Credit Research

2007 Annual Corporate Default and Rating Transitions Study

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Annual Corporate Default and Rating Transition Study, 1997-2007

Summary

This report presents updates on default statistics and rating transition experience of corporate bond and project finance issuers in 2007 as well as the historical period since 1997. The key points presented in this study are as follows:

- Five MARC rated corporate issuers defaulted on a total of MYR 2,520 million of bonds in 2007. Issuers that defaulted were ACE Polymers (M) Sdn. Bhd., Paradym Resources Industries Sdn. Bhd., PECD Bhd., Peremba Jaya Holdings Sdn. Bhd., and Sistem-Lingkaran Lebuhraya Kajang Sdn. Bhd.
- Three other defaulted issuers, Jana Niaga Sdn. Bhd., Stenta Films (M) Sdn. Bhd. and CNLT Far East Sdn. Bhd. representing an additional MYR224 million, were excluded from this default study. Jana Niaga and Stenta Films only carried short-term ratings while CNLT Far East was a bank guaranteed (BG) issuer.
- Excluding SILK, the total amount of rated debt that defaulted in 2007 would be MYR 510 million.
- All defaulting issuers in 2007 have been downgraded to speculative grades prior to their defaults.
- Deteriorating credit quality for some issuers in the property and automotive portfolio explains a large part of the defaults, downgrades and rating volatility. This coincides with the negative rating outlook assigned to these industries in 2007. Almost 50% of issuer downgrades in 2007 were equally contributed by these two sectors and 40% of 2007 defaults came from these two sectors.
- On a cumulative basis, nine issuers defaulted from MARC's corporate issuers since 1997, significantly lower than the total corporate issuers default in the Ringgit corporate bond market which is estimated to be around 54 issuers. On a percentage basis, MARC's defaulted issuers as percentage of total corporate default stood at 17% spanning the period 1997-2007.
- MARC's corporate default rate stands at 5.00% in 2007 vis-à-vis its 10-year issuer-weighted average of 2.18%. The 10-year dollar-weighted average stands at 1.55% while the arithmetic mean over the same period is 2.11%.
- The average time to default for the pool of five defaulting issuers in 2007 was 3.5 years.
- The cumulative average default rate in the 10th year stands at 9.1%, translating into a 90.9% of survival rate in MARC's corporate universe. Measuring the same statistic based on the dollar volume, the cumulative default rate in the 10th year stands at 11.35%.
- About 67% of issuers that were assigned with MARCWatch-Negative and MARCWatch-Positive during the previous rating review had been downgraded and upgraded respectively in 2007.

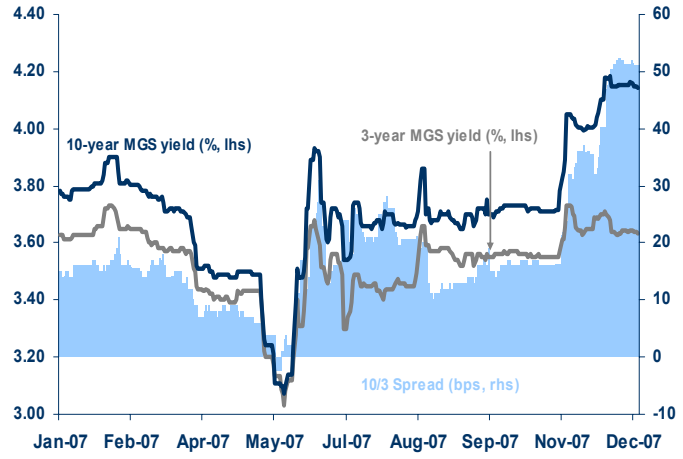
2007 Bond Market Review

The ringgit bond market rose sharply in the 1H 2007, largely driven by a sharp appreciation in the domestic currency. The demand for ringgit continued to rise significantly as seen via the influx of foreign funds. Currency traders were of the opinion that ringgit was still undervalued despite gaining 7.1% from July 2005 to December 2006. Leaning on the stronger ringgit appreciation, International Reserves rose by USD15.9 billion in the first half of the year. As a result, both fixed income and equity markets rallied significantly. Yield curve flattening was seen in mid 2007 when the 10-year government bond was traded at 3.07%, almost 50 basis points lower than the cash rate. In fact, the yield curve actually inverted with the 3-year MGS yielding 3.13% during mid May 2007, about 7 basis points higher than the 10-year MGS yield.

The ringgit which was traded at 3.45 against the USD in June 2007 strengthened by almost 800 pips since the beginning of the year. Strong ringgit valuation coupled with a 70 basis point decline in 10-year MGS yield since the beginning of the year triggered profit taking activities. As a result, bond yields skyrocketed in June 2007 with 3-year and 10-year sectors closing the first half at 3.30% and 3.54% respectively.

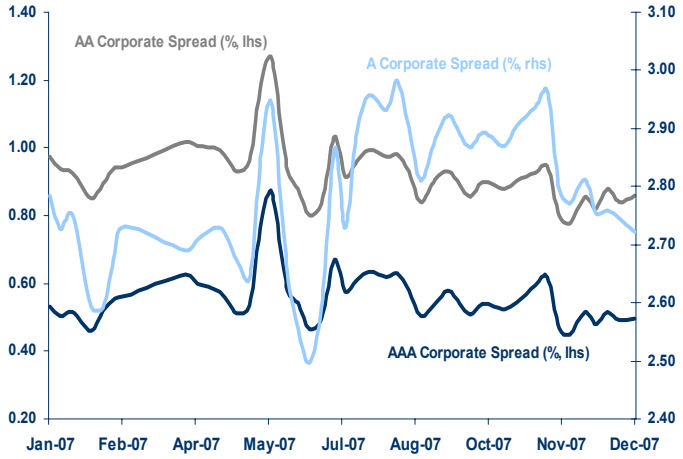
The subprime shock which started in August 2007 sent panic signals across global markets. Stock markets lost substantially while the default insurers' premium in the Credit Default Swap (CDS) market rose significantly. Clearly, a flight to quality was taking place in the market and after seeing an inflow of more than USD15 billion in the first half of the year, an outflow of USD580 million was recorded in August. USD/MYR rose to 3.50 levels in August 2007 while some spikes were also observed in bond yields. The volatility index continued to hover above the 25% threshold as more and more subprime-related losses were announced.

Exhibit 1 : MGS Yields



Source: Bank Negara Malaysia, CEIC

Exhibit 2 : Corporate Spreads



Source: CEIC

Corporate bond yields were generally low in 2007 and such environment has been supportive for corporate issuers. Lower bond yields translate into a cost saving from an issuer's perspective. At one point, 3-year AAA bonds yielded 3.96%, about 50 basis points above MGS of similar maturity. New corporate bond issuances, excluding Cagamas stood at MYR67.6 in 2007 compared to MYR31.7 billion in 2006, about 2.1x higher.

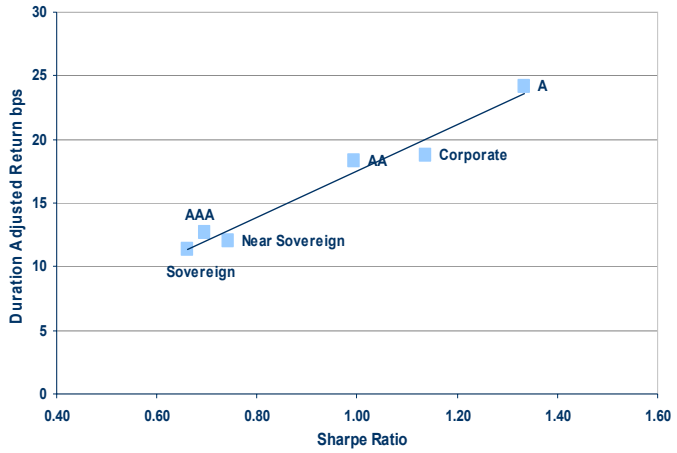
For valuation assessments, we have extended our analysis by looking beyond nominal corporate spreads. Using CIMB's corporate indices as a benchmark, we found that corporate bond valuation was actually expensive in 2007 relative to 2006 and against its long run average (exhibit 3). The average excess return in the corporate sector was just 9 basis points in 2007 compared to 20 basis points recorded in 2006.The corporate break even spreads which is defined as a corporate spread adjusted for its duration were generally lower relative to its long run average. Spread could widen by 56 basis points within 12 months in 2006 before corporate bond investors start to lose money but the 12-month break even spread in 2007 stood lower at 45 basis points. Looking at the same statistics across bands AAA, AA and A, the same outcome was observed. Nonetheless, risk adjusted returns, measured by the Sharpe ratio was actually higher in 2007, mainly driven by a lower volatility in the return indices. The 5-year AAA sector for example yielded around 4.14% in 2007, still within one standard deviation of its long run time series. The correlation coefficient between the equity index and corporate spreads continued to depict a strong sign of negative relationship (exhibit 5). The KLCI index rose by 31% from December 2006 to December 2007 and over the same period, corporate spreads also tightened. The 3-year AAA and 5-year AAA spreads fell by 7 basis points and 11 basis points respectively.

Exhibit 3: Corporate Bond Performance (CIMB 1-5-year Monthly Indices)

		AAA	AA	A	Corporate	Sovereign	Near Sovereign
2001-2007	Expected Return (bps)	36	52	67	53	30	29
	Standard Deviation (bps)	51	52	51	46	45	39
	Duration (yrs)	2.80	2.82	2.79	2.81	2.60	2.44
	Sharpe Ratio	0.70	0.99	1.33	1.14	0.66	0.74
	3-mth break even spread (bps)	5.6	9.9	24.5	13.3	n.a	n.a
	6-mth break even spread (bps)	11.1	19.9	49.0	26.7	n.a	n.a
	12 mth break even spread (bps)	22.3	39.8	98.0	53.4	n.a	n.a
	Excess Return (bps)	6	22	38	23	n.a	n.a
2006	Expected Return (bps)	43	48	62	50	31	27
	Standard Deviation (bps)	48	43	51	43	46	52
	Duration (yrs)	2.76	2.77	2.55	2.71	2.35	2.35
	Sharpe Ratio	0.89	1.12	1.22	1.16	0.67	0.52
	3-mth break even spread (bps)	5.4	9.4	27.1	14.0	n.a	n.a
	6-mth break even spread (bps)	10.8	18.8	54.3	28.0	n.a	n.a
	12 mth break even spread (bps)	21.7	37.5	108.6	55.9	n.a	n.a
	Excess Return (bps)	12	18	32	20	n.a	n.a
2007	Expected Return (bps)	29	38	52	38	29	27
	Standard Deviation (bps)	27	26	24	24	19	24
	Duration (yrs)	2.85	2.77	2.99	2.84	2.43	1.74
	Sharpe Ratio	1.06	1.44	2.13	1.56	1.51	1.13
	3-mth break even spread (bps)	4.3	7.5	21.7	11.2	n.a	n.a
	6-mth break even spread (bps)	8.6	15.0	43.3	22.3	n.a	n.a
	12 mth break even spread (bps)	17.1	30.1	86.7	44.6	n.a	n.a
	Excess Return (bps)	0	9	23	9	n.a	n.a

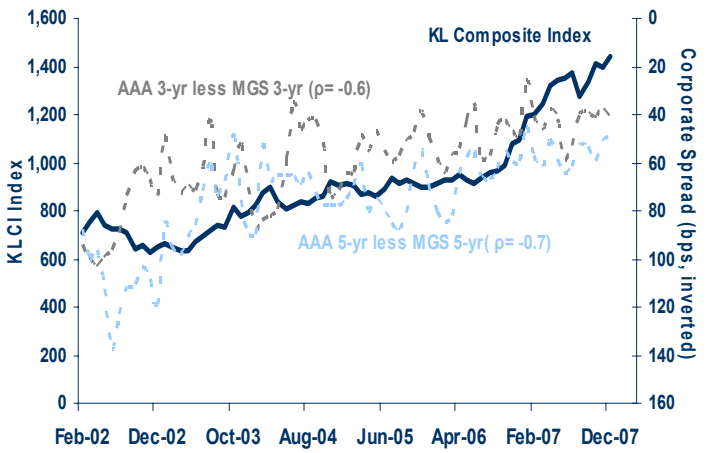
Source: CIMB, Bloomberg, MARC Fixed Income Research

Exhibit 4: Risk Adjusted Return Profile



Source: CIMB, Bloomberg, MARC Fixed Income Research

Exhibit 5: KLCI vs. Corporate Spread



Source: Bloomberg, MARC Fixed Income Research

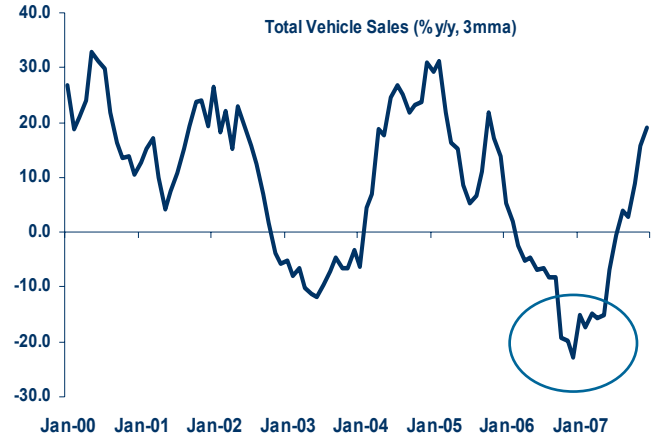
Property and Automotive : Negative outlook assigned for 2007 was coherent

In our 2006 default study, the automotive and property sectors were highlighted as the credit quality in these two sectors deteriorated as explained by the frequency of downgrades. The sole defaulted corporate issuer in 2006 came from the property portfolio.

