**. Purpose**

The purpose of this document is to outline the procedure for setting and calibrating risk appetite limits and alerts for Net Credit Loss (NCL) and delinquency metrics in the credit card portfolio. This calibration process leverages the forecasting process to set limits that incorporate macroeconomic outlook, growth plans, vintage quality, and maturity to project forward-looking vintage performance.

**2. Scope**

This procedure applies to the Credit Risk Management team responsible for managing the credit card portfolio. It covers the following aspects:

* Setting risk appetite limits for NCL and delinquency metrics.
* Calibration of alerts for these metrics.
* Integration of macroeconomic outlook, growth plans, vintage quality, and maturity into the forecasting process.

**3. Definitions**

* **Net Credit Loss (NCL):** The total amount of charge-offs minus recoveries over a specific period.
* **Delinquency Metrics:** Measures of the percentage of accounts that are past due (e.g., 30+ days, 60+ days, and 90+ days delinquent).
* **Vintage Quality:** The credit quality of a specific cohort of accounts originated during a particular period.
* **Risk Appetite Limits:** Predefined thresholds for NCL and delinquency metrics that reflect the firm's tolerance for risk.
* **Alerts Calibration:** The process of setting up alert thresholds to notify management of potential breaches of risk appetite limits.

**4. Responsibilities**

* **Credit Risk Management Team:**
  + Develop and maintain risk appetite limits and alerts.
  + Monitor and report on NCL and delinquency metrics.
  + Conduct regular calibration of limits and alerts based on the forecasting process.
* **Finance Team:**
  + Provide macroeconomic forecasts and financial plans.
* **Data Analytics Team:**
  + Provide data and analytics support for the calibration process.
* **Senior Management:**
  + Review and approve risk appetite limits and calibration processes.

**5. Procedure**

**5.1 Setting Risk Appetite Limits**

1. **Data Collection:**
   * Gather historical data on NCL and delinquency metrics.
   * Collect macroeconomic data and forecasts.
   * Obtain growth plans and financial targets from the Finance team.
2. **Initial Analysis:**
   * Analyze historical trends in NCL and delinquency metrics.
   * Assess the impact of macroeconomic variables on these metrics.
   * Review the quality and performance of different vintages.
3. **Limit Setting:**
   * Set preliminary risk appetite limits based on historical performance and macroeconomic outlook.
   * Ensure limits align with the firm's overall risk tolerance and strategic objectives.
   * Review and validate limits with Senior Management.

**5.2 Calibration of Alerts**

1. **Determine Alert Thresholds:**
   * Set alert thresholds at specific points below the risk appetite limits to provide early warnings.
   * Use statistical techniques to determine appropriate thresholds that balance sensitivity and specificity.
2. **Incorporate Forecasting:**
   * Leverage forecasting models to project future NCL and delinquency metrics.
   * Incorporate macroeconomic outlook, growth plans, and vintage quality into the forecasting process.
   * Adjust alert thresholds based on forecasted trends and expected performance.
3. **Validation:**
   * Validate alert thresholds through back-testing using historical data.
   * Adjust thresholds as necessary to improve accuracy and reliability.

**5.3 Continuous Monitoring and Reporting**

1. **Monitoring:**
   * Continuously monitor NCL and delinquency metrics against risk appetite limits and alert thresholds.
   * Use automated systems to generate alerts when thresholds are breached.
2. **Reporting:**
   * Prepare regular reports on NCL and delinquency metrics for Senior Management.
   * Include analysis of any breaches of alert thresholds and actions taken.
3. **Review and Adjustment:**
   * Conduct periodic reviews of risk appetite limits and alert thresholds.
   * Adjust limits and thresholds based on changes in macroeconomic conditions, growth plans, and vintage performance.
   * Ensure ongoing alignment with the firm's risk tolerance and strategic objectives.

**6. Documentation and Approval**

* **Documentation:**
  + Maintain detailed records of the calibration process, including data sources, analysis, and decisions made.
  + Document any changes to risk appetite limits and alert thresholds.
* **Approval:**
  + Submit the calibrated limits and thresholds to Senior Management for approval.
  + Ensure any changes are communicated to relevant stakeholders.

**7. Review and Update**

This procedure document will be reviewed and updated annually or as needed to reflect changes in the external environment, business strategy, or regulatory requirements.