Credit Risk Management Standards for Partnership - Driven Business

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Version Control Table

Name	Changes made	Materiality	Approved by	Version number	Approval Date	Effective Date
Isaac Ivan Jesudian	Migration to Inline format- Non-Material Change(No change to document content)	Non-Material	Xiaomin Rong	2.2	21/11/2023	21/11/2023

The full version history is included at the end of the document.

1. RISK MANAGEMENT APPROACH

1.1 As CPBB seeks to grow segment through digital partnership in the unsecured lending and organic channels, we will adopt a 'digital-first' approach and leverage innovative risk management tools to ensure that client experience is as seamless as possible and to accelerate testing and learning. Our decisioning models and policies will be aligned with this consumer segment, incorporating advanced analytic techniques and alternative data. The nature of these partnerships requires SCB Risk Management to collaborate closely with these external entities to understand and learn, while at the same time adhering to established principles.
1.2 The risk management approach toward Partnerships will: - comply with all relevant regulations - comply with the requirements outlined in this document - be guided by applicable credit policies
1.3 Where the partner is a regulated lending entity with a proven track record of managing a lending business targeting mass market customers, SCB may choose to appropriately adjust the applicability of specific requirements of this framework.
1.4 SCB will take all steps necessary to satisfy itself that the partner is following robust risk management practices and adhering to "Responsible AI" standards
1.5 Digital partnerships that qualify as mid-lower mass market[1] must be managed individually and collectively within the Financial Risk Appetite for mid-lower mass market. (Refer to Appendix 1 for the Financial Risk Appetite. Partnerships that do not qualify as mid-lower mass segment must follow BAU risk appetite for the relevant portfolio (Credit Cards and Personal Loans or Business Banking portfolio)
1.6 Partnership level caps detailed in Appendix 2 must be adhered to.

2. RISK PRINCIPLES

2.1 Our proposed approach aligns to the following general principles:

2.1.1 As the Lender-of-Record, SCB must conduct credit lending in compliance with the laws, regulations applicable to the SCB Group and the entity which conducts the lending and be guided by SCB's internal credit policies.

2.1.2 The credit risk of the partnership program must be managed within the agreed Risk Appetite individually and collectively across the portfolio. (See Appendix 1 for the Financial Risk Appetite)

2.1.3 The roles and responsibilities for SCB and the partner must be clearly documented and SCB entity must have the appropriate authority, information, and access to demonstrate its accountability for credit extension. (See Appendix 4 for the roles and responsibilities)

2.1.4 A "Test and Learn" approach will be adopted for partnerships. Risk management policies will be adapted to enable partnership models where required based on the learnings.

3. CREDIT RISK MANAGEMENT MINIMUM STANDARDS

3.1 **Ownership of underwriting standards:** SCB must have the ultimate ownership of credit decisions, which can be operationalised with either of the following two options:

3.1.1 Option 1: SCB conducts our own underwriting using SCB-owned systems and underwriting standards.

3.1.2 Option 2: Underwriting is conducted by the partner on their systems

To enable such option, the partner must provide the following to SCB for approval:

- Boundary conditions that circumscribe the target segment and risk acceptance criteria of the partner's lending business, for example age, income (or proxy), customer indebtedness (or proxy), nationality, minimum/maximum loan or line amount, maximum and minimum loan tenure, interest rate range, documentation requirements, employment, credit bureau requirement minimum and maximum ticket size, sales turnover, vintage of entity.
- Scores and minimum score cut-offs
- Policy overrides- The partner must provide either (a) the specific criteria that is used for postscore, high- or low-side overrides, or (b) the type of overrides restricted and agree percentage cap with SCB.
- The partner must implement the approved underwriting standards on their systems to execute credit decisions at a transaction level and provide SCB audit access.
- SCB to approve any changes to the previously agreed standards. To ensure timely approval of underwriting standards and changes, turnaround times will be pre-agreed with the partner.

3.2 **Models and Processes:** Risk management tools (e.g., risk decisioning models) and processes (e.g., scoring or underwriting processes) owned by the partner or other third parties can be used but SCB must conduct due diligence.

3.2.1 Where the partner's or third party's model is used, SCB or SCB designated independent third party must conduct appropriate due diligence of models used (not requiring model variables features and coefficients) for credit decisions by a Partner.

3.2.2 Models used for underwriting or portfolio management decisions must comply to model family standards or relevant operational guidelines.

3.3 **Data ownership:** Data ownership: SCB will seek the following information from the partner at agreed frequencies. Data elements that are required at account level are specified below.

