

Credit Research

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MARC Default Statistic (1997-2006): Corporate Bond, Asset Backed Securities and Project Finance Portfolios.

Analysts

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Summary

This report presents the default rates experienced by MARC from 1997 to 2006. This study should be viewed as a complement to the statistics released in the annual default study and our quarterly rating actions report. There is dissimilarity between the default rates statistics in this paper and in our recent annual default study due to the different framework used in both studies. It is worthwhile to note that our annual default study does not consider short-term issues, asset backed securities portfolio, and issuers with additional credit enhancements. This paper provides explanations and analysis on the defaults that were excluded in our annual default study. The different numerator and denominator used in calculating the default rates led to such divergence in both studies. Nevertheless, the methodology used to calculate the default rates has not changed (*Please check appendix attached in MARC annual default study for more detail on data description and methodologies used*). Key findings are as follows:

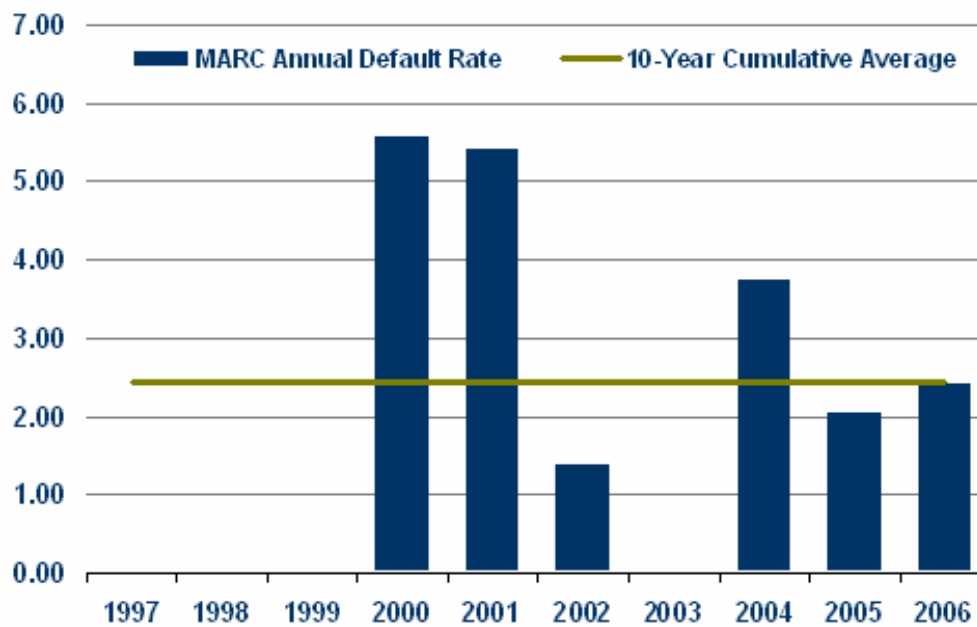
- Five MARC-rated bond issues involving 4 issuers defaulted in 2006. Out of the five bonds mentioned, two tranches from Ambang Sentosa (ABS) defaulted.
- Defaulting issues in 2006 were Europlus Corporation Sdn. Bhd., Perspektif Perkasa Sdn. Bhd., Maxisegar Sdn. Bhd. and Ambang Sentosa Sdn. Bhd, all related to a common shareholder.
- All of the four issuers came from the property portfolio which experienced general deterioration in the credit quality.
- The ABS portfolio recorded its first default in 2006 since MARC started to rate the instrument in 2002.
- Of all three defaulted corporate issues, one came from the long-term corporate bond portfolio (Maxisegar-rated BB prior to default) and the remaining two issues came from the short-term portfolio (Perspektif Perkasa and Europlus Corporation – both rated MARC-4 prior to default).
- All defaults in 2006 came from speculative grade compared to the previous years where all defaults came from investment grade except for HVD Holdings Sdn. Bhd. (MARC-4).
- The default rate rose to 2.42% in 2006 from 2.04% in 2005, hovering around its 10-year weighted average as the number of issues defaulted increased from three issues in 2005 to five issues in 2006.

Framework of the study:

- Data includes short-term and long-term rated corporate debt, Project Finance and Asset Backed Securities.
- Issuers with bank guarantee (Bg), credit support and corporate guarantee are also included.
- Overall default rate is not computed based on weighted average but data for all three portfolios are combined to calculate the default rate.
- Default rate is defined as number of defaults over outstanding ratings at the beginning of the year/quarter.

