MALAYSIAN RATING CORPORATION BERHAD
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2008 Annual Corporate Default and Rating Transitions Study

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Annual Corporate Default and Rating Transition Study, 1997-2008

This report presents updates on default statistics and rating transition experience of corporate bonds and project finance issuers in 2008 as well as since 1997. The key points presented in this study are as follows:

- Two corporate defaults emerged from MARC's corporate universe in 2008 affecting rated debt worth MYR200 million.
- With the two defaults in 2008, MARC registered an annual issuer default rate of 1.98%, a considerable drop from 4.85% in 2007.
- Default rate in 2008 is slightly lower than MARC's long-run issuer-weighted average default rate of 2.06%, derived from cumulative default data from 1997 to 2008.
- Default rate in 2008 as a percentage of rated debt sized stood at 0.20% compared to 4.65% in 2007.
- Relationship between MARC's ratings and default risk remained strong with an average annual default rate of 1.42% across the investment grade issuers over the 1997-2008 period while for high-yield segment it was 9.79% over the same period.
- Of the 11 sectors analyzed, defaults occurred in construction, finance, industrial products, infrastructures & utilities and property sector with average default rates of 2.70%, 2.70%, 5.00%, 0.82% and 3.06% respectively.
- Rating stability in 2008 was well reflected across the investment grade category in line with the hypothesis that high stability is expected across better-rated spectrums. Rating stability for investment grade category came in at 86% while for the high-yield segment, it was significantly lower at 57%.
- Analysis on average default rating path among 11 defaulters shows that issuers were rated at below investment grade approximately two years prior to default. For the entire pool of defaulters, it took approximately three years on average for issuers to default.
- There were seven issuer downgrades as well as seven issuer upgrades recorded in 2008, bringing the downgrade to upgrade ratio to 1.0:1.0, compared to 2.6:1.0 in 2007. The ratio also fell below the long-run average of 1.3:1.0.
- Although downgrades came at the same pace as upgrades, positive rating changes surpassed the negative rating migrations as reflected in the movement of upgrade and downgrade rates.
- A large decline in the downgrade rates has also helped to bring the activity ratio lower to 15.8% over the 12-month period, resulting in higher rating stability. At 84.2%, stable ratings are at the highest level since 2003.
- From a sectoral perspective, finance contributed the most to positive rating changes with an upgrade rate of 75.0% out of four outstanding issuers at the beginning of 2008.
- A significant positive correlation existed between average corporate spreads and MARC's cumulative average default rates with a statistical correlation coefficient of 97%.
- Rating stability falls as we move from higher to lower points along the credit curve with a correlation coefficient of 93%.

- A clear relationship between credit quality and economic fundamentals is shown by upgrades outpacing downgrades during expansionary periods and conversely, upgrades lag downgrades during economic slowdowns. Statistically, the correlation coefficient between rating drift and Real GDP stood at 80% while a correlation coefficient of 60% explains the movement between rating drift and industrial production index.

- The predictive power for both negative and positive outlooks increased in 2008. For example, 54% of issuers assigned with positive outlook were upgraded in subsequent reviews in 2008 compared to 50% in the previous year. Downgrades that were explained by MARCWatch-Negative rose to 67% compared to 61% in 2007, another sign of improvement in the predictive power of MARCWatch placements.

- MARC expects the default rate in the corporate universe to rise to 4.1% in 2009 with standard error of 1.3%. Under the worst case scenario, corporate default rate may escalate to 7.1%.

2008 Bond Market Review

Never a dull moment…

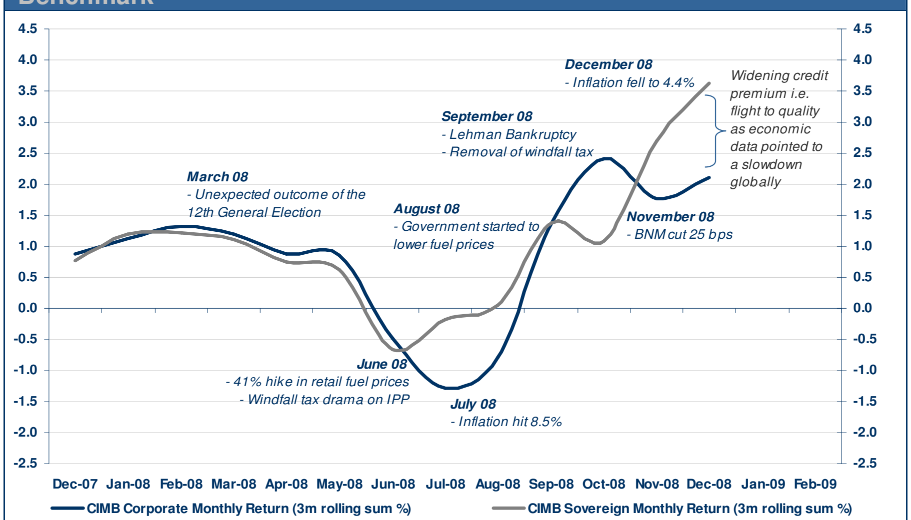
There was never a dull moment in the local bond markets in 2008 with both domestic and foreign developments driving the market topsy-turvy particularly in the second half of the year. Domestic rates and credit markets were generally stable in the first two months of 2008 but a series of events including the local political situation sent risk premiums rising, particularly in the middle of the year. US investment bank Lehman Brothers's bankruptcy and a second round of the global financial crisis that began to impinge on real economies resulting in higher risk aversion level, leading to widening credit spreads. In the primary market, MYR60 billion of government bonds was issued in 2008 (2007;MYR53 billion) while corporate bonds issuance stood at MYR49 billion (2007; MYR67.6 billion).

Domestic Bond Market; The Chronology

The ride began with a shocking election outcome…

Financial markets were spooked by the unexpected outcome of the 12th general election, which witnessed the incumbent Barisan Nasional (BN) government losing its two-thirds majority in parliament. Foreign funds withdrew from the country on political stability concerns. Compounding their misgivings was BN's loss of another four states: Penang, Perak, Kedah and Selangor. In addition, BN's failure to capture Kelantan for the fourth consecutive term added to the ruling party's woes. Malaysia's credit rating outlook was revised from "Positive" to "Stable" by Standard & Poor's (S&P) in May following the drastic change in the nation's political scenario, citing the precarious position of Prime Minister Abdullah Ahmad Badawi and corresponding implications on his spending programs. Malaysia's long-term foreign currency rating at A- is also constrained by its fiscal position which reflected weaker deficit and debt levels relative to most of its peers in the rating band.

Exhibit 1 : 1-5 Year Monthly Bond Markets Return – CIMB Return Indices Benchmark



Source: CIMB, Bloomberg, MARC Fixed Income Research

…then petrol hike and windfall tax came in

While pundits were speculating whether the 'political tsunami' would result in the political implications reflective of scenarios during the 1987-88 and 1997-98 periods, the concerns of investing communities shifted to inflation as government hiked domestic retail fuel prices by 41% in June 2008. In addition, credit markets also received a blow following government's announcement of windfall tax on Independent Power Producers (IPPs), heightening the default risk among some of them. Risk premium rose significantly across the board and the magnitude was far larger compared to market's reaction to the unexpected election outcome.

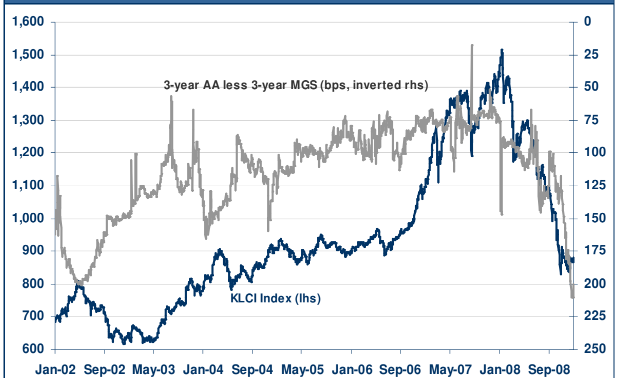
Inflation conundrum in govvies and rising default risk in corporate bonds…

The yields on the 3-year and 10-year Malaysian Government Securities (MGS) rose to 4.07% (+43 bps from December 2007) and 5.01% (+87 bps from December 2007) in July 2008 respectively, resulting in a bear steepening yield curve. Inflation on the other hand hit a 26-year high at 8.5% in August; a manifestation of significant hike in the domestic retail fuel prices that further exacerbated the sell-off. Corporate bonds also experienced a massive sell-off over the same period with the yield of the highest rating of AAA rising in excess of 90 bps in July 2008 from a year earlier.

The landscape changed in Q32008…

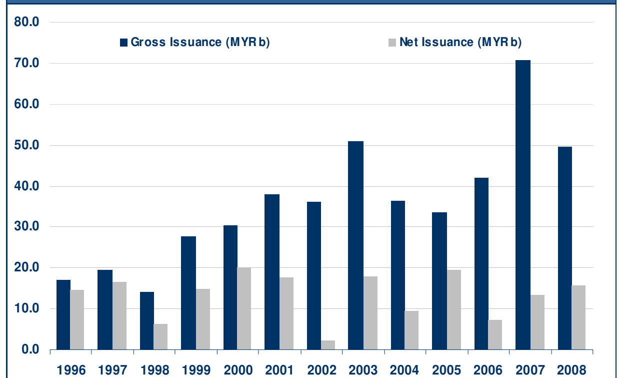
Market however recovered in the earlier part of 3Q2008 as government reacted to a plunge in global oil prices by cutting domestic retail fuel prices, resulting in lower inflation expectations among investors as reflected by the movement of the 10/3s spread. The credit markets saw a light at the end of the tunnel for IPPs specifically and corporate bond market after the government scraped the windfall tax. Players reacted positively with IPP bonds that had experienced a massive downward correction over the first two months in 3Q2008 rallying significantly in response to lowered default risk.

