

2011
2012
2013
2014
2015
2016
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Taiwan Ratings Corp.
2016 Ratings Roundup Report

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TAIWAN RATINGS CORP.

2016 RATINGS ROUNDUP REPORT



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Taiwan Ratings' issuer rating pool maintained a slightly negative rating bias at the end of 2016, which mostly reflects the island's weaker economic growth, continuing volatility in commodity prices, capital markets and foreign exchange rates, as well as a soft domestic real estate market. The negative bias, nevertheless, has reduced compared with the level at the end of 2015.

Overall, corporate ratings faced higher credit risks than other sectors in 2016, but the impact varied among industries due to their business cycles and sensitivities to individual risk factors. By contrast, our ratings on financial services sector maintained relatively a stable-to-positive trend in creditworthiness over the same period, mainly supported by the adequate capitalization of most financial institutions in Taiwan.

Taiwan-originated structured finance transactions also maintained relatively stable credit profiles in 2016, supported by the stable credit outlook of financial institutions in Taiwan, but asset-backed securities collateralized by small and mid-size enterprises receivables continue to face possibly higher exposure to a prolonged sluggish local economy.

2016 Ratings Roundup Report

Several factors individually or combined to result in negative rating actions and rating bias on corporate entities over the course of 2016 (downgrades, negative CreditWatch placements, and negative outlook revisions). Chief among these factors were slow domestic growth amid a sluggish recovery in exports particularly from weak Chinese demand and stagnant domestic consumption, and a soft recovery in Asian trade. Taiwan Ratings Corp. expects its ratings on corporate entities to face greater downside pressure than its ratings on financial institutions over the next few quarters. That's due to the heavy reliance of Taiwan's export-oriented economy on external demand and investment activities in China that is more likely to affect the corporate sector.

However, Taiwan-based financial institutions held relatively stable-to-positive credit profiles in 2016. We believe this was because of the adequate capitalization of most financial institutions in Taiwan that helped to absorb increasing credit risks and indirectly support the creditworthiness of local fixed-income funds and structured finance transactions. As with our view on the corporate sector, we believe that financial institutions will be unable to escape the wrath of an unstable and uncertain global economy over the next 12 months, with increasing risks from thinning profitability under still-low domestic interest rates as well as volatile capital markets and exchange rates. Most of the outlook revisions that we took on local financial institutions over the past 12 months result from the entities' improved capitalization or positive rating action on their parents.

Overview:

- Corporate ratings faced downward pressure in 2016, while ratings on financial institutions maintained a relatively stable-to-positive trend.
- Rating outlooks maintained a negative rating bias at the end of 2016, particularly for corporate ratings due to Taiwan's weaker GDP growth, prolonged slow economic activity in China, and company specific reasons.
- Structured finance transactions and fixed-income funds have maintained relatively stable credit profiles over the course of the past year, given our stable credit outlook on financial institutions in Taiwan.

There remained a clear divide between upgrades and downgrades in Taiwan's financial and corporate sectors in 2016 (see table 1). We made 14 rating adjustments (eight upgrades and six downgrades), and 19 outlook revisions (12 upwards and seven downwards, including CreditWatch actions) on corporate and financial institutions in 2016. The five downgrades and zero upgrades in the corporate sector in 2016 resulted in an overall negative rating trend, which

contrasts with the positive rating trend for the financial sector over the same period with eight upgrades and one downgrade.

