

Annexure-I

SCOPE OF WORK FOR ECL TOOL

1. BACKGROUND & OUR UNDERSTANDING OF YOUR REQUIREMENTS

The Bank is looking to implement Expected Credit Losses (ECL) in compliance with IFRS 9 requirements to incorporate best industry practices e.g. incorporating forward looking macro-economic adjustment, appropriate assignment of 12m and lifetime PDs.

2. SCOPE OF SERVICES

The scope of services for this engagement would be delivered in the following modules:

- ▶ **Module 1:** Data requirements and Gap Assessment
- ▶ **Module 2:** Development of Risk Models (PD, LGD, EAD)
- ▶ **Module 3:** Preparation of IFRS9 Impairment calculation policy
- ▶ **Module 4:** Development of ECL Calculation Framework
- ▶ **Module 5:** Support in User Acceptance Testing & deployment to production environment

2.1 Module 1 – Data requirements and Gap Assessment

Key Activities to be performed by the Firm

As part of this module, the firm need to perform the following key activities:

- ▶ Assessment the existing data specs required for ECL calculations
- ▶ Walkthrough sessions to understand the existing source systems and data flow
- ▶ Review the availability and appropriateness of data available
- ▶ Prepare Gap Assessment Report / Data Dictionary

Deliverables

- ▶ Gap Assessment Report

2.2 Module 2 – Development of Risk Models (PD, LGD, EAD)

Key Activities to be performed by the Firm

As part of this module, the firm would perform the following key activities:

- ▶ Develop the Risk Models, including the forward-looking adjustments /macro-economic adjustments, required for ECL computations:
 - Probability of Default
 - Loss Given Default
 - Exposure Given Default

Deliverables

- ▶ Development of PD, LGD and EAD models, including forward looking adjustment on the Bank's ECL methodology based on the agreed parameters
- ▶ Model Documentation
- ▶ Templates with model methodologies

2.3 Module 3 – Preparation of IFRS9 Impairment calculation policy

Key Activities to be performed by the Firm

As part of this module, the firm would perform the following key activities:

- ▶ Prepare the ECL calculation policy document (charting out all the assumptions and limitations), covering but not limited to the following areas:
 - Definition of Default
 - Cross Default criteria
 - Significant Increase in Credit Risk (“SICR”)
 - Modified Loans
 - Low Credit Risk Expedient
 - SICR considerations
 - Amortized EAD schedule
 - Discounting
 - Multiple Macro-Economic Scenarios

Deliverables

- ▶ ECL Calculation Policy Document

2.4 Module 4 – Development of the ECL Calculation Framework

Key Activities to be performed by the Firm

As part of this module, the firm would perform the following key activities:

Sr.No.	Module	Key Functionalities
1.	Data Sourcing/Management & ECL Parameterisation	<p><u>Data Validation & Rectification</u> User configurable data validation rules, ability to view validation results and modify results through the user interface</p> <p><u>Portfolio Parametrisation</u> User configurable portfolio definitions and ability to modify staging rules through the user interface linked with the data model</p> <p><u>ECL Parametrisation</u> Ability to define ECL parameters like default definition, scenario weights and backward transition rules through the UI providing business lot of flexibility</p>
2.	Model Management	<p><u>Model Configuration</u> Configuration capabilities for loss rate, PD & LGD models under simplified approach</p>
3.	ECL Calculations	<p><u>ECL Run Execution</u> Functionality to run each task i.e. PD Assignment, LGD Assignment, EAD Calculation and ECL Calculation across agreed segments providing flexible task management and ability to view stepwise outputs</p> <p><u>Approval Workflow</u> Workflow functionality for senior management to view and review the ECL numbers at an account/portfolio level prior to finalisation through approval</p>

Deliverables

- ▶ ECL Tool incorporating Model Calculation and the functionalities outlined above

2.5 Module 5 – Support in User Acceptance Testing & deployment to production environment

As part of this module, the firm would perform the following key activities:

- ▶ Develop test cases and UAT plan based on the developed solution functionalities with the expected outputs/results
- ▶ Support the IFSCBU team in the conduct of the UAT through walkthrough sessions (up to 2 sessions)
- ▶ The firm would remediate the issues identified during the UAT on the solution related aspects
- ▶ The firm would support the Bank in deployment of the ECL tool in production

Deliverables

- ▶ Test cases and UAT Plan

3. SCOPE ASSUMPTIONS

- ▶ Customised reports or dashboards will be discussed with IFSCBU and agreed up to 10 dashboards
- ▶ UAT will be performed by the Bank team with support from the firm's team
- ▶ Activities will be performed remotely in case if travel restrictions exist due to CoVID-19 at the time of kick off or testing.
- ▶ At the end of implementation, the Bank's team would be expected to take over the management of the solution. However, the firm may provide options of AMC for maintaining the solution.
- ▶ The implementation would be on-premises which can be accessed by the central team. Any cloud-based deployment requiring accesses across legal entities would have to be covered as additional scope.