
A Practical Guide to Forecasting and Stress Testing

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A Practical Guide to Forecasting and Stress Testing

The aim of the presentation is to provide a practical view of the challenges in meeting both in internal and external stress testing and scenario analysis requirements placed on a large modern bank.

I will share we you some of our observations and experiences, tips & tricks, potential pitfalls and impart some of our knowledge on what makes for a successful capital and impairment forecasting modelling department. I will discuss some recent examples and define some of the good practice rules we have found useful is the design of our modelling solutions.

I will explain how we put theory into practise to give you an insight into the current limitations and how we might overcome them in the future.

FORECASTING & STRESS TESTING



1. Why do Forecasting & Stress Testing ?
2. Components of Forecasting & Stress Testing
3. Modelling Approach

WHAT IS (CAPITAL & IMPAIRMENT) FORECASTING?



1. Regulatory Capital & Impairment based on current book
2. Forecasting considers how the book is *might* evolve over time
3. Role of My team

HOW DO YOU MAKE A FORECAST?



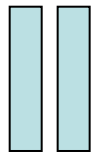
1. Scenario



2. Assumptions



3. Model



4. Forecast

EMV MODELLING

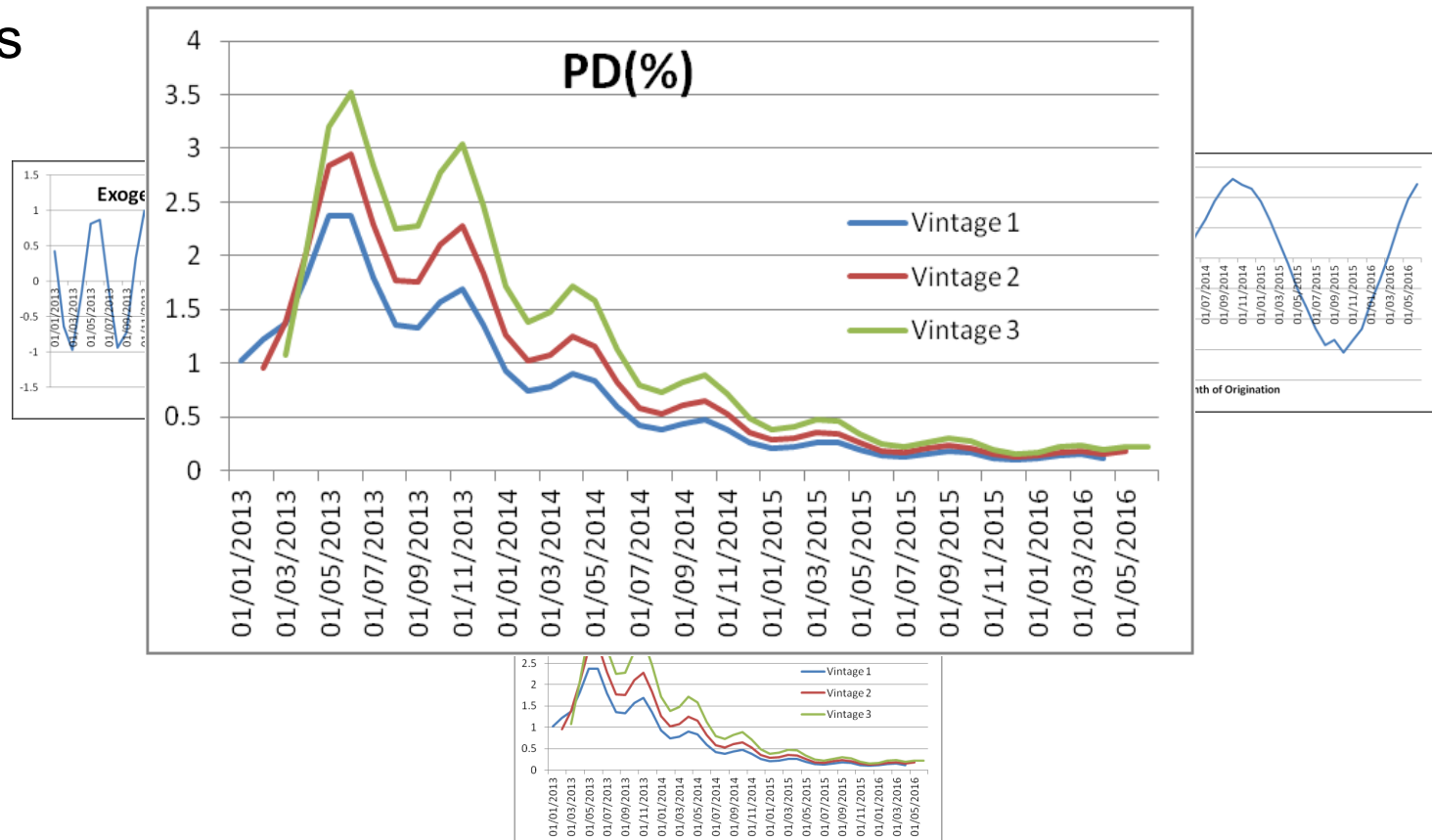


Decompose target into meaningful sub-components that can be easily sense checked

1. Exogenous

2. Maturity

3. Vintage

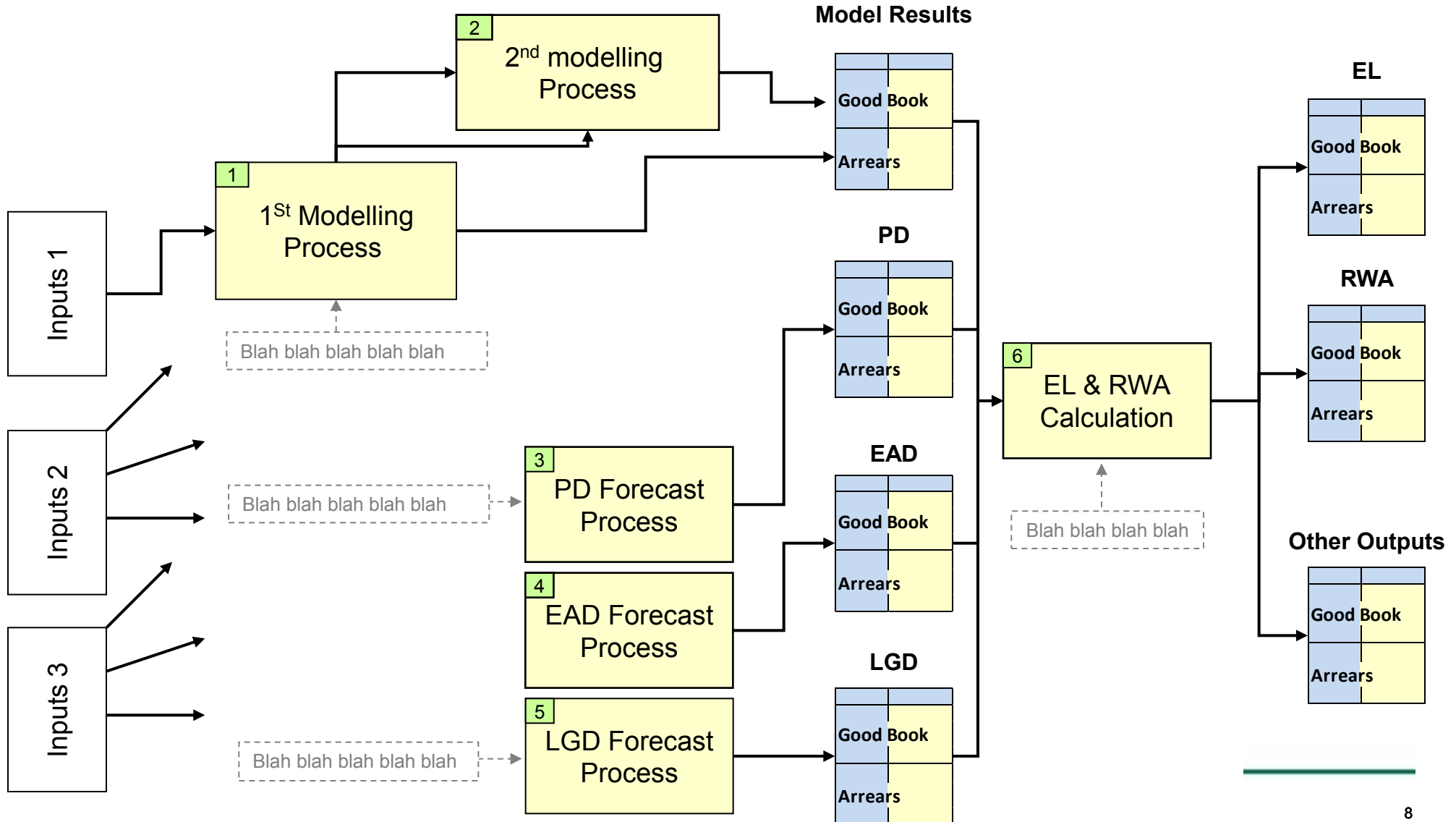


THE BUILD PROCESS

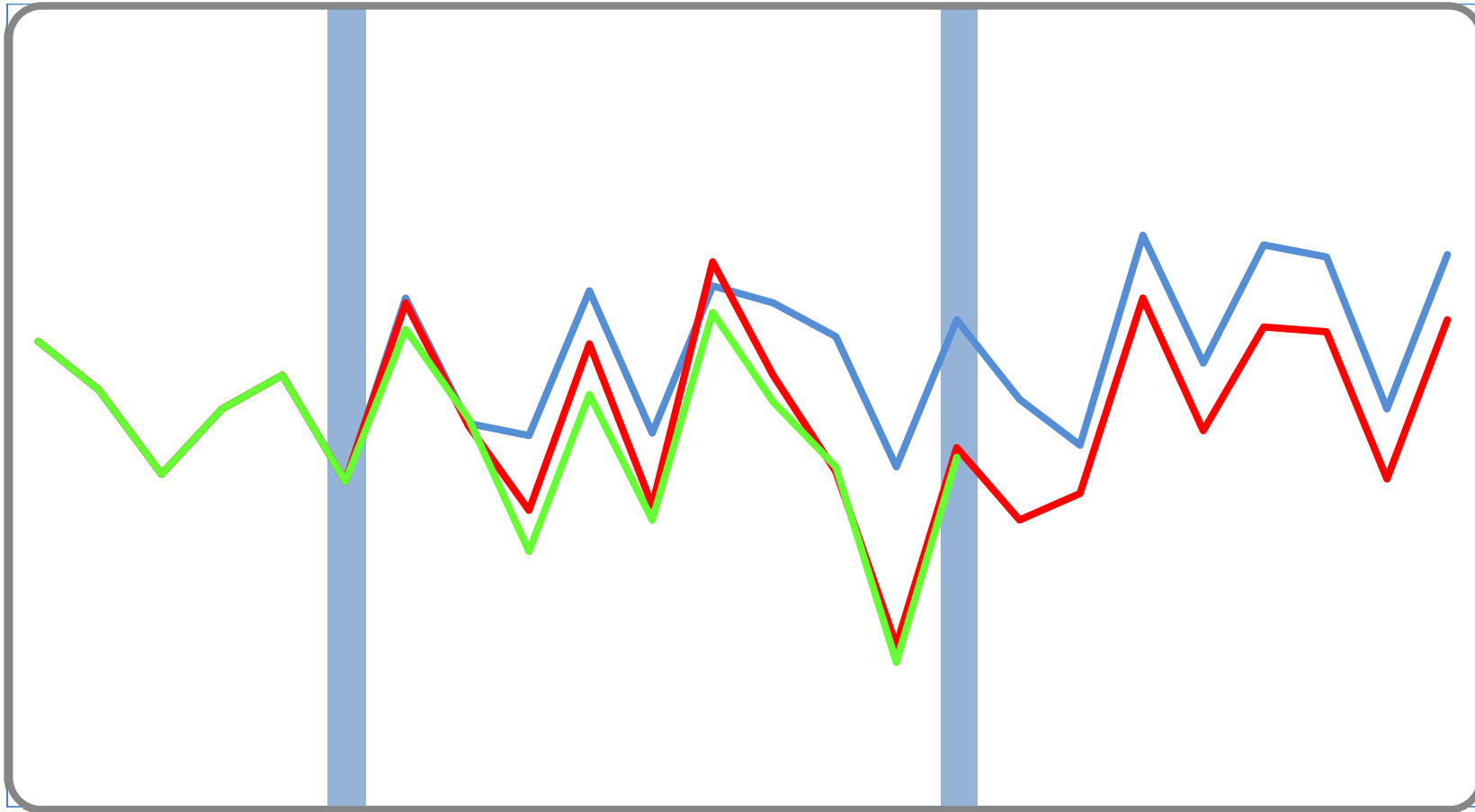


1. Statistically Robust
2. Business Sense
3. Simple and Transparent
4. Deployable

GOOD MODEL DESIGN



GOOD MODEL DESIGN – PCA EXAMPLE