1. Credit attributes of the Through the Door (TTD) and approved applicants. "Credit Attributes" include data elements that (a) form part of the explicit set of boundary conditions pre-agreed with the partner (b) are considered in building scorecards or data elements that are included in active scorecards/models, and (c) are used as a basis for post-score high- or low-side overrides.
2. Third-party data or alternative data used for credit decisions (such as Telco data)
3. Number of enquiries by applicants
4. Score (or score-ranges) and PD (PD-ranges) of approved applicants.
5. Any data or attributes used to further screen score-approved applicants
6. Data items relating to delinquency, collections and impairment post booking of accounts, including the partner's collections management information (MI).
7. Data elements to perform the following checks: (a) Partner Blacklist indicator (Y/N) (b) any mandatory regulatory credit checks and (d) those required to collect overdue payments where SCB is responsible for Collections.

- Partners must mandatorily provide non-proprietary data items mentioned in 1(a) and 4) to 7) above. In cases where the partner is unable to share some or all the items mentioned in 1) to 4), SCB could acquire additional data from other data aggregators/providers to enable SCB to develop custom-scorecards for the customer base acquired through the partnership.

3.4 **Income methodology**: Income methodology should be clearly defined and agreed with partner.

3.5 **Monitoring:** As a principle, SCB to develop monitoring reports and credit performance KPIs based on the available data as a 'Lender of Record'. The partners should provide any additional reports that are essential for SCB's credit risk oversight. Where loans are less than 1 month tenor, daily monitoring of ENR should be in place.

3.6 **System Integration**: On reaching a total partner level exposure of USD 100M, SCB must invest in building interfaces with the partner's systems to conduct, in real-time, its own transaction level credit decisions, based on internal scorecards, models and credit policies.

During the period when an individual partner's exposure is less than USD 100m, systems integration with partners will be required to enable SCB to conduct the following checks:

- SCB Internal blacklist including delinquent and write off accounts
- On-us unsecured exposure boundary conditions
- Credit Bureau checks
- System integration to conduct items 3 above will be evaluated based on an assessment of

cost and reward:

4. COUNTERPARTY RISK MANAGEMENT

4.1 In relation to digital lending partnership, counterparty risk may arise from the following circumstances as they expose the Bank to financial loss if the partner fails to fulfil its obligations or responsibilities:

- Where the partners agree to absorb or accept all or part of credit loss from the lending;
- Where the partners are obligated to provide any credit risk mitigation measures such as loan buy back or credit guarantee.
- Where the partners are responsible for management of loan disbursement, repayment and collections on behalf of SCB; or
- Where the partner owns the digital wallet or equivalent which store the value of the loan disbursement or repayment.

4.2 **Assessing counterparty risks**

4.2.1 In digital lending partnerships, the Bank engages a partner to facilitate loans to customers. As the Bank is the lender on record, credit losses arising from these customers are recorded on the Bank's balance sheet. In such partnerships, in addition to credit risk, the Bank is also exposed to counterparty risk due to operational dependency and/or financial dependency based on the nature of the contract with the partner.

4.2.2 This approach differentiates the assessment of counterparty risk between the different sub types of partnerships based on the nature of partnership and legal contract – (1) partnerships where there is an explicit guarantee by or claim to the partner for partial or full share of losses recognised in the Bank's books ("**Partnerships with Loss-Sharing Arrangements**"); and (2) partnerships where there are no such claims or guarantees ("**Partnerships Without Loss-Sharing Arrangements**")

4.2.3 **Partnerships Without Loss-Sharing Arrangements: Cat 1 Limit**

4.2.3.1 For arrangements where there are no guarantees or other commitment by the partner to reimburse or indemnify the Bank for any loan losses but the Bank has dependence on the partner for critical operations, the contingent/indirect risk is limited to the contingent risk where monies repaid by the bank's customers are with the counterparty and have not been remitted to the bank. Therefore, in such scenarios, no Cat 5 limit to record counterparty risk will be raised. Instead, a "Cat 1 – Others" to record the risk will be raised and approved.

4.2.3.2 The quantum of CAT1 Limit will be assessed based on various factors, including availability of any escrow account, whether repayment is coming directly to the Bank or through partner, number of days taken to transfer funds from counterparty to the Bank, and existing regulatory and legal environment. The quantum of settlement risk will be computed using the daily payments collected by partner on behalf of the Bank multiplied by the maximum number of days we expect funds to be with the partner.