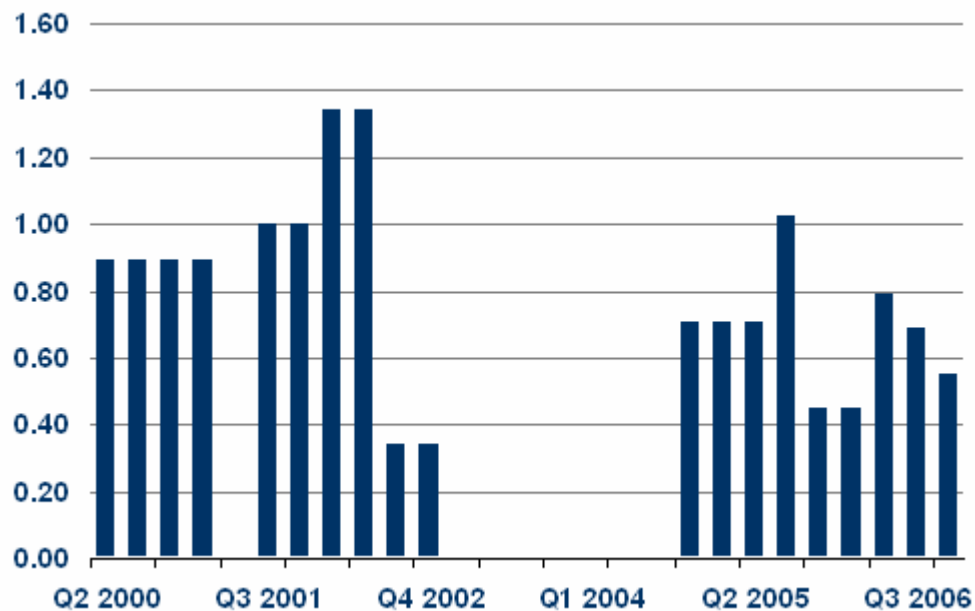
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Exhibit 1: MARC Overall Default Rates (Yearly)



Source: MARC Fixed Income

Exhibit 2: MARC 4Q Trailing Default Rate



Source: MARC Fixed Income

Exhibit 2: Defaults Profile

Category	Main Sector	Issuer	Date Announced	Prior To Default	Rating Grade	Credit Enhancement
Corporate Debt	Finance	[MOCCIST] MOCCIS Trading Sdn Bhd	Jun-00	BBB	Investment	
Corporate Debt	Property	[JOHORCITY] Johor City Development Sdn Bhd	Jul-01	AA-	Investment	Bank Guarantee
Corporate Debt	Property	[JOHORCITY] Johor City Development Sdn Bhd	Jul-01	MARC-1	Investment	Bank Guarantee
Corporate Debt	Trading/Services	[HVD] HVD Holdings Sdn Bhd	Feb-02	MARC-4	Speculative	
Corporate Debt	Industrial Products	[PHSB] Perak-Hanjoong Simen Sdn Bhd	Dec-04	AAA	Investment	Bank Guarantee
Corporate Debt	Industrial Products	[PHSB] Perak-Hanjoong Simen Sdn Bhd	Dec-04	A	Investment	Bank Guarantee
Corporate Debt	Industrial Products	[PHSB] Perak-Hanjoong Simen Sdn Bhd	Dec-04	AA-	Investment	Bank Guarantee
Corporate Debt	Industrial Products	[PHSB] Perak-Hanjoong Simen Sdn Bhd	Dec-04	A+	Investment	Bank Guarantee
Corporate Debt	Industrial Products	[ABI] ABI Malaysia Sdn Bhd	Aug-05	A-	Investment	
Corporate Debt	Industrial Products	[PESAKA] Pesaka Astana (M) Sdn Bhd	Sep-05	MARC-1	Investment	
Corporate Debt	Industrial Products	[PESAKA] Pesaka Astana (M) Sdn Bhd	Oct-05	A+	Investment	
Corporate Debt	Property	[EUROPLUS] Europlus Corporation Sdn Bhd	Jun-06	MARC-4	Speculative	
Corporate Debt	Property	[MAXISEGAR] Maxisegar Sdn Bhd	Jun-06	BB	Speculative	
Corporate Debt	Property	[PERPERKASA] Perspektif Perkasa Sdn Bhd	Jun-06	MARC-4	Speculative	
Asset-Backed Securities	Property	[AMBANG] Ambang Sentosa Sdn Bhd	Jul-06	C	Speculative	
Asset-Backed Securities	Property	[AMBANG] Ambang Sentosa Sdn Bhd	Jul-06	C	Speculative	

Source: MARC Fixed Income

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