

Approach to PPNR

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■ Roles & Responsibilities

BOD

CEO, CFO, CRO

Stress Test Steering Committee



Corporate Treasury: Oversees, manages stress testing /CCAR processes

Corporate FP&A: For PPNR, provides overall guidance, templates, and central database to collect data, consolidates the data, and facilitates review and analysis

Businesses: Provide financial projections, detailed explanations of key drivers and rationale for various line items, and executive commentary

Governance Processes

Operational Processes

Focus of Today's Discussion

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■ Tools

- Balance sheet, net interest income forecasts based upon ALM models and processes (QRM implementation)
- Non-interest income and expense based upon:
 - ~41 “models” (some validated, some not)
 - Expert judgment where historical trends don’t exist / aren’t relevant
- Data gathered using existing forecasting and planning systems

■ Granularity

- Net interest income / balance sheet forecasts by 9 major business lines, ~1,000 homogenous portfolios
- Non-interest income / expense by ~30 business units, (aggregated into 9 major business lines), ~160 line items

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■ Challenge Process

A series of reviews at the business line and corporate level designed to challenge assumptions, validate results, and modify projections as necessary

- 1st level: Review and approval by business line senior management and group finance officer
- 2nd level: FP&A independent review of results to identify gaps, check for reasonableness, and compare scenarios.
- 3rd level: FP&A and Treasury review business line assumption & results with responsible group finance officer
- 4th level: FP&A and Treasury review consolidated assumptions & results with all major business line group finance officers and risk officers
- Final level: Senior executive management review in several committees (Stress Test Steering Committee, Operating Committee, and Finance Committee of the BOD)

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■ Challenges We Face

Our process works well, but:

- **It isn't quick: 6 week turn-around** is difficult given number of people involved
- It is expensive
- We are weighing trade-offs between significantly higher centrally modeled content versus business line models + expert judgment + ownership

Difference between FRB estimates and WFC estimates:

- **We don't know why**
- FRB estimates are binding

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■ Challenges We Face- Continued

Providing FRB's "Product View" / OCC's entity view is a challenge:

- Not how we run the business
- Underlying data and process organized around our view, not easily adapted to produce other views
- **A true "fix" would require changes to underlying systems and processes, including forecasting hierarchies, FTP, capital allocation, expense allocation, etc.**
- What incremental value is being produced by this?

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■ Challenges We Face- Continued

Where are we on the diminishing return curve:

- Push for stress testing capabilities has been valuable
- Progress for S-CAP to CCAR 2012 has been remarkable
- Overall stress testing / capital adequacy program is credible
- Recent requests seem unnecessary
 - List of additional supporting detail on 14A/Q/M
 - Continued requests for additional data
 - Multiple reporting dimensions described above
- **What's the balance between desire for "precision" and the inherent imprecision in estimating impacts of "tail" events?**