Exhibit 2 : Corporate spread widened on expectation of difficult operating environment



Source: Bloomberg, MARC Fixed Income Research

Exhibit 3: MYR49 billion of PDS issued in 2008 but 70% of it was done in the first eight months



Source: CEIC

Confidence tumbled massively after Lehman bankruptcy…

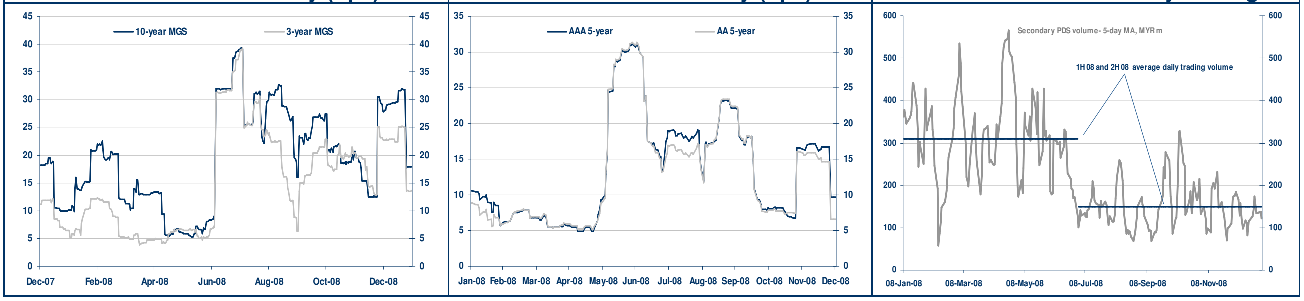
The fall of two giant financial institutions namely Lehman Brothers and Merrill Lynch, sparked a second round of credit crunch, causing investor confidence to tumble and sending equities market lower by almost 40% from a year before in October 2008. Corporate spread widened significantly with the 3-year AA spread to MGS of similar maturity hitting 200 bps, the highest level within our sample which has tracked the data since 2002. Continuous flow of negative economic data and ongoing market anxiety pushed the government yields to super low levels but the same trend did not occur in corporate yields, a clear manifestation of flight to quality.

First move by BNM in 4Q2008…

With inflation continued to trend lower since August 2008 and significant downside risk to economic growth persisted, Bank Negara Malaysia (BNM) initiated monetary easing measures by cutting its Overnight Policy Rate (OPR) by 25 bps to 3.25% in November 2008. This development coupled with dovish central bank's language triggered the rally in MGS with the 3-year and 10-year segments closing the year at 2.92% (-73 bps y/y) and 3.22% (-93 bps y/y) respectively. The 10/3s spread which hovered near 100 bps in 3Q2008 flattened on a bullish stance and was last spotted at 30 bps. Corporate yields however did not fall as steep as government yields on expectation of difficult operating environment going forward as indicated by consecutive months of declining exports and industrial production. Given the market situation, yield volatility rose sharply in the second half of 2008 with trading volume falling significantly from 1H2008 levels as increasing anxiety sidelined investors.

Exhibit 4: Rising yield volatility and declining secondary trading volume in 2H2008 on growing anxiety brought by domestic factors as well as fallout from US financial crisis*

Panel a : MGS volatility (bps) | **Panel b : PDS volatility (bps)** | **Panel c : PDS secondary trading**



Source: Bloomberg, MARC Fixed Income Research, BPAM

** Volatility measured using a 30-day rolling sigma of daily change in yields.*

Exhibit 5: Bond Market Performance 1-5 Year Segment – CIMB Monthly Return Indices Benchmark

Period	Performance Measurement	AAA	AA	A	Corporate	Sovereign	Near Sovereign
2001-2008	*Expected Return (bps)*	*37*	*48*	*64*	*50*	*32*	*29*
	Standard Deviation (bps)	*53*	*57*	*56*	*49*	*49*	*38*
	Duration (yrs)	*2.8*	*2.9*	*2.8*	*2.8*	*2.6*	*2.3*
	Sharpe Ratio	*0.7*	*0.9*	*1.2*	*1.0*	*0.7*	*0.8*
	Duration Adjusted Return (bps)	*13*	*17*	*23*	*18*	*12*	*12*
	3-mth Break Even Spread (bps)	*6*	*10*	*25*	*13*	*n.a*	*n.a*
	6-mth Break Even Spread (bps)	*12*	*20*	*50*	*27*	*n.a*	*n.a*
	12 mth Break Even Spread (bps)	*24*	*41*	*100*	*53*	*n.a*	*n.a*
	Excess Return against Sovereign (bps)	*5*	*17*	*33*	*19*	*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)	*2.8*	*2.8*	*3.0*	*2.8*	*2.4*	*2.2*
	Sharpe Ratio	*1.1*	*1.4*	*2.1*	*1.6*	*1.5*	*1.1*
	Duration Adjusted Return (bps)	*10*	*14*	*17*	*13*	*12*	*12*
	3-mth Break Even Spread (bps)	*4*	*8*	*22*	*11*	*n.a*	*n.a*
	6-mth Break Even Spread (bps)	*9*	*15*	*44*	*23*	*n.a*	*n.a*
	12 mth Break Even Spread (bps)	*18*	*30*	*87*	*45*	*n.a*	*n.a*
	Excess Return against Sovereign (bps)	*0*	*9*	*23*	*9*	*n.a*	*n.a*
2008	*Expected Return (bps)*	*46*	*26*	*44*	*35*	*45*	*25*
	Standard Deviation (bps)	*63*	*82*	*83*	*67*	*70*	*22*
	Duration (yrs)	*2.8*	*3.0*	*2.8*	*2.9*	*2.7*	*1.2*
	Sharpe Ratio	*0.7*	*0.3*	*0.5*	*0.5*	*0.6*	*1.2*
	Duration Adjusted Return (bps)	*17*	*9*	*16*	*12*	*16*	*22*
	3-mth Break Even Spread (bps)	*8*	*11*	*28*	*16*	*n.a*	*n.a*
	6-mth Break Even Spread (bps)	*15*	*22*	*56*	*31*	*n.a*	*n.a*
	12 mth Break Even Spread (bps)	*31*	*45*	*112*	*62*	*n.a*	*n.a*
	Excess Return against Sovereign (bps)	*1*	*-20*	*-1*	*-10*	*n.a*	*n.a*

Source: CIMB, Bloomberg, MARC Fixed Income Research

Review of 2008 Defaults

A total of two corporate defaults emerged from MARC's corporate universe in 2008, affecting rated debt of MYR200 million. The two issuers that defaulted were Intelbest Corporation Sdn. Bhd. (Intelbest) and Evermaster Group Bhd. (Evermaster). The other default, Aegis One Bhd (CLO; Junior bond) is not included in this study[1].

The number of defaulted issuers in 2008 fell by 60% from 2007 when five rated issuers defaulted. Furthermore, defaults were not concentrated in any specific sector but equally distributed across property and industrial products portfolios indicating that the trigger factors were issuer's inherent problems rather than industry predicament related.

Intelbest became a fallen angel in 2007 after its rating was downgraded from BBB to B+ on weak financial profile and for breaching financial covenant. This issuer had been persistently placed under MARCWatch-Negative since January 2007, signaling increased downgrade risk. On February 29, 2008 the default of Intelbest on MYR110 million rated-debt was announced after it had remained in the universe for 3.1 years.

Meanwhile, Evermaster defaulted on MYR90 million rated-debt after series of downgrades in 2Q2008 and 3Q2008 as a result of its weakened financial profile following the dismal performance of its plywood manufacturing division. The default announcement was made on December 31, 2008 and it took Evermaster 5.2 years to default from its first rating assignation date.

Exhibit 6: 2008 Default Snapshot

No	Issuer	Industry	Amount Rated (MYR m)	Default Date	Date of First Rating	First Rating	Date of Last Review	Rating Prior to Default	Years to Default
1	Intelbest Corporation Sdn Bhd	Property	110	29-Feb-08	1-Feb-05	A	19-Jul-07	B+	3.1
2	Evermaster Group Bhd	Industrial Products	90	31-Dec-08	1-Nov-03	A	10-Dec-08	BB-	5.2
Total/ Weighted Average			**200**	**n.a**	**n.a**	**A**	**n.a**	**B+**	**4.0**

Source: MARC Fixed Income Research

[1] *Please see appendix 1 for data classification of MARC's corporate default and rating transitions study.*

2008 Default Rates : Below the long-run average despite global financial crisis

With two MARC-rated defaults in 2008, MARC registered an annual issuer default rate of 1.98%, a considerable drop from 4.85%[2] in 2007. The default rate in 2008 is slightly lower than MARC long-run issuer-weighted average default rate of 2.06% which was derived based on cumulative default data of 11 counts from 1997 to 2008. Furthermore, the actual default rate is lower compared to our base case forecast of 2.94%, published in the 2007 Annual Corporate Default and Rating Transitions Study in March 2008.

The lower number of defaults suggests that Malaysia corporations were not as affected by the global financial crisis that began in late 2007 as those in the U.S. and other countries with direct exposures to subprime loans. Furthermore, the two defaulted issuers from MARC universe had shown signs of distress even before the fallout from the global financial crisis began to take effect. This is evident from previous downgrades and negative-watch assigned to their respective ratings underscoring the fact that the credit risks were idiosyncratic in nature rather than macro-environment driven. The relative resilience of corporates may be tested in 2009 as recent economic data clearly show that the secondary effects from the global economic crisis are beginning to affect the macro-economic fundamentals in Malaysia (This part will be discussed further in the outlook section.)

Exhibit 7: Corporate Default Rates 1998-2008 (%)

Year	Issuers as of 1st January	Size rated as of 1st January (MYR b)	Default Count	Default as % of Issuer	Default Size (MYR b)	Default as % of Rated Size
1998	2	1.5	0	0.00	0.00	0.00
1999	3	3.2	0	0.00	0.00	0.00
2000	7	7.1	1	14.29	0.05	0.70
2001	18	14.3	0	0.00	0.00	0.00
2002	37	25.6	0	0.00	0.00	0.00
2003	44	29.6	0	0.00	0.00	0.00
2004	50	32.1	0	0.00	0.00	0.00
2005	75	40.2	2	2.67	0.42	1.04
2006	94	50.7	1	1.06	0.25	0.49
2007	103	54.2	5	4.85	2.52	4.65
2008	101	99.2	2	1.98	0.20	0.20
			11	**2.06**	**3.44**	**1.18**

Source: MARC Fixed Income Research

MARC derives its default rate based on the number of issuers and not the size of rated bonds although default rates as percentage of rated debt sizes are still published for the purpose of clarity and transparency. Given a total rated debt of MYR200 million was in default in 2008, the default rate as percentage of rated debt size stood at 0.20% compared to 4.65% in the previous year. Such a significant decline can be explained by the default of the single large MYR2.52 billion bond issuance of Sistem-Lingkaran Lebuhraya Kajang Sdn. Bhd. (SILK) in 2007.

[2] *Published 2007 issuer default rate in 2008 was 5.00%. 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.*

Analyzing default rates further by breaking down the universe into investment grade and high-yield grade[3], we can conclude that the relationship between MARC's ratings and default risk remained strong with an average annual default rate of 1.42% across the investment grade issuers over the 1997-2008 period while high-yield segment recorded the same reading of 9.79% over the same period.

