Credit Grading Policy

Version No	1.1
Document Type	Policy
Parent Document	Enterprise Risk Management Framework
Parent Framework	Credit CIB
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Document Approver Job Title	Head, Policy and Process, CIB, CB & PvB
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Document Contact Job Title	Senior Manager, Credit Policy and Process; Senior Manager, Credit Policy and Process
Business Scope	CIB
Function Role	All Functions
Geography Scope	GLOBAL
Approval Date	26/03/2025
Effective Date	01/05/2025
Next Review Date	26/03/2027

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Name	Changes made	Materiality	Approved by	Version number	Approval Date	Effective Date
Simbai Chifeya	Migration to Inline format- Non Material Change(No change to document content)	Non-Material	Swee Lee Christina Khoo	1.1	26/03/2025	01/05/2025

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

1. PURPOSE AND SCOPE

1.1 The scope of this policy sets out the principles and rules governing credit grading, the use of scorecards and adjustments for deriving internal **Credit Grades** (CG) of borrowing clients as part of the **Business Credit Application** (BCA) / **Group Mandate** (GM) for the **Corporate and Investment Banking** (CIB) segment.

1.2 The credit grading process measures credit risk and differentiates individual credits and groups of credits by the risk they pose. It promotes consistency in approach across credit assessments of the different borrowers.

1.3 Additionally, the credit grading process enables the bank's management to monitor changes and trends in risk levels, allowing them to manage risk effectively and optimise returns. Credit grading is a critical component of the credit process, and the CG is one of the measures used to determine the level of Risk Appetite, the Credit Approving Authority, Pricing and Risk Weighted Assets (RWA)/ Capital.

1.4 A Credit Grade is a risk category within the bank's internal borrower rating scale under which borrowers are assigned alphanumeric grades which run from 1 to 14 with all the grades being further sub-classified into classes of risk for each grade.

1.5 Credit Grades are derived by using scorecards, which comprise of financial quantitative and qualitative factors. These factors are selected and calibrated within the credit grading system predict the probability of default. Within the scorecard setup, adjustments (as outlined in section 2.6) may be made to ensure a more accurate reflection of an obligor's credit worthiness. The larger the numerical value of the CG, the higher the probability of default.

1.6 The Credit Grade scale is applied for Corporates, Banks and Non-Banking Financial Institutions through their respective scorecards. The CGs have two main classifications that cover performing borrowers and non-performing borrowers:

- Performing borrowers : CG1 – 12
- Non-Performing or Defaulted borrowers: CG13 – 14

1.7 This Policy is mapped to the CIB Credit Risk Type Framework and should be read in conjunction with the interconnected and underlying standards listed in Sections 7 and 8.

1.8 The scope of the Policy includes all credit exposures of CIB clients.

2. MANDATORY POLICY STATEMENTS

Credit Grading and use of scorecards

2.1 All CIB clients against which SCB has or intends to have a credit exposure ('borrowing client') must have a CG. The CG must be derived by using the appropriate scorecard[1] for the client type.

Ref: EBA/GL/2020/06 – Paragraph 128d

2.2 Any exceptions and deviations to the use of scorecards need to be justified and approved in accordance with the *Credit Grading Standard*.

2.3 When completing the scorecard, the latest audited financials (where available) should be used to derive the CG during onboarding and as part of the annual BCA/ GM review cycle.

2.4 Non-financial factors make qualitative assessments of the creditworthiness of the obligor that are not already identified through financial factors. Non-financial factors must be answered conservatively,

[1] The process and guidelines for the CG selection, review and application of scorecards is outlined in the *Credit Grading Standard*.

accompanied by clear and concise justification as outlined in the *Management Adjustment to Scorecard Standard.*

2.5 All borrowing clients must have their CG reviewed on an ongoing basis and adjustment undertaken when new material adverse information becomes available, and within a maximum of 12 months after the last approval date of the CG, i.e., annually at minimum 1. If the CG is not reaffirmed within 60 days after 12 months of the last approval date, it must be downgraded with a revised scorecard.

Ref: EBA/GL/2017/16 – Paragraph 196b ; EBA/RTS/2016/03 – Article 25 (2(b))

Exceptions (overrides and caps)

2.6 The upgrade or downgrade of the baseline obligor CG is permissible when the scorecard derived CG does not adequately reflect the credit worthiness of the borrower due to considerations outside of the factors and mechanism of the scorecard. Such adjustments must be made in accordance with the *Credit Grading Standard* and the *Management Adjustment to Scorecard Standard*.

Ref: EB/RTS/2016/03 – Article 24(2(b))

2.7 In case of outdated financial statements, a conservative adjustment (downgrade) should be applied to the final CG as outlined in the *Credit Grading Standard*.

2.8 CG uplift adjustment via Parental Support should be recognised only when:

a) there is a Parent – Subsidiary relationship; or
b) the Parent, which effectively owns less than 50% of the Borrower, has management control of the borrower and there is Parent – Borrower financial consolidation.

Parental support is either contractual or non-contractual and may cover all risks or explicitly covers commercial risk only and not country/ political risks.

A subsidiary's scorecard whose CG has either been capped at the Parent's CG or uplifted based on parental support should be updated in a timely manner to reflect any changes to the Parent's CG.

The parental support framework should be applied in accordance with the *Parental Support Standard*.

