

中華信用評等

Taiwan Ratings

A Standard & Poor's Ratings Partner

WHO USES CREDIT RATINGS?

- ❖ Local and global investors
- ❖ Corporate bond and financial debenture issuers
- ❖ Investment market intermediaries
- ❖ Businesses and financial institutions

Media Contact:

Simon Chen; (886) 2 8722-5871; simon.chen@taiwanratings.com.tw

Note: This article is published as part of a weekly series. To obtain back copies please contact our media representative above or download from <http://www.taiwanratings.com/>

© Taiwan Ratings Corp. 2016

WHO USES CREDIT RATINGS?

Investors. Investors most often use credit ratings to help assess credit risk and to compare different issuers and debt issues when making investment decisions and managing their portfolios. Individual investors, for example, may use credit ratings in evaluating the purchase of a municipal or corporate bond from a risk tolerance perspective.

Institutional investors, including mutual funds, pension funds, banks, and insurance companies, often use credit ratings to supplement their own credit analysis of specific debt issues. In addition, institutional investors may use credit ratings to establish thresholds for credit risk and investment guidelines.

A rating may be used as an indication of credit quality, but investors should consider a variety of factors, including their own analysis.

Intermediaries. Investment bankers help to facilitate the flow of capital from investors to issuers. They may use credit ratings to benchmark the relative credit risk of different debt issues, as well as to set the initial pricing for individual debt issues they structure and to help determine the interest rate these issues will pay. Investment bankers may look to a rating agency's criteria when seeking to understand that rating agency's approach toward rating different debt issues or different tiers of debt.

Investment bankers may also serve as arrangers of debt issues. In this capacity, they may establish special purpose entities that package assets, such as retail mortgages and student loans, into securities or structured finance instruments, which they then market to investors.

Issuers. Issuers, including corporations, financial institutions, national governments, cities and municipalities, use credit ratings to provide independent views of their creditworthiness and the credit quality of their debt issues. Issuers may also use credit ratings to help communicate the relative credit quality of debt issues, thereby expanding the universe of investors. In addition, credit ratings may help them anticipate the interest rate to be offered on their new debt issues.

As a general rule, the more creditworthy an issuer or an issue is, the lower the interest rate the issuer would typically have to pay to attract investors. The reverse is also true: an issuer with lower creditworthiness will typically pay a higher interest rate to offset the greater credit risk assumed by investors.

Businesses and financial institutions. Businesses and financial institutions, especially those involved in credit-sensitive transactions, may use credit ratings to assess counterparty risk, which is the potential risk that a party to an agreement may not fulfill its financial obligations.

For example, in deciding whether to lend money to a particular organization or in selecting a company that will guarantee the repayment of a debt issue in the event of default, a business may wish to consider the counterparty risk.

A credit rating agency's opinion of counterparty risk can therefore help businesses analyze their credit exposure to financial firms that have agreed to assume certain financial obligations and to evaluate the viability of potential partnerships and other business relationships.

[Editor's note: The contents of this article are based on the publication "GUIDE TO CREDIT RATING ESSENTIALS," published on www.standardandpoors.com, Copyright © 2014 by Standard & Poor's Financial Services LLC.]

Copyright © 2016 by Taiwan Ratings Corporation (TRC). All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of TRC. The Content shall not be used for any unlawful or unauthorized purposes. TRC and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively TRC Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. TRC Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. TRC DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall TRC be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. TRC credit ratings are opinions about relative credit risk. TRC's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. TRC assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. TRC does not act as a fiduciary or an investment advisor except where registered as such. While TRC has obtained information from sources it believes to be reliable, TRC does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. TRC cannot guarantee the accuracy, completeness, or timeliness of the information relied on in connection with a rating or the results obtained from the use of such information.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, TRC reserves the right to assign, withdraw or suspend such acknowledgement at any time and in its sole discretion. TRC disclaims any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

TRC keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of TRC may have information that is not available to other TRC business units. TRC has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

TRC may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. TRC reserves the right to disseminate its opinions and analyses. TRC's public ratings and analyses are made available on its Web sites, www.taiwanratings.com (free of charge), and rs.taiwanratings.com.tw (subscription), and may be distributed through other means, including via TRC publications and third-party redistributors.