Exhibit 8: Corporate Default Rates 1998-2008 (%) – Summary By Issuer

Year	Default count (Investment Grade)	Default count (High Yield)	Investment Grade Default Rate (%)	High Yield Default Rate (%)	Overall Default Rate (%)
1998	0	0	0.00	0.00	0.00
1999	0	0	0.00	0.00	0.00
2000	0	1	0.00	50.00	14.29
2001	0	0	0.00	0.00	0.00
2002	0	0	0.00	0.00	0.00
2003	0	0	0.00	0.00	0.00
2004	0	0	0.00	0.00	0.00
2005	2	0	2.90	0.00	2.67
2006	1	0	1.11	0.00	1.06
2007	3	2	3.09	33.33	4.85
2008	1	1	1.06	14.29	1.98
	7	**4**	**1.42**	**9.79**	**2.06**

Source: MARC Fixed Income Research

Exhibit 9: Corporate Default Rates 1998-2008 (%) – Summary By Rated Size

Year	Debt Size MYRm (Investment Grade)	Debt Size MYRm (High Yield)	Investment Grade Default Rate (%)	High Yield Default Rate (%)	Overall Default Rate (%)
1998	0	0	0.00	0.00	0.00
1999	0	0	0.00	0.00	0.00
2000	0	50	0.00	9.09	0.70
2001	0	0	0.00	0.00	0.00
2002	0	0	0.00	0.00	0.00
2003	0	0	0.00	0.00	0.00
2004	0	0	0.00	0.00	0.00
2005	420	0	1.06	0.00	1.04
2006	250	0	0.52	0.00	0.49
2007	310	2,210	0.60	80.06	4.65
2008	90	110	0.09	15.34	0.20
	1,070	**2,370**	**0.31**	**16.64**	**0.96**

Source: MARC Fixed Income Research

[3] *High-yield grade is defined as issuers rated BBB and below.*

Average cumulative default rates and sectoral default rates

Average cumulative default rate seen in Exhibit 10 is comparable to the default rates shown in the average cumulative transition rates later in this paper (see Appendix 1 for calculation methodology). As in previous studies, it is worthwhile to note here that an extremely limited sample size yielded a peculiar result along the high-yield segment as there was no default from 'BB' band within the period covered. Furthermore, the cumulative default rates for high-yield segment remained constant owing to the fact that issuers that defaulted from 'BBB & below' did not last more than one year in these bands.

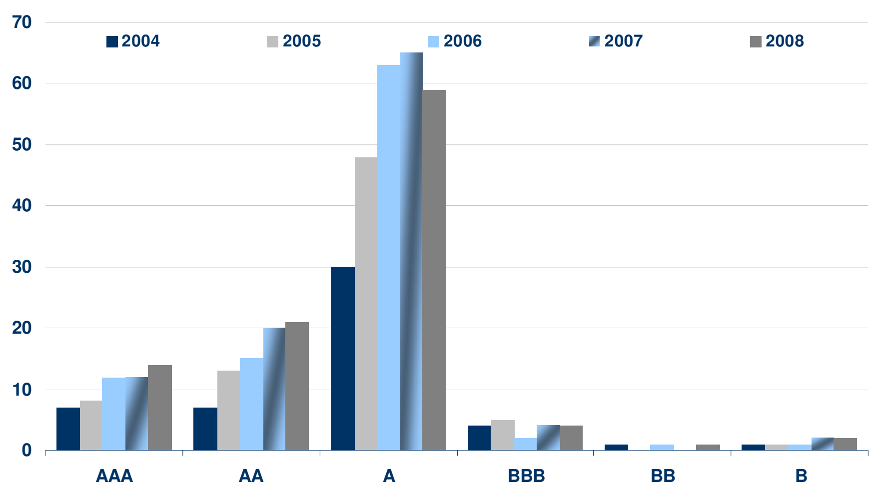
Exhibit 11 shows the distribution of outstanding issuers by rating bands over the last five years. The number of outstanding issuers in 'BB' was exactly one in 2004, 2006 and 2008, none in this band in 2005 and 2007. Hence default rates derived from the static pool formed within high-yield bands tend to be exaggerated, and therefore caution is needed in analyzing them as the outcome can be unnecessarily alarming due to sample constraints rather than deterioration in macro-credit fundamentals. Going forward, we expect this factor to be self-correcting as the corporate ratings universe expands. MARC's corporate universe commenced only in 1997, resulting in a significantly lower sample size compared to the statistics published by the international rating agencies.

Exhibit 10: Average Cumulative Default Rates 1998-2008 (%)

	Year 1	Year 2	Year 3	Year 4	Year 5
AAA	0.00	0.00	0.00	0.00	0.00
AA	0.00	0.00	0.00	0.00	0.00
A	0.31	1.22	1.83	1.83	2.14
BBB	7.14	7.14	7.14	7.14	7.14
BB	0.00	0.00	0.00	0.00	0.00
B	28.57	28.57	28.57	28.57	28.57
Inv. Grade	0.20	0.81	1.22	1.22	1.42
High yield	9.76	9.76	9.76	9.76	9.76
All rated	0.94	1.50	1.87	1.87	2.06

Source: MARC Fixed Income Research

Exhibit 11: Outstanding Issuers at the Beginning of the Year (January 1st)



Source: MARC Fixed Income Research

Exhibit 12 illustrates default rates derived at the sectoral level over the same period. The row at the bottom of the table shows the average default rate weighted against the outstanding number of issuers of the whole corporate universe at the beginning of the year. The last column in the table indicates the average default rate weighted against the outstanding number of issuers at the beginning of the year for each sector. Although the default rates are derived based on each sector, the average default rate must be similar to the long-run issuer weighted average default rate of 2.06%, calculated earlier from outstanding number of issuers by each rating bands. Furthermore it must also be exactly the same as the cumulative default rates in exhibit 10 and one-year cumulative transition rates in exhibit 14.

Of the 11 sectors analyzed, we observed that default experiences occurred in the construction, finance, industrial products, infrastructures & utilities and property sectors with average default rates of 2.70%, 2.70%, 5.00%, 0.82% and 3.06% respectively. In 2008, the default rate for industrial products stood at 3.85%, down by almost half from 2007 after the default of Evermaster. Property sector on the other hand recorded an increase in default rate by 89 basis points to 7.14% with Intelbest failing to meet its obligation. Whilst five sectors have default experiences spanning 1998-2008, the industrial products and property sectors have witnessed higher default incidences.

Exhibit 12: Corporate Default Rates by Industry 1998- 2008 (%)

Sector	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Wtd. Average
Construction	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	12.50	0.00	**2.70**
Consumer Products	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
Finance	0.00	0.00	50.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**2.70**
Hotels	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
Industrial Products	0.00	0.00	0.00	0.00	0.00	0.00	0.00	10.53	0.00	7.69	3.85	**5.00**
Infrastructure & Utilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.55	0.00	**0.82**
Insurance Company	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
Plantation	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
Property	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	6.67	6.25	7.14	**3.06**
Technology	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
Trading/Services	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
Wtd. Average	**0.00**	**0.00**	**14.29**	**0.00**	**0.00**	**0.00**	**0.00**	**2.67**	**1.06**	**4.85**	**1.98**	**2.06**

Source: MARC Fixed Income Research

Rating Transition Rates

Just as the methodology used to calculate the annual default rates, the calculation of rating transition rates also compare issuers at the beginning of time period (1st January) with ratings at the end of time period (31st December), hence multiple rating migrations within this period will not be taken into consideration. Multiple count of an issuer, however, 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 as long as it has not been withdrawn from the rating universe. For example, if MARC started to rate one issuer in 1997 and if its issue had not been withdrawn from the universe until 2008 then this issuer would appear in the 11 consecutive 1-year transition tables from 1998 to 2007.

Rating transition rates are comparable to cumulative default rates discussed previously. However, due to significant sample constraint in MARC rating universe, caution should be exercised in interpreting the statistics. At the beginning of 2008, there were only 101 outstanding issuers in MARC's corporate universe, of which only 6.9% of them in the high-yield segment.

An examination of the one-year rating migration as depicted in exhibit 13 was done at the broad rating category i.e. from AA to A as opposed to the transitions at the modifier level i.e. AA+ to AA. The columns show outstanding ratings at the beginning of the year and the rows summarize the 1-year migration behavior. Nevertheless, for transparency purpose, MARC has also computed the transition matrices at the modifier level which are attached in appendix 3.

Exhibit 13: One-year Corporate Transition Rates – 2007 & 2008

2007	AAA	AA	A	BBB	BB	B	C	NR	Default
AAA	**100.00%**	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
AA	5.00%	**75.00%**	10.00%	0.00%	0.00%	0.00%	0.00%	10.00%	0.00%
A	0.00%	4.62%	**76.92%**	3.08%	0.00%	0.00%	0.00%	10.77%	4.62%
BBB	0.00%	0.00%	0.00%	**50.00%**	0.00%	25.00%	0.00%	0.00%	25.00%
BB	0.00%	0.00%	0.00%	0.00%	**0.00%**	0.00%	0.00%	0.00%	0.00%
B	0.00%	0.00%	0.00%	0.00%	0.00%	**50.00%**	0.00%	0.00%	50.00%
C	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	**0.00%**	0.00%	0.00%

2008	AAA	AA	A	BBB	BB	B	C	NR	Default
AAA	**92.86%**	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	7.14%	0.00%
AA	0.00%	**100.00%**	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
A	0.00%	6.78%	**76.27%**	1.69%	1.69%	0.00%	0.00%	11.86%	1.69%
BBB	0.00%	0.00%	0.00%	**50.00%**	25.00%	25.00%	0.00%	0.00%	0.00%
BB	0.00%	0.00%	0.00%	0.00%	**100.00%**	0.00%	0.00%	0.00%	0.00%
B	0.00%	0.00%	0.00%	0.00%	0.00%	**50.00%**	0.00%	0.00%	50.00%
C	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	**0.00%**	0.00%	0.00%

Source: MARC Fixed Income Research

Rating stability in 2008 was well reflected across the investment grade category, in line with the hypothesis that high stability is found across better-rated spectrums. Adjusting for 'NR' category, issuers that began their journey in 'AAA' segment in January 2008 remained in the same category at the end of December 2008; and using the same basis for 'A' spectrum, rating stability stood at 87%. As a result, rating stability for investment grade category came in at 86% but again adjusting stability for 'NR', the figure would have been 92%. Rating stability across the high-yield segment on the other hand is significantly lower at 57%.

Comparing rating bands across the high-yield spectrums, there was an anomaly with 'BB' rating stability which could be explained by the fact that only one issuer was rated in this category at the beginning of 2008. This explains zero percent default rate in the 10-year cumulative migration matrix as issuer outstanding at the beginning of the year in this segment was just 1.0% of total outstanding. These anomalies, however, are expected to be addressed as the sample size grows as our database presently covers only a 11-year time frame compared to samples used by other international rating agencies which span significantly longer periods.

