



Stress Testing in Capital Planning

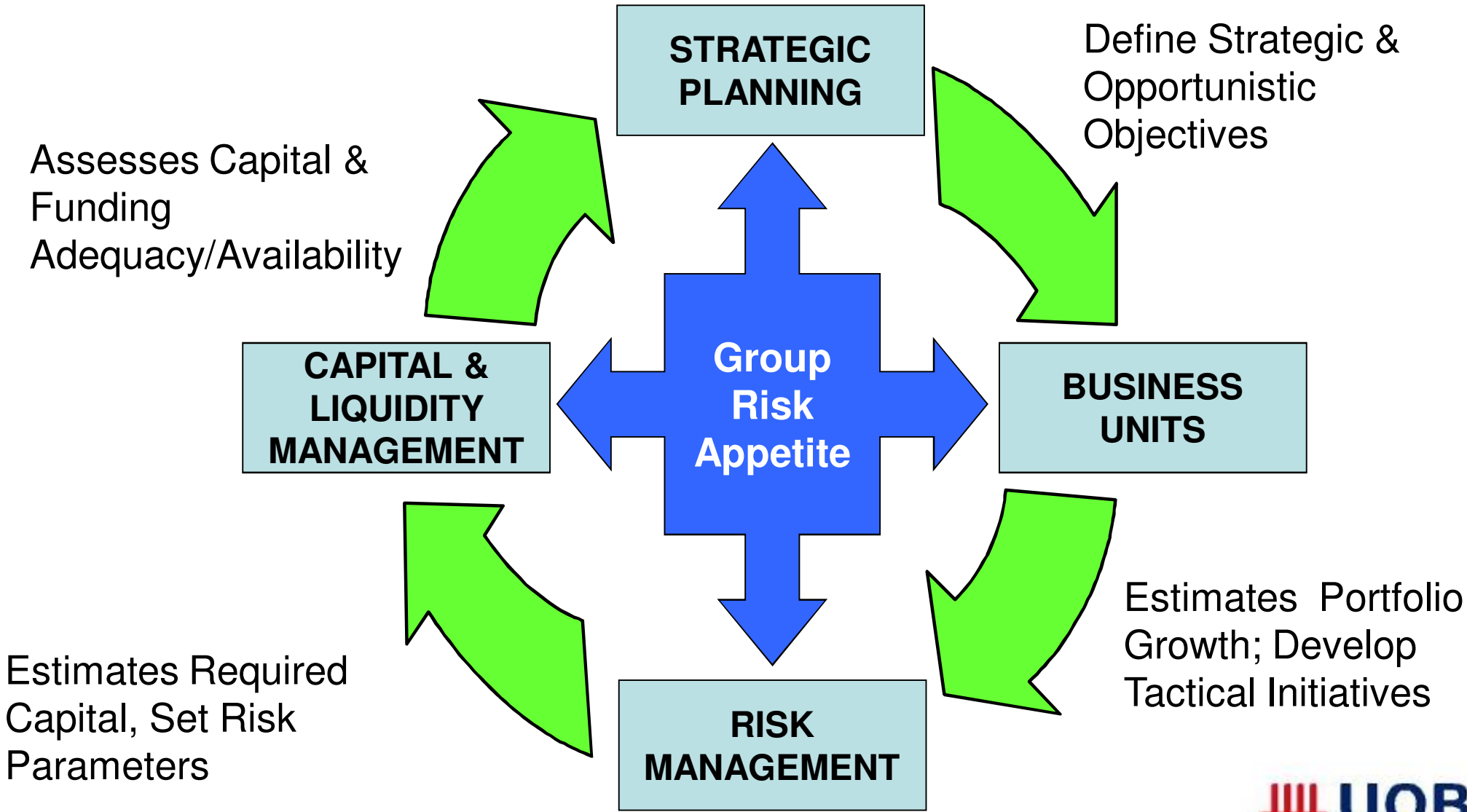
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- Understanding Stress Tests and Scenario Analyses
- Capital Planning
- Stress Testing Process
- Making Stress Tests Relevant
- Contingency Planning
- Challenges
- Suggested Solutions



