



Stress Testing

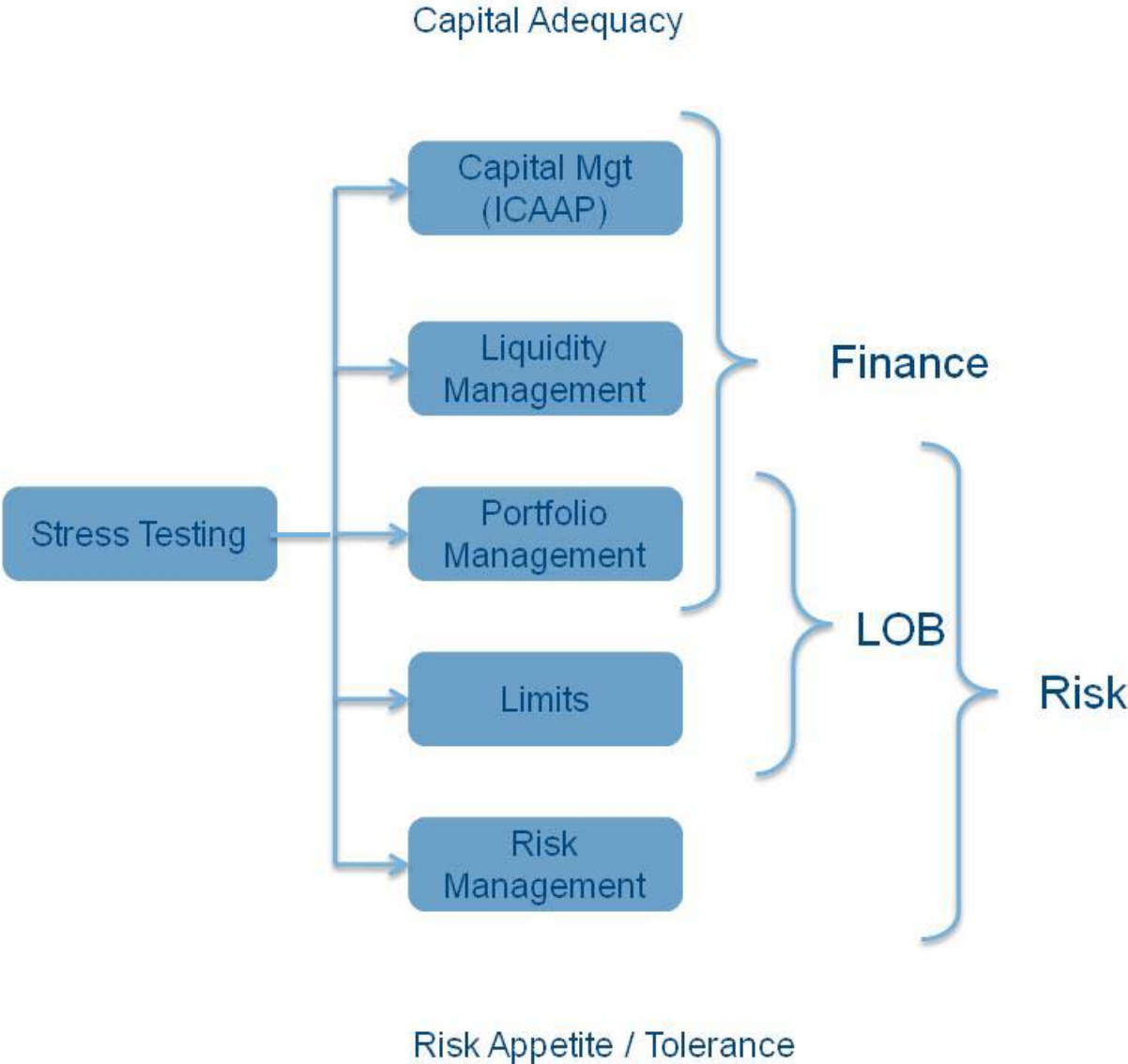
An Integrating Approach to an Enterprise-Wide Stress Testing Program

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The information contained herein represent the views of the presenter and do not necessarily represent the views of SunTrust Inc.

- Stress Testing and the Role of Forecasting
- Two Step Approach to Enterprise-Wide Stress Testing
- Implementation at SunTrust

Stress Testing



- Forward Capital Adequacy is a Function of 3 Things
 - Expected Net Losses
 - Accounting Net Charge-offs
 - Not “EL”
 - Not Economic Capital
 - Pre-Provision Net Revenue (PPNR)
 - Change in ALLL
- Most Volatility is Generated From Loss Variability
 - Most banks will have majority of losses from credit losses
 - Most time and energy needs to be placed here
- PPNR Assumptions Need to be Aligned With Loss Scenario
- Change in ALLL Will be Pro-cyclical Under Current FASB
- Timeframe of at Least 2 Years
- Needs to be Coordinated Across all Areas

