

PORTFOLIO CREDIT RISK MEASUREMENT

# MOODY'S KMV RISKFRONTIER

RiskFrontier™ is our next-generation portfolio management solution. Expanding on the award-winning analytics in Portfolio Manager™, RiskFrontier incorporates our latest research and addresses current market demands.

**MARKET CHALLENGE: ASSESSING CREDIT PORTFOLIO RISK AND RETURN**

Regulators, investors, and senior management are requiring financial institutions to improve credit portfolio risk management. Measuring and managing portfolio performance requires forward-looking data, leading-edge analytics, and experienced insight.

**MOODY'S KMV RISKFRONTIER: A POWERFUL TOOL FOR MEASURING AND MANAGING PORTFOLIOS**

RiskFrontier provides a comprehensive methodology for measuring and benchmarking credit portfolio risk, covering such assets as credit cards, corporate loans, credit-default swaps, commercial real estate loans, and CDO tranches.

RiskFrontier brings a single, cohesive correlation framework to an institution's balance sheet. Only by jointly estimating default and recovery correlations on actual data across commercial real estate, retail, SME, and large corporate credit risks can senior management make the comparisons needed for strategic decisions.

Moody's KMV analytics were used to calibrate aspects of the Basel II model. Regulators and customers value our use of

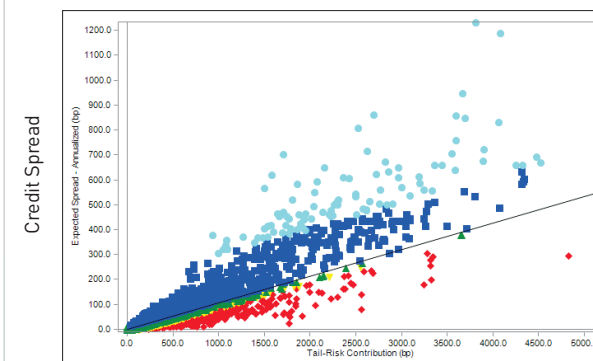
empirical credit migration data and correlation data from two business cycles.

RiskFrontier is a transparent solution that allows users to gain an understanding of the impact of rating, recovery, term, industry, size, and other drivers of portfolio risk. This clarity is critical as institutions move to allocate economic capital to customers and business units for better decision-making.

**MOODY'S KMV RISKFRONTIER OFFERS:**

- Insight on the contribution of individual positions and customers to portfolio capital risk and Economic Capital
- Risk-return analysis for originations, hedges, and trades
- Full portfolio loss and value distributions, both in absolute terms and relative to a benchmark
- Monte Carlo-based risk measures for loss volatility and tail risk
- Empirically-based calibrations drawn from the world's richest credit data sources
- Scenario analysis to stress-test a portfolio and perform what-if analysis

**PRODUCT HIGHLIGHT**



Portfolio-Referent Risk Contribution including correlation with this Portfolio

## KEY PRODUCT FEATURES

### IMPROVE CREDIT PORTFOLIO PERFORMANCE:

- Make strategic decisions across businesses, industries, geographies, and portfolios, based on a unified correlation framework
- Identify outliers and concentrations that impact performance at the exposure, obligor, and industry level
- Determine appropriate buy-sell quantities with the Trades Scenario Analyzer to enhance performance

### PRICE FOR RISK:

- Calculate Sharpe ratios and return on risk-adjusted capital (RORAC) for each exposure and the entire portfolio
- Understand how new exposures impact portfolio risk-return performance on the margin, using the DealAnalyzer® module integrated in your loan origination system
- Determine the required return or spread on an exposure to match or improve portfolio risk-return performance
- Calculate the shortfall or mispricing in credit revenue for an exposure, given its risk in a portfolio

### UNDERSTAND AND MEASURE PORTFOLIO CREDIT RISK:

- Quantify the probability of portfolio credit losses to examine the adequacy of capital and loss budgets
- Measure risk-return characteristics and the diversification impact of every credit exposure, including homogeneous pools of credit cards or mortgages.
- Analyze the counterparty credit risk of interest-rate swaps and other trading-desk instruments with highly unusual cash flow properties
- Assess each exposure in terms of stand-alone risk, portfolio risk contribution (taking into account its default and recovery correlation with all other exposures) and risk-adjusted return
- Apply stress tests to your portfolio

### EMPLOY ROBUST TECHNOLOGY:

- Expand usage easily with scalable architecture
- Distribute calculations across multiple processors to improve speed
- Deploy to a small group or enterprise-wide

## INTEGRATION WITH A SUITE OF MOODY'S KMV PRODUCTS

RiskFrontier can process data from a variety of sources, including public and private-firm EDF™ (Expected Default Frequency) credit measures and internal ratings. RiskFrontier can read Portfolio Manager files, enabling current users to migrate quickly.

## FLEXIBLE FRAMEWORK

RiskFrontier comes with Moody's KMV global correlation model and distance-to-default credit migration matrix. Alternatively, clients may use their own models as inputs to RiskFrontier.

↘ For extended details on this product, please visit the Moody's KMV product page: [www.moodyskmv.com/products](http://www.moodyskmv.com/products)

## MOODY'S KMV RISKFRONTIER

### To Learn More:

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