Private Banking Credit Approval and Review Standard

Version No	3.1
Document Type	Standard
Parent Document	CPBB Credit Risk Management Policy
Parent Framework	Credit WRB
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Business Scope	WRB
Function Role	Risk
Geography Scope	GLOBAL
Approval Date	09/05/2024
Effective Date	27/05/2024
Next Review Date	27/05/2026

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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	3.1	09/05/2024	27/05/2024

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

1. INTRODUCTION AND SCOPE

1.1 Introduction and Scope

The Private Banking (PvB) Credit approval and review Standard sets the requirements of extending credit facility to specific types of customers and business activities and product terms. The Standard is mapped to the key principles under the WRB Credit Risk Management Policy.

2. BUSINESS CREDIT APPLICATION (BCA) PROCESS

2.1 BCA Requirements

An electronic Business Credit Application for facilities (BCA) to be granted to a client should, at the minimum, contain the following details.

Client related – Client's name, client type (individual, partnership, individual trading under a corporate entity, PIC, trust, operating company etc), staff, PEP, borrower's financial background, liquid assets, extent of relationship with SCB and net worth.

Facility related – Current and proposed limits for different Classes of facilities, nature of products (overdraft, loan etc.) being offered, tenor of the products, nature of collateral, pricing, and next review date. Details of client Group facilities are required for PvB clients.

The application should also contain details of policy exceptions required and justifications for the same, as well as comment on the purpose of facilities and source of the interest/ debt servicing.

An estimate of assets including liquid assets and estimated income details of the borrower. It must be demonstrated that the client can be expected to service the agreed facilities including meeting any margin calls, during adverse market conditions.

2.2 Credit bureau level checks are not mandatory unless required by local regulations and specified in the PPG. However, a credit bureau check is required for clients who have been granted Class II limits with cashouts. SCO/CCO for the location has the authority to waive the credit bureau check requirement on a case-by-case basis.

2.3 Bank risk approval must be taken from FI Risk (CAT 5 limits allocation), in case of lending against another bank issued SBLCs.

2.4 **Limit vis a vis Networth* (see note below):** The total limits and Class I limits (excluding insurance financing) are expected to be within Client’s Networth and 2 times of liquid Networth, respectively. Class IV limits Summation of (Initial Margin x notional limit for different products) should not be more than 20% of total Any case not meeting these criteria will have to be justified by the business for consideration by the Credit approver. CUPID will be the source of Networth for this check.

2.5 **Interest Coverage Check:** The interest on all facilities (Class I, Class II and Class III) should be covered by Client’s Net Income or Net AUM when Net income is not sufficient. The check should be performed by Credit officer and the interest rate is currently prescribed at 6.5% (8.5% for UK/Jersey booking centers) for the purpose of this check. Any deviation should be approved by SCO/CCO for the location. CUPID will be the source for Interest Income.

2.6 Principal Credit Officer: In cases where there are Group Limits spread across multiple locations, a Principal Credit Officer should be designated for this entire relationship. The Principal Credit Officer will need to be from one of the booking locations. Such Principal Credit Officer will be responsible for taking an overall view of the limits and relationship across the multiple booking locations, inter-locational issues with respect to lending and control/monitoring of any covenants for the group as a whole (i.e., not facility specific). Each of the BCAs with multiple booking across location for a single client group in PvB will include who the Principal Credit Officer for that client group is and such Principal Credit Officer shall also include comment on the aggregate facilities, inter-locational issues, and control/monitoring of overall group covenants (if applicable). This does not apply to automated credit approvals. The Principal Credit Officer concurrence is not applicable for BCAs covering only UAE committed Class III transactions, where the Bank has a regulatory obligation to renew the facility.

2.7 Other Requirements

All BCAs are subject to further thresholds / criteria as defined in 'Annexure7- Client Level Exceptions' and 'Annexure8 – Portfolio Level Thresholds'. These include specific criteria for Class I, Class II and Class III Lending, the Group Defined Risk Appetite thresholds, cap on certain types of facilities, amongst others and exceptional approval authority for the same.