2.9 Borrower CG ceiling capping:

a) Borrower's CG should be capped at the Sovereign Foreign Currency (FCY) rating of the Borrower's Country of Risk, unless all the limits are booked in local currency (LCY) and funded locally, in which case it will be subject to LCY rating. That FCY or LCY rating is taken as the Sovereign Ceiling or the Ceiling. The Sovereign Ceiling cap should be applied as a direct correlation generally exists between Sovereign crises and corporate defaults and historically, it has been difficult for companies and institutions to avoid default once the sovereign of their jurisdiction has defaulted. The Sovereign Ceiling must be applied in accordance with the *Sovereign Grade for Scorecards Standard*.

b) A subsidiary will be capped at the Parent's CG when its standalone CG is better than the CG of its immediate Parent as historically it has been difficult for a subsidiary to avoid default once the parent entity has defaulted. The underlying assumption is that the stress that causes a Parent entity to default is unlikely to leave its subsidiary unaffected. The capping of the subsidiary at the Parental CG must be applied in accordance with the *Credit Grading Standard*.

3. RESPONSIBLE ROLES FOR IMPLEMENTING THE MANDATORY POLICY STATEMENTS

3.1 First Line of Defence (1LoD)

- **Global Account Manager** (GAM)/ **Field Account Manager** (FAM)/ Client Coverage **Relationship Manager** (RM)/ **Credit Analyst** (CA) is responsible for the execution of the mandatory policy statements (Section 2) in ensuring correct usage of the scorecards and regular reviews to ensure CGs are accurate and up to date.
- Model Development team is responsible for the maintenance of the scorecards (IRB and IFRS9 models) which includes monitoring, and review.

3.2 Second Line of Defence (2LoD)

- **Credit Officer** (CO) with the relevant delegated approval authority is responsible for the execution of the mandatory policy statements (Section 2) through oversight done through the challenges (if necessary) and review of the usage of the scorecards completed by 1LoD to ensure accuracy of the derived CG.
- **Group Model Validation** (GMV) is responsible for annual validation for scorecards (IRB and IFRS9 models).

4. POLICY RELATED AUTHORITIES

4.1 Any material dispensation to the Policy and underlying Standards requires approval from Head,Policy and Process, CIB.

5. CONNECTED PROCESSES AND ACTIVITIES

5.1 The following key processes as per the Group Process Universe are impacted by the above policy requirements:

a) Client Coverage | Credit Origination, Renewal and Monitoring | Regulatory Adherence – BCA Preparation Review, Extension, Credit Grading and Financial Analysis | Updated financials for credit grading
b) Client Coverage | Credit Origination, Renewal and Monitoring | Regulatory Adherence – BCA Preparation Review, Extension, Credit Grading and Financial Analysis | Annual Credit Grading
c) Client Coverage | Credit Origination, Renewal and Monitoring | Regulatory Adherence – BCA Preparation Review, Extension, Credit Grading and Financial Analysis | Scorecard selection
d) Client Coverage | Credit Origination, Renewal and Monitoring | Regulatory Adherence – BCA Preparation Review, Extension, Credit Grading and Financial Analysis | Credit Grade override
e) Client Coverage | Credit Origination, Renewal and Monitoring | Regulatory Adherence – BCA Preparation Review, Extension, Credit Grading and Financial Analysis | Subsidiary Credit Grade update
f) Credit Risk | Credit Approval - Credit |Credit Approval – Credit Authority Review| Monthly BCA Oversight
g) Credit Risk | Monitoring (including Collateral) - Credit |Credit Monitoring – BCA Renewals and Extensions| Approval of BCA renewal request

6. POLICY EFFECTIVENESS REVIEW

Head Policy and Process, CIB will monitor effectiveness of this policy in line with the requirements set in the Effectiveness Review Standard, including through:

- Control monitoring results, including review results of **Control Sample Tests** (CSTs), **Key Control Indicators** (KCIs), residual risk assessments and any applicable risk acceptances or root cause reviews for the processes connected to this policy.

7. INTERCONNECTED POLICIES AND STANDARDS

Table 1 – Interconnected Policies

Policy Name	Parent RTF	Policy Owner	Area of connection
CIB Credit Policy	CIB Credit	Head, Policy, CIB	The CIB Credit Policy establishes the principle that all borrowers, co-borrowers and guarantors must have a Credit Grade using the appropriate scorecard for the client type as outlined in the Credit Grading Policy.

Table 2 – Interconnected Standards

Standard Name	Parent RTF	Standard Owner	Area of connection
Credit Application Process Guide Standard (CAPGS)	Credit	Head, Policy, CIB	The CAPGS provides the guidelines for the end-to-end process of preparing a credit application for credit approval which includes the credit grading process of obligors in accordance with the Credit Grading Policy.
Group Model Family Standards: CIB Credit Risk IRB Models & Credit Risk Scorecards Standard	Model	• Head, CIB Model Development, CPM • Head, WRB Risk Analytics • Head of Group Model Validation, Banking Book	The standard establishes the need for the application of a Margin of Conservatism (MoC) to reflect any uncertainties in the accuracy of IRB Models (scorecards). These uncertainties may be caused by underlying issues with data quality among others. The Credit Grading Process aligns with this by including the application of a MoC within the scorecard to ensure a conservative and accurate assessment of obligors and guarantors.

8. STANDARDS MAPPED TO THIS POLICY

Standard Name	Parent RTF	Standard Owner	Standard Approver
Credit Grading Standards	CIB Credit	Head, Policy, CIB	Head, Policy & Process, CIB
Parental Support Standard	CIB Credit	Head, Policy, CIB	Head, Policy & Process, CIB
Management Adjustment to Scorecard Standard	CIB Credit	Head, Policy, CIB	Head, Policy & Process, CIB
Sovereign Grade for Scorecards Standard	CIB Credit	Head, Policy, CIB	Head, Policy & Process, CIB

9. Version Control Table

Document Author	Changes made	Materiality	Approved by	Version number	Approval Date	Effective Date
Simbai Chifeya / Jason Ma	New Policy	Material	Christina Khoo	1.0	26 Mar 2025	1 May 2025