Exhibit 14: Average Annual Corporate Transition Rates – 1998-2008

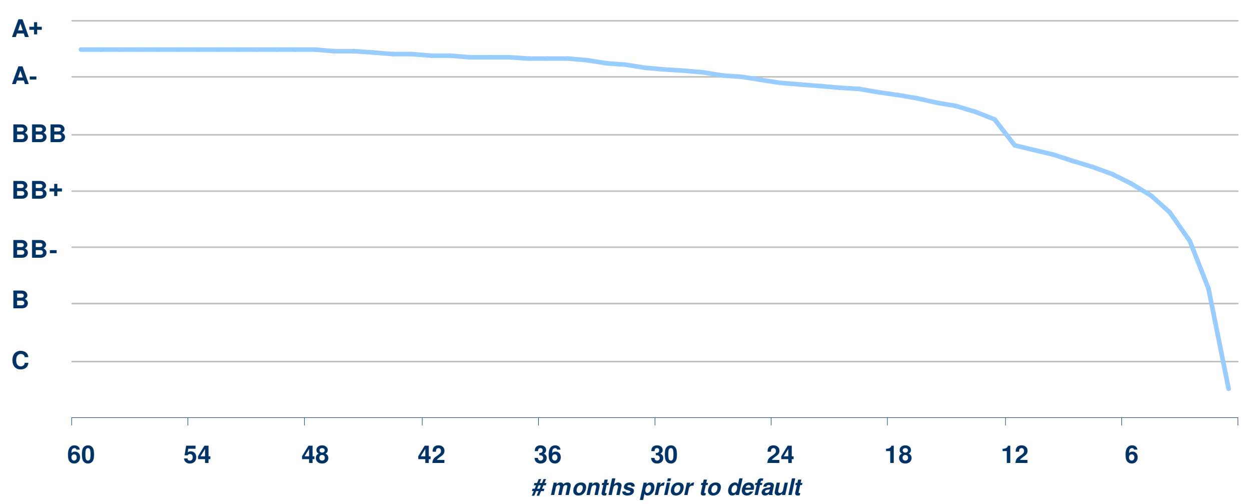
1998-2008	AAA	AA	A	BBB	BB	B	C	NR	Default
AAA	**94.37%**	1.41%	0.00%	0.00%	0.00%	0.00%	0.00%	4.23%	0.00%
AA	1.05%	**90.53%**	3.16%	0.00%	0.00%	0.00%	0.00%	5.26%	0.00%
A	0.00%	3.06%	**81.96%**	2.14%	0.61%	0.00%	0.00%	10.09%	2.14%
BBB	0.00%	0.00%	14.29%	**64.29%**	3.57%	7.14%	0.00%	3.57%	7.14%
BB	0.00%	0.00%	0.00%	0.00%	**66.67%**	16.67%	0.00%	16.67%	0.00%
B	0.00%	0.00%	0.00%	0.00%	0.00%	**71.43%**	0.00%	0.00%	28.57%
C	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	**0.00%**	0.00%	0.00%

Source: MARC Fixed Income Research

Default path and average time to default

Exhibit 15 shows the rating path of defaulters and as can be deduced, defaulted issuers were rated at high-yield grade on average 22 months prior to default. Then as it moves closer and closer to default, we observe a downward momentum in ratings. Exhibit 16 on the other hand summarizes an average rating prior to default which is derived from segregating the analysis into three sections: original rating, rating one year prior to default and last rating prior to default. Average first rating among 11 defaulters in the corporate universe is 'A' though this is not surprising as bulk of issuers in MARC's corporate universe begin their journey in this band. Average rating one year prior to default fell to 'BBB+' and average rating prior to default dropped further to 'BB'. This outcome confirms that defaulting issuers were downgraded prior to their default, indicating elevated credit risk among them had been identified.

Exhibit 15: Average rating path of defaulters (1998-2008) – 12-month moving average*



Source: MARC Fixed Income Research
**Migrations were tracked on monthly basis hence taking into consideration multiple rating actions within 12 months.*

Exhibit 16: Average rating prior to default (1998-2008)

Year Announced	Issuer	First Rating	Rating 1-year prior to default	Last rating prior to default
2000	MOCCIS Trading Sdn Bhd	BBB	BBB	BBB
2005	ABI Malaysia Sdn Bhd	A	A	A-
2005	Pesaka Astana (M) Sdn Bhd	A+	A+	A+
2006	Maxisegar Sdn Bhd	A	A	BB
2007	Paradym Resources Industries Sdn Bhd	A-	A	C
2007	Sistem-Lingkaran Lebuhraya Kajang Sdn Bhd	A	B-	B-
2007	ACE Polymers (M) Sdn Bhd	A	A-	BBB-
2007	Peremba Jaya Holdings Sdn Bhd	A	BBB-	C
2007	PECD Bhd	A	A-	BB+
2008	Intelbest Corporation Sdn Bhd	A+	B+	B+
2008	Evermaster Group Bhd	A	A-	BB-
Average		**A**	**BBB+**	**BB**

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 17 shows that for the entire pool of defaulters (1997-2008), it takes approximately three years on average for issuers originally rated 'A' to default. The average time to default for the issuers originally rated 'BBB' is exactly one year, shorter than the 'A' band. Unfortunately, the same statistics for lower rating bands could not be computed as the sample is not available.

Exhibit 17: Average time to default from original rating (1998-2008)

Original Band	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	10	37	33
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
Inv. Grade	**10**	**37**	**33**
High Yield	**1**	**12**	**12**
Total	**11**	**34**	**31**

Source: MARC Fixed Income Research

Exhibit 18: Average time to default from last rating (1998-2008)

Band Prior to Default	Defaulted Issuers	Average Months from Last Rating	Median Months from Last Rating
AAA	n.a	n.a	n.a
AA	n.a	n.a	n.a
A	2	22	22
BBB	4	6	1
BB	2	2	2
B	2	9	9
C	1	1	1
Inv. Grade	**2**	**22**	**22**
High Yield	**9**	**5**	**3**
Total	**11**	**8**	**6**

Source: MARC Fixed Income Research

2008 Migrations : Positive changes supersedes negative conversions

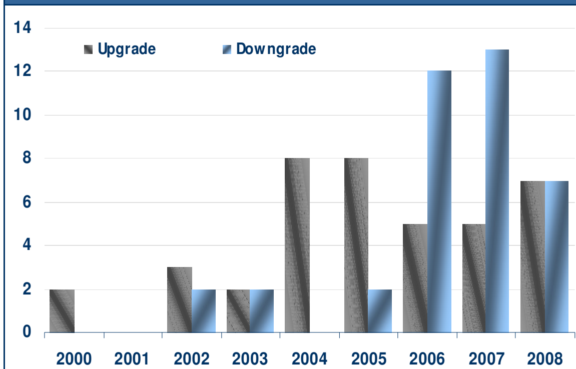
As at end of December 2008, credit quality along MARC's corporate universe improved relative to 2007 with downgrade to upgrade ratio of 1.0 x compared to 2.6 x registered a year earlier. The ratio also fell below the long-run average of 1.3 x. Although downgrades came at the same pace as upgrades that is, seven issuer upgrades and seven issuer downgrades, positive rating changes surpassed the negatives in the issuer's migration as explained by the movement of upgrades and downgrades rates. The percentage of upgraded issuers rose from 4.9% to 6.9% in 2008 while downgrade rates fell from 12.6% to 6.9% over the same period. A large decline in the downgrade rates also helped to bring the activity ratio lower to 15.8% over the 12-month period, resulting in a higher rating stability. At 84.2%, stable ratings are at the highest level since 2003.

Exhibit 19: Summary of Annual Rating Changes*

Year	Issuers as of 1st January	Upgrades	Downgrades	Default	Withdrawn	Migrating	Stable	Downgrade to Upgrade (x)
1998	2	0.00%	100.00%	0.00%	0.00%	100.00%	0.00%	n.a
1999	3	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	n.a
2000	7	28.57%	0.00%	14.29%	0.00%	42.86%	57.14%	0.00
2001	18	0.00%	0.00%	0.00%	5.56%	0.00%	100.00%	n.a
2002	37	8.11%	5.41%	0.00%	0.00%	13.51%	86.49%	0.67
2003	44	4.55%	4.55%	0.00%	9.09%	9.09%	90.91%	1.00
2004	50	16.00%	0.00%	0.00%	12.00%	16.00%	84.00%	0.00
2005	75	10.67%	2.67%	2.67%	10.67%	16.00%	84.00%	0.25
2006	94	5.32%	12.77%	1.06%	7.45%	19.15%	80.85%	2.40
2007	103	4.85%	12.62%	4.85%	8.74%	22.33%	77.67%	2.60
2008	101	6.93%	6.93%	1.98%	7.92%	15.84%	84.16%	1.00
Wtd Average		**7.49%**	**7.49%**	**2.06%**	**8.05%**	**17.04%**	**82.96%**	**1.28**

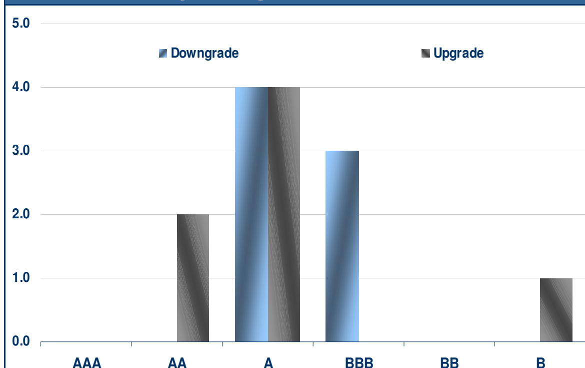
Source: MARC Fixed Income Research

Exhibit 20 : Upgrades and downgrades count by issuer



Source: MARC Fixed Income Research

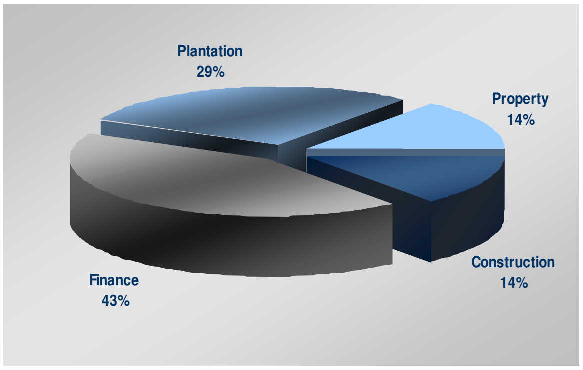
Exhibit 21: 2008 Upgrades and downgrades distribution by rating bands (issuer count)



Source: MARC Fixed Income Research

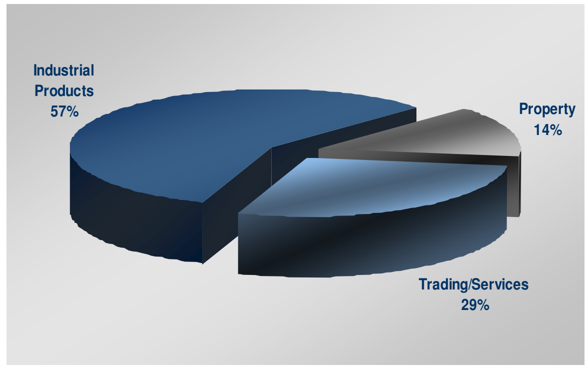
From sectoral perspective, finance contributed the most to positive rating changes with an upgrade rate of 75.0% out of four outstanding issuers at the beginning of 2008. An upgrade rate of 100% seen in the plantation sector was due to extremely small sample in which two outstanding issuers were both upgraded. In terms of downgrade, trading/services recorded an encouraging development with downgrade rate falling by more than half to 11.1% in 2008.

