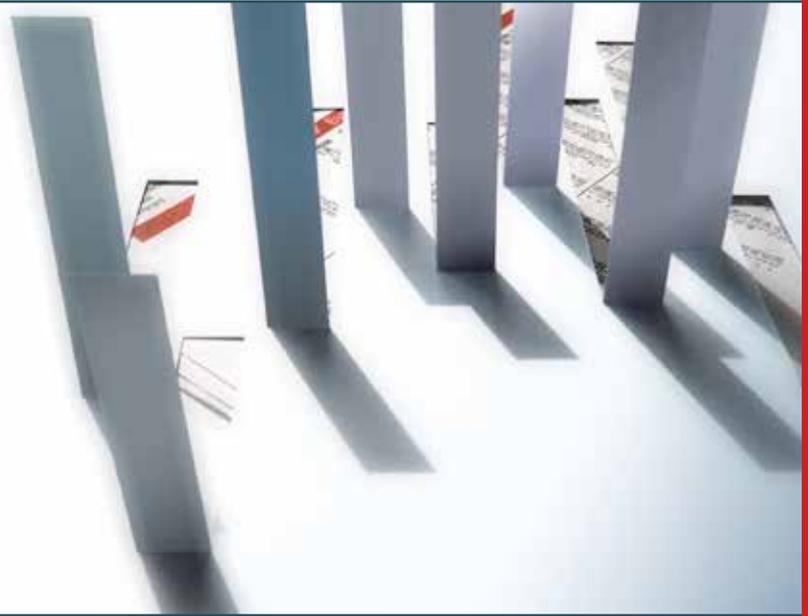


Stress Test Analyzer

Application for defining stress scenarios and performing stress tests



Overview

Stress testing is becoming increasingly important in risk management. Its purpose is generally to provide information on the way in which unusually adverse conditions affect the risk situation of a bank.

Stress tests are conducted by the ECB, Federal Reserve,

and Bank of England, but are also required by national regulations (e. g. AT 4.3.3 of the German MaRisk). Banks are also expected to examine stress scenarios as part of a forward-looking approach to risk assessment.

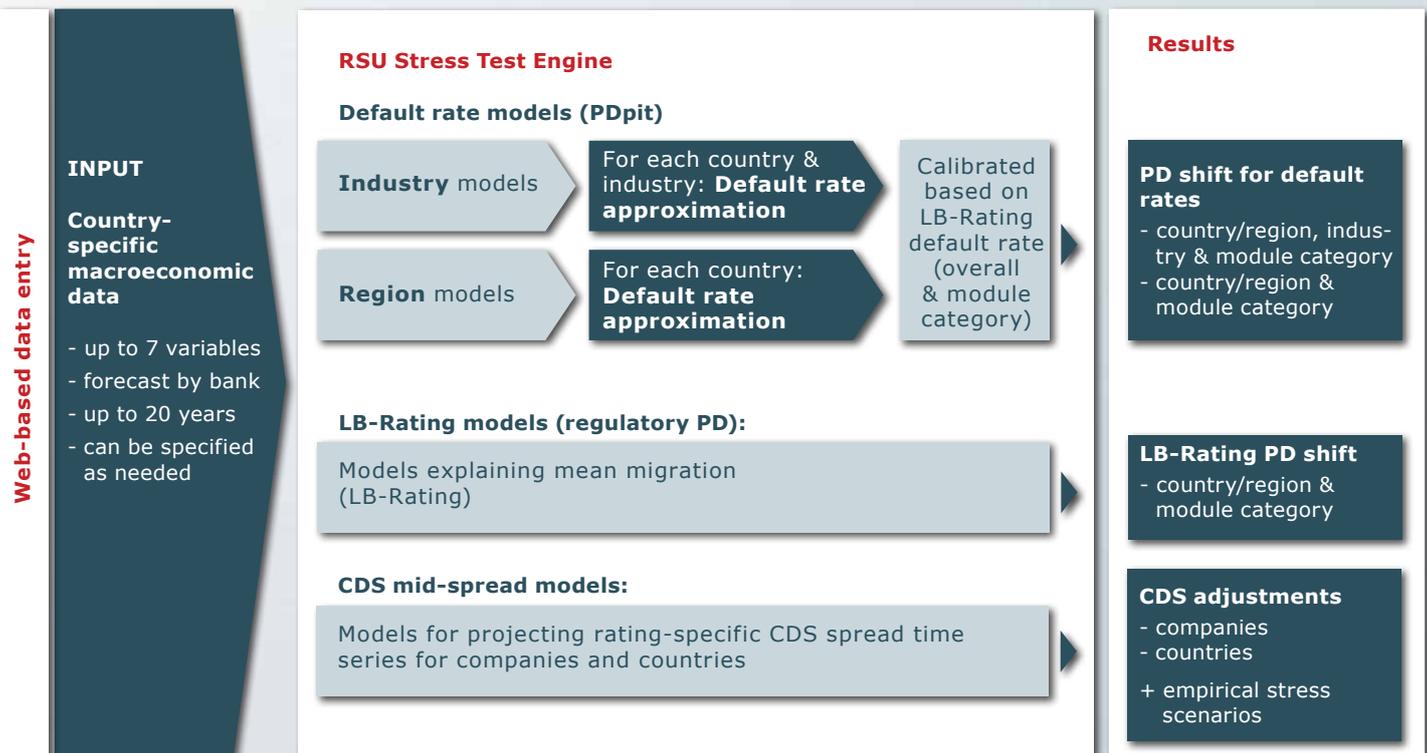
Scope of Application

Stress Test Analyzer meets the methodological requirements defined by the EBA and ECB for the European stress tests regarding credit risk. In addition, it allows to perform stress tests required by national authorities or needed for internal purposes. Stress scenarios may be defined and stress tests can be performed for all countries worldwide, covering periods of up to 20 years. *Stress Test Analyzer* produces projections of default rates, regulatory probabilities of default (LB-Rating PD shifts) and CDS mid-spreads for the defined test period. Based on these, the system calculates shift factors for default rates for different countries, industries, and categories of LB-Rating modules (Corporates, Financials, Specialised Lending), LB-Rating PD shifts for different countries, regions, and categories of LB-Rating modules, and CDS adjustments for companies and countries.

Methodology/Function

For the calculation of the PD shifts, banks need to specify macroeconomic variables, for example GDP growth, for various regions. The information entered can be checked for many countries against historical data stored in the system. Moreover, the system provides consistent historical macroeconomic stress scenarios for more than 20 countries as well as 10,000 simulated macroeconomic stress scenarios for each variable, generated by means of a global macroeconomic model (GVAR), for use in stress test analyses including reverse stress tests.

The shift factors for the default rates are derived from the macroeconomic scenarios entered using complementary models and are calibrated based on the default rates determined in LB-Rating. The LB-Rating PD shifts are calculated in a single step using different complementary models for countries, regions, and categories of LB-Rating modules. The changes in CDS spreads are also modelled directly for companies and countries. The projected default rates, LB-Rating PDs, and grade-specific CDS spread sequences are represented graphically and the corresponding PD shifts and CDS adjustments are indicated. In addition, the effects of the stressed PDs on the portfolio can be analysed directly. Empirical stress scenarios for CDS spreads calculated by the system can be used to perform analyses for freely selectable groups of countries or companies for any period or quantile.



Implementation

Stress Test Analyzer is a web-based application available with both German and English text; it only requires a VPN (or CredNet) connection. Like all applications provided by RSU, it is operated under the strict security standards customary in the banking industry. Protected transmission channels and secure data storage at a level 3-certified data processing centre ensure a high degree of data security.

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