

Credit Rating Risk During The Financial Crisis

by

Mohd Razlan Mohamed

**Chief Executive Officer
Malaysian Rating Corporation Berhad**

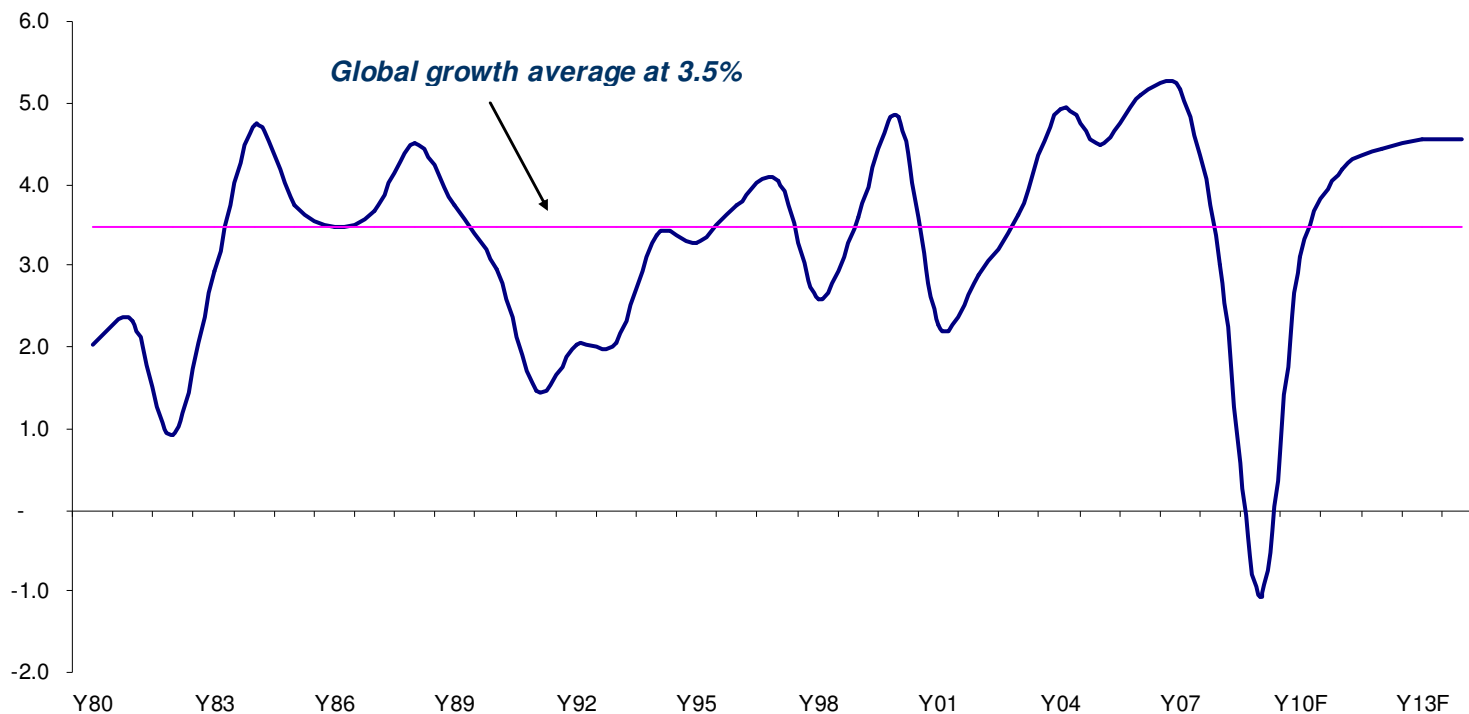


21st Federation Of Afro-Asian Insurers & Reinsurers
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October 2009