Exhibit 22 : 2008 Upgrades by sector



Source: MARC Fixed Income Research

Exhibit 23: 2008 downgrades by sector



Source: MARC Fixed Income Research

Exhibit 24: Upgrade rates by sector (%)

Sector	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Wtd. Average
Construction	0.00	0.00	0.00	0.00	0.00	0.00	33.33	25.00	0.00	12.50	16.67	**10.8**
Consumer Products	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.0**
Finance	0.00	0.00	50.00	0.00	25.00	25.00	20.00	20.00	40.00	20.00	75.00	**29.7**
Hotels	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.0**
Industrial Products	0.00	0.00	0.00	0.00	0.00	0.00	0.00	10.53	4.55	3.85	0.00	**4.0**
Infrastructure & Utilities	0.00	0.00	33.33	0.00	0.00	0.00	16.67	15.38	11.11	9.09	0.00	**7.4**
Insurance Company	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.0**
Plantation	0.00	0.00	0.00	0.00	0.00	0.00	20.00	20.00	0.00	0.00	100.00	**14.8**
Property	0.00	0.00	0.00	0.00	10.00	9.09	20.00	0.00	0.00	0.00	7.14	**5.1**
Technology	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.0**
Trading/Services	0.00	0.00	0.00	0.00	33.33	0.00	12.50	7.69	0.00	0.00	0.00	**3.6**
Wtd. Average	**0.0**	**0.0**	**28.6**	**0.0**	**8.1**	**4.5**	**16.0**	**10.7**	**5.3**	**4.9**	**6.9**	**7.5**

Source: MARC Fixed Income Research

Exhibit 25: Downgrade rates by sector (%)

Sector	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Wtd. Average
Construction	0.00	0.00	0.00	0.00	33.33	0.00	0.00	0.00	14.29	0.00	0.00	**5.4**
Consumer Products	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	33.33	33.33	0.00	**14.3**
Finance	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**2.7**
Hotels	0.00	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	**25.0**
Industrial Products	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5.26	18.18	19.23	15.38	**14.0**
Infrastructure & Utilities	100.00	0.00	0.00	0.00	0.00	8.33	0.00	7.69	5.56	0.00	0.00	**3.3**
Insurance Company	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.0**
Plantation	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.0**
Property	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	20.00	18.75	7.14	**7.1**
Technology	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.0**
Trading/Services	0.00	0.00	0.00	0.00	0.00	16.67	0.00	0.00	11.76	23.53	11.11	**10.7**
Wtd. Average	**100.0**	**0.0**	**0.0**	**0.0**	**5.4**	**4.5**	**0.0**	**2.7**	**12.8**	**12.6**	**6.9**	**7.5**

Source: MARC Fixed Income Research

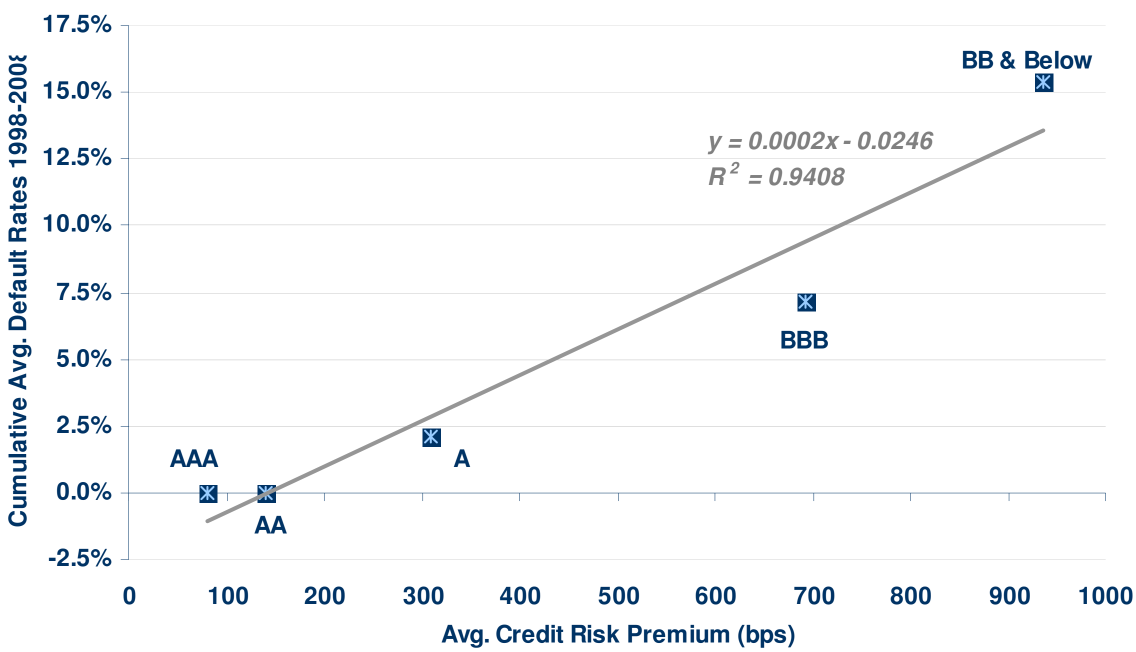
Higher credit ratings are associated with lower default probability and high stability

Analysis of cumulative default rates across MARC's ordinal credit ranking bands suggests that ratings behavior is consistent with the hypothesis that default rates of lower-rated bands should be greater than higher-rated bands, justifying increasing credit risk premium across the spectrums. There is a clear negative correlation between credit rating and default probability as can be seen in exhibit 26. The same exhibit also depicts a significant positive correlation between average corporate spreads and MARC's cumulative average default rates with a statistical correlation coefficient of 97%.

For example, two highest bands, 'AAA' and 'AA' which carry zero percent default probability offer investors an average credit risk premium of 80 bps and 140 bps respectively (we randomly picked 5-year yields for this analysis). As we move towards lower ratings say 'BBB', average credit risk premium offered to investors rose to 700 bps to compensate its 7.1% default probability.

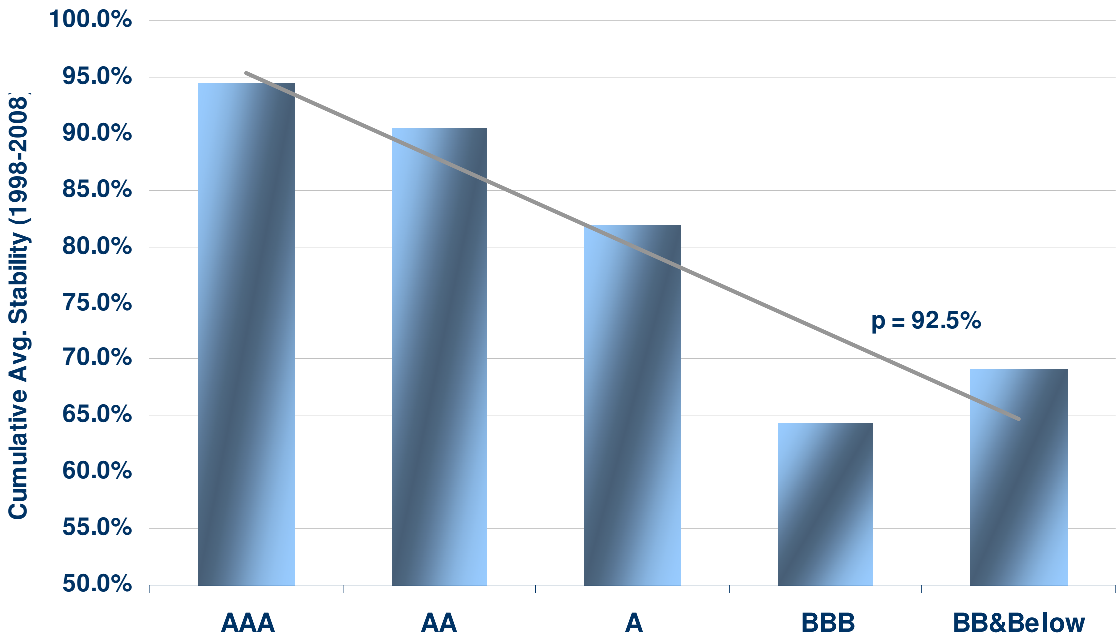
We performed the same analysis to rating stability as portrayed in exhibit 27 in which, as common sense has it, stability should be well preserved across highly rated bands. Again we find that such element exists in MARC's credit rating with a positive correlation coefficient of 93% between rankings and stability (we assigned a hypothetical scoring such that the highest rating i.e. 'AAA' carries the highest score to compute the coefficient. For instance, 'AAA' carries a one-year rating stability of 94%, followed by 'AA' with 91% stability).