4.2.3.3 The Cat 1 limit does not contemplate the incremental losses the Bank may incur as a result of our operational dependency on the partner's systems and processes, in the event of material disruption of partner's operations. The assessment and recording of such losses will be managed under potential operational loss from operational incident The treatment of such losses, called “Event Driven Loss” is detailed in Section 5.

4.2.4 **Partnerships with Loss-Sharing Arrangements: Cat 5 Limit and Cat 1 Limit**

4.2.4.1 In digital partnership arrangements that include a financial guarantee or other contractual commitment from the partner to reimburse the Bank for loan losses, risks arise from weaknesses in the following aspects of the digital partner:

- Operational resilience of the customer management, if the Bank has dependence on the partner for critical operations; and
- the financial strength and available cash of the partner, since the loss share or guarantee on credit losses available to the Bank from the partner depends on the partner’s ability to fulfil the commitment on loss share or guarantee.

4.2.4.2 Due to the nature of this arrangement, the Bank’s contractual claims to the partner are limited to the extent of the losses that the bank may suffer from this arrangement and the quantum of guarantee from the counterparty. A prudent estimate of the forecasted losses may be used for this calculation. For example, if the forecasted loss in the most likely scenario is $50m and the loss sharing arrangement is 50%, $25m will be the extent of contractual claims on losses to the partner, which is the likely loss that the guarantor will need to cover (to which we add an overlay to account for volatility), and thus arriving at a prudent expression of our possible exposure to the guarantor.

4.2.4.3 Cat 5 limits will therefore be assessed based on the above. Within CPBB, this will be recorded in the Credit Recommendation Document (CRD) or Credit Approval Document (CAD), proposed by the first line of defense (“1 LOD”) and approved by second line of defense (“2 LOD”) with the appropriate approval authorities.

4.2.4.4 The quantum of contingent credit risk where the Bank has operational dependency on counterparty will be recorded as Cat 1 limit - others as detailed in Section 4.3.3.2.

4.2.4.5 Where the CPBB lending partners are classified as Financial Institutions (“FIs”), the CPBB business will work with the CCIB FI relationship managers to onboard the FI as a SCB client. CPBB Risk will assess the quantum of the Cat 1 and Cat 5 limits based on the nature, structure and expected size of the partnership programmes to be included in the FI Business Credit Approval (“BCA”) approval process. The Cat 1 and Cat 5 limits for these FIs should be approved by appropriate credit approvers on the FI Credit Risk team.

How Does It Work

Example 1: Partnerships Without Loss-Sharing Arrangements

Daily payments that Partner X collects on behalf of the Bank = $100K

Number of days on an average that partner has to contractually remit payment to bank = 2 days

Normal holidays (weekend) = 2 days

Cat 1 limit proposed =100K for 4 days = $400K / 4day limit

Example 2: Partnerships with Loss-Sharing Arrangements

Most likely scenario of forecasted losses in Year 1 (with overlay to account for volatility) = $50m

Loss sharing arrangement with partner = 50%

Contractual claims on loss guarantee to partner = 50% * $50m = $25m

Credit risk (as in example 1) = $300K

Cat 5 limit proposed = $25m

Cat 1 limit proposed = 300K

TABLE 1: LIMITS BY NATURE OF COUNTERPARTY ARRANGEMENT

Nature of Arrangement	Assessment of Cat 1 and Cat 5 Limit	Approval authority for Cat 1 and 5
Partnerships Without Loss-Sharing Arrangements	Based on contingent credit risk	CCIB/FI Risk with appropriate Cat 1 and 5 approval authority
Partnerships with LossSharing Arrangements	Based on quantum of claims to counterparty determined by forecasted loss and loss sharing arrangement and contingent credit risk (where applicable)	

5. EVENT DRIVEN LOSS

5.1 For partnerships where the Bank depends on partner for critical operations, operational losses may arise due to the bank's operational dependency on the partner. In the event of a **material disruption of the partner business and cessation of its operations, the bank may suffer incremental losses from customers** due to the disruption to repayment channels connected to partner's systems or due to customer's perception that payments are unnecessary in a situation where partner is defunct. **This cessation of operation may be due to bankruptcy, suspension of license, cyber-attack or any other such event.**

5.2 Due to the nature of this type of partnership arrangement, **the bank has no contractual claims on partners for reimbursement of customer credit losses**

5.3 The probability of such material disruption in the Bank's partners is significantly mitigated by the existing standards on partner selection, third party risk assessment and other procedures at the partner onboarding stage. However, unexpected events can occur, leading to outsized losses.