All credit approvals are valid for a period of 90 days from BCA approval date. If acceptance of facilities is not received from the client within 90 days of BCA approval, then the approver will be required to decide whether to extend the validity of the Credit approval. They can seek additional client information, if required.

All BCAs, including amendments thereafter must be approved by the appropriate Approver. In cases, where the Client is classified as vulnerable or exhibits one or more vulnerable client characteristics, Credit Officers can exercise discretion to not extend lending to such Clients and/or impose specific restrictions, including limiting lending to Class I.

3. LARGE EXPOSURE AGGREGATION

3.1 All limits to related parties or entities that form part of a group must be aggregated and grouped for credit approval and reporting purposes in accordance with the Large Exposure Policy, where aggregated Pvb Limits exceeds USD 50M. Any dispensation to the aggregation rules must be approved by the CRO, WRB and will be reported to GCRO and GH-ERM on a quarterly basis. An entity is deemed to be part of a Client Group if it meets any of the criteria set out in the Group Large Exposure Standard
Following CIFs within PvB should also be aggregated.

- Connected by the close relationship e.g., spouse, parent or children between the CIF's, if there is a common decision maker between them or having same source of income
- In the case of clients who have both a personal account and a trust, these two CIFs should be grouped together.
- When CIFs are connected by cross pledge or by a common guarantor.
- There is a common beneficial ownership between the accounts. If two or more CIFs have the same beneficial owner, they should be grouped together and be considered as a single client.E.g., Client has both personal account and joint account with another party.

It is the primary responsibility of the RM to ensure that above aggregation is performed while raising the BCA. The criteria mentioned above are covered in the questionnaire (Annexure5 PvB LE Aggregation Checklist) which should be completed along with the PvB BCAs. Based on the response to these questions and other information provided by the Relationship managers, the PvB Credit Officers shall assess for connected parties and identify the potential CIB clients with which the PvB client exposure may need to be aggregated.

It is to be noted that securities which form more than 50% of clients net worth should be included for checking for large exposure aggregation due to the economic dependence

Once the potential connected CIB clients are identified, the process of checking related CIB exposure to these clients can be found here.

Where Independent enhanced due diligence report is available, the same will also be reviewed by RM/Lending Solutions Team ("LST") and credit approver to determine if we have information about client businesses. The same should be discussed with clients to understand their ownerships/ directorships to meet the above policy requirements.

4. CONCENTRATION RISK

4.1 Client level concentration risk

- All Class I facilities must preferably be secured by a diversified portfolio of collateral in order to prevent over reliance on a security.
- At the borrower's level, the concentration risk policy will not apply to clients with a lending value of less than or equal to USD500k. For clients with lending value greater than USD500k, the lending value of any single security (including bond/equity short put options) should not exceed USD500k or 34% of the total collateral lending value of the client, whichever is higher. However, the 34% cap will not apply to those securities that are deemed to be diversified or exempt from concentration check.
- In case a client, who originally has an exposure less than USD500k, collateralised by a single security, brings in additional collateral (different from the original collateral and hence diversifying the portfolio) and increases total exposure to above USD500k, this will not be treated as a Client level concentration and will not require credit approval for concentration risk, as long as the exposure under any single counter is less than USD500k.
- Details of collateral exempt from concentration risk are provided in Annexure2(LTVsfor lending against acceptable collateral in Private Banking)
- Lending value against all hedge funds should not exceed 50% of the total Collateral Lending Value at the client level. While the Lending Value against individual hedge fund securities should not exceed more than 15% of the total Collateral Lending Value at the client level.
- Lending against China Connect securities is subject to the following concentration limits:

  Each Connect Security LV ≤ 34% of total portfolio LV.
  Total Connect Securities LV ≤ 34% of total portfolio LV.