Credit quality in the property sector has been experiencing a reasonably turbulent period since 2005 and the rating downgrades were primarily based on weakening credit fundamentals which were the result of lower sales, margin pressure, lower liquidity due to a build-up in inventory and limited near-term prospects for improved cash flow. Going into 2007, despite a general recovery in the property sector, four issuers were downgraded and out of these, three names have already had their rating lowered in 2006 (MK Land, Peremba, Intelbest). As explained in the previous default study, the credit quality for individual sector players demonstrated divergence, and primarily reflects the extent to which an issuer's development projects are competitively well positioned to withstand the more challenging operating environment.

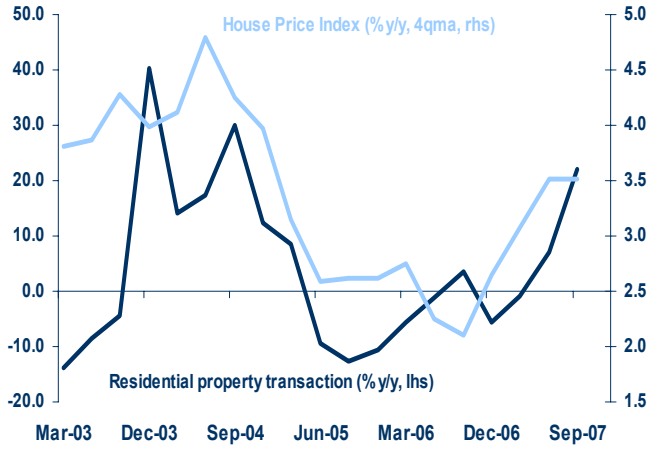
Four issuers from the automotive portfolio were downgraded in 2007 and it is worth noting that MARC had assigned a negative outlook to this industry in our 2006 default study. Such outlook was premised on sluggish auto sales, weaker consumer demand, industry overcapacity, growing competition, shorter production runs and bloated inventories. Almost 50% of the issuer downgrades in 2007 were equally contributed by these two sectors and 40% of 2007 defaults also came from these two sectors.

Exhibit 6: Auto Industry Sales



Source: Bloomberg

Exhibit 7: House price and Property Transaction



Source: Bloomberg

Review of 2007 Defaults

There were a total of five corporate defaults in 2007 affecting rated debt worth MYR2, 520 billion. The five issuers that defaulted were ACE Polymers (M) Sdn. Bhd. (ACE Polymers) , Paradym Resources Industries Sdn. Bhd. (Paradym), PECD Bhd. (PECD), Peremba Jaya Holdings Sdn. Bhd. (Peremba), and Sistem-Lingkaran Lebuhraya Kajang Sdn. Bhd (SILK).

Apart from the automotive and property sectors, other defaults in 2007 were not driven by industry factors. Three other issuers defaulted on their obligation but they are not captured in this study as the parameter excludes short-term ratings and Bank Guaranteed issuers. Those issuers are Jana Niaga Sdn. Bhd. and Stenta Films (M) Sdn. Bhd. which defaulted from MARC-4 (speculative grade rating) and CNLT (Far East) Bhd which carried a bank guarantee.

Of the MYR2,520 billion rated debt that defaulted, MYR2,010 billion was attributable to SILK while the remaining MYR510 million came from the other four issuers. Although these defaulted issuers were initially rated at an investment grade rating, all of them have been downgraded to speculative grades prior to defaulting, indicating the agency's continuous surveillance on its rated universe. Downgrades in 2007 were not concentrated in any other specific industries apart from the automotive and property sectors where eight issuers were downgraded. Consequently, two issuers from these two sectors defaulted (ACE Polymers – Automotive portfolio & Peremba Jaya – Property portfolio). Other defaults were largely driven by the specific issuers's deteriorating credit profile as explained by their downgrades prior to default.

SILK which was initially rated in August 2001 became a fallen angel in 2005 after being downgraded from A to BB- premised on the weak traffic volume at all the four tolls, which have been consistently and significantly below the initial traffic projections. Given such scenario, SILK's cash flow was anticipated to be insufficient to redeem the bond which heightened its default risk. In August 2007, the default of SILK was announced from cohort B-.

Paradym Resources's rating was lowered to cohort C following the termination of a contract to supply raw materials by Bank Negara Malaysia (BNM). The termination of the contract between Paradym Resources and BNM affected its cash flow significantly as such action could reduce Paradym's revenue by more than 60% and constitutes an Event of Default under the terms of the facility. MARC announced the default of Paradym Resources in June 2007.

Peremba Jaya Holdings Sdn. Bhd. an issuer from the property portfolio faced almost a similar situation to Paradym Resources where the government contract on a government quarters development was terminated. The termination of the contracts, which form the source of repayment for the obligation, placed the issuance in a technical default position. After being downgraded to cohort C, the default of Peremba Jaya was announced in April 2007.

The negative outlook for the domestic automotive industry arising from continued dismal vehicle sales performance coupled with increasingly stringent approval requirements for hire purchase loans, higher interest rates for used vehicles financing and depressed used car prices gave a tough ride for the issuers in the automotive sector. ACE Polymers, a manufacturer of auto parts defaulted in September 2007 after being downgraded to cohort BBB-.

PECD Bhd, another fallen angel in 2007 defaulted in December 2007. MARC recognized the increased execution challenges confronting management as they pursued the company's turnaround strategy and has been in close surveillance of PECD throughout the year, placing a negative outlook to this issuer, alluding to an elevated probability of default.

Exhibit 8 : 2007 Default Profile

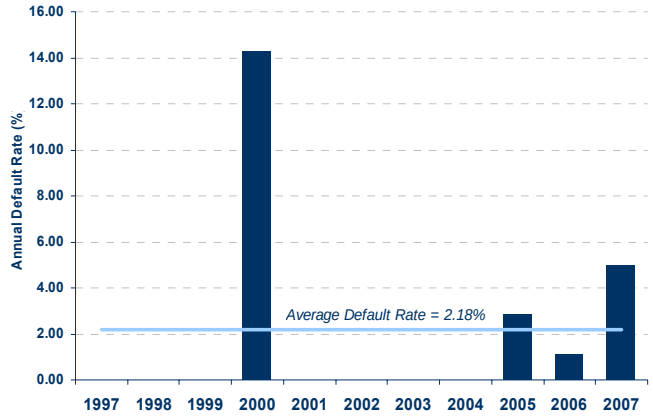
No	Isssuer Name	Industry	Amount Rated (MYR m)	Default Date	First Rating	Date of First Rating	Rating Prior to Default	Date of Last Review
1	Paradym Resources Industries Sdn Bhd	Industrial Products	40.0	13-Jun-07	A-	1-Jul-04	C	23-May-07
2	Sistem-Lingkaran Lebuhraya Kajang Sdn Bhd	Infrastructure & Utilities	2,010.0	23-Aug-07	A	1-Aug-01	B-	20-Sep-06
3	ACE Polymers (M) Sdn Bhd	Industrial Products	70.0	14-Sep-07	A	1-Sep-04	BBB-	16-Aug-07
4	Peremba Jaya Holdings Sdn Bhd	Property	200.0	16-Apr-07	A	1-Oct-04	C	18-Jan-07
5	PECD Bhd	Construction	200.0	31-Dec-07	A	1-Jun-05	BB+	05-Oct-07
		Total	2,520.0					

Source: MARC Fixed Income Research

Default Statistics (1997-2007)

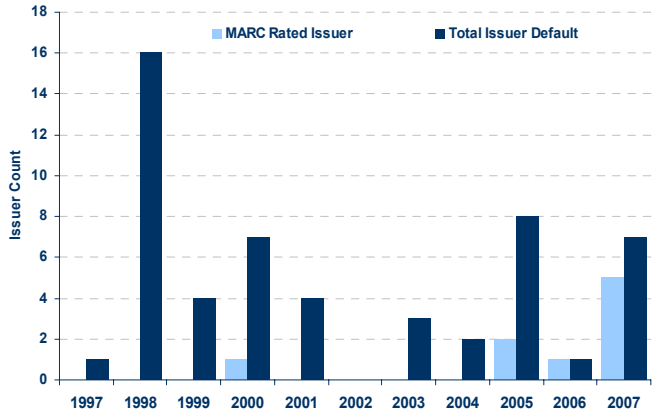
MARC's annual default rate rose to 5.00% in 2007 after five issuers defaulted. Rating downgrades assigned to the five defaulters in the last review prior to default indicated that the deterioration in credit quality was detected. On a cumulative basis, nine corporate issuers defaulted since 1997, representing 17% of total corporate defaults in the Ringgit corporate bond market since 1997. The fact that MARC did not record any default during the 1997-98 Asian financial crisis is explained by the number of outstanding issuers it had during that period as the first corporate rating was only announced in 1997. As at December 1998, there were only three corporate issuers with ratings outstanding.

Exhibit 9 : Annual Default Rates



Source: MARC Fixed Income Research

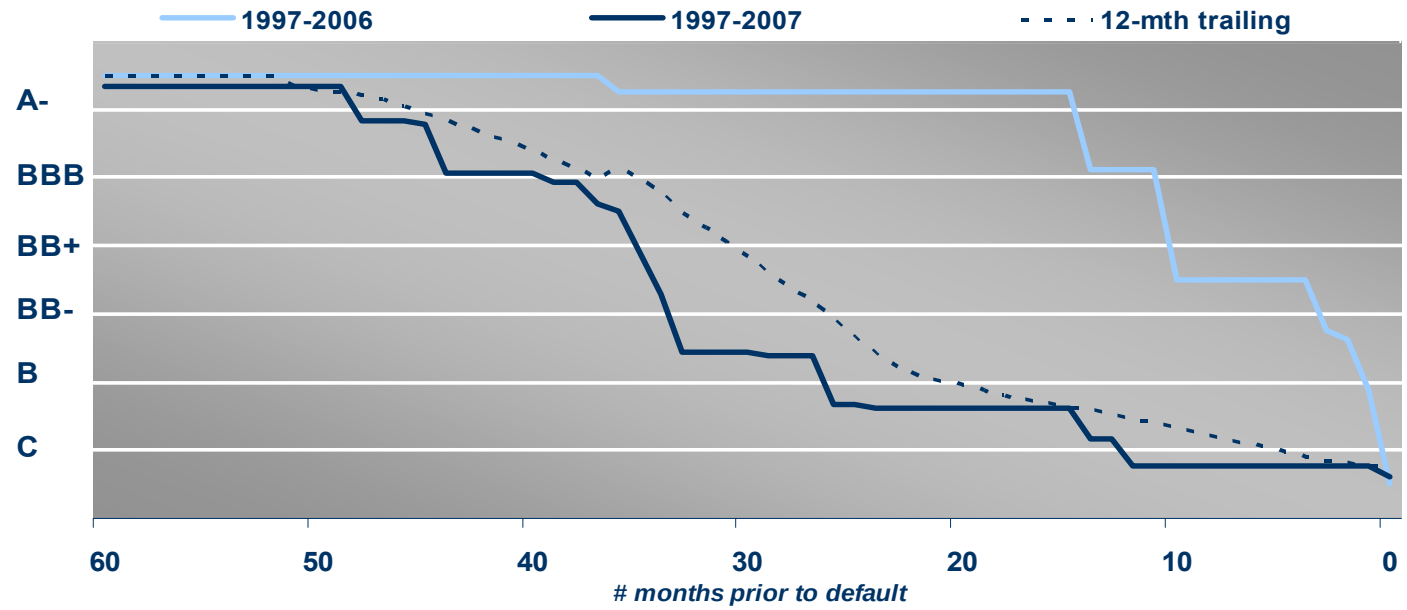
Exhibit 10 : Number of Issuer Defaults(1997-2007)



Source: Bloomberg, MARC Fixed Income Research estimates

The average time to default for the pool of five defaulting issuers in 2007 was 3.5 years. The longest time to default from this pool was 6.0 years recorded by Sistem-Lingkaran Lebuhraya Kajang Sdn. Bhd (SILK) whereas the shortest time to default was 2.4 years, recorded by PECD Bhd. The time to default statistic improved significantly as prior to 2007, the shortest time to default was exactly 1 year while the longest stood at 2.2 years. Nonetheless, it is worth noting here that such short time to default i.e. 1-year was contributed by an issuer that carried an initial speculative grade rating. Exhibit 9 shows that the average rating path of defaulters in MARC-rated universe improved significantly. Prior to 2007, the average rating was still in the investment grade category 1 year prior to default. Nevertheless, in the 1997-2007 study, the average rating on all defaulting entities was in the speculative grade category in the 3.5 years preceding default.

