

# SHUSA Risk Transformation

Risk Appetite Statement development

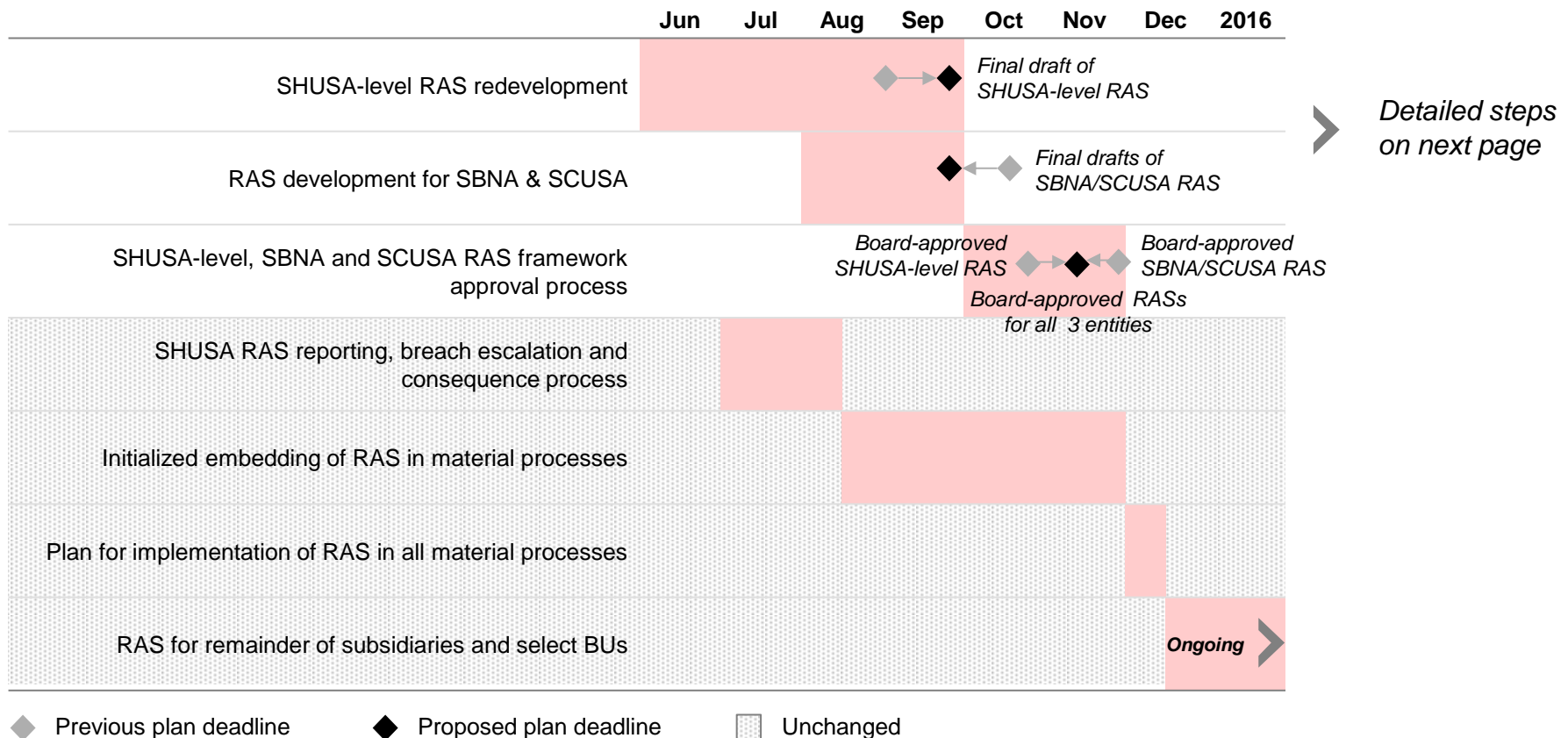
CRO Check-in

# Agenda

- Align on timeline changes for Risk Appetite development
- Discuss near-term plan for August and early September
- Finalize short-list of candidate metrics by entity (SHUSA, SBNA, SCUSA)
  - Specific focus on any additional metrics for subsidiaries beyond initial long-list

# Following the July 30<sup>th</sup> SHUSA-Board meeting, we propose shifting timelines for the development of the SHUSA and subsidiary RASs

## Timeline for RAS redevelopment



**We recommend combining calibration across SHUSA, SCUSA, and SBNA**

# We will complete draft RASs for SCUSA, SBNA, and SHUSA in parallel in August to ensure sufficient time to socialize prior to the Board meeting

## Worksteps leading up to September Board meeting

### By August 31<sup>st</sup>:

- Calibrate draft limits and early warning thresholds for socialization
- Outline SBNA, SCUSA, and SHUSA RAS documents with metrics and limits
- Conduct regular workshops with key Risk stakeholders to review progress and solicit feedback

### By September 15<sup>th</sup>:

- Complete full draft of SBNA, SCUSA, and SHUSA RAS documents (with upfront sections and qualitative statements)
- Preview draft of SBNA, SCUSA, and SHUSA RAS documents with senior management
- Iterate (as needed) based on feedback


### By September 22<sup>nd</sup>:

- Present draft SCUSA RAS document to the SCUSA Board

### By September 25<sup>th</sup>:

- Present draft SBNA RAS document to the SBNA Board
- Present draft SBNA, SCUSA, and SHUSA RAS documents to the SHUSA Board