- All RMs should ensure that client transactions meet concentration risk requirements before transactions are processed.
- Clients in breach of the concentration risk requirement shall be reported to the SCO for the location on a monthly basis for their approval. This approval will be based on either an acceptance of the concentration for a period or an action plan provided by the RM which must include a time frame within which the account will no longer be in a concentrated position. Records of this approval need to be kept on file and should be monitored monthly to ensure that action plans / time frames are adhered to. (For locations which have the system capability, the waiver time frame and the non-trimmed LTV is input into the system and hence no separate monthly reporting is needed)
- A credit officer has the discretion to request a top up or authorize a selldown if concentration risk limits are not met. **Annexure 3** (Concentration Risk calculation examples) provides examples of how concentration risk is calculated.

5. AUTOMATED CREDIT APPROVAL PROCESS

5.1 Automated approval of BCAs (Fast Track) is permitted based on the following qualifying criteria / parameters:

- Class I and IV limits (excluding OTC Plus FX Delta) only.
- Total limits not to exceed USD15M (Class 4 risk equivalent not to exceed USD 6M)
- Individual, joint accounts and PICs only
- Client residence in 'Grow' countries (defined by PvB strategy) o No policy exceptions.
- No staff, PEP or hold-mail accounts are eligible.
- Borrowing account to have no pledgors.
- No guarantors for individual or joint accounts (PIC accounts need a personal guarantee)
- Tenor of loans is max 1 year and interest accrual period is max semi annual.
- Limit to Net Worth requirements as per Section 2 are met.
- For clients with OTC Plus notional limit CIQ to be 5 or higher

5.2 The following are not eligible for automated credit approval as they warrant a more detailed assessment and analysis by the credit officer in terms of the account structure, beneficial ownership, and pledge relationship between the group members:

- Trusts
- Operating companies
- Promoter financing
- Real Estate lending requests
- Premium Financing for Life Insurance

Validation checks for these criteria will be automatically done in the BCA approval system based on a combination of data sourced from other PvB systems (T-24 / CUPID) and RM input.

5.3 The Relationship Manager would need to provide declarations covering the following areas:

- Solvency of the client
- BCA not previously declined by Credit.
- Reiteration that there are no pledges from/to the BCA in question.
- Borrower is not a vulnerable client and has full capacity to act
- All accounts have been appropriately grouped.
- Collateral pool does not include shares that would warrant a facility to be designated as Class II
- Confirmation that collateral pool is diversified.

5.4 In case of lending to PICs, since a personal guarantee (PG) is required from beneficial owners of a PIC, there is a system check included to ensure that a PG is included from all beneficial owners and there is no change in the domicile of the PIC. This would also be supplemented by RM declarations to confirm that:

- The company does not have any operating activities; and
- There is no change in the shareholders, beneficial owner or borrower incorporation.
- Once all the qualifying criteria and RM declaration pass the required system checks then the BCA would be auto approved by the system. If not, the BCA would be routed to a credit officer for assessment (per current procedures)

5.5 Controls**:**

- A sample of the cases approved under the automated process will be tested by credit officers on a monthly basis. 100% check of fast-track report by Credit officer (i.e. columns to be checked to ensure they are populated as per fast track approved parameters). In addition, a 10% sample check (each for PICs and Non-PICs separately) is to be done to match the fast-track approvals with the BCA, eg: diversified portfolio, PEP status etc.
- For PICs: checks to include change in BO's and shareholders based on information sourced into PBeCR.
- oo The RM declaration questions will appear in random order so that the responses are not filled in by rote.
- Any inaccurate declarations by the RM that come to light will be dealt with in accordance with Fair Accountability principles as set out in the **Group Disciplinary Standard.**

6. POLICY EXCEPTIONS

6.1 Credit policy exception matrix can be found in Annexure1.

7. TEMPORARY DRAFT

7.1 Temporary OD needs to be given for a specific period keeping in mind the source of funds for repayment. However, temporary overdrafts should be for less than 14 days. Tenors in excess of this need approval of the Global Head of Wealth Lending.

