- Smaller portfolios can be waived from booking and portfolio exposure caps subject to \$50m for all CRD programs at a product aggregate level.

Campaign Recommendation Document (CRD)



- The Country Credit Heads (CCH's) are responsible for monitoring the CRD programs.
- The test period for CRD programs should not exceed 12 months but observations may continue beyond the test period.
- CCH should escalate the CRD programs breaching triggers or materially underperforming to the relevant CCO-Retail and relevant Heads, CP&RR.
- Regularization of CRDs into the CAD should be approved by the same credit authority or higher credit authority that approved the original CAD.
- CRD Control Sample Test (CST) must be included in RCO monthly tracking.

Risk control and process

Questions to ask yourself

What are the duties, roles and requirements for the CEO in the CAD process?

How would a CEO be involved In the development of a new product launch?

Points to Remember

Let's revisit some of the most important points of this section:

- The CAD triggers and risk decision framework determine the desired portfolio shape.
- The Portfolio Quality Reviews (PQR) and other reports provide information which you should use to ensure we are maintaining that portfolio shape.
- For different business areas, we use a slightly different set of triggers in the CAD. Be familiar with them.
- Be sure to use the CAD guidelines to facilitate your ongoing monitoring and challenging of the portfolio shape and growth.

Questions



Notes