## Steps in draft creation

- **Calibrate draft limits and early warning thresholds -- example for Credit risk (others to follow similar process)**
    - Gather relevant internal and external data, information, and policies
    - Examine time-series to understand through-the-cycle levels of metrics
    - Assess CCAR loss budget for each risk category to ensure SHUSA remaining “on-side”
    - Derive draft limits for metrics based on CCAR loss budget and time-series
    - Document fact base of anchor points and rationale
  - **Draft document creation:** Create drafts of SBNA, SCUSA, and SHUSA RAS documents
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- **Workshops** to review and iterate proposed limits and progress

# Proposed short-list of candidate metrics by entity

## Credit risk by portfolio

For discussion

Metrics	SCUSA		SBNA		
	Auto	Unsecured	Retail	CRE / C&I	GBM
• CCAR loss budget (in \$)	✓	✓	✓	✓	✓
• Net charge-off rate (in %)	✓	✓	✓	✓	✓
• Overall asset quality / payment behavior	← % 60+ days delinquent →		←	← % criticized →	→
• % score correlated with default < X	Loss Forecasting Score	Custom Score	FICO score	SRR	SRR (maps 1:1 with S&P rating)
• % assets subprime over SHUSA assets			✓		
• Concentration metrics				✓ (industry)	✓ (single name and top 20 obligor over capital)
• Total portfolio size (ideally RWA)	✓	✓		✓ (for CRE)	

☐ Preliminary view for inclusion in SHUSA-level RAS

Because all breaches at the SCUSA- and SBNA-level are escalated to the SHUSA Board, not all metrics need to be included in the SHUSA RAS

# Proposed short-list of candidate metrics by entity

## Other financial risk categories

For discussion

Risk category	Metrics	SHUSA	SCUSA	SBNA	Comments
Capital adequacy <sup>1</sup>	• T1RBC (baseline and stress)	✓	✓	✓	
	• CET1 (baseline and stress)				
	• T1L (baseline and stress)	✓	?	?	• While the prior SBNA RAS includes TIL, TCE, and Total Capital, the interim RAS does not – which capital adequacy metrics should be included for SCUSA and SBNA?
	• TCE (baseline and stress)				
	• Total Capital (baseline and stress)				
Residual value risk	• CCAR loss budget (in \$)	✓	✓		
	• Net residual risk exposure (in %)				
	• Total SCUSA residual value				
Liquidity / funding risk	• Stressed survival period	✓	✓	✓	
	• Liquidity coverage ratio (LCR)	✓		✓	
	• Wholesale funding %	?	?	?	• Pending feedback on metric from Liquidity/Market risk team
	• Structural funding ratio	✓	✓	✓	
	• Intragroup funding / total balance sheet		✓		
Interest rate risk in the banking book	• ALM NII (+/- 100bps)	✓	✓	✓	
	• ALM MVE (+/- 200 bps)				
Trading risk	• VaR (baseline and stress)	?	?	?	• Consider based on size of trading portfolio
Strategic / business risk	• Loss in stress	✓	✓	✓	
	• PPNR impairment	✓	✓	✓	

1. Capital adequacy ratios listed in SHUSA's capital policy except the Tier 1 Common Ratio which is being phased out this year -- "For all banking organizations, the proposal would remove the tier 1 common capital ratio requirement" according to the FRB Docket No. R-1517, released 7/17/2015

# Proposed short-list of candidate metrics by entity

## Non-financial risks

For discussion

Risk category	Metrics	SHUSA	SCUSA	SBNA	Comments
Operational risk	• Gross operational risk losses / gross margin	✓	✓	✓	
	• Frequency of material operational risk loss events				
	• Operational risk losses for specific event types		?	?	• Pending identification of event types that should be specifically monitored
Model risk	• TBD	✓	✓	✓	
Compliance / reputational risk	• # MRIs	✓			
	• # of customer complaints		✓	✓	
	• Customer satisfaction			✓	
	• Employee turnover	✓	✓	✓	

# Proposed short-list of candidate metrics by entity

## Additional metrics to consider

For discussion

### SCUSA metrics in interim SCUSA RAS or from SHUSA RAS team

Risk category	Metrics	Comments
Credit risk	• ALLL coverage of stressed losses	Likely redundant on other metrics
	• % of total drawn balances with PD under XXX	
	• Coverage ratio (total reserves / total loans)	
Residual value risk	• Stressed Leasing losses to profit (lifetime)	Comparison to lifetime profit is problematic
	• Stressed residual losses (12 months) to CET1	Likely redundant on CCAR loss budget
	• % with residuals > 100% of ALG	
Reputational risk	• Service for others charge-off rate	Likely no longer necessary

☐ For discussion

### SBNA metrics in prior SBNA RAS or from SHUSA RAS team

Risk category	Metrics	Comments
Credit risk	• Concentration metrics for large exposures, C&I, multifamily, leveraged lending, out of footprint, and cross border	
	• % of total drawn balances with PD under XXX	Likely redundant on other metrics
	• Coverage ratio (total reserves / total loans)	
Trading risk	• Losses in portfolios subject to trading controls	Trading portfolio is small
Strategic risk	• Fee income (% of net revenue)	Not risk limits
	• Loans and leases to deposits ratio	
	• Efficiency ratio (non-interest expense / net revenue)	
	• Return on tangible common equity (pre-tax return)	
	• Return on assets (pre-tax return / avg. earning assets)	
	• Long term credit rating	
Op. risk	• Gross fraud losses	
Compliance risk	• Mandatory compliance training courses past due	Better as KRI
	• MRAs at risk of delay	