Global GDP growth forecasts by the IMF

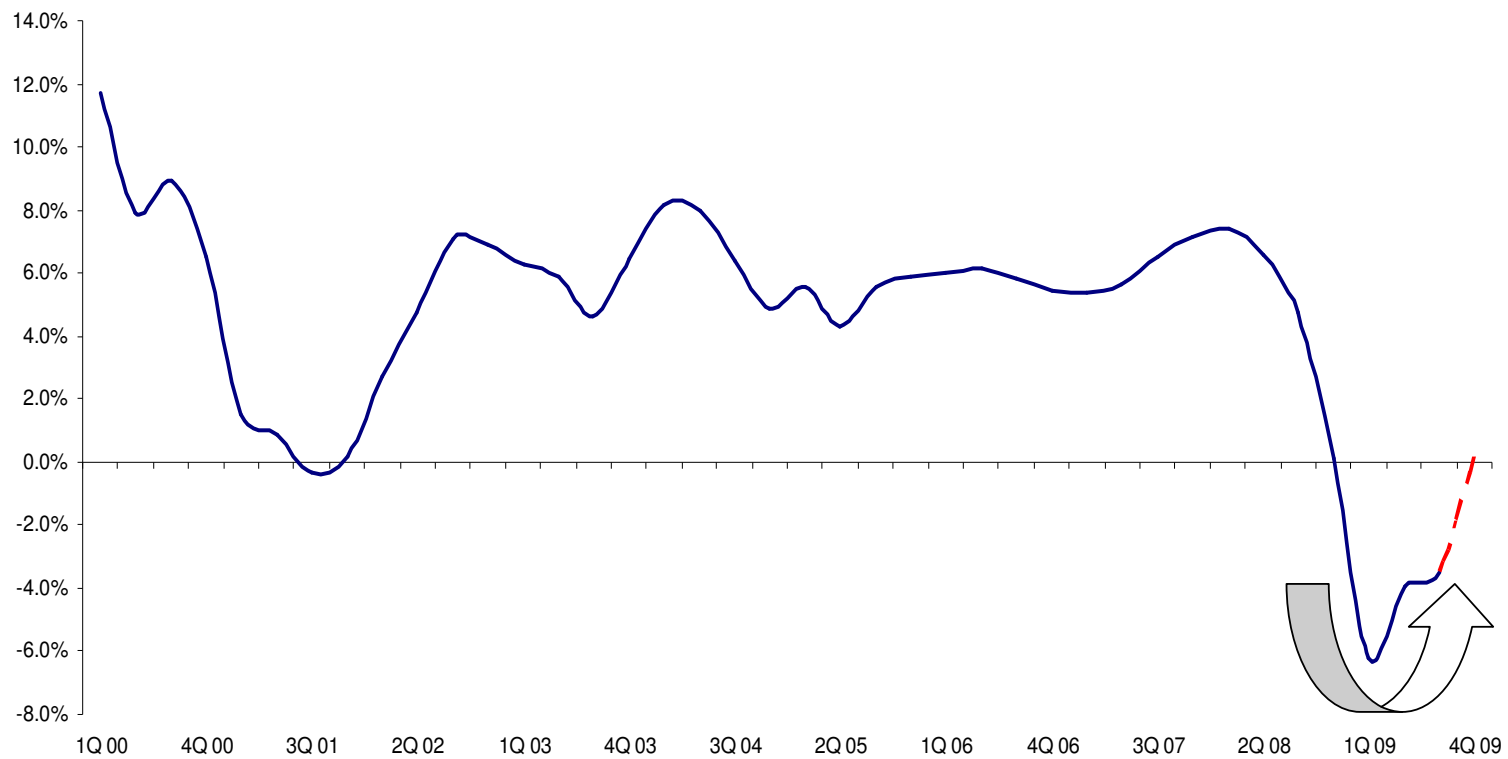
- Global GDP growth is expected to rebound in 2010 to 3.1%, still low by historical standard, averaging 3.5% since 1980
- Global economic activities are expected to normalize in 2011 onwards



Source: IMF World Economic Outlook October 2009

Malaysia's GDP growth by quarter

- Contraction of -6.2% in Q1' 09; followed by -3.9% in Q2' 09
- Lower contraction expected in Q3 – Q4 '09



Source: MARC Economic Research



Rating Migration in MARC's Universe

- Rating actions since Q2 '08 :

Qtr	Affirmations	Downgrades	Upgrades	Defaults
Q2 '08	4	4	3	0
Q3 '08	14	3	0	0
Q4 '08	31	7	1	2
Q1 '09	31	5	1	3
Q2 '09	23	2	0	1
Q3 '09	18	4	0	1
YTD '09	72	11	1	5

Source: MARC Fixed Income Research



Rating Outlook in MARC's Universe

- % of issues with following outlooks :

Qtr	Positive	Stable	Developing	Negative
Q2 '08	0.0	97.1	0.6	2.3
Q3 '08	0.0	97.0	2.4	0.6
Q4 '08	0.0	93.4	2.4	4.2
Q1 '09	0.0	83.0	11.3	5.7
Q2 '09	0.0	91.9	3.8	4.4
Q3 '09	1.3	93.6	1.3	3.8