8. CREDIT AUTHORITY DELEGATION AND OVERSIGHT

The principles and the extent of Credit authority delegation should comply with the WRB Credit Risk Type Framework (Find link here Credit WRB Credit Risk Type Framework) and the authority matrix covered in Section 4

- All delegations are deemed to expire three (3) years following the date of issue, unless an earlier expiry time has been set or unless formally reviewed by the delegator.
- Such credit authorities are based on aggregated limits per section 3 above.
- Credit authorities for an individual can only be set-up in the system once the authority letter has been signed by recipient and acknowledged copy has been provided to Portfolio Management Group, Private Banking & WM Risk (PMG).
- Where the original delegator is away or on leave, the delegator can directly set-up (or request to set-up) the temporary limit delegations on the system.
- Any delegations to individuals outside PvB Credit Risk should be restricted to shared resources covering PvB credit in centers where we do not have dedicated PvB Credit Risk Staff. In such instances, SCO for the respective location is authorized for issuing the letters and is also responsible for the oversight as stated in this document.
- Delegators are responsible for updating the records when delegating credit authority and when suspending / removing credit authority (e.g., when authority holder leaves the approver position and the authority is no longer required).
- Portfolio Management Group (PMG) maintains a record of all the delegated authorities in PvB Credit Risk.
- Temporary Delegations – All approval decisions made by the recipient of the temporary delegation of credit risk authority should be reviewed by delegator within one month upon their return and record of the same to be maintained by the delegator.

- Delegator should perform monthly oversight on the BCAs approved by their delegate based on the following parameters. The oversight should focus on level of information in the BCA / Loan Application, quality of risk assessment; adherence to underwriting standards and Group policies and compliance to DOA. The format of BCA oversight form can be found here. The same is also available in the system.
    - 1 BCA per approver subject to a maximum of 5 BCAs per month
    - The system selects the sample taking into consideration following risk parameters:
    - NTB Class II limits, NTB Class III limits, NTB BCAs and ETB - Limit Increases
    - Oversight should be completed within a month following the month under review.

9. CREDIT DOCUMENTATION

- Group Contracts Policy and Credit Risk Mitigants Legal Documentation Procedure is to be followed for all client documentation.
- A documentation package approved by Legal is required to be executed for all facilities.
- Any alterations to standard documentation must be approved in writing by Legal and the Credit Officer (as per delegation in Annexure1Credit Policy Exception Matrix and otherspecific approvals). RMs do not have authority to revise, delete or change the document in any way. All non-standard documentation prepared by external counsel must be reviewed and approved by Legal.
- Documentation Deferral: Exceptional approval for deferral of documentation is stipulated in Annexure1– Credit Policy Exception Matrix and other specific approvals.

10. LIMIT REVIEW PROCESS

10.1 All BCAs must contain a review date and be subject to regular review. BCAs shall be reviewed at the frequency determined by class and size of the facility, as mentioned below:

Class	Size of Group Facility	Exceptions	Frequency of review
I	Less than or equal to USD5 Million	No Policy exceptions	2 years
I	Less than or equal to USD5 Million	With Policy exceptions	1 year
I	Greater than USD5 Million	All	1 year
II, III, IV	All	All	1 year

- If the BCA is overdue for review by more than 60 days, then it requires approval from Global Head of Wealth Lending and where it’s overdue by more than 90 days then approval from CRO, WRB is required. An email approval is sufficient i.e. the BCAs can still be approved as per delegated authority
- Material changes in economic/market conditions may result in more frequent review as deemed appropriate by the Credit Officer.
- At the time of renewal of BCAs, applications must contain commentary on status of collateral shortfalls (if any), delinquency history, historical conduct on meeting margin calls (if any) and any other problems/issues that have arisen since last approval.