Exhibit 26: Credit risk premium rose as default rates increased from higher to lower rating bands



Source: MARC Fixed Income Research

Exhibit 27: Rating Stability gets weaker as we move from a higher to lower rating bands

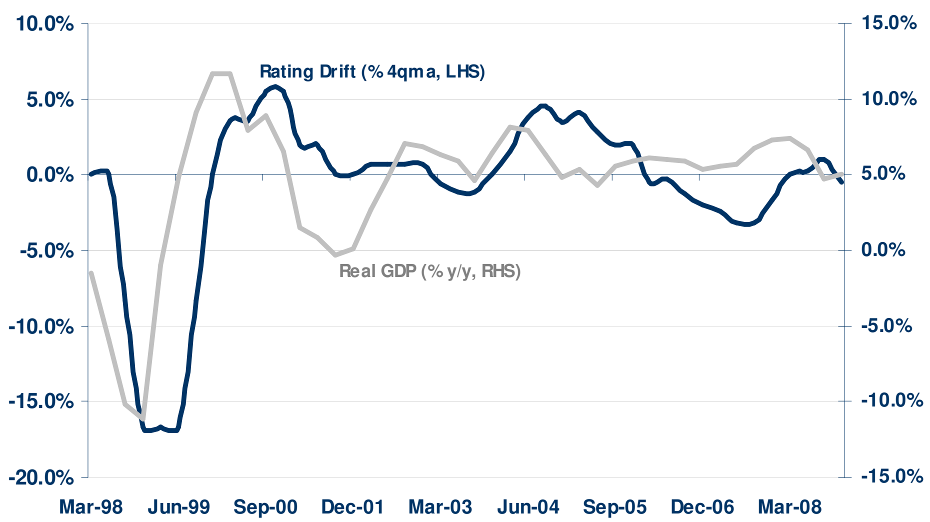


Source: MARC Fixed Income Research

Direct relationship between credit quality and economic cycle

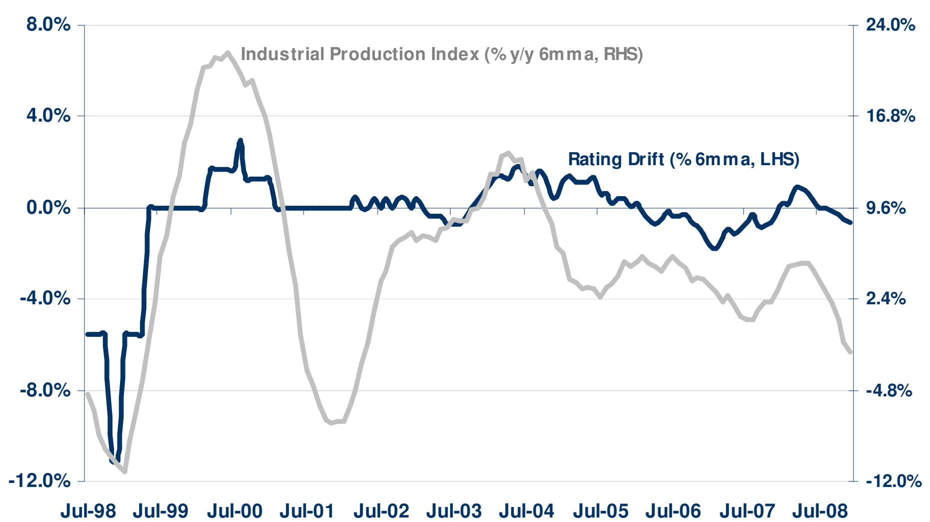
Rating drift which is defined as excess upgrades over downgrades as a percentage of outstanding issuer is mapped against the economic cycle to gauge the relationship between credit quality and macro-economic fundamentals. The analysis reveals a direct relationship between credit quality and economic fundamentals where upgrades tend to outpace downgrades during the expansionary period and conversely, upgrades lag downgrades during economic slowdown. Statistically, the correlation coefficient between rating drift and Real GDP stood at 80% while a correlation coefficient of 60% explains the movement between rating drift and industrial production index which is used as a proxy to economic performance.

Exhibit 28: Rating drift trend vis-à-vis Real GDP



Source: CEIC, MARC Fixed Income Research

Exhibit 29: Rating drift trend vis-à-vis Industrial Production

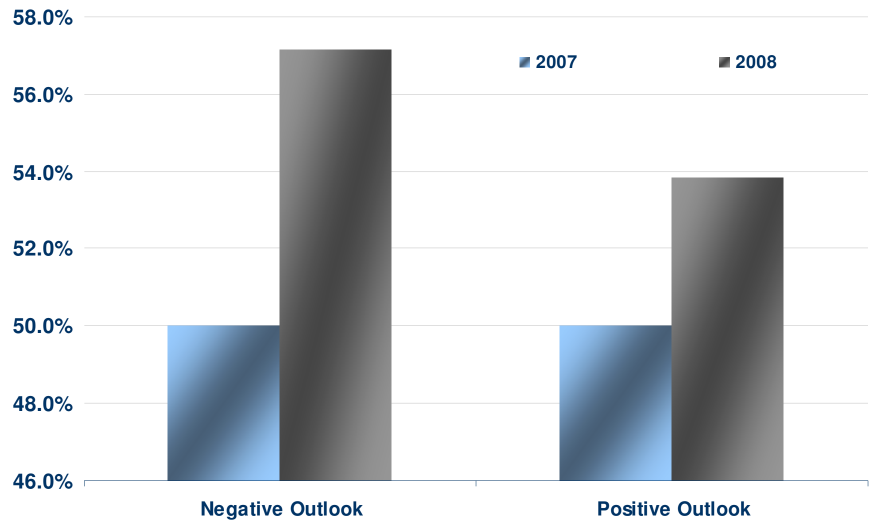


Source: CEIC, MARC Fixed Income Research

The predictive power of rating outlooks and rating watches

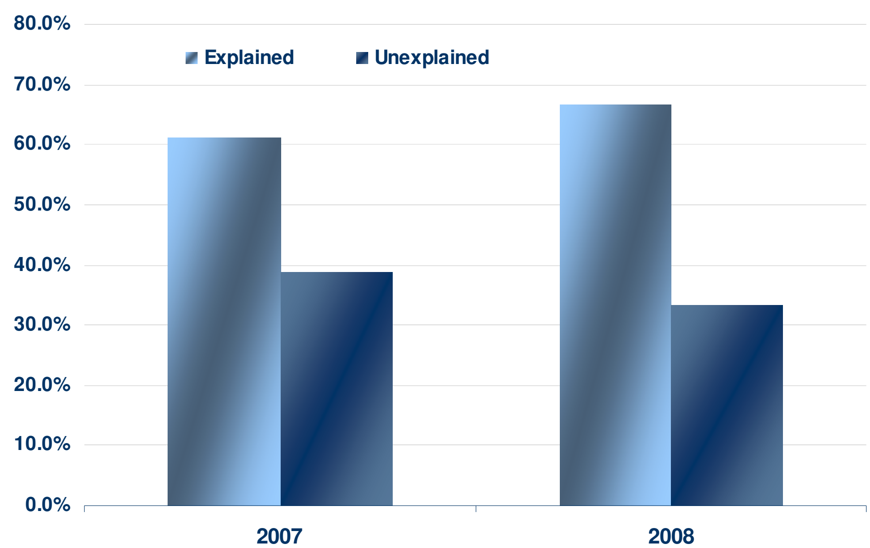
Outlooks and watchlists assigned to the existing ratings summarized their potential direction going forward. In this section we extended the analysis to test the predictive power of outlook and watchlists. MARCWatch-positive nonetheless could not be tested as sample is practically non-existent. The predictive power for both, negative and positive outlooks increased in 2008. For example, 54% of issuers assigned with positive outlook were actually upgraded in the next review in 2008 compared to 50% in the previous year (exhibit 30). On the other hand, downgrades in 2008 that were explained by MARCWatch-Negative rose to 67% compared to 61% in 2007, another sign of improvement in the predictive power of the MARCWatch placement as depicted in Exhibit 31.

Exhibit 30: Negative and positive outlooks in explaining downgrades and upgrades – predictive power*



Source: MARC Fixed Income Research
** Ratio explains the number of downgrades or upgrades as percentage of pools of negative outlook or positive outlook.*

Exhibit 31: Downgrades preceded by MARCWatch-Negative*

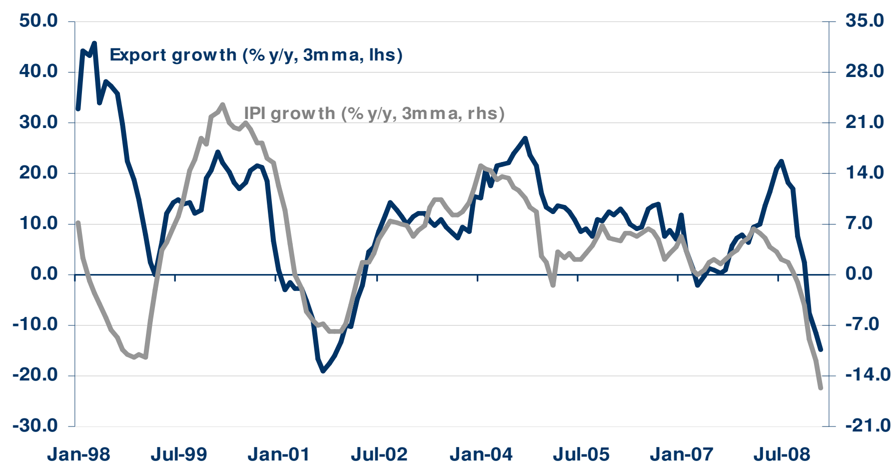


Source: MARC Fixed Income Research
** Ratio explains the percentage of downgrades preceded by MARCWatch-Negative (as percentage of total downgrades)*

2009 Default Rate : Base case forecast of 4.1%

2008 marked a good year in so far as the credit quality of our corporate rating universe is concerned with a considerable fall in the default rate from prior year levels. For 2009, MARC expects a reversal of the benign conditions which permitted the low default rates in 2008, in the context of consecutive months of declining exports and industrial production. Judging from the close relationship between credit market performance and economic cycle, the operating environment is expected to be tough particularly for highly leveraged issuers. A review of the financial performance of a randomly selected sample of 188 listed companies reveals declining profit margins, lower funds flow from operation relative to debt and rising gearing levels.

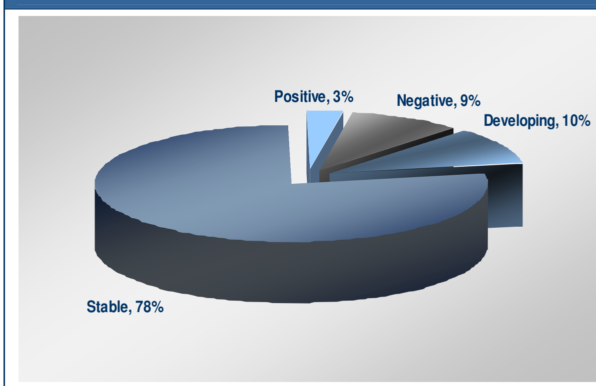
Exhibit 32: Industrial production and exports fell sharply



Source: Bloomberg, CEIC, MARC Fixed Income Research

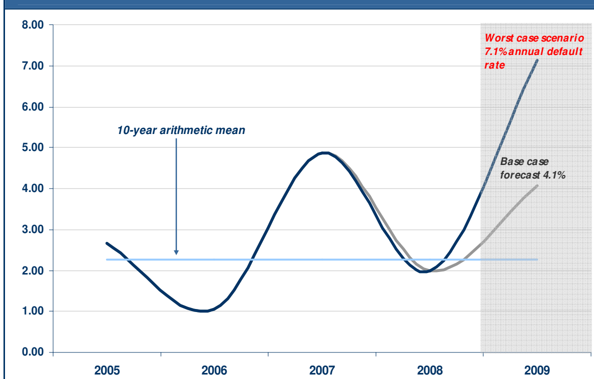
MARC expects the default rate in the corporate universe to increase to 4.1% in 2009 with a 1.3% standard error. Under our worst case scenario, corporate default rate may escalate to 7.1%. The forecast was generally based on the number of survivors in 2008, rating and outlook distribution. Going into 2009, approximately 9.0% of the outstanding issuers carried a negative-outlook tag with them and four issuers from the negative-outlook pool represent our base case projection.