Source: MARC Fixed Income Research



Negative Rating Watch in MARC's Universe

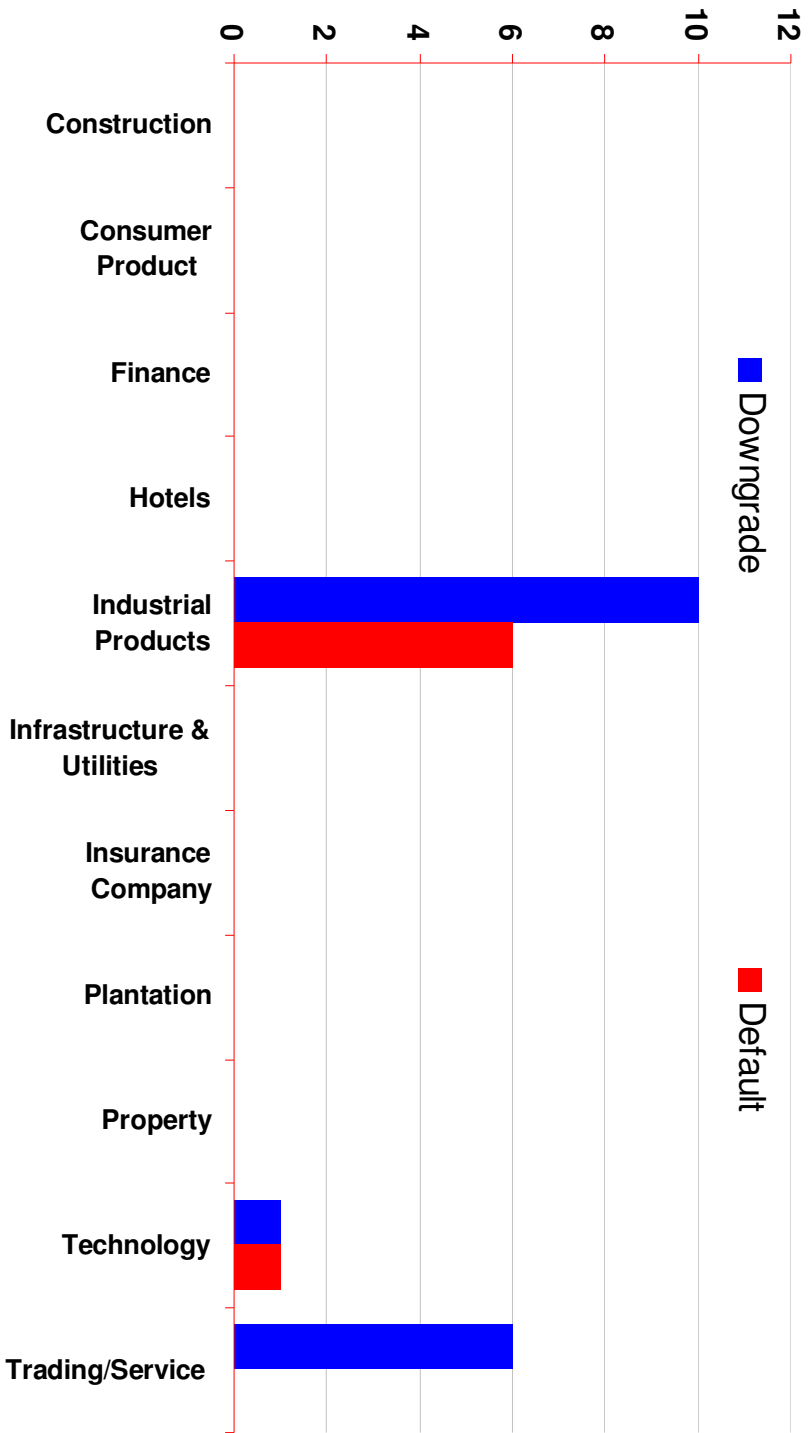
- No of long-term issues on MarcWatch Negative :

	No Issues	AAA	AA	A	BBB	< BB
2008	14	0	1	8	2	3
Jan-Sept 2009	11	0	4	6	1	0

- More than 50% of issues on MarcWatch Negative reside in the single-A and below rating bands

Source: MARC Fixed Income Research

Downgrades/Defaults By Sectors



Source: MARCC Fixed Income Research

Long Gestation of Vulnerability

- Pre-crisis benign macro economic conditions
 - ✓ low interest rates
 - ✓ low inflation
 - ✓ high risk appetite
- Rapid expansion
- Aggressive debt funding
- Rising cost structure



Underestimation of Risks !



Never Ending Fairy Tale?

- Boom → boom → more boom or bust?
 - ✓ US housing market phenomenal growth
 - ✓ Credit and derivative market growth
- Rising delinquency rate on mortgages
- Spillover to derivative, bonds, equity & money markets
- Financial & economic crisis



Party is Over !



- High leverage level
 - ✓ easy access to credit market
 - ✓ low cost of borrowing
 - ✓ low risk appetite of lenders
- Poorer than expected operations
- Untenable debt burden
- Weakened access to debt & equity markets
- Increased rollover risk of debt



Diminished Credit Quality !



Swift Action To Avert Default Risk

- Preparation and anticipation
 - ✓ identify alternative source of liquidity
 - ✓ build up financial buffer
- Asset disposal
- Debt conversion
- Right sizing
- Improving inventory management / collection cycle
- Provide "stimulus" to business – like governments



No Time for Denial. Face it Head On !





Lessons Learned On Credit Risk

- Vulnerability does not develop overnight
- Benign operating environment does not last forever
- Untenable capital structures increase credit risk
- Debt management must be proactive
- Swift action is required to mitigate default risk



Thank You