Exhibit 11: Average Rating Path of Defaulters



Source: MARC Fixed Income Research

Exhibit 12 : Time to Default From Original Rating

Original Rating	Defaulted Issuers	Average Months from Original Rating	Median Months from Original Rating
AAA	n.a	n.a	n.a
AA	n.a	n.a	n.a
A	8	36	31
BBB	1	12	12
BB	n.a	n.a	n.a
B	n.a	n.a	n.a
C	n.a	n.a	n.a
Total	9	33	29

Source: MARC Fixed Income Research

Exhibit 13 : Time to Default From Last Rating

Last Rating Prior to "D"	Defaulted Issuers	Average Months from Prior Rating	Median Months from prior Rating
AAA	n.a	n.a	n.a
AA	n.a	n.a	n.a
A	2	21	21
BBB	2	9	12
BB	2	2	2
B	1	11	11
C	2	3	3
Total	9	9	10

Source: MARC Fixed Income Research

Theoretically, the lower the original rating of an issuer, the shorter the time to default over the long run. Exhibit 12 shows that for the entire pool of defaulters (1997-2007), it takes 3 years on average for issuers that were originally rated 'A' to default. The average time to default for the issuers that were originally rated 'BBB' is exactly one year, which is shorter than the 'A' band. Unfortunately, the same statistics for lower rating bands could not be computed as the sample is not available.

In this study, static pools ranging from cohort 1997 to cohort 2007 were constructed to analyze the cumulative default rates as depicted in exhibit 14. To provide greater transparency, static pool cumulative default rates were computed using both withdrawn and non-withdrawn adjusted. Withdrawn adjusted would occur from the following; i) Withdrawn due to default ii) Withdrawn due to maturity or early retirement of the bond iii) Withdrawn due to rating abortion. Static pool cumulative average default rates were derived by averaging the marginal default rates from each pool that moves along the horizon from year 1. Marginal default rates are calculated by taking the ratio of the number of defaulters to the number of survivors from each static pool. For example, if four issuers defaulted from pool x in year t which also carries 100 survivors in the beginning of year t. the marginal default rate would then be 4.0%. In year t+1, should there be another five defaulters from the same static pool, the marginal rate for pool x in year t+1 will be computed by taking the ratio of five defaulters to 96 survivors i.e. only 96% survived in year t and that gives a marginal default rate of 5.2%. The denominator will be reduced by 4 counts as only 96 issuers from pool x survived going into year t+1.

Hypothetically, we know that marginal default rates for static pool x stand at 4.0% and 5.2% in year t and year t+1 respectively. In year t, we observed an average of 96% survived in one year. Similarly, about 91 issuers did not default in year t+1 which gives an average of 94.5% survived in one year. Multiplying 96% and 94.5% results in a 91% survival rate to the end of year t+1 and this translates into a two year cumulative average default rate of 9.0%.

Exhibit 14: Static Pool Cumulative Default Rates 1997 - 2007 (%)

Year	Issuers	Time Horizon									
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
1997	2	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1998	2	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
1999	4	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00		
2000	12	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
2001	22	0.00	0.00	0.00	0.00	0.00	4.55				
2002	9	0.00	0.00	0.00	0.00	0.00					
2003	11	0.00	9.09	9.09	9.09						
2004	32	3.13	6.35	16.35							
2005	31	0.00	3.23								
2006	22	0.00									
2007	17	0.00									
Summary		**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Marginal Average		1.22	2.43	3.40	0.00	0.00	2.38	0.00	0.00	0.00	0.00
Cumulative Average		1.22	3.62	6.90	6.90	6.90	9.11	9.11	9.11	9.11	9.11
Standard Deviation		7.50	8.27	9.69	9.50	10.21	10.85	12.50	14.43	0.00	0.00
Standard Error		2.26	2.76	3.43	3.59	4.17	4.85	6.25	8.33	0.00	0.00

Source: MARC Fixed Income Research

As depicted in exhibit 14, the marginal average first year default rate for all 11 pools was 1.22%, meaning that 98.78% issuers survived in the first year. The same default rate from the same pool in the second year was 2.43% for the first 10 pools, meaning 97.57% survived in one year. Multiplying 98.78% and 97.57% results in a 96.38% of survival rate at the end of second year which can also be interpreted as a two-year cumulative average default rate of 3.62%. Similarly, the third year average stood at 3.40% for the first nine pools and that translates into 96.6% of those issuers that did not default in the first and second year survived the third year. Multiplying 96.6% and 96.38% results in a 93.1% survival rate to the end of the third year. Hence the three-year cumulative average default rate based on the survival rate of 93.1% is 6.90%. In year 4, the marginal average default rate for the first seven pools is 0.0% as none of the issuers in these pools defaulted in year 4 and that means that all issuers that survived in the first three years did not default in the fourth year. Consequently, the cumulative average default rate in year 4 was exactly the same as year 3 i.e. [1 minus (93.1% x 100%)].

Looking at the 10-year horizon, the cumulative average default rate stood at 9.11% and that gives a 10-year survival rate of 90%. Thus far, there are five pools that did not experience defaults as the time horizon reaches its 5th year and they are 1997, 1998, 2000, 2001 and 2002 pools. It is also worth highlighting here that the total issuers captured in exhibit 14 may differ from issuer size in other statistics presented in this study. For example, an issuer that had issued a bond in 1997 will be captured in cohort 1997 and if the same issuer issued again in 2000, it will also be captured in cohort 2000 whereas in other statistics an issuer will only be captured based on its first issue only.

Exhibit 15: Marginal Mortality and Cumulative Mortality Rates 1997 - 2007 (%)

Year	Static Pool		Time Horizon									
	Issuer	MYR m	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
1997	2	1,500	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1998	2	1,175	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
1999	4	4,262	1.17	1.17	1.17	1.17	1.17	1.17	1.17	1.17		
2000	12	7,193	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
2001	22	12,047	0.00	0.00	0.00	0.00	0.00	20.85				
2002	9	4,470	0.00	0.00	0.00	0.00	0.00					
2003	11	3,590	0.00	2.23	2.23	2.23						
2004	32	12,398	2.74	4.83	7.54							
2005	31	13,197	0.00	1.52								
2006	22	6,900	0.00	0.00								
2007	17	50,380	0.00									

Summary	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Marginal Mortality Rate	0.33	0.90	0.72	0.00	0.00	9.59	0.00	0.00	0.00	0.00
Cumulative Mortality Rate	0.33	1.23	1.94	1.94	1.94	11.35	11.35	11.35	11.35	11.35
Standard Error	0.26	0.50	0.93	0.33	0.20	4.12	0.29	0.39	0.00	0.00
99% - Upper Limit	0.77	1.74	2.29	0.56	0.33	16.55	0.50	0.66	0.00	0.00
99% - Lower Limit	0.11	0.06	0.85	0.56	0.33	2.64	0.50	0.66	0.00	0.00

Source: MARC Fixed Income Research

Traditionally, default rates measurements have been issuer-based but despite a very small number of observations due to our short rating history and for the purpose of transparency, we have also computed dollar denominated default rates. The dollar-weighted average default rate from 1997 to 2007 stands at 1.55% vis-à-vis issuer-weighted average of 2.18% spanning the same period. The arithmetic mean of issuer based and dollar based default rates over the same measurement period are 2.11% and 0.63% respectively.

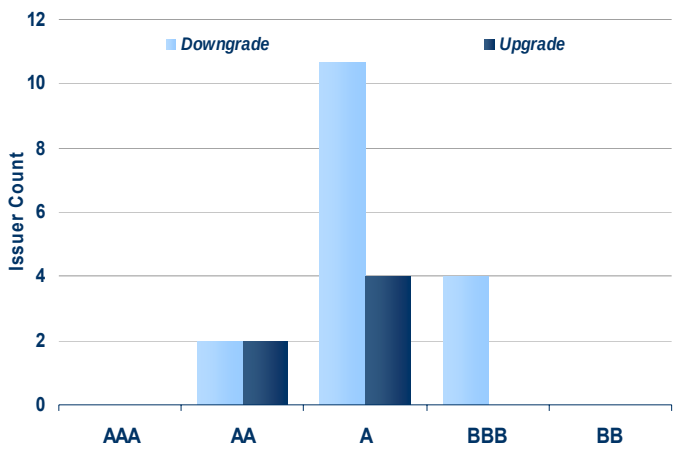
The concept of marginal mortality rate or MMR is almost the same as the marginal average discussed above. The only difference is that the MMR uses dollar value and is defined as the ratio of total value of defaulting debt to the total value of the population of bonds at the beginning of the year. The original population is adjusted for withdrawal effect which could come in via maturities, defaults and rating abortion. The cumulative mortality rate (CMR) is derived the same way as the cumulative average default rate was computed. The limited number of observations however is a constraint to why we did not extent this analysis to each rating band or cohort as some of the outcomes may be inconclusive. As depicted in exhibit 15, the cumulative mortality rate stands at 11.4% in the 10th year and that translates into 89% survival rate when the statistic is measured using the dollar value instead of issuer size. The difference between cumulative mortality rate and cumulative average default rate is explained by the basis used in deriving them. The first one is a function of the debt size regardless of the default counts recorded while the latter is driven by the frequency of defaults in one year. For instance, if 10 defaults were experienced from a pool of 100 issuers, then the marginal default rate would be 10% whereas if the dollar value that defaulted from the same pool was MYR100 million from a total of MYR2, 300 million, the mortality rate would be 4.35%.

Rating migration in 2007

Approximately 72% of outstanding issuer ratings remained stable in 2007, giving an 8% variance from the long run weighted average of 80%. There were 6 issuer upgrades in 2007, bringing the YTD upgrades to 37 issuers since inception in 1997 while total downgrades over the same period stood at 38 issuers, giving a downgrade to upgrade ratio of 1.03:1, which is almost at par. Rating migration continued to be concentrated in band A and this could be easily explained by the fact that 62% of outstanding issuers were rated in this band as at January 1, 2007. The downgrade rate increased in 2007, continuing to hover above its long run average of 8.6% while the upgrade rate, which has a long run average of 8.9% stabilized around 6.0%. Exhibit 9 indicates that almost 50% of the downgrades in 2007 were contributed by the property and automotive portfolio, the two sectors that were assigned a negative credit outlook. On a positive note, the finance and oil&gas sectors were the star performers, representing two-thirds of the issuer upgrades in 2007 while the remaning one-third is equally distributed between the construction and port/airport portfolios.