Table 1 | Download Table

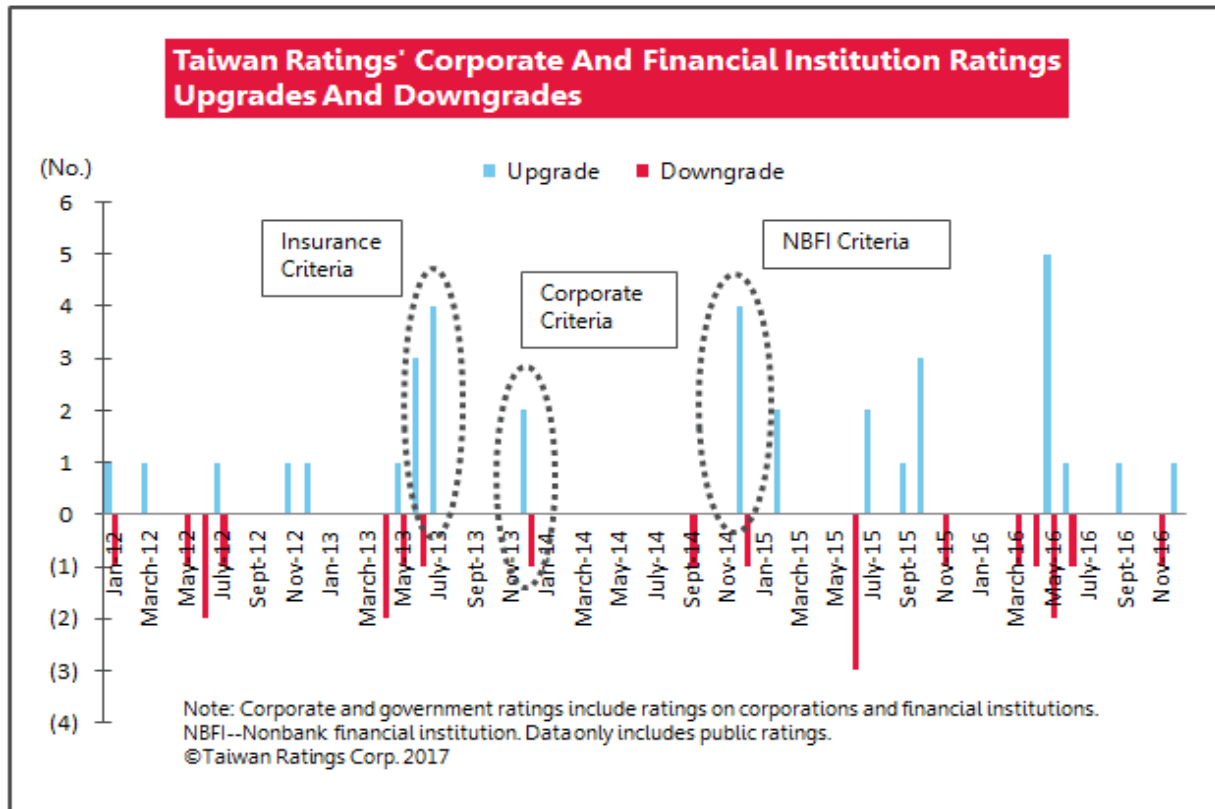
Long-term Corporate And Financial Institution Rating Changes In Taiwan (2012-2016)										
	2016		2015		2014		2013		2012	
	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade
Corporates	0	5	2	4	0	1	3	5	1	5
Financial institutions	8	1	6	0	4	1	7	0	4	0
Banks*	3	1	2	0	1	1	1	0	2	0
Insurers	1	0	1	0	0	0	6	0	1	0
Securities companies [§]	3	0	1	0	2	0	0	0	0	0
Financial holding companies	1	0	2	0	1	0	0	0	0	0
Other financial institutions	0	0	0	0	0	0	0	0	1	0
Total	8	6	8	4	4	2	10	5	5	5

*Includes bills finance companies and finance companies, §Includes securities finance companies. Data only includes public ratings (2012-2016).

Overall rating actions followed a negative evolution, given that there were five downgrades and zero upgrades in the corporate sector in 2016. We took such negative rating actions mainly in the first half of 2016, due to the effect of weak cash flow generation, governance problems and rising financial leverage facing related corporate entities (see chart 1).