- Before approving the renewal, credit reviewer should ensure that the respective borrower has not been classified as "Early Alert". If yes, the action plan from Early Alert Committee should be observed before approving the renewal.
- Where a credit proposal has been approved by CRO, WRB or higher, minor amendments which do not materially impact the risk profile of the proposal, may be approved by the Global Head of Wealth Lending (or higher), based on the materiality of the amendments sought.
- Extensions beyond the original expiry date of BCA may be permitted on an exception basis when requests are accompanied by a clear and valid reason, with specific credit approval as per the Annexure 1 (Credit Policy Exception Matrix and other specific approvals).
- The maximum number of Extensions and Overdue BCAs for any country should not exceed 5 BCAs or 5% of the total number of BCAs in a country (whichever is higher) at any point of time. This is tracked through a KCI. Any breach of this threshold is to be reported to the CRO, CB and PvB with a clear explanation and proposed remedial action.
- BCAs can be renewed at an authority level one step less senior than the one originally required at the time of renewal by following the below guidelines:
  - For the purposes of this provision the credit authorities' order of seniority from most senior to least senior is: GCRO > CRO WRB > Global Head WML Risk > Senior Credit Officer (SCO) > Senior Credit Manager (SCM) > Credit Manager (CM)
  - Renewals cannot be further sub-delegated beyond the 1 one-step less senior authority level originally required at the time of renewal.
  - Total Credit Limit is the same or lower than the currently approved limit.
  - Class II BCA renewal is in scope as long as the approving authority at renewal is Senior Credit Officer or higher.
  - Credit terms and conditions are the same or tighter than the currently approved.
  - Account is in good standing, not in shortfall, not under monitoring and not on Early Alert or watch list.
  - No material weakening of client's financial position.
  - The above is to be declared by approving credit officer either via dedicated system functionality or explicitly as credit commentary on the BCA.

11. Version Control Table

Details of the latest change should be provided here. The full version history is included in the appendix.

Document Author Name	Changes made	Materiality	Approved by	Version number	Approval Date	Effective Date
Ankit Sanklecha	Simplification and consolidation of the existing procedure	Material	Siva Venkateswaran	1.0		
Varsha Singh	Introduced an Interest Coverage Check	Non-Material	Siva Venkateswaran	1.1		
Hiren Kapadia	Ownership & Contact Name Change	Non-Material	Siva Venkateswaran	1.2		

Ivanov Angel	Inclusions made to section on large exposure aggregation, Limit Increased for Automated Credit Approvals & Amended Concentration risk requirements for Hedge Funds	Material	Xiaomin Rong	2		
Ivanov Angel	1. Changes made to 1. Annexures 1,2,7&8 2. Interest rate applied to interest rate coverage checks changes to UK & Jersey	Non-Material	Xiaomin Rong	2.1		
Ivanov Angel	Inclusion made specifying Credit officers can consider additional restrictions for clients marked as vulnerable or exhibiting at least one vulnerable characteristic. Changes made to Interest rate used for Interest rate coverage check and Class III affordability assessment to 8.5% in Jersey and 6.5% elsewhere Inclusion made for SCO to waive the requirement for bureau check for Class II cases with Cash-out on a case-by-case basis Aligned next renewal date as per the minimum frequency (3 years) for mandatory review of standards as defined in Framework & Policy Governance Standards (FPGS).	Non-Material	Xiaomin Rong	2.2		

Ivanov Angel	• Added necessary changes to allow cases to be approved at renewal at a seniority level one step lower than originally required. The option will be applicable for cases (p10) // already approved by yourself and GCRO on separate correspondence, adding for completeness //: o With no increase in total credit limit o Class II cases in scope, if the lower approving authority is SCO or higher o No deterioration in the client's financial position o No loosening in credit terms and credit conditions o Accounts in good standing, not in shortfall, not on EA, not on watchlist o No further sub delegation beyond the one step less senior approval relative to originally required authority level Until system functionality is delivered in practice the above can only be applied for BCAs requiring approval at CRO CPBB or GCRO level as there is an existing override functionality available to your role. At lower levels the system will now allow for cases to be approved at lower seniority at renewal, even if all criteria are met	Material	Xiaomin Rong	3	09th May 2024	27th May 2024

	• Requirement for PCO concurrence not to be applicable for the renewal of BCAs covering exclusively a committed Class III facility in UAE, which cannot be cancelled as per local regulation. (p. 3) • Changed parameters for automated credit approval (Fasttrack) – Maximum total credit limit increased to USD 15m, Class IV risk equivalent limit increased to USD 6m (p.6)					