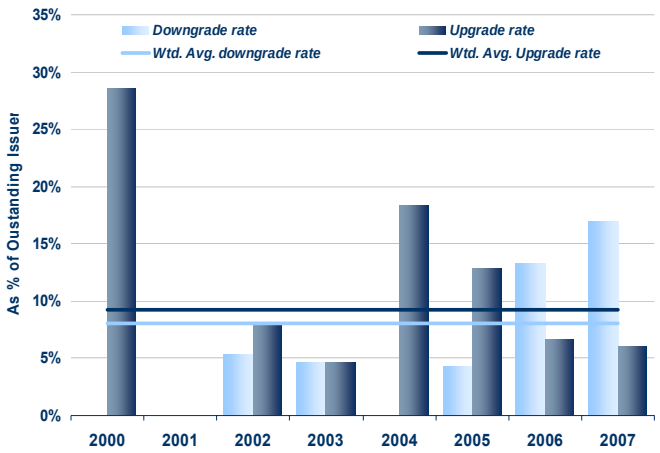
The rating outlook indicator that was fully implemented in the fourth quarter of 2006 to gauge the potential rating action demonstrated significant predictive power in anticipating the migration behavior. The effectiveness of the rating outlook could not be efficiently tested in previous studies. Nonetheless, in this study we are able to test the efficiency of this measure by looking at the 2007 migration samples. About 67% of issuers that were assigned with the negative outlook and positive outlook during the previous rating review had been downgraded and upgraded respectively in 2007.

Exhibit 16: 2007 Migration by Rating Bands



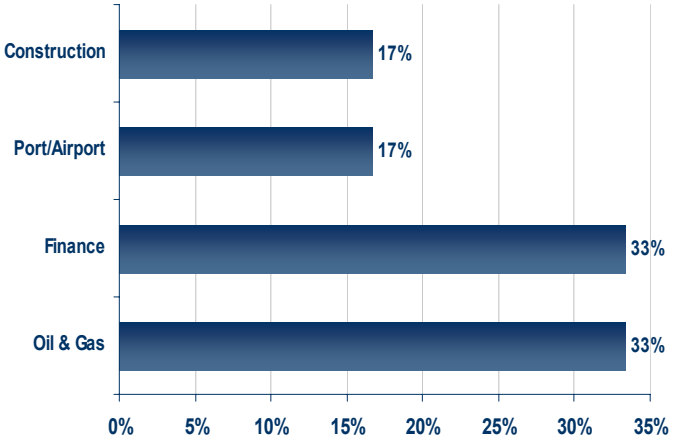
Source: MARC Fixed Income Research

Exhibit 17: Upgrade and Downgrade Rates (97–07)



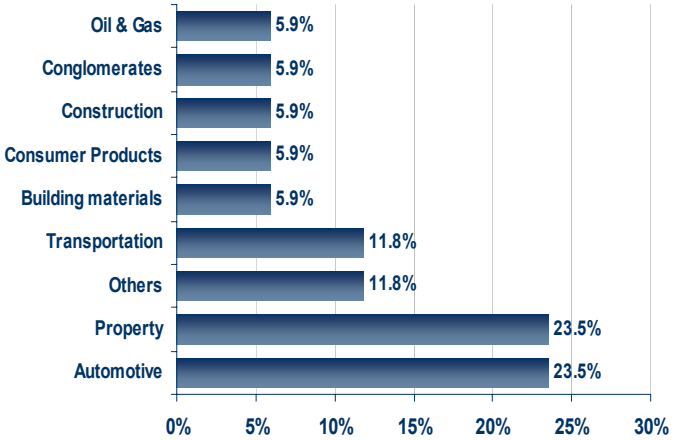
Source: MARC Fixed Income Research

Exhibit 18: 2007 Upgrades by Sectors



Source: MARC Fixed Income Research

Exhibit 19: 2007 Downgrades by Sectors



Source: MARC Fixed Income Research

Exhibit 20: Summary of Annual Rating Movement

Year	Issuer as of January 1	Upgrade	Downgrade	Default	Withdrawn	Changed Rating	Stable Rating	Downgrade to Upgrade Ratio
1999	3	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	0.00
2000	7	28.6%	0.0%	14.3%	0.0%	42.9%	57.1%	0.00
2001	18	0.0%	0.0%	0.0%	5.6%	0.0%	100.0%	0.00
2002	37	8.1%	5.4%	0.0%	0.0%	13.5%	86.5%	0.67
2003	43	4.7%	4.7%	0.0%	9.3%	9.3%	90.7%	1.00
2004	49	18.4%	0.0%	0.0%	12.2%	18.4%	81.6%	0.00
2005	70	12.9%	4.3%	2.9%	5.7%	20.0%	80.0%	0.33
2006	90	6.7%	13.3%	1.1%	6.7%	21.1%	78.9%	2.00
2007	100	6.0%	17.0%	5.0%	7.0%	28.0%	72.0%	2.83
Wtd. Average		**8.9%**	**8.6%**	**2.2%**	**6.7%**	**19.7%**	**80.3%**	**1.33**

Source: MARC Fixed Income Research

Rating transition rates compare issuers at the beginning of time period (1st January) with ratings at the end of time period (31st December). Multiple count of an issuer is possible i.e. an issuer that remained in the rating universe for more than one year will continue to be captured year in year out. For example, if MARC started to rate one issuer in 1997 and if its issue had not been withdrawn from the universe until 2007 then this issuer would appear in the 10 consecutive 1-year transition tables from 1998 to 2006.

Exhibit 22 shows the 1-year cumulative average transition rates for MARC's corporate universe. 97.3% of issuers that were rated AAA at the beginning of the year remained unchanged at the end of the year. The migration rate from band AAA is practically non existent as the 1.4% proportion is the withdrawn share. Moving lower to AA band, 91% of the issuers that begin their journey in this rating spectrum manage to last in this group while migration probability stood at 5.2%. These two bands are highly rated in terms of default probability hence it is logical that we observe a zero percent default probability among issuers in these spectrums. The stability of rating gets lower as we move further down along the credit curve. Issuers in band A and band BBB have 88% and 73% chances respectively to stay unchanged come year end. At the lower end of the credit curve, some anomalies exist in terms of rating stability between band BB and band B. Band BB, being highly rated relative to band B has a 75% chance of no rating movement while the probability for band B is about 8% higher. In terms of default probability, it is consistent with the hypothesis that lower rated band should carry a higher default probability. The default ratio for bands A, BBB and B stands at 2.0%, 4.0% and 17% respectively.

Exhibit 21: Cumulative Average One Year Transition Rates (%, 1997 – 2007)

1997 - 2007	End-of-Year Rating								
Beginning-of-Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	97.3%	1.4%	0.0%	0.0%	0.0%	0.0%	0.0%	1.4%	0.0%
AA	2.1%	90.7%	3.1%	0.0%	0.0%	0.0%	0.0%	4.1%	0.0%
A	0.0%	2.0%	88.2%	1.7%	0.3%	0.0%	0.0%	5.7%	2.0%
BBB	0.0%	0.0%	15.4%	73.1%	0.0%	3.8%	0.0%	3.8%	3.8%
BB	0.0%	0.0%	0.0%	0.0%	75.0%	12.5%	0.0%	12.5%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	83.3%	0.0%	0.0%	16.7%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: MARC Fixed Income Research

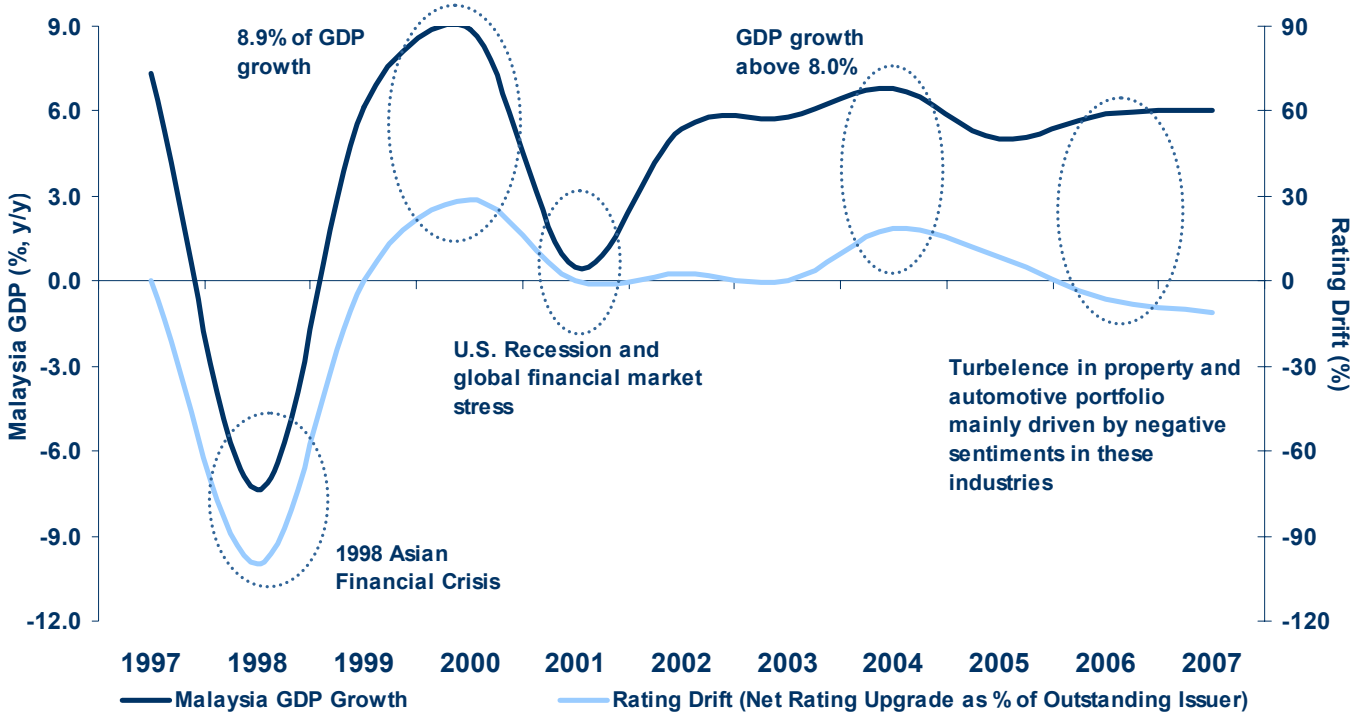
Credit quality is strongly correlated with economic growth and industry well being

Despite no default recorded during the 1998 Asian Financial Crisis, rating downgrades clearly outpaced rating upgrades, a sign of credit stress amongst corporate borrowers. MARC first announced its rating in 1997, exactly a year before the crisis and as of 1st January 1998, there were only two issuers with long term rating outstanding in its corporate portfolio. Those two issuers were initially rated at investment grade with one of them ranked in AAA band, the highest in MARC's ordinal credit ranking system. The short rating history prior to the crisis and the fact that those two outstanding issuers were in the investment grade group explains why no default was recorded during that crisis.

Credit trends, measured by the rating drift (net upgrade as % of outstanding issuer) carry a 90% correlation coefficient against Malaysian GDP growth (exhibit 21). During the 1998 Asian Financial Crisis, where economic growth was at -7.4%, downgrades clearly overshadowed upgrades. After recovering from that crisis, the economy was growing at a healthy level, recording 8.9% growth in 2000 and given this backdrop, 30% of excess upgrade was recorded. The U.S. recession in 2001-02 was followed by a slump in the global financial market and general deterioration in credit quality. As a result, yearly growth of the Malaysian economy was generally flat and credit quality as explained by our rating drift was also affected. Once again in 2004 the rating drift rose to 20% and that happened when the economy was growing above 8.0%.

However, an anomaly to this steady relationship emerged in 2006. Despite healthy economic growth, the reading from the rating drift indicated otherwise. Looking at the downgrades assigned in 2006, almost 40% was contributed by downgrades in the property and automotive portfolio. These two sectors have been riding a tough year in 2006 and early parts of 2007 (refer to exhibit 6 and exhibit 7). In addition, as published on our 2006 default study, the only default came from the property portfolio. Going into 2007, we had alluded to heightened downgrade probability for these two sectors.

Exhibit 22: Economic Growth Vs. Rating Drift



Source: MARC Fixed Income Research, CEIC

The paragraph below gives the snapshot on our 2007 credit outlook that we attached together with the 2006 Annual Corporate Default and Rating Transition Study.

2007 Credit Outlook : Lingering downgrade trend for selected sectors

"The stable credit trend experienced since 2003 took a negative turn in 2006 although defaults stayed low relative to its long run average. A record high of downgrade and negative outlook statistics for MARC alludes to lingering downside risks for corporate creditworthiness into 2007. Despite the benign macroeconomic backdrop, creditworthiness in a few sectors remains a concern, given the persisting negative trend in property and automotive market fundamentals. The knock-on effect of previous monetary tightening, and rising cost of living with hikes in utility tariffs and toll rates continues to weigh on consumer spending, particularly for lower income households. Rising inventories and modest take up rates are also expected to heighten the risk of further downgrades in the property sector. The automotive sector, which represents 28% of outstanding issuers under industrial products, will also continue to face a tough year in 2007. Apart from economic fundamentals, credit trends will continue to be affected by discretionary strategic and financial policy decisions such as acquisitions, business diversification, corporate share repurchases, and the use of debt to retire equity as well as adverse regulatory developments."

