Moody's ANALYTICS

News

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MOODY'S ANALYTICS ADDS STRESS TESTING AND INTEREST RATE RISK MODELS TO RISKFRONTIER™ SOFTWARE

NEW YORK, February 10, 2014- Moody's Analytics, a leader in risk measurement and management, today announced the release of the RiskFrontier™ 4.0 software, the latest version of its award-winning portfolio management and economic capital solution for banks, insurance companies, asset management firms, and corporations. The software includes two significant modeling innovations: the GCorr Macro Model, an expanded correlation model which enables clients to perform portfolio level stress testing; and, the ability to model the behavior of an exposure's future cash flow using both credit and interest rate risk.

The GCorr Macro model supports single-period, simulation-based stress testing and reverse stress testing, as well as multi-period stress testing, as required by the Federal Reserve's Comprehensive Capital Analysis and Review (CCAR). The first approach utilizes simulation output from Moody's Analytics RiskFrontier software, taking into account portfolio effects such as concentration, diversification and credit migration. This enables clients to apply stress scenarios to their entire portfolios, measuring resulting losses and the portfolio's sensitivity to each scenario.

For example, using a 35 billion sample corporate portfolio and 2013 CCAR variables, a simulation-based stress test shows that 54% of the portfolio loss is due to CCAR variables, while the remaining 46% of portfolio loss is due to other factors, such as industry or regional effects.

"GCorr Macro allows clients to see the effect macroeconomic scenarios have on an entire portfolio that might span commercial and industrial, small-medium enterprises, commercial real estate and retail loans," said Dr. Amnon Levy, Head of Portfolio Research at Moody's Analytics. "Clients can use the model to determine which variables have the greatest impact on a portfolio, or to determine which sectors are the most sensitive to specific variables. It also allows users to leverage their existing infrastructure, so implementation is relatively straightforward."

Moody's Analytics also implemented a bottom-up approach in the RiskFrontier 4.0 software to evaluate the losses accounting for both credit and interest rate risk at the instrument level. While historically these two risks have been evaluated in isolation, Moody's Analytics built a framework which allows clients to model their interactions in a consistent way. For example, during simulations, an option on a fixed rate callable bond is optimally exercised based on the interest rate environment and the credit quality of the issuer.

"Financial institutions have long been struggling to integrate credit and interest rate risk, often having no choice but to account for these risks in silos and then combine them using crude approaches," said Chris Shayne, Head of Portfolio & Valuation Products, Moody's Analytics. "Moody's Analytics

integrated credit and interest rate risk model is the first of its kind that natively integrates the two sources of risk, improving the accuracy of results."

The RiskFrontier 4.0 software will help financial institutions to measure the impact of rising interest rates, which are broadly forecasted by economists to increase throughout 2014, putting negative pressure on fixed-rate bond portfolios. Users can also measure the effect of growing volatility on call options and forecast economic losses resulting from changes in credit quality.

Financial institutions globally use the RiskFrontier software for credit portfolio management, valuation, capital optimization, risk based pricing, performance management and stress testing. It provides a granular analysis of a portfolio's risk drivers through advanced analytics and modeling methodologies.

For more information, please visit http://www.moodysanalytics.com/riskfrontier2014.

About Moody's Analytics
Moody's Analytics helps capital markets and risk management professionals worldwide respond to an evolving marketplace with confidence. The company offers unique tools and best practices for measuring and managing risk through expertise and experience in credit analysis, economic research and financial risk management. By providing leading-edge software, advisory services and research, including proprietary analyses from Moody's Investors Service, Moody's Analytics integrates and customizes its offerings to address specific business challenges. Moody's Analytics is a subsidiary of Moody's Corporation (NYSE: MCO), which reported revenue of $2.7 billion in 2012, employs approximately 8,300 people worldwide and has a presence in 31 countries. Further information is available at www.moodysanalytics.com.

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