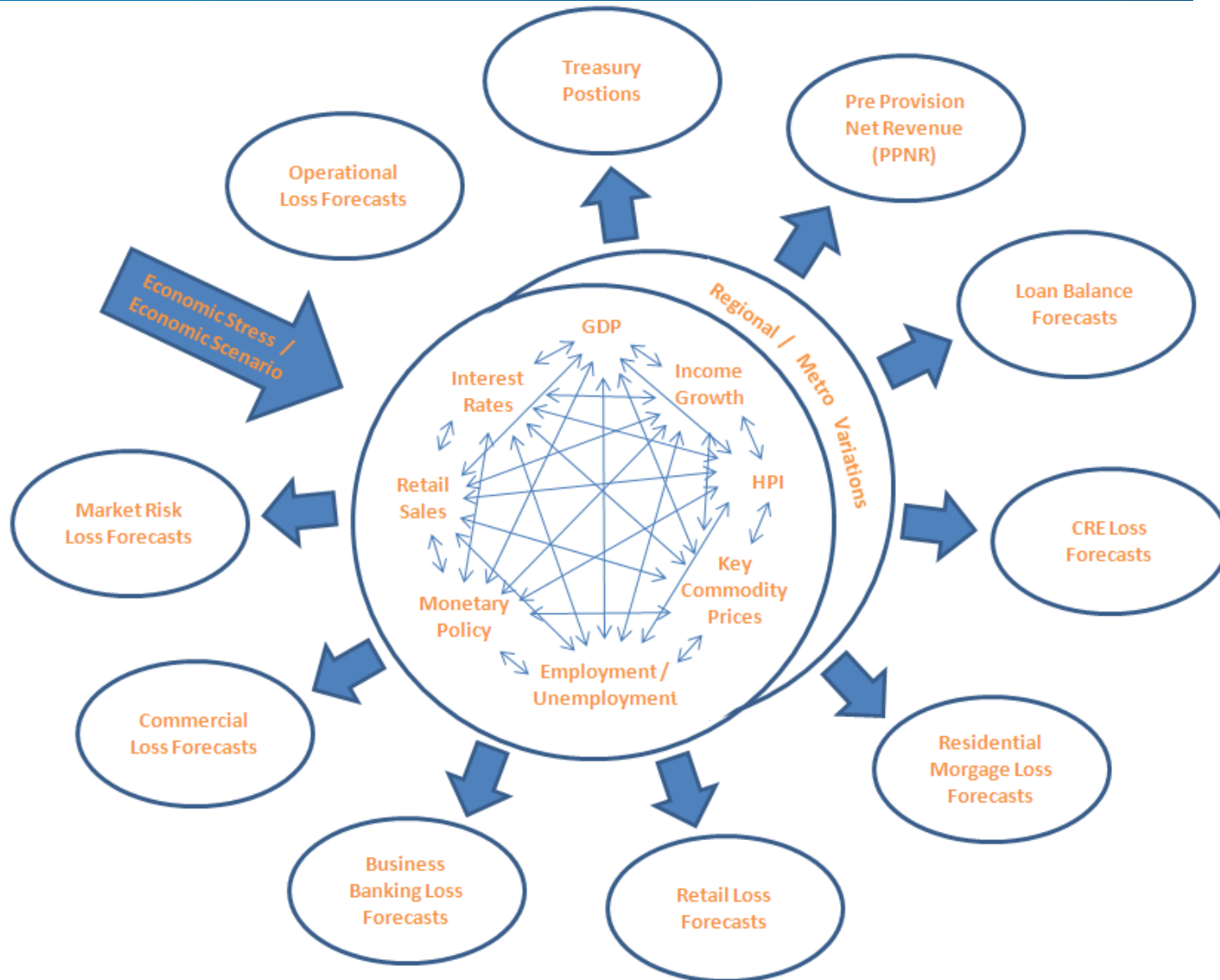
- Stress Testing Needs to Translate Into:
 - Tier 1 Common Equity
 - Tier 1 Common
- Accounting Losses Change Tier 1 and Common Equity
- Is There a Role for EC (or EL) in Stress Testing?
 - Since EC is a simulation of possible outcomes doesn't it already take into account various stresses in each scenario?
 - EC sensitivity analysis
- Personal View – No, Unless EC / EL Can Get Translated Into Accounting Measures

Enterprise-Wide Stress Testing

An Integrated Two Step Approach

- Create a Company-wide View of Macro-Economy
- Identify Economic Inputs Into all Models in the Process
 - Loss Models
 - Wholesale Credit
 - Retail Credit
 - Market Risk
 - PPNR Models
 - Balance Forecasts
 - Margin Forecasts
 - Expense Forecasts
 - Allowance Forecasting
- Incorporate Downstream Model Inputs into Macro-Economic Outputs
- Overlay Executive Management Review
 - Macro-economic Stress Forecasting
 - Down stream Model Forecasting Process
- Explicitly Incorporates Diversification and Concentrations

Visualization of Integrated Stress Test



Implementation at SunTrust

Phase	Annual Effort Estimates (in FTE days PER TEAM)															Annual Effort Est
	STWG	Core Team	Stress Test	Consumer Bank	Retail Credit Admin	CRE Credit Risk	Risk Analytics	Market Risk Mgmt	Ops Risk Mgmt	Credit SFO	Strategy SFO	Corp Fcsting	Capital Mgmt	ALM	Funding	
Scenario Definition	10	32	28	4	4	4	4	4	1	0	2	10	2	4	4	113
Scope Analysis & Parameter Development	5	101	112	31	13	31	31	47	9	0	17	85	0	27	13	519
Quantification & Qualitative Analysis	7	48	94	78	23	92	92	63	15	398	48	240	8	32	58	1294
Scenario Summaries	7	156	117	3	3	7	7	7	3	10	20	52	0	7	20	416
Executive Review & Discussion	21	42	30	0	0	0	0	0	0	0	0	0	3	0	3	99
Annual	50	379	380	116	43	133	133	120	28	408	87	387	13	69	97	2440
Execution w/ Project Management			80													2520
FTE-weeks	1.1	6	92	23	9	27	27	24	6	82	17	77	3	14	19	504

Total Year FTEs

1.8 0.6 0.5 0.5 3.5 0.7 10.1

Process Flow