Exhibit 33 : Outlook Distribution – 1st Jan 2009



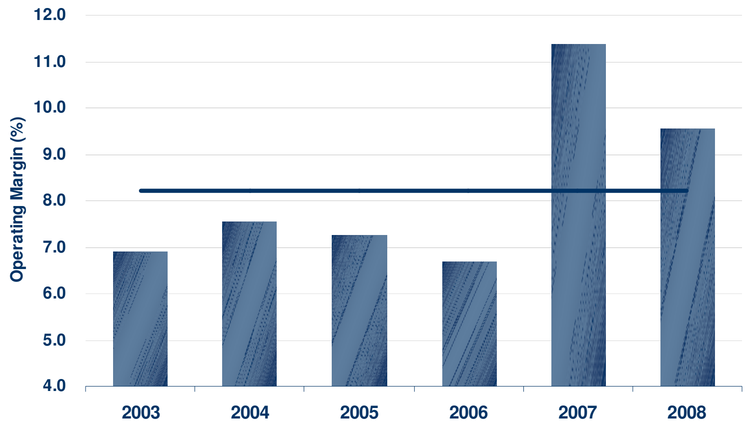
Source: MARC Fixed Income Research

Exhibit 34: 2009 Default Rate Scenarios



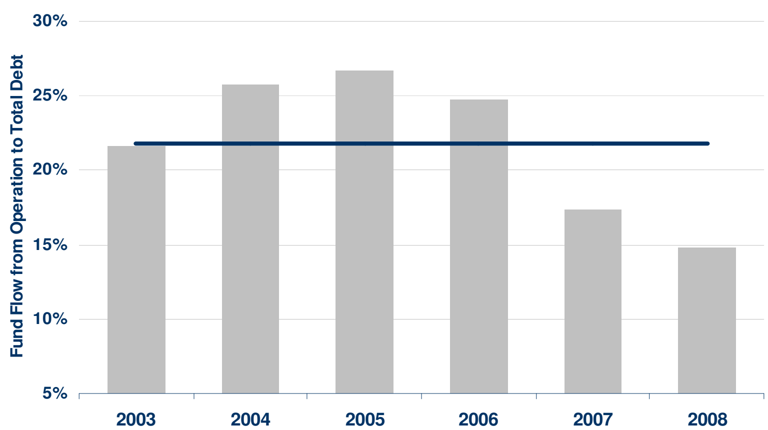
Source: MARC Fixed Income Research

Exhibit 35: Shrinking profit margin (N = 188 listed companies - Median)



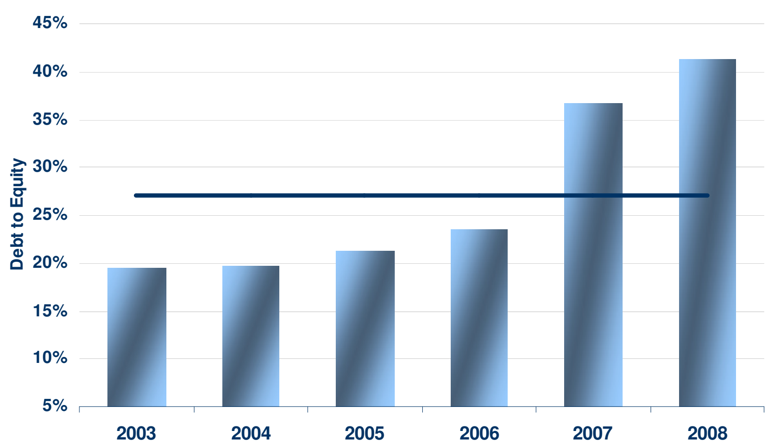
Source: MARC Fixed Income Research

Exhibit 36: Funds from operation relative to total debt is declining* (N = 188 listed companies - Median)



Source: MARC Fixed Income Research
** Fund flow from operation = Operating profit less depreciation & amortization, add interest & tax paid*

Exhibit 37: Gearing level is rising (N = 188 listed companies - Median)



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 152 corporate issuers that were rated by MARC spanning 1997 to 2008. 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 2007 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: 1997-2008)

- 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.
- 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 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:

  $$d_t = x_t / (n_{t-1} - w_{t-1})$$

  Where x_t is the number of defaulted issuers in year **t**, w_{t-1} is the number of rating withdrawals and n_{t-1} 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.

Cumulative Default Rates

- In this study, static pools ranging from cohort 1997 to cohort 2008 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%.

- As depicted in exhibit 38, the marginal average first year default rate for all 12 pools was 0.94%, meaning that 99.06% issuers survived in the first year. The same default rate from the same pool in the second year was 0.57% for the first 11 pools, meaning 99.43% survived in one year. Multiplying 98.06% and 99.43% results in a 98.50% of survival rate at the end of second year which can also be interpreted as a two-year cumulative average default rate of 1.50%. Similarly, the third year average stood at 0.38% for the first 10 pools and that translates into 99.62% of those issuers that did not default in the first and second year survived the third year.

- Multiplying 96.62% and 98.5% results in a 98.13% survival rate at the end of the third year. Hence the three-year cumulative average default rate based on the survival rate of 98.13% is 1.87%.

Exhibit 38: Cumulative Average Default Rates

Year	Issuer	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
1997	0	0.00%	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%	0.00%	
1999	3	33.33%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
2000	7	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%			
2001	18	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%				
2002	37	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%					
2003	44	0.00%	2.27%	0.00%	0.00%	2.33%						
2004	50	2.00%	2.04%	4.17%	0.00%							
2005	75	0.00%	1.33%	0.00%								
2006	94	0.00%	0.00%									
2007	103	1.94%										
2008	101	0.99%										
Marginal Average		**0.94%**	**0.57%**	**0.38%**	**0.00%**	**0.19%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Surviving		**99.06%**	**99.43%**	**99.62%**	**100.00%**	**99.81%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Survival rate		**99.06%**	**98.50%**	**98.13%**	**98.13%**	**97.94%**	**97.94%**	**97.94%**	**97.94%**	**97.94%**	**97.94%**	**97.94%**
Cumulative Average		**0.94%**	**1.50%**	**1.87%**	**1.87%**	**2.06%**	**2.06%**	**2.06%**	**2.06%**	**2.06%**	**2.06%**	**2.06%**

Source: MARC Fixed Income Research

Appendix II: 2008 Migrations

No	Issuer	Sector	Date	Rating Action	Outlook	Previous Rating	New Rating
1	MK Land Holding Bhd	Property	04-Jan-08	DOWNGRADED	DEV	A-	BBB+
2	MK Land Holding Bhd	Property	04-Jan-08	DOWNGRADED	DEV	A-	BBB+
3	TSH Resources Bhd	Plantation	15-Jan-08	UPGRADED	STA	A+	AA-
4	Land & General Bhd	Property	31-Jan-08	UPGRADED	DEV	B-	B
5	Land & General Bhd	Property	31-Jan-08	UPGRADED	DEV	B-	B
6	PSSB Ship Management Sdn Bhd	Trading/Services	05-Feb-08	DOWNGRADED	NEG	A	BBB-
7	IJM Corporation Bhd	Construction	19-Feb-08	UPGRADED	STA	A+	AA-
8	Intelbest Corporation Sdn Bhd	Property	29-Feb-08	DEFAULT		B+	D
9	Intelbest Corporation Sdn Bhd	Property	29-Feb-08	DEFAULT		B+	D
10	Intelbest Corporation Sdn Bhd	Property	29-Feb-08	DEFAULT		B+	D
11	CIMB Bank Bhd	Finance	07-Mar-08	UPGRADED		AA-	AA
12	Englotechs Holding Bhd	Industrial Products	01-Apr-08	DOWNGRADED		BBB+	BBB-
13	Evermaster Group Bhd	Industrial Products	14-Apr-08	DOWNGRADED	NEG	A-	BBB+
14	Evermaster Group Bhd	Industrial Products	14-Apr-08	DOWNGRADED	NEG	A-	BBB+
15	Hong Leong Financial Group Bhd	Finance	23-Apr-08	UPGRADED	STA	A+	AA-
16	Hong Leong Financial Group Bhd	Finance	23-Apr-08	UPGRADED	STA	A+	AA-
17	Mithril Bhd	Industrial Products	05-May-08	DOWNGRADED	NEG	BBB-	BB
18	Bumiputra-Commerce Holdings Bhd	Finance	10-Jun-08	UPGRADED	STA	AA-	AA
19	Evermaster Group Bhd	Industrial Products	02-Jul-08	DOWNGRADED		BBB+	BBB-
20	Evermaster Group Bhd	Industrial Products	02-Jul-08	DOWNGRADED		BBB+	BBB-
21	Tracoma Holdings Bhd	Industrial Products	31-Jul-08	DOWNGRADED		BBB+	BB+
22	Tracoma Holdings Bhd	Industrial Products	30-Oct-08	DOWNGRADED	NEG	BB+	B
23	Boon Koon Group Bhd	Industrial Products	20-Nov-08	DOWNGRADED	NEG	A	A-
24	Haisan Resources Bhd	Trading/Services	20-Nov-08	DOWNGRADED		A	A-
25	PSSB Ship Management Sdn Bhd	Trading/Services	20-Nov-08	DOWNGRADED	NEG	BBB-	BB-
26	IJM Plantations Bhd	Plantation	21-Nov-08	UPGRADED	STA	A+	AA-
27	Evermaster Group Bhd	Industrial Products	10-Dec-08	DOWNGRADED	NEG	BBB-	BB-
28	Evermaster Group Bhd	Industrial Products	10-Dec-08	DOWNGRADED	NEG	BBB-	BB-
29	Evermaster Group Bhd	Industrial Products	31-Dec-08	DEFAULT		BB-	D
30	Evermaster Group Bhd	Industrial Products	31-Dec-08	DEFAULT		BB-	D