Financial sectors, by contrast, had a relatively stable-to-positive rating trend in 2016. We made eight upgrades on **Hua Nan Financial Holding Co. Ltd.** and its key subsidiaries (including **Hua Nan Commercial Bank Ltd.**, **Hua Nan Securities Co. Ltd.** and **South China Insurance Co. Ltd.**), as well as on **Ta Chong Bank Ltd.**, **UBS AG Taipei Branch**, **Cathay Securities Corp.** and **Citigroup Global Markets Taiwan Securities Co. Ltd.** The upgrade action on the Hua Nan group members reflected the entities' strengthening capitalization while for the remaining four issuers the upgrade benefited from improved group association. We made only one downgrade in the financial sector in 2016 (**Standard Chartered Bank (Taiwan) Co. Ltd.**), following similar rating action by S&P Global Ratings on the parent group.

Chart 1 | [Download Chart](#)



Upward revisions on rating outlooks and positive CreditWatch actions outnumbered downward revisions in 2016 (see table 2). The number of outlook revisions on corporate ratings was balanced with four upward and four downward outlook changes. Upward outlook revisions on corporate ratings were mainly because of stronger financial leverage and company specific reasons such as declining material costs. Meanwhile, downward revisions resulted from weakening profitability and cash flow generation, similar outlook revisions on parent groups, and rising operating costs.

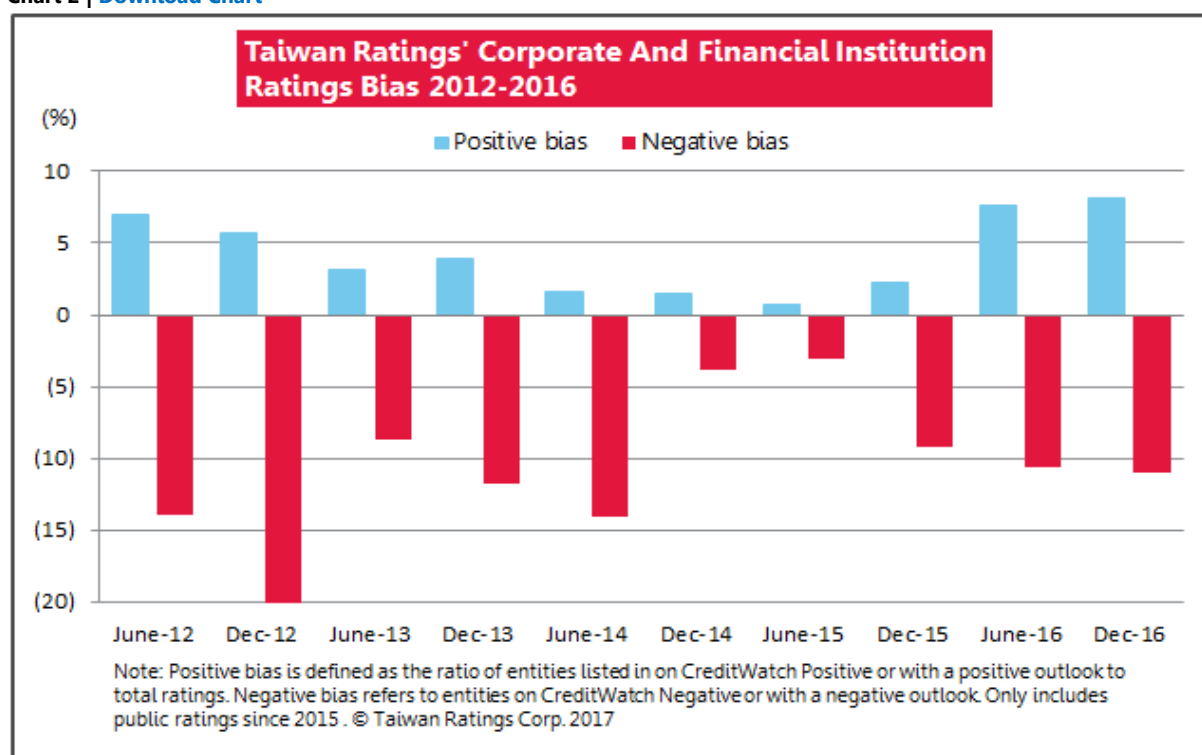
By contrast, the number of upward outlook revisions on financial institutions ratings was higher than for downward revisions, with eight upward and three downward outlook changes during this year. Upward revisions mainly reflected strengthening capitalization