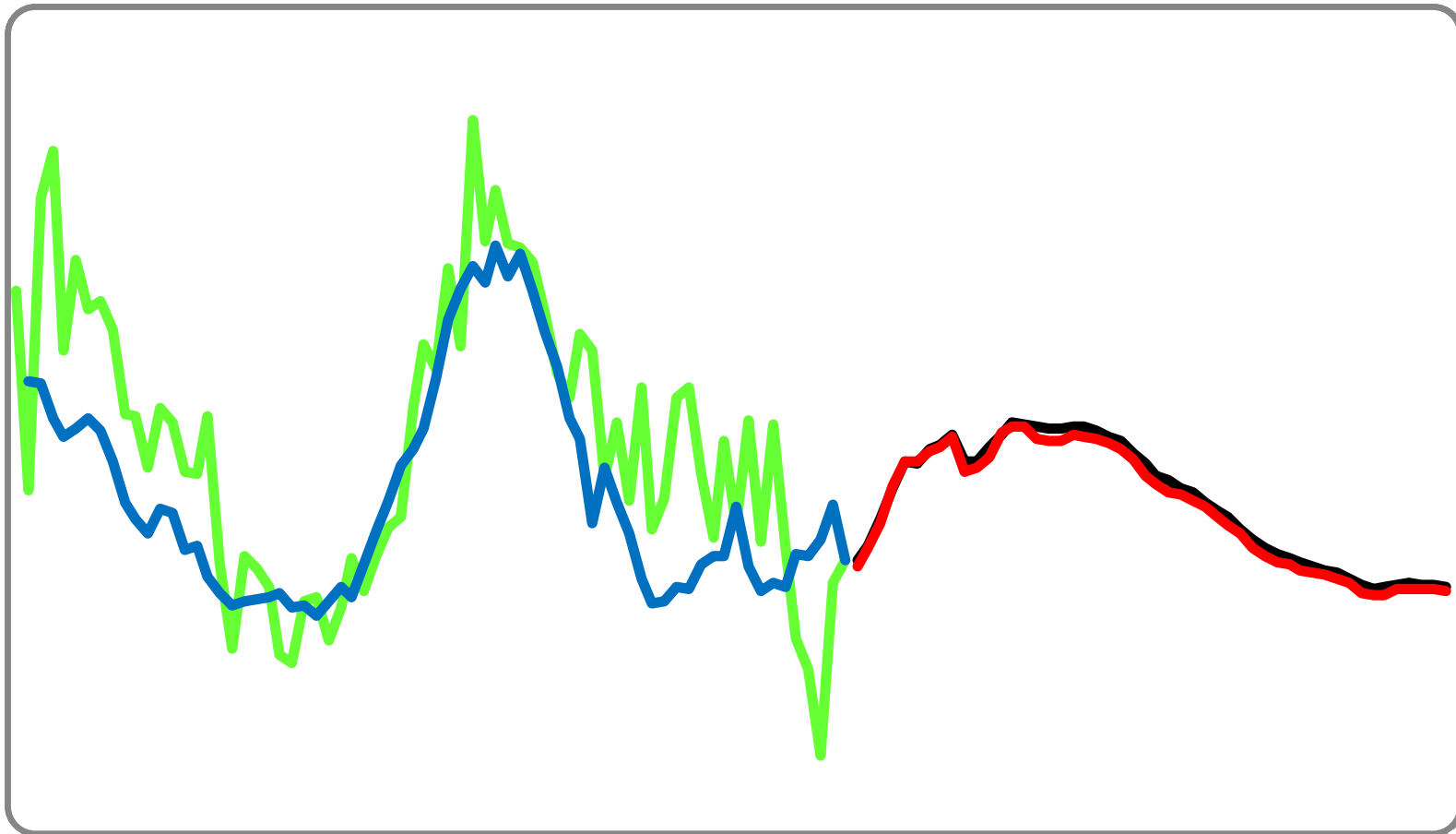


THE VALIDATION PROCESS

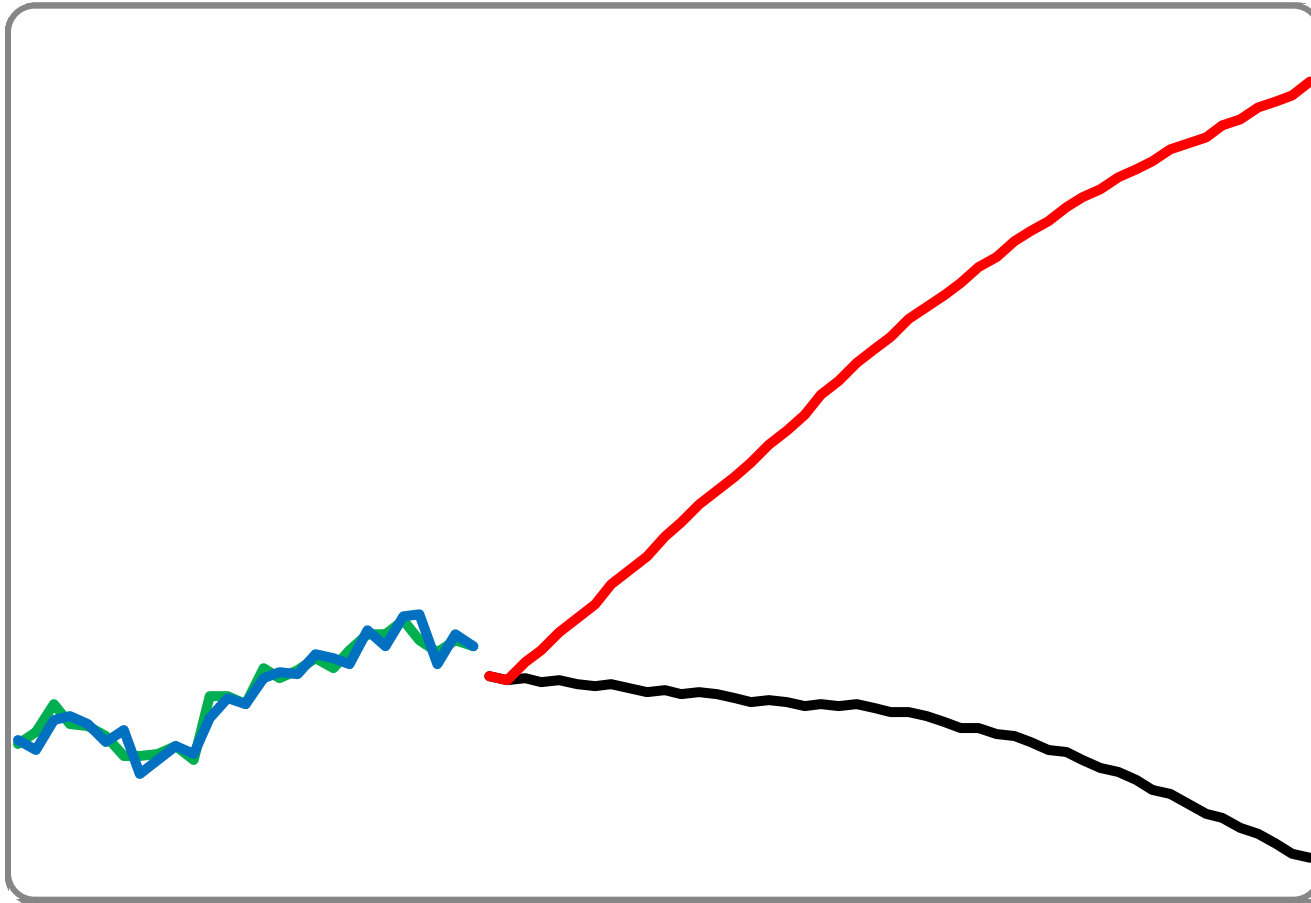


1. Actual vs. Calculated
2. Backtest
3. Shape of the Forecast
4. Stress Test

THE VALIDATION PROCESS – LOANS EXAMPLE



THE VALIDATION PROCESS – CARDS EXAMPLE



Questions?

For further enquiries on this topic or to discuss recruitment opportunities please contact me directly:
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