Source: MARC Fixed Income Research

Appendix III: Migration rates at the modifier level

2007	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	C	NR	Default
AAA	**100.0%**	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA+	33.3%	**66.7%**	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	16.7%	**50.0%**	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	33.3%	0.0%
AA-	0.0%	0.0%	0.0%	**81.8%**	9.1%	0.0%	9.1%	0.0%	0.0%	0.0%	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%	11.1%	**63.0%**	14.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	11.1%	0.0%
A	0.0%	0.0%	0.0%	0.0%	0.0%	**74.1%**	11.1%	7.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.7%	3.7%
A-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**54.5%**	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	27.3%	18.2%
BBB+	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**	0.0%	0.0%	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%	**0.0%**	50.0%	0.0%	0.0%	0.0%	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%	**50.0%**	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	50.0%
BB+	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**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%	0.0%	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%	0.0%	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%	0.0%	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%	0.0%	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%	0.0%	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%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**	0.0%	0.0%

2008	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	C	NR	Default
AAA	**92.9%**	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	7.1%	0.0%
AA+	0.0%	**100.0%**	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	0.0%	**100.0%**	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA-	0.0%	0.0%	15.4%	**84.6%**	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	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%	18.2%	**72.7%**	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	9.1%	0.0%
A	0.0%	0.0%	0.0%	0.0%	0.0%	**77.8%**	7.4%	0.0%	0.0%	0.0%	0.0%	0.0%	3.7%	0.0%	0.0%	0.0%	0.0%	11.1%	0.0%
A-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**60.0%**	10.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	20.0%	10.0%
BBB+	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**	0.0%	50.0%	0.0%	0.0%	0.0%	0.0%	50.0%	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%**	0.0%	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%	0.0%	**50.0%**	0.0%	50.0%	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%	0.0%	**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%	0.0%	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%	0.0%	0.0%	0.0%	**100.0%**	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%	0.0%	0.0%	0.0%	0.0%	**0.0%**	0.0%	0.0%	0.0%	0.0%	100.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	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%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	**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%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**	0.0%	0.0%

1998-2008	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	C	NR	Default
AAA	**94.4%**	0.0%	1.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.2%	0.0%
AA+	5.6%	**88.9%**	0.0%	5.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	7.1%	**78.6%**	3.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	10.7%	0.0%
AA-	0.0%	0.0%	10.2%	**79.6%**	4.1%	0.0%	2.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.1%	0.0%
A+	0.0%	0.0%	0.0%	9.0%	**73.0%**	8.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	9.0%	1.0%
A	0.0%	0.0%	0.0%	0.7%	6.6%	**72.8%**	6.6%	1.3%	0.7%	1.3%	0.0%	0.0%	1.3%	0.0%	0.0%	0.0%	0.0%	6.6%	2.0%
A-	0.0%	0.0%	0.0%	0.0%	0.0%	7.9%	**67.1%**	2.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	18.4%	3.9%
BBB+	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	40.0%	**40.0%**	0.0%	10.0%	0.0%	0.0%	0.0%	0.0%	10.0%	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%	**50.0%**	16.7%	0.0%	0.0%	0.0%	16.7%	0.0%	0.0%	0.0%	0.0%	16.7%
BBB-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	8.3%	0.0%	**66.7%**	0.0%	8.3%	0.0%	0.0%	0.0%	0.0%	0.0%	8.3%	8.3%
BB+	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**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%	0.0%	0.0%	**50.0%**	50.0%	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%	0.0%	0.0%	0.0%	**50.0%**	0.0%	0.0%	25.0%	0.0%	25.0%	0.0%
B+	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**	0.0%	0.0%	0.0%	0.0%	100.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	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%	0.0%	0.0%	0.0%	0.0%	0.0%	16.7%	**66.7%**	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%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**	0.0%	0.0%

Source: MARC Fixed Income Research

Appendix IV: Defaulters excluded

No.	Category	Sector	Issuer	Date Announced	Last Rating	Constraint Factor	Amount rated (MYR m)
1	Corporate Debt	Property	Johor City Development Sdn Bhd	01-Jul-01	AA-	Bank Guaranteed	235
				01-Jul-01	MARC-1	Bank Guaranteed	100
2	Corporate Debt	Trading/Services	HVD Holdings Sdn Bhd	01-Feb-02	MARC-4	Short Term	70
3	Corporate Debt	Industrial Products	Perak-Hanjoong Simen Sdn Bhd	01-Dec-04	AAA	Bank Guaranteed	370
				01-Dec-04	A	Bank Guaranteed	50
				01-Dec-04	AA-	Bank Guaranteed	80
				01-Dec-04	A+	Bank Guaranteed	168
4	Corporate Debt	Property	Europlus Corporation Sdn Bhd	09-Mar-06	MARC-4	Short Term	350
5	Corporate Debt	Property	Perspektif Perkasa Sdn Bhd	09-Mar-06	MARC-4	Short Term	188
6	Structured Finance	Property	Ambang Sentosa Sdn Bhd	28-Jul-06	C	Structured Finance Portfolio	398.1
					C	Structured Finance Portfolio	249.7
7	Corporate Debt	Industrial Products	Stenta Films (M) Sdn Bhd	20-Sep-07	MARC-4	Short Term	90
8	Corporate Debt	Consumer Products	CNLT (Far East) Bhd	11-Oct-07	A	Bank Guaranteed	60
9	Corporate Debt	Construction	Jana Niaga Sdn Bhd	15-Nov-07	MARC-4	Short Term	100
10	Asset-Backed Securities	Primary CLO	Aegis One Bhd	28-Jan-08	B	Structured Finance Portfolio	100

Source: MARC Fixed Income Research

Appendix V: Press Announcements of 2008 Defaulters

MARC DOWNGRADES INTELBEST CORPORATION SDN BHD'S ISLAMIC DEBT FACILITIES RATINGS TO D FROM B+ID/MARC-4ID

Feb 29, 2008

MARC has downgraded Intelbest Corporation Sdn Bhd's (ICSB) RM110.0 million Bai Bithaman Ajil Bonds (BaIDS) and RM50.0 million Murabahah Notes Issuance Facility (MUNIF) (collectively known as Islamic Debt Facilities) ratings to D from B+ID/MARC-4ID as a result of a missed profit payment for the BaIDS on February 28, 2008. ICSB is principally an investment holding company and property developer with subsidiaries involved in property development in the Klang Valley.

MARC had earlier placed ICSB's Islamic Debt Facilities' ratings on MARCWatch Negative on January 3, 2008, following further deterioration in ICSB's operating and financial trends since MARC's previous rating action in July 2007, as well as its unresolved debt covenant breaches, and failure to furnish audited accounts for the last two financial years to MARC.

MARC DOWNGRADES ITS RATINGS ON EVERMASTER GROUP'S RM50 MILLION BAIDS AND RM40 MILLION MONIF TO DID ON MISSED BAIDS PRINCIPAL PAYMENT

Dec 31, 2008

MARC has lowered the short- and long-term ratings on Evermaster Group Berhad's (EGB) RM50 million Al-Bai Bithaman Ajil Islamic Debt Securities (BaIDS) and RM40 million Murabahah Multi-Option Notes Issuance Facility (MONIF) to DID from MARC-4ID and BB-ID respectively. The downgrades are based on EGB's failure to meet the scheduled BaIDS redemption of RM15 million on December 30, 2008, as confirmed by the Facility and Security Agent, on December 31, 2008.

The sole BaIDS holder, Prokhas Sdn Bhd, a wholly-owned subsidiary of Ministry of Finance Inc., had earlier given an indulgence to EGB to defer its scheduled sinking fund payments and to submit its proposal to restructure the BaIDS. EGB was unable to complete the restructuring ahead of December 30, 2008, causing the rating on the BaIDS to fall to a default status. Consequently, MARC has also downgraded its rating on EGB's MONIF to DID to reflect a cross-default under the notes.

Appendix VI: Structured Finance Statistics

Exhibit 39: Structured Finance migration - 2008

No	Issuer	Sector	Date	Rating Action	Outlook	Previous Rating	New Rating
1	Ample Zone Bhd	Property	28-Apr-08	UPGRADED		A	AA+
2	Kwantas SPV Sdn Bhd	Plantation	10-Oct-08	UPGRADED		AA	AAA
3	Kerisma Bhd	Primary CLO	29-Feb-08	DOWNGRADED		AAA	AA-
4	Kerisma Bhd	Primary CLO	29-Feb-08	DOWNGRADED		AA-	A-
5	Kerisma Bhd	Primary CLO	29-Feb-08	DOWNGRADED		B	C
6	CapOne Bhd	Primary CLO	23-Apr-08	DOWNGRADED		AA	A-
7	CapOne Bhd	Primary CLO	23-Apr-08	DOWNGRADED		B	C
8	CapOne Bhd	Primary CLO	04-Dec-08	DOWNGRADED		AAA	AA-
9	CapOne Bhd	Primary CLO	04-Dec-08	DOWNGRADED		A-	BBB-
10	Aegis One Bhd	Primary CLO	28-Jan-08	DEFAULT		B	D

Source: MARC Fixed Income Research

Exhibit 40: Structured Finance rating actions – (2003 – 2008)

Year	Issues/Tranches as of 1st January	Upgrades	Downgrades	Default	Withdrawn	Migrating	Stable	Downgrade to Upgrade (x)
2003	3	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	n.a
2004	10	0.00%	0.00%	0.00%	10.00%	0.00%	100.00%	n.a
2005	19	0.00%	10.53%	0.00%	0.00%	10.53%	89.47%	n.a
2006	47	0.00%	17.02%	4.26%	2.13%	21.28%	78.72%	n.a
2007	65	0.00%	4.62%	0.00%	13.85%	4.62%	95.38%	n.a
2008	97	2.06%	7.22%	1.03%	4.12%	10.31%	89.69%	3.50
Weighted Average		**0.83%**	**8.30%**	**1.24%**	**6.22%**	**10.37%**	**89.63%**	**1.41**

Source: MARC Fixed Income Research

Exhibit 41: Structured Finance transition rates - (2003 – 2008)

2003-2008	AAA	AA	A	BBB	BB	B	C	NR	Default
AAA	**91.84%**	2.72%	0.00%	0.00%	0.00%	0.00%	0.00%	5.44%	0.00%
AA	2.78%	**77.78%**	8.33%	0.00%	0.00%	0.00%	0.00%	11.11%	0.00%
A	0.00%	2.70%	**86.49%**	0.00%	2.70%	0.00%	0.00%	2.70%	5.41%
BBB	0.00%	0.00%	0.00%	**100.00%**	0.00%	0.00%	0.00%	0.00%	0.00%
BB	0.00%	0.00%	0.00%	0.00%	**69.23%**	23.08%	0.00%	7.69%	0.00%
B	0.00%	0.00%	0.00%	0.00%	0.00%	**60.00%**	0.00%	20.00%	20.00%
C	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	**0.00%**	0.00%	0.00%

Source: MARC Fixed Income Research

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