

[Sender Name/Department]

[Sender Title]

[Organization Name]

[Date]

[Recipient Name]

[Recipient Title]

[Recipient Organization]

Subject: Advisory on Credit Risk Provisioning Strategy and Methodology

Dear [Recipient Name],

Following our recent review of the current credit portfolio and prevailing economic indicators, this letter outlines the recommended advisory strategy for credit risk provisioning for the upcoming fiscal period.

1. Methodology Alignment

We recommend a transition towards an Expected Credit Loss (ECL) framework that incorporates forward-looking macroeconomic variables (GDP growth, unemployment rates, and interest rate volatility) rather than relying solely on historical loss data.

2. Portfolio Segmentation

Provisioning should be differentiated based on risk buckets:

- **Stage 1:** 12-month ECL for performing assets.
- **Stage 2:** Lifetime ECL for assets with a significant increase in credit risk (SICR).
- **Stage 3:** Lifetime ECL for credit-impaired/defaulted assets.

3. Stress Testing and Sensitivity Analysis

The strategy includes quarterly stress tests to evaluate the adequacy of the Credit Loss Reserve under adverse market conditions. This ensures capital cushions remain robust against sudden portfolio deterioration.

4. Governance and Validation

All provisioning models must undergo independent validation to ensure compliance with IFRS 9 / CECL standards. Adjustments to qualitative overlays (Management Overlays) should be documented with clear evidentiary support.

5. Recommendation Summary

Based on the current analysis, we advise a [Percentage]% increase/decrease in general provisions

to align with the projected default probability (PD) and loss given default (LGD) metrics of the [Specific Sector] sector.

We are available to discuss the technical implementation of these strategies at your earliest convenience.

Sincerely,

[Signature]

[Sender Name]