- Scenario analysis
 - Process of analysing **possible future events** or a series of actions by considering alternative possible outcomes (scenarios).
- Stress Testing
 - Process for determining the stability of a system by **pushing it to its limits**
- Designed to allow improved decision making by allowing consideration of outcomes and their implications

An iterative process



- Developing internal motivations
- Building the infrastructure
- Identifying and Collecting the relevant data
- Defining the risk factors
- Developing the models
- Collating the results
- Reassessing strategic and tactical plans
- Developing contingency plans

- Understanding Risk Appetite/Tolerance
 - Risk Taking Capacity
 - Capital Raising Capacity
- Identification of Material Risks
 - Business Risk
 - Strategic Risk
- Balancing Income Sources
 - Interest Income
 - Fee Income
- Determining Risk Mitigation Thresholds
 - Developing Early Warning Indicators
 - Identifying Mitigation Strategies

- Stress Test Dimensions

- Risk Type
- Business Line
- Geography
- Strategy
- Seamlessness

- Stress Test Outputs

- Funding needs
- Capital requirements
- Break Points
- Reputation
- Model Stability

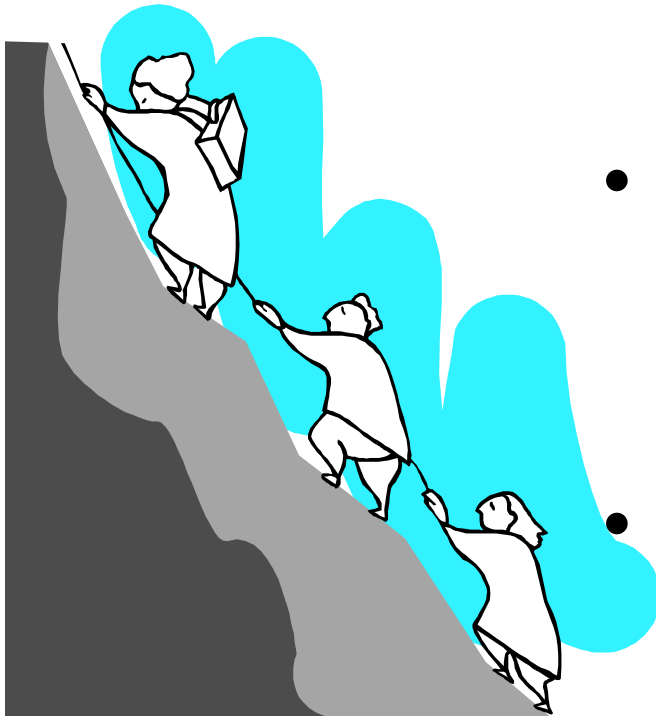


- **Demonstrating Value**
 - Going Beyond Static Reporting
 - Forward Looking
 - Optimising the Risk-reward Balance
- **Develop Actionable Plans**
 - Portfolio Rebalancing
 - Contingency Funding
 - Contingency Capital



- Multi Level Action Plans
 - Increasing levels of severity
 - Early Warning Indicators
- Crisis Management Manual
 - Clearly defined roles and responsibilities
 - Liquidation Procedures
- Communication
 - Internal
 - External





- Infrastructure
 - Data
 - Technology
- Model
 - Development
 - Validation
- External
 - Regulatory
 - Investors
- Internal
 - Business Buy-in
 - Demonstrating Value



- Develop deep understanding business model in relation to operating environment
 - Business Trends
 - Environmental trends
- Broaden involvement across the organisation
 - Strategic Planning
 - Business Units
 - Economists
 - Capital Management
- Broaden industry engagement
 - Regulators
 - Competitors
 - Academia
 - Solution Providers
- Demonstrate Business Value

Do the right thing. You will gratify some and
astonish the rest.

Mark Twain