5.4 The incremental credit losses resulting from such events, henceforth called "**Event-driven loss**" will be estimated based on a multiplier of the losses expected in the partner portfolio in a business-as-usual scenario. This multiplier is based on the operational resilience of the customer management process. A complete dependency on partner processes may lead to high losses when partner ceases operation. On the other hand, if the bank has a robust Business Continuity Plan (BCP) or its own independent processes for a major part of the customer cycle, these losses will be limited. The effectiveness of the BCP will be determined chiefly by factors like availability and quality of data, IT systems and required manpower to serve or collect from customers.

Event-driven losses loss will be evaluated by the First Line of Defence (1LOD), and, if acceptable, may be risk-accepted at the assigned level of approval according to the quantum of event-driven loss.

6. Footnote

[1] Mid-lower mass segment is where annualised Gross Charge Off (GCO) % Average Net Receivables (ANR) for the partner portfolio is more than 15%.

[2] RoTE computed using SCB share of revenues, losses and costs

[3] SCB share of GCO

[4] Exclude Business Banking

[5] Peak ENR of a partner across all markets

[6] Peak ENR in a market across all partnerships

[7] Where it impacts SCB balance sheet

[8] The scope and frequency of independent audit of Partner's processes specific to SCB's partnership portfolio will be pre-agreed with the Partner.

7. Appendices

7.1. APPENDIX 1 - FINANCIAL RISK APPETITE FOR PARTNERS IN MID-LOWER MASS SEGMENTS

Scope: This Financial Risk Appetite Framework for partnerships and de novo organic growth initiatives into the mid-lower mass segment is designed to support strategic, digital partnerships in mass market segments, a key priority for CPBB. This excludes standalone digital ventures like Mox, Trust, etc

Mid-lower mass segment is where annualised Gross Charge Off (GCO) % Average Net Receivables (ANR) for the partner portfolio is more than 15%.

Risk Area	Metric Name	Metric Definition	Threshold
Risk Return	Loss Coverage **Partner Portfolio level**	GCO% Revenue annually	<40%
	Return on Tangible Equity (RoTE) **SCB share of Partner Portfolio level**	RoTE [2]by Year 3 from date of initiation of partnership	>12%
Credit Risk Level	Lifetime Loss rates **Partner Vintage Cohort level**	Cumulative GCO over life of loan (tenor <= 3 months)	<=10%

7.2. APPENDIX 2 - RISK ASSESSMENT TEMPLATE FOR EVENT DRIVEN LOSS

Refer Link for template

7.3. APPENDIX 3 - PARTNERSHIP LEVEL CAPS

1. Peak ENR caps[4]

   Partnership-led business $cap – USD 4B

   Partner level $cap - USD 2B[5]

   Market level $ cap [6]- USD2.5B

7.4. APPENDIX 4 - ROLES AND RESPONSIBILITIES OF SCB AND PARTNERS

Roles and Responsibilities	Strategic Venture / Lending Marketplace	
Actions	Partner	SC
Integration with e-commerce, telco or payment companies	Execute	Review
Application Process	Execute	Review
T&C	Recommend	Approve
Risk Management Technology Stack	Execute	Review and Audit

3rd party data usage including bureau	Execute	Inform
Model development	Execute	Inform
Model monitoring	Execute	Monitor
Credit Policies (Acquisition, Account Management)	Recommend	Approve
Credit Decisions at Transaction Level	Recommend	Approve
Collections	Execute	Monitor
Collection Vendor Management	Recommend	Approve[6]
Loss Forecasting and Provisioning	Recommend	Validate and Approval[7]
Independent Audit (Regulatory audit, GIA/ERR reviews and reviews by SCB staff)		Execute[8]

8. Version Control Table

Name	Changes made	Approved by	Version number
Hiren Kapadia	New Standard. To align decisioning models and policies with consumer segment.	Xiaomin Rong	1.0
Moumita Chatterjee	• Methodology of assessment and recording of counterparty and settlement risks arising from partnerships updated. • New section on 'Event-Driven loss' added. • Removed details on minimum due diligence approach for third party models with planned exposure of less than 100M as already included in model standards	Xiaomin Rong	2.0
Moumita Chatterjee	• Changes made to counterparty risk assessment in section 4, reflecting changes approved by GCRO • Changes made to Risk Appetite - Cumulative GCO metric removed (This was earlier USD 125M in two years from the launch of the 1st Mass market partnership) - Three-year threshold for ROTE changed from 10% to 12% • Peak ENR Caps modified & aligned with the partnership ENR forecasts.	Xiaomin Rong	2.1