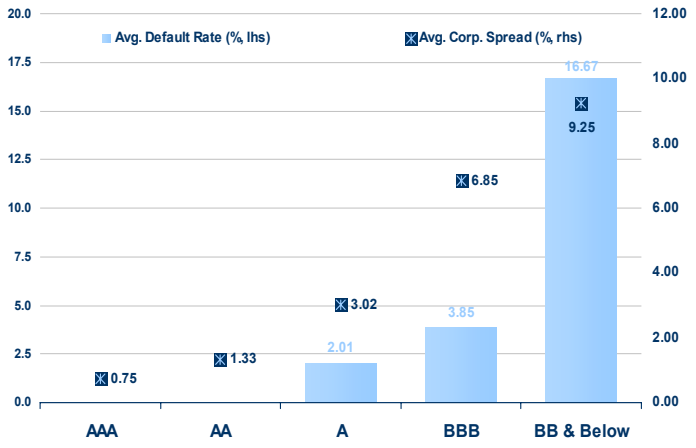
Downgrade counts in 2007 stood at 17 issuers inclusive of the defaulters compared to 12 issuer downgrades announced in 2006. It is worthwhile to note here that 48% of the issuer downgrades in 2007 came from a combination of automotive and property issuers. Despite a general recovery in these sectors particularly towards the end of 2007, we do not discount the lag effect of industry distress to the issuers that belong in this group. Nevertheless, we are not saying that this problem was creeping across the board as specific issuers that are well positioned could still withstand such challenging operating environment. In addition, seven downgrades in 2007 involved issuers that have been downgraded a year before and carried a negative outlook tag with them. Of this seven, almost 60% came from property and automotive portfolio.

Premium is a function of default risk while lower ratings carry greater volatility

Risk premium is a function of default probability. Theoretically, ratings that carry a higher default probability should attract a higher risk premium. Another way of expressing this is that risk premium should be higher as we move from a higher credit rating to a lower continuum. Looking at exhibit 22, the average risk premium to compensate investors in the AAA rating category is 75 basis points. As we move towards the lower spectrum, band A for example, which has an average default rate of 2.01%, the risk premium required also rose to 3.02%. This positive correlation between default probability and default risk premium was well observed in MARC's default database.

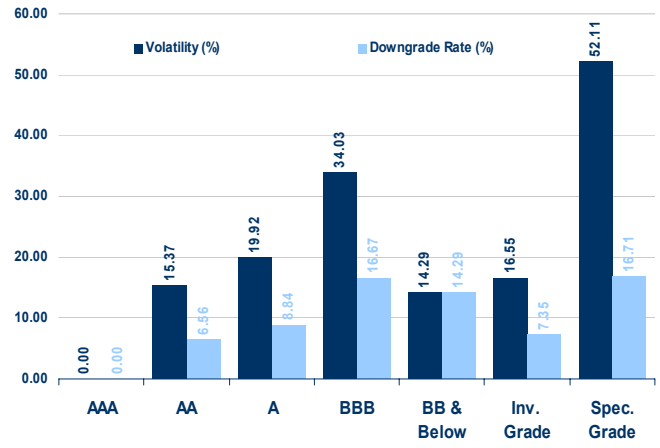
Lower rating depicts higher volatility. Issuers that carry higher ratings are less likely to migrate. Exhibit 24 indicates that since 1997, investment grade ratings carries a weighted average downgrade rate of 7.35% vis-à-vis 16.7% in speculative grade with the hypothesis that the higher spectrum should demonstrate greater stability. As we move towards the lower continuum, volatility increased jointly with the downgrade rates. Nonetheless, given a very small sample size, particularly at the low end of the investment grade and speculative grade, special caution should be given in examining the outcome.

Exhibit 23: Default vs. Risk Premium (1997-2007)



Source: MARC Fixed Income Research

Exhibit 24: Volatility by Rating Bands (1997-2007)



Source: MARC Fixed Income Research

2008 Default, Migration and Stability Outlook

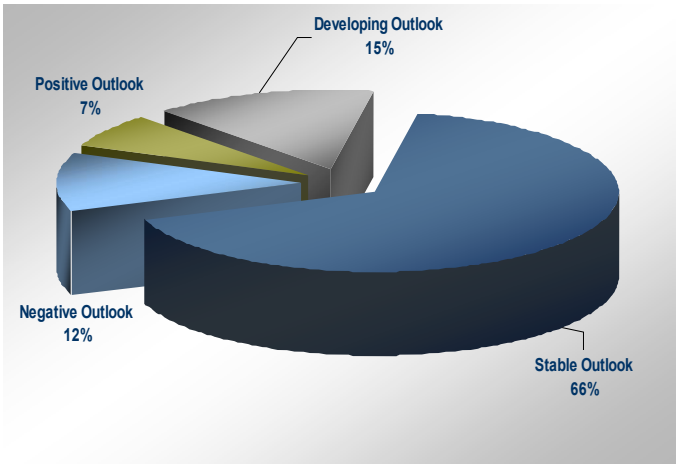
There are a total of five issuers in the speculative grade going into 2008 and out of these issuers, two of them were downgraded in 2007 with a negative outlook. There is another issuer that was also assigned with negative outlook but not downgraded while the remaining two are newly rated speculative grade issuers with stable outlook. Looking at the outlook distribution and issuers in the speculative grade rating, the default rate is set to swing to the opposite direction, reverting to its long run weighted average in 2008. Our 2008 estimate for MARC's corporate default rates is 2.94% and from the historical data, the estimated standard error of the default rates is 1.3%. The forecast was not derived from any linear or non-linear regression as our sample is extremely short. Hence the impact of macroeconomic conditions could not be quantified in this forecast. The forecast was generally based on the number of survivors into 2008, rating distribution and outlook distribution.

The downgrade to upgrade ratio which measures the general credit trend rose in 2007 relative to its long run average. Nevertheless the same finding was also observed in the rating migrations of a sample that exclude MARC's rated corporate issuers. The sample was formed by taking the total migrations of long term corporate issuers in Malaysia rated by other rating agencies (exhibit 26). The downgrade to upgrade ratio of this sample rose from 0.4:1.0 in 2006 to 1.0:1.0 in 2007, above its 1999-2007 average of 0.6:1.0.

As explained previously, about 67% of the rating migrations in 2007 could be explained by the rating outlooks direction. As at end of December 2007, 66% of outstanding issuers carry stable outlooks whilst positive outlooks represent about 7.0% of outstanding issuers. Negative outlooks distribution on the other hand stood at 12% while the remaining issuers were assigned with developing outlooks (exhibit 25). Mapping the 2007 explanatory coefficient of rating outlooks to the survivors that were placed in both, positive and negative outlooks, translates into a 13 issuers migration in 2008 compared to the actual number of 23 issuers in 2007 and 18 issuers in 2006.

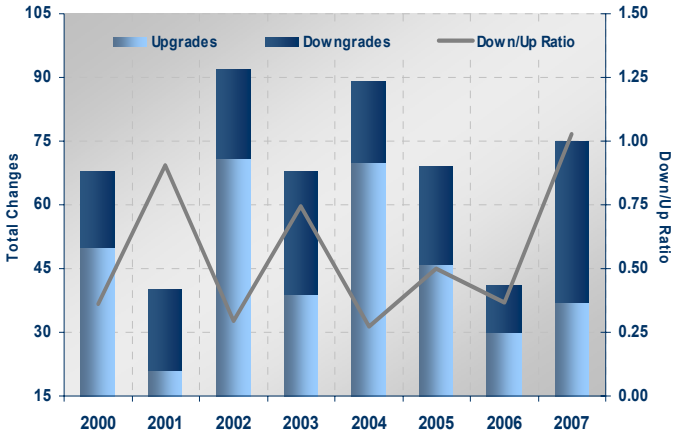
Assuming this 13 issuers migration based on the mapping analysis done and 102 outstanding issuers going into 2008, stable ratings are expected to constitute around 87% and adjusting this number further to include our default rate forecast, the corporate debt portfolio is expected to demonstrate 84% of stable ratings spanning 1st January 2008 to 31st December 2008. In order to be more conservative about the rating stability estimate, we did some stress test based on the standard error of the average annual migration sample (upgrades and downgrades). If 2008 migration were to grow higher above its one standard error range of three issuers, stable ratings will stand at 81.3% and stress testing it against two standard error, rating stability is expected to be around 78.9%. The outcomes from the base case, scenario 1 and scenario 2 are all higher than the actual stable ratings in 2007. Benchmarking further against the long-run weighted average, only scenario 2 portrays lower stability i.e. 78.9% vis-à-vis 80%.

Exhibit 25: MARC's Corporate Universe – Outlook Distribution as at end of 2007



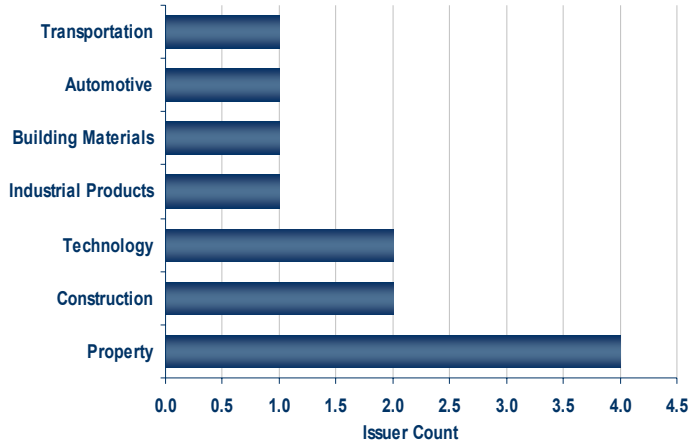
Source: MARC Fixed Income Research

Exhibit 26: Total Rating Changes among Malaysian Corporate Issuers ex-MARC*



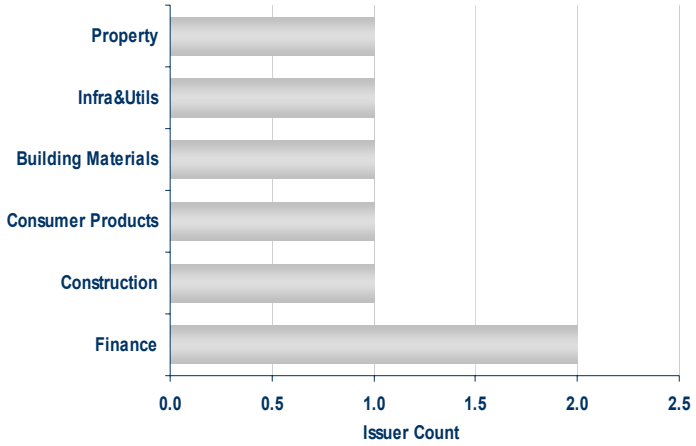
Source: Bloomberg, MARC Fixed Income Research
**Total migration among issues rated by S&P, Fitch, Moody's and RAM. Only measure the long term ratings and also includes non-ringgit bonds. Includes both, financial and non financial issues.*

Exhibit 27: Negative Outlook by Industry



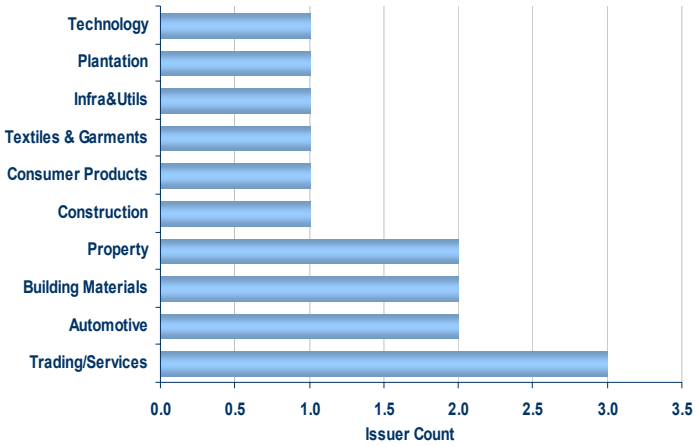
Source: MARC Fixed Income Research

Exhibit 28: Positive Outlook by Industry



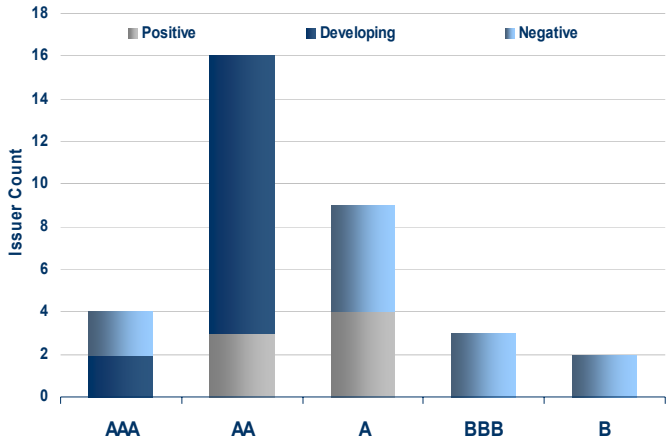
Source: MARC Fixed Income Research

Exhibit 29: Developing Outlook by Industry



Source: MARC Fixed Income Research

Exhibit 30: Outlook Distribution by Rating Band



Source: MARC Fixed Income Research

Appendix I: Data and Methodologies

This long-term corporate default and rating transition study uses MARC's database of local currency issuer credit ratings which reflect MARC's independent opinion of an issuer's ability to meet its debt obligation. The likelihood of default is indicated by the rating migration assigned to the affected issuers, the rating outlook attached as well as the watchlist assigned. This study excludes short term ratings and all structured finance issuers. In addition, issuers with bank guarantee and other credit support are also excluded as this study aims to analyse the stand alone corporate default risk.

This study analyzed the rating histories of 139 corporate issuers that were rated by MARC spanning 1997 to 2007. In the previous default studies, MARC conducted its annual default study based on the number of issues rather than issuers mainly due to its extremely small sample. Nevertheless, from this point onwards, our annual default study will be issuer based to stay in line with international practice. Each study reports all statistics beginning December 1997, hence it ensuring consistency in the statistical reporting. Data enhancement efforts which will be carried out continuously to ensure a certain degree of transparency and integrity may lead to different outcomes from one report to another. The study is self-contained and the current study should supersede the previous one. Nevertheless a major challenge to this study is the extremely small sample size particularly in the speculative grade ratings and as a result, most of the statistics could not be divided into investment and speculative grade analysis as the small number of observations would be statistically inconclusive.

MARC's long-term rating scale has a single 'C' rating level between 'B-' and 'D' as compared to global rating agencies which typically have three intermediate categories i.e. 'CCC', 'CC' and 'C'. Also, within the three categories, their practice is to append modifiers (+/-) or 1, 2, and 3 to each genetic.

Default Definition

(Specifically prescribed for MARC's Default and Rating Transition Study: 1997-2007)

- Issuers will be rated 'D' upon default. Distressed obligations typically are rated along the continuum of 'B' to 'C' ratings categories. In situations where analysis indicates that an instrument is irrevocably impaired where it is not expected to meet payment of interest and/or principal in full in accordance with the terms of the obligation's documentation during the life of the transaction, but where no payment default in accordance with the terms of the documentation is imminent, the obligation may be rated in the 'B' or 'C' categories.
- Default is defined as one of the following:
  - ✓ Failure of an issuer/obligor to make timely payment of principal and/or interest under the contractual terms of the rated financial obligation (first dollar missed payment basis);
  - ✓ Bankruptcy filings, administration, receivership, liquidation, winding-up or cessation of business of an issuer/obligor; or
  - ✓ Distressed or other coercive exchange of a rated financial obligation, where creditors were offered securities with diminished structural or economic terms compared with the existing financial obligation of the issuer/obligor.
- MARC will assign default ratings where it has reasonably determined that payment has not been made on a material obligation in accordance with the requirements of the obligation's documentation, or where it believes that default ratings consistent with MARC's published definition of default are the most appropriate ratings to assign.

Default Rate Calculation

- The default rate calculation used in MARC's Corporate Bond default study is given by the following formula:

$$d_t = x_t / (n_t - w_t)$$

Where $\mathbf{x_t}$ is the number of defaulted issuers in year **t,** $\mathbf{w_t}$ is the number of rating withdrawals and $\mathbf{n_t}$ is the number of outstanding ratings at the beginning of the year and adjusted for the previous defaults.

- The denominator reflect issuers whose ratings were withdrawn and therefore not at risk of default over the measurement period. Hence, there are three possible scenarios that need to be modeled to predict the default rate under the scope of MARC's Corporate Default Study: survival to the next time period, rating withdrawal and default.

Appendix II: Press Announcements of 2007 Defaulters

MARC DOWNGRADES PARADYM RESOURCES INDUSTRIES SDN BHD (PRI)'S RM40 MILLION ISLAMIC COMMERCIAL PAPER (ICP) /MEDIUM TERM NOTE ISSUANCE PROGRAMME (IMTN) FROM CID/MARC-4ID TO D ID

Jun 13, 2007 -

MARC has downgraded the long and short term ratings of PRI's RM40.0 million ICP/IMTN to D ID (D, Islamic Debt) and withdrawn its ratings upon receipt of confirmation from Bank Muamalat Malaysia Berhad (BMMB), that an "Event of Default" has been declared in relation to the ICP/IMTNs.
PRI had failed to replenish an amount of RM191,945 into the Finance Service Reserve Account (FSRA) of its RM40 million ICP/IMTN on 28 May 2007. PRI's inability to cure such default under the Trust Deed dated 30 June 2004, within the remedy period, has resulted in the entire RM40 million ICP/IMTN becoming due and payable.

MARC had earlier downgraded the ratings of PRI to C ID /MARC-4 ID on 23 May 2007 following concerns as to the company's ability to fund near-term commitments arising from the termination of a contract to supply raw materials by Bank Negara Malaysia ("BNM").

MARC HAS WITHDRAWN RATING ON SISTEM LINGKARAN-LEBUHRAYA KAJANG SDN BHD'S (SILK) AL-BAI BITHAMAN AJIL ISLAMIC DEBT ISSUANCE FACILITY FOLLOWING THE RATING DOWNGRADE TO D

Aug 23, 2007 -

MARC has lowered its rating on Sistem Lingkaran-Lebuhraya Kajang Sdn Bhd's (SILK) Notional Amount of RM2.10 billion Al-Bai Bithaman Ajil Islamic Debt Issuance Facility (ABBA) from 'B- ID' to 'D'. Concurrently, the rating has been removed from MARCWatch Negative where it had been initially placed in May 2007. The lowered rating reflects SILK's inability to meet the August 22, 2007 scheduled redemption of RM150 million due on the facility. The rating also acknowledges MARC's understanding that the financial covenant breached in February 2007 in respect of SILK's annual debt service cover ratio (DSCR) remains unresolved.

The bondholders had approved the restructuring of the ABBA in accordance with the restructuring proposal by Affin Investment Bank Berhad at an Extraordinary General Meeting (EGM) convened on August 17, 2007. Subject to appropriate resolutions being passed by SILK and Sunway Holdings Incorporated Berhad in relation to the restructuring, the trustee has been irrevocably instructed not to take any enforcement action against SILK for any breach of covenant under the facility from the date of the extraordinary resolution up to November 30, 2007. Following the downgrade, MARC has withdrawn the rating and no longer has any rating obligations to the ABBA issue.

MARC DOWNGRADES THE RATING ON ACE POLYMERS (M) SDN BHD'S RM70 MILLION AL BAI BITHAMAN AJIL ISLAMIC DEBT SECURITIES TO D ID AND WITHDRAWS RATING

MARC has lowered the rating on Ace Polymers (M) Sdn Bhd's ("Ace") RM70 million Al Bai Bithaman Ajil Islamic Debt Securities ("BaIDS") from 'BBB- ID' to 'D ID'. The rating of "D" reflects Ace's failure to make scheduled payment on the RM10 million Primary BaIDS due on September 14, 2007. Ace was placed on MARCWatch Negative on August 15, 2007 following a shortfall in its Finance Service Reserve Account (FSRA) for its Primary and Secondary BaIDS redemption due on September 14, 2007.

The trustee has confirmed as of September 12, 2007, that the balance remaining in the Finance Service Reserve Account will be insufficient to meet the redemption of RM10 million Primary BaIDS scheduled on September 14, 2007. Subsequently, on September 13, 2007, the facility agent, KAF Investment Bank Bhd, announced that no payment will be made on the abovesaid Primary BaIDS.

Following the rating downgrade, MARC has withdrawn the rating and no longer has any rating obligation on the BaIDS issue

MARC DOWNGRADES PEREMBA JAYA HOLDINGS SDN BHD'S RM200 MILLION MURABAHAH UNDERWRITTEN NOTES ISSUANCE FACILITY (MUNIF)/MURABAHAH MEDIUM TERM NOTES (MMTN) FROM CID/MARC-4ID TO D ID

Apr 16, 2007 -

MARC has lifted the MARCWatch Negative and downgraded the long and short term ratings of Peremba Jaya Holdings Sdn Bhd's (PJHSB) RM200 million Murabahah Underwritten Notes Issuance Facility (MUNIF)/ Murabahah Medium Term Notes (MMTNs) to DID (D, Islamic Debt) following its failure to meet repayment obligations on its RM153 million Commercial Papers on 15 February 2007.

MARC had downgraded the ratings to CID/MARC-4ID in January 2007 and had advised then that PJHSB was technically in default as a result of termination notices served on Arif Cerah Sdn Bhd (a subsidiary of PJHSB) by Putrajaya Holdings Sdn Bhd on Government Quarters Contracts.

MARC is aware that PJHSB is in discussions with note holders to reschedule the debt but no formal notification has been forthcoming. MARC is reviewing the effect of these developments on PECD Bhd (the holding company of PJHSB) and will advise any rating implications in a separate announcement.

MARC DOWNGRADES PECD BHD'S RM200 MILION SERIAL FIXED RATE BONDS RATING TO D FROM BB+

Dec 31, 2007 –

MARC has downgraded PECD Berhad's (PECD) RM200 million serial fixed rate bonds rating to D from BB+ as a result of a missed coupon payment for the bonds on December 31, 2007. PECD is a domestic public-listed construction company, which has since 2004, ventured offshore and secured contracts in Dubai, Sudan and Indonesia.
MARC had earlier downgraded PECD's RM200 million serial fixed rate bonds to BB+ with a negative outlook in October 2007 on the basis of continued deterioration of its financial profile and the considerable challenges faced by PECD in executing its turnaround strategy. The rating had earlier incorporated an anticipated recapitalisation exercise and asset disposals which were intended to avert the threat of imminent default posed by PECD's near-term debt service requirements and strained liquidity. PECD's failure to complete its recapitalisation exercise, targeted before end-2007, made default imminent.

Following the rating downgrade to D, MARC no longer has a surveillance obligation in respect of the bonds.

Appendix III: 2007 Rating Migration

No	Issuer	Sector	Date	Rating Action	Outlook	Previous Rating	New Rating
1	MAA Holdings Bhd	Financial Holding Company	16-Feb-07	Upgrade	STA	A-	A
2	Bumiputra-Commerce Holdings Bhd	Financial Holding Company	01-Mar-07	Upgrade	STA	A+	AA-
3	KNM Capital Sdn Bhd	Oil & Gas	06-Dec-07	Upgrade	STA	A+	AA-
4	Gas Malaysia Sdn Bhd	Oil & Gas	18-Dec-07	Upgrade	STA	AA+	AAA
5	Gas Malaysia Sdn Bhd	Oil & Gas	18-Dec-07	Upgrade	STA	AA+	AAA
6	WCT Engineering Bhd	Construction	28-Dec-07	Upgrade	STA	A+	AA-
7	WCT Engineering Bhd	Construction	28-Dec-07	Upgrade	STA	A+	AA-
8	Westports Malaysia Sdn Bhd	Port/Airport	31-Dec-07	Upgrade	STA	AA	AA+
9	PECD Bhd	Construction	08-Mar-07	Downgrade		A-	BBB
10	PECD Bhd	Construction	03-Jul-07	Downgrade	DEV	BBB	BBB-
11	PECD Bhd	Construction	05-Oct-07	Downgrade	NEG	BBB-	BB+
12	DeGem Bhd	Consumer Products	07-Mar-07	Downgrade	STA	A+	A
13	Ingress Sukuk Bhd	Automotive	28-Dec-07	Downgrade	STA	A+	A
14	Tracoma Holdings Bhd	Automotive	26-Feb-07	Downgrade	NEG	A	BBB+
15	ACE Polymers (M) Sdn Bhd	Automotive	16-Aug-07	Downgrade	NEG	A-	BBB-
16	Delloyd Ventures Bhd	Automotive	14-Sep-07	Downgrade	DEV	A+	A
17	Mithril Bhd	Building Materials	25-May-07	Downgrade	NEG	BBB	BBB-
18	Paradym Resources Industries Sdn Bhd	Industrial Products	23-May-07	Downgrade	NEG	A	C
19	Englotechs Holding Bhd	Industrial Products	19-Sep-07	Downgrade	NEG	A	BBB+
20	MK Land Holding Bhd	Property	12-Jan-07	Downgrade	NEG	A	A-
21	MK Land Holding Bhd	Property	12-Jan-07	Downgrade	NEG	A	A-
22	Glomac Bhd	Property	19-Jan-07	Downgrade	STA	A	A-
23	Glomac Bhd	Property	19-Jan-07	Downgrade	STA	A	A-
24	Intelbest Corporation Sdn Bhd	Property	19-Jul-07	Downgrade	NEG	BBB+	B+
25	Intelbest Corporation Sdn Bhd	Property	19-Jul-07	Downgrade	NEG	BBB	B+
26	Intelbest Corporation Sdn Bhd	Property	19-Jul-07	Downgrade	NEG	BBB	B+
27	Oilcorp Bhd	Oil & Gas	07-Feb-07	Downgrade	STA	A	A-
28	Malaysian Merchant Marine Bhd	Transportation	09-Jan-07	Downgrade		AA-	A-
29	PSSB Ship Management Sdn Bhd	Transportation	07-Sep-07	Downgrade	NEG	A+	A
30	DRB-Hicom Bhd	Conglomerates	06-Feb-07	Downgrade	STA	AA-	A+
31	DRB-Hicom Bhd	Conglomerates	06-Feb-07	Downgrade	STA	AA-	A+
32	DRB-Hicom Bhd	Conglomerates	06-Feb-07	Downgrade	STA	AA-	A+
33	Peremba Jaya Holdings Sdn Bhd	Property	18-Jan-07	Downgrade	NEG	BBB-	C

Source: MARC Fixed Income

Appendix IV: 30-day pre and post migration price (MARC's Corporate Universe)

Upgraded Issuer*

Bloomberg TK	Issuer	Coupon	Issue Date	Maturity	Last Rating Action	Previous Rating	New Rating	Price/yield 30-days Pre Migration		Price/yield 30-days Post Migration	
EG088826 Corp	MAA Holdings Bhd	4.45	8-Jan-07	8-Jan-10	16-Feb-07	A-	A	4.01	101.21	3.98	101.23
EG088830 Corp	MAA Holdings Bhd	4.48	8-Jan-07	8-Jan-11	16-Feb-07	A-	A	4.12	101.30	4.08	101.40
EG088834 Corp	MAA Holdings Bhd	4.51	8-Jan-07	8-Jan-12	16-Feb-07	A-	A	4.23	101.24	4.17	101.46
EF070810 Corp	WCT Engineering Bhd	6.30	29-Aug-05	27-Aug-10	28-Dec-07	A+	AA-	5.29	102.54	4.56	104.18
EF070818 Corp	WCT Engineering Bhd	6.65	29-Aug-05	29-Aug-11	28-Dec-07	A+	AA-	5.48	103.90	4.69	106.38
EF070838 Corp	WCT Engineering Bhd	6.90	29-Aug-05	29-Aug-12	28-Dec-07	A+	AA-	5.67	105.08	4.82	108.46

Source: Bloomberg BCOP
** BCOP provides daily valuations on Indian and Malaysian Corporate Bonds. BCOP generates the Fair market curve at the end of the day and using the simple process of interpolation, derive the yield for each bond from its corresponding rating curve and maturity profile. Hence prices in the table may not represent an actual bid/ask quotation.*

Downgraded Issuer*

Bloomberg TK	Issuer	Coupon	Issue Date	Maturity	Last Rating Action	Previous Rating	New Rating	Price/yield 30-days Pre Migration		Price/yield 30-days Post Migration	
ED268192 Corp	Malaysian Merchant Marine Bhd	5.85	28-Nov-03	29-Nov-10	9-Jan-07	AA-	A-	4.78	103.79	6.83	96.73
EC870755 Corp	MK Land Holding Bhd	4.50	13-Sep-02	14-Sep-09	12-Jan-07	A	A-	5.78	96.87	6.45	95.56
ED370300 Corp	Glomac Bhd	8.00	30-Jan-04	30-Jan-09	19-Jan-07	A	A-	5.68	104.55	6.24	103.16
EF034002 Corp	DRB-Hicom Bhd	3.00	26-Jul-05	26-Jul-10	6-Feb-07	AA-	A+	4.70	91.98	5.26	91.99
ED822251 Corp	Tracoma Holdings Bhd	7.60	28-Jan-05	28-Jan-10	26-Feb-07	A	BBB+	5.87	104.64	11.49	90.71
EG776676 Corp	Intelbest Corporation Sdn Bhd	5.60	27-Aug-07	30-Sep-09	19-Jul-07	BBB+	B+	n.a	n.a	11.39	89.49
ED751531 Corp	PSSB Ship Management Sdn Bhd	7.25	15-Dec-04	15-Dec-11	7-Sep-07	A+	A	5.50	106.68	6.24	103.66
EF5299757 Corp	Delloyd Ventures Bhd	6.90	30-Jun-06	30-Jun-11	14-Sep-07	A+	A	5.42	105.09	6.10	102.63
ED525968 Corp	Ingress Sukuk Bhd	7.60	9-Jul-04	8-Jul-11	28-Dec-07	A+	A	5.45	106.94	6.07	104.68

Source: Bloomberg BCOP
** BCOP provides daily valuations on Indian and Malaysian Corporate Bonds. BCOP generates the Fair market curve at the end of the day and using the simple process of interpolation, derive the yield for each bond from its corresponding rating curve and maturity profile. Hence prices in the table may not represent an actual bid/ask quotation.*

Appendix V: Default Rates and defaulted bond prices correlation*

The 30-days post default price is not guaranteed to be accurate as each price was derived using the simple interpolation of the credit curve and was not based on an actual bid/ask quotation. This appendix is attached for informational purposes only and is intended to provide a starting point towards estimating recovery rates. This technique is used by some of the established international rating agencies to estimate recovery rates but the prices they use were based on actual 30-days post default bid/ask quotation. The ratio of this price to the par value of the bond represents the recovery rates.

The scatter plots below show the correlation between our actual historical default rate and the estimated recovery rate. Interestingly, the correlation stays strong below -90%. Theoretically, recovery rate is higher when the default rate is low. Nonetheless, given that this technique has not been tested and our extremely small data sample i.e. 3-year, this analysis should be treated as introductory and for informational purpose only.

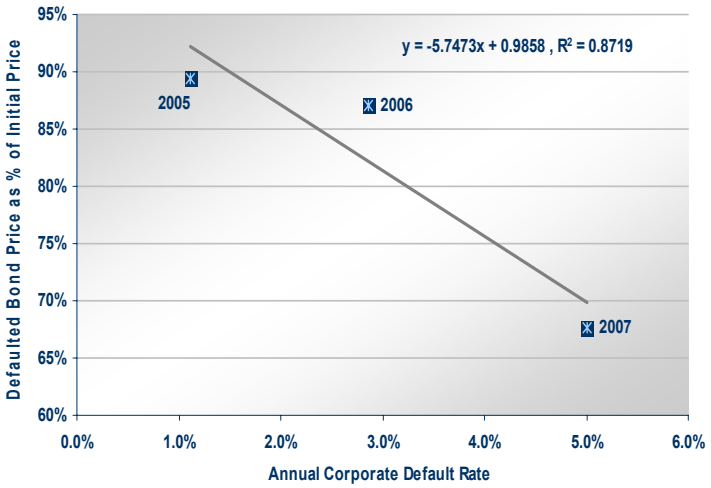
Bloomberg Ticker	Issuer	Coupon	Amt Defaulted (RM m)	Debt Type	Default Date	Interest	Maturity	Initial Price	30-day post default price	As % of Initial	30-day post default price**	As % of Initial
ED029391 Corp	ABI Malaysia Sdn Bhd	5.95	30	Secured	3-Aug-05	11.39	30-May-08	100.46	87.51	87.1%	67.01	66.7%
ED361794 Corp	Maxisegar Sdn Bhd	7.50	50	Secured	9-Mar-06	11.50	26-Feb-08	104.39	93.40	89.5%	77.28	74.0%
ED612392 Corp	ACE Polymers (M) Sdn Bhd	7.25	10	Secured	14-Sep-07	10.77	15-Sep-08	103.91	97.04	93.4%	88.61	85.3%
ED612396 Corp	ACE Polymers (M) Sdn Bhd	7.75	10	Secured	14-Sep-07	11.33	15-Sep-09	105.47	94.02	89.1%	77.77	73.7%
ED612400 Corp	ACE Polymers (M) Sdn Bhd	8.15	15	Secured	14-Sep-07	11.89	15-Sep-10	106.67	91.04	85.3%	68.37	64.1%
ED612404 Corp	ACE Polymers (M) Sdn Bhd	8.55	20	Secured	14-Sep-07	12.45	15-Sep-11	108.00	88.00	81.5%	60.50	56.0%
ED838600 Corp	Peremba Jaya Holdings Sdn Bhd	6.60	30	Secured	13-Jun-07	10.49	14-Jul-08	102.13	95.84	93.8%	85.79	84.0%
ED996886 Corp	PECD Bhd	5.80	25	Secured	31-Dec-07	10.44	30-Jun-08	100.00	98.07	98.1%	94.30	94.3%
ED996890 Corp	PECD Bhd	6.30	25	Secured	31-Dec-07	11.07	29-Jun-09	100.48	93.95	93.5%	81.78	81.4%
ED996894 Corp	PECD Bhd	6.80	25	Secured	31-Dec-07	11.70	29-Jun-10	101.17	90.20	89.2%	71.01	70.2%
ED996898 Corp	PECD Bhd	7.30	25	Secured	31-Dec-07	12.34	29-Jun-11	101.88	86.84	85.2%	62.03	60.9%
ED996902 Corp	PECD Bhd	7.80	50	Secured	31-Dec-07	12.97	29-Jun-12	102.70	83.89	81.7%	54.73	53.3%
ED996906 Corp	PECD Bhd	8.30	50	Secured	31-Dec-07	13.56	28-Jun-13	104.39	81.42	78.0%	49.07	47.0%
			365							87.0%		67.3%

Source: Bloomberg BCOP

** BCOP provides daily valuations on Indian and Malaysian Corporate Bonds. BCOP generates the Fair market curve at the end of the day and using the simple process of interpolation, derive the yield for each bond from its corresponding rating curve and maturity profile. Hence prices in the table may not represent an actual bid/ask quotation.*

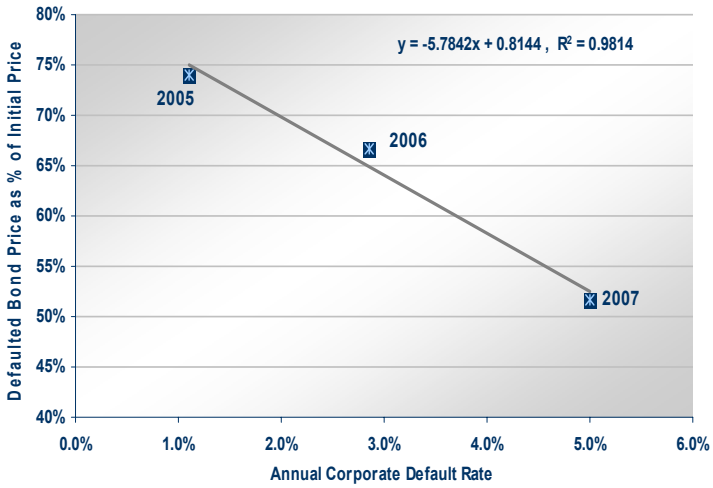
*** Using the Fair market curve derived by BCOP, the yield for the defaulted bond is adjusted lower by 100%. From the newly lowered yield, the remaining original time to maturity and the existing coupon, we estimated the new present value (PV) of the bond using the basic discounted cash flow technique.*

Default rate vs. Defaulted Bond Price



Source: Bloomberg BCOP, MARC Fixed Income

Default rate vs. Defaulted Bond Price (adjusted)



Source: Bloomberg BCOP, MARC Fixed Income

Appendix VI: 1-Year Transition Matrix

1997	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

1998	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	50.0%	50.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

1999	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

2000	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	0.0%	0.0%	0.0%	50.0%	0.0%	0.0%	0.0%	0.0%	50.0%
BB	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: MARC Fixed Income

2001	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	95.8%	0.0%	0.0%	0.0%	0.0%	4.2%	0.0%
BBB	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

2002	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	3.7%	96.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	0.0%	0.0%	33.3%	66.7%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

2003	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	87.5%	0.0%	0.0%	0.0%	0.0%	0.0%	12.5%	0.0%
A	0.0%	0.0%	87.9%	3.0%	0.0%	0.0%	0.0%	9.1%	0.0%
BBB	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

2004	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	88.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	11.1%	0.0%
AA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	2.0%	89.8%	0.0%	0.0%	0.0%	0.0%	8.2%	0.0%
BBB	0.0%	0.0%	20.0%	80.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: MARC Fixed Income

2005	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	88.2%	0.0%	0.0%	0.0%	0.0%	0.0%	11.8%	0.0%
A	0.0%	0.0%	93.5%	0.0%	1.6%	0.0%	0.0%	1.6%	3.2%
BBB	0.0%	0.0%	50.0%	25.0%	0.0%	0.0%	0.0%	25.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

2006	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	95.0%	5.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	2.8%	84.7%	2.8%	0.0%	0.0%	0.0%	8.3%	1.4%
BBB	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

2007	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	8.3%	79.2%	8.3%	0.0%	0.0%	0.0%	0.0%	4.2%	0.0%
A	0.0%	4.3%	79.7%	2.9%	0.0%	0.0%	0.0%	7.2%	5.8%
BBB	0.0%	0.0%	0.0%	66.7%	0.0%	33.3%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	50.0%	0.0%	0.0%	50.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: MARC Fixed Income

Appendix VII: 3-year Static Pool Transition Matrix

1997 static pool
N = 2 Issuers

Year 0 to Year 1	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Year 0 to Year 2	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Year 0 to Year 3	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: MARC Fixed Income

1998 static pool
N = 3 Issuers

Year 0 to Year 1	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	50.0%	0.0%	0.0%	0.0%	0.0%	50.0%	0.0%
BBB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Year 0 to Year 2	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	50.0%	0.0%	0.0%	0.0%	0.0%	50.0%	0.0%
BBB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Year 0 to Year 3	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%
BBB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: MARC Fixed Income

1999 static pool
N = 4 Issuers

Year 0 to Year 1	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Year 0 to Year 2	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Year 0 to Year 3	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: MARC Fixed Income

2000 static pool
N = 12 Issuers

Year 0 to Year 1	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Year 0 to Year 2	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	14.3%	85.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Year 0 to Year 3	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	50.0%	0.0%	0.0%	0.0%	0.0%	0.0%	50.0%	0.0%
A	0.0%	14.3%	71.4%	0.0%	0.0%	0.0%	0.0%	14.3%	0.0%
BBB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: MARC Fixed Income

2001 static pool
N = 22 Issuers

Year 0 to Year 1	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Year 0 to Year 2	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	81.3%	6.3%	0.0%	0.0%	0.0%	12.5%	0.0%
BBB	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Year 0 to Year 3	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	62.5%	6.3%	0.0%	0.0%	0.0%	31.3%	0.0%
BBB	0.0%	0.0%	50.0%	50.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: MARC Fixed Income

2002 static pool
N = 10 Issuers

Year 0 to Year 1	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Year 0 to Year 2	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	20.0%	80.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Year 0 to Year 3	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	20.0%	80.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: MARC Fixed Income

2003 static pool
N = 11 Issuers

Year 0 to Year 1	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Year 0 to Year 2	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	66.7%	0.0%	0.0%	0.0%	0.0%	16.7%	16.7%
BBB	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Year 0 to Year 3	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	50.0%	0.0%	0.0%	0.0%	0.0%	33.3%	16.7%
BBB	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: MARC Fixed Income

2004 static pool
N = 31 Issuers

Year 0 to Year 1	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	90.9%	0.0%	0.0%	0.0%	0.0%	4.5%	4.5%
BBB	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Year 0 to Year 2	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	80.0%	20.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	72.7%	4.5%	0.0%	0.0%	0.0%	13.6%	9.1%
BBB	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Year 0 to Year 3	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	20.0%	60.0%	20.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	45.5%	9.1%	0.0%	0.0%	0.0%	22.7%	22.7%
BBB	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: MARC Fixed Income

2005 static pool
N = 31 Issuers

Year 0 to Year 1	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	95.0%	5.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Year 0 to Year 2	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	80.0%	20.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	5.0%	75.0%	10.0%	0.0%	5.0%	0.0%	0.0%	5.0%
BBB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: MARC Fixed Income

2006 static pool
N = 21 Issuers

Year 0 to Year 1	End-of-Year Rating								
Beginning-of Year	AAA	AA	A	BBB	BB	B	C	Withdrawn	Default
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	7.1%	92.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: MARC Fixed Income

Appendix VIII: Defaults Excluded from the Study

No.	Category	Sector	Issuer	Date Announced	Last Rating	Reason to Exclude	Instrument	Amount rated (MYR m)
1	Corporate Debt	Property	Johor City Development Sdn Bhd	01-Jul-01	AA-	bg	5 Years GRUNIF	235
				01-Jul-01	MARC-1	bg	5 Years Fixed Rate Serial Bonds	100
2	Corporate Debt	Trading/Services	HVD Holdings Sdn Bhd	01-Feb-02	MARC-4	Short Term	5 Years Revolving Underwritten Facility	70
3	Corporate Debt	Industrial Products	Perak-Hanjoong Simen Sdn Bhd	01-Dec-04	AAA	bg	9 Years Al-Bai Bithaman Ajil Secured Serial Bonds Tranche I	370
				01-Dec-04	A	bg	9 Years Al-Bai Bithaman Ajil Secured Serial Bonds Tranche II	50
				01-Dec-04	AA-	bg	9 Years Al-Bai Bithaman Ajil Secured Serial Bonds Tranche III	80
				01-Dec-04	A+	bg	9 Years Al-Bai Bithaman Ajil Secured Serial Bonds Tranche IV	168
4	Corporate Debt	Property	Europlus Corporation Sdn Bhd	09-Mar-06	MARC-4	Short Term	5 Years Murabahah Underwritten Notes Issuance Facility Issue I	350
5	Corporate Debt	Property	Perspektif Perkasa Sdn Bhd	09-Mar-06	MARC-4	Short Term	5 Years Murabahah Underwritten Notes Issuance Facility	188
6	Structured Finance	Property	Ambang Sentosa Sdn Bhd	28-Jul-06	C	Structured Finance Portfolio	3 Years Al-Bai Bithaman Ajil Islamic Debt Securities Class B	398.1
					C	Structured Finance Portfolio	4 Years Al-Bai Bithaman Ajil Islamic Debt Securities Class C	249.7
7	Corporate Debt	Industrial Products	Stenta Films (M) Sdn Bhd	20-Sep-07	MARC-4	Short Term	7 Years Murabahah Underwritten Notes Issuance Facility	90
8	Corporate Debt	Consumer Products	CNLT (Far East) Bhd	11-Oct-07	A	bg	7 Years Syndicated Bank Guaranteed CP/MTN Issue II	60
9	Corporate Debt	Construction	Jana Niaga Sdn Bhd	15-Nov-07	MARC-4	Short Term	3 Years Murabahah Underwritten Notes Issuance Facility	100

Appendix IX: Default and Rating Migration of Structured Finance vis-à-vis Corporate Universe

Structured Finance Rating Transition (2003-2007)*

Year	Issue as of January 1	Upgrade	Downgrade	Default	Withdrawn	Stable Rating
2003	3	0.0%	0.0%	0.0%	0.0%	100.0%
2004	10	0.0%	0.0%	0.0%	10.0%	100.0%
2005	19	0.0%	10.5%	0.0%	0.0%	89.5%
2006	47	0.0%	25.5%	4.3%	2.1%	70.2%
2007	66	0.0%	4.5%	0.0%	13.6%	95.5%
Wtd. Average		0.0%	11.7%	1.4%	7.6%	86.9%

Source: MARC Fixed Income

Corporate Rating Transition (2003-2007)

Year	Issuer as of January 1	Upgrade	Downgrade	Default	Withdrawn	Stable Rating
2003	43	4.7%	4.7%	0.0%	9.3%	90.7%
2004	49	18.4%	0.0%	0.0%	12.2%	81.6%
2005	70	12.9%	4.3%	2.9%	5.7%	80.0%
2006	90	6.7%	13.3%	1.1%	6.7%	78.9%
2007	100	6.0%	17.0%	5.0%	7.0%	72.0%
Wtd Average		9.1%	9.7%	2.3%	7.7%	79.0%

Source: MARC Fixed Income

Rating stability was relatively higher in the structured finance universe compared to its corporate counterparts in 2007 with the default gap between these two widening as there was no default in the structured finance universe. It is worth noting here that in structured finance, rating actions/migrations are captured at the issue level whereas the issuer level is used in measuring the same statistics for the corporate universe. This should be the case as the debt structures of these two are quite different. An issuer/SPV in structured finance universe normally issues multi-rated tranches, which carry more than one rating depending on the seniority of each tranche.

- Generally, structured finance credit quality improved in 2007, surpassing the credit experience observed in its corporate counterparts.
- No defaults were recorded in MARC's structured finance universe in 2007 compared to five defaults recorded in its corporate universe. The absolute default gap which stood at 3.2% in 2006 rose to 5.0% in 2007 mainly due to defaults recorded in the corporate universe.
- Migration rate in structured finance universe fell to a 3-year low of 4.5% in 2007 from 30% registered in 2006. This also translates into a 95.5% rating stability in this universe.
- Improving credit quality relative to the corporate universe is further substantiated by the falling downgrade rate. Downgrade rate which hit 25.5% in 2006 stood at only 4.5%, well below its weighted average of 11.7%.

Structured Finance Rating Migration (2003-2007)

No	Category	Sector	Issuer/SPV	Date	Rating Migration	Previous Rating	New Rating
1	Asset-Backed Securities	Property	Ambang Sentosa Sdn Bhd	01-Jun-05	Downgrade	A+	A
2	Asset-Backed Securities	Property	Ambang Sentosa Sdn Bhd	01-Jun-05	Downgrade	A	A-
3	Asset-Backed Securities	Property	Ambang Sentosa Sdn Bhd	20-Mar-06	Downgrade	A	BBB+
4	Asset-Backed Securities	Property	Ambang Sentosa Sdn Bhd	20-Mar-06	Downgrade	A-	BBB
5	Asset-Backed Securities	Property	Ambang Sentosa Sdn Bhd	19-Jun-06	Downgrade	BBB+	C
6	Asset-Backed Securities	Property	Ambang Sentosa Sdn Bhd	19-Jun-06	Downgrade	BBB	C
7	Structured Finance	Property	Ample Zone Bhd	19-Jul-06	Downgrade	AAA	AA+
8	Structured Finance	Property	Ample Zone Bhd	19-Jul-06	Downgrade	AA	A
9	Structured Finance	Property	Ample Zone Bhd	19-Jul-06	Downgrade	A	BB
10	Asset-Backed Securities	Primary CLO	Aegis One Bhd	24-Jul-06	Downgrade	AAA	AA
11	Asset-Backed Securities	Primary CLO	Aegis One Bhd	24-Jul-06	Downgrade	BB	B
12	Asset-Backed Securities	Property	Ambang Sentosa Sdn Bhd	28-Jul-06	Default	C	D
13	Asset-Backed Securities	Property	Ambang Sentosa Sdn Bhd	28-Jul-06	Default	C	D
14	Asset-Backed Securities	Primary CLO	Kerisma Bhd	15-Aug-06	Downgrade	AA	AA-
15	Asset-Backed Securities	Primary CLO	Kerisma Bhd	15-Aug-06	Downgrade	BB	BB-
16	Asset-Backed Securities	Primary CLO	CapOne Bhd	23-Oct-06	Downgrade	BB	BB-
17	Structured Finance	Property	Ample Zone Bhd	25-May-07	Downgrade	BB	BB-
18	Asset-Backed Securities	Primary CLO	Kerisma Bhd	30-Jul-07	Downgrade	BB-	B
19	Asset-Backed Securities	Primary CLO	CapOne Bhd	22-Nov-07	Downgrade	BB-	B

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