STAND-ALONE CREDIT RISK MEASURES

MOODY'S KMV RISKCALC 3.1
SOUTH AFRICA

Moody's KMV RiskCalc® enables greater precision and accuracy in evaluating private firm credit risk by combining financial statement and equity market-based information.

MARKET CHALLENGE: ASSESSING PRIVATE FIRM CREDIT RISK

Institutions are faced with an ever-increasing demand to quantify private firm credit risk to better manage risks and avoid losses. This demand comes not only from regulators and shareholders, but also from internal risk managers seeking to maximize their institutions' return on risk.

MOODY'S KMV RISKCALC 3.1: FUNDAMENTALLY CHANGING THE MIDDLE-MARKET CREDIT PROCESS

Moody's KMV RiskCalc 3.1 enables users to accurately characterize the credit risk of thousands of private companies in minutes for faster loan underwriting decisions and efficient monitoring of portfolio credit trends. Armed with this solution, credit risk professionals can focus their resources on loans with the greatest risk. In addition, accurate default probabilities provide a common metric for communicating with regulators and internal staff.

THE MARKET STANDARD: MOODY'S KMV EDF CREDIT MEASURES

Moody's KMV EDF™ (Expected Default Frequency) credit measures are actual probabilities of default; they lend themselves to precise decision-making and can be incorporated into valuation and portfolio models. Built from over 15 years of experience with market and fundamental data modeling, EDF credit measures have been extensively validated on defaults and have become the market standard for lenders and investors.

POWERING MOODY'S KMV RISKCALC 3.1: THE WORLD'S LARGEST AND CLEANEST PRIVATE COMPANY DEFAULT DATABASE

Moody's KMV RiskCalc 3.1 utilizes the Moody's KMV CRD® (Credit Research Database), the world's largest and cleanest collection of data on private companies. Built in partnership with over 45 financial institutions around the world, the CRD contains 13 million financial statements on 2.5 million firms and over 200,000 private company defaults.

MOODY'S KMV RISKCALC NETWORK

Private company credit risk drivers differ between countries. Moody's KMV RiskCalc combines private firm data with local knowledge of default drivers in different countries to build a global network of models that covers approximately 80% of the world's GDP.
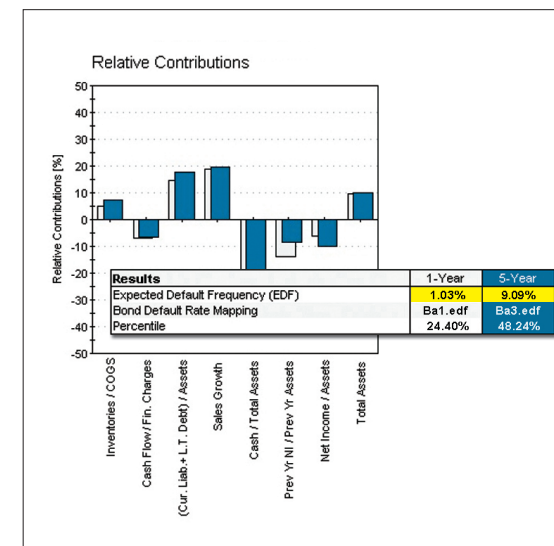
VERSION 3.1:

- Canada
- France
- Germany
- Italy
- Japan
- Nordic
- South Africa
- United Kingdom
- United States
- U.S. Banks

VERSION 1.0:

- Australia
- Austria
- Belgium
- Korea
- Mexico
- Netherlands
- Portugal
- Spain

Relative Contributions

Results	1-Year	5-Year
Expected Default Frequency (EDF)	1.03%	9.09%
Bond Default Rate Mapping	Ba1.edf	Ba3.edf
Percentile	24.40%	48.24%

This graph shows the relative contribution scores of the most important drivers for a particular firm's EDF credit measure.

KEY PRODUCT FEATURES

- A network of country-specific models developed and tested on local private firm data to capture local default risk factors
- Calculates highly predictive EDF estimates over any horizon between one and five years
- Displays valuable ratio diagnostics and their individual contributions to risk
- Captures the impact of changes in the credit cycle on EDF credit measures
- Updates credit cycle adjustment information on a monthly basis
- Built on an unparalleled range of private company data
- Maps EDF credit measures to internal and agency ratings
- Illustrates the sensitivity of a company's EDF to changes in various inputs
- Supports stress testing through economic cycles
- Adjusts for unique industry differences
- Supports XML integration with client applications
- Allows batch processing for the efficient rating of an entire portfolio

MOODY'S KMV RISKCALC

MOODY'S KMV RISKCALC SOUTH AFRICA 3.1

The model characterizes the credit risk of private companies by incorporating financial statement data and equity market-based information to produce EDF credit measures that reflect factors unique to the business environment of South Africa. This blending of information results in superior predictive power that enables the user to limit defaults and enhance profitability.

FUNDAMENTAL DATA FROM FINANCIAL STATEMENTS

Moody's KMV RiskCalc South Africa 3.1 utilizes financial ratio variables based on their ability to predict corporate defaults through actual market-based relationships. The model transforms these variables to accurately predict default probabilities.

PROFITABILITY
- ROA
- Previous Year's ROA

DEBT COVERAGE
- Cash Flow to Financial Charges

LIQUIDITY
- Cash and Marketable Securities to Total Assets

LEVERAGE
- (Current Liabilities + LTD) to Tangible Assets

SIZE
- Total Assets

GROWTH
- Sales Growth

ACTIVITY
- Inventory to COGS

SPECIFIC CALIBRATION TO THE SOUTH AFRICAN MARKET

Moody's KMV RiskCalc South Africa 3.1 reflects the business environment of South Africa, including accounting practices, tax and bankruptcy laws. The EDF credit measures produced are globally comparable yet reflect these local factors.

EXTENSIVE SOUTH AFRICAN DATASET

Moody's KMV RiskCalc South Africa 3.1 was developed and validated using 52,000 financial statements from over 19,000 private South African companies, excluding financial institutions, state-owned companies, non-profits and real estate developers. In addition to industry-specific information for sector analysis, the dataset includes financial statement and default data from 1992 to 2004, on firms ranging in size from 250 thousand (ZAR) in sales up to the largest private South African companies.

CREDIT CYCLE ADJUSTMENT BY INDUSTRY

Moody's KMV RiskCalc South Africa 3.1 EDF credit measures are adjusted for the current stage of the credit cycle, allowing the user to determine the susceptibility of a firm to an economic downturn.

For extended details on this product, please visit the Moody's KMV product page:

www.moodyskmv.com/products

To Learn More:

Contact your Moody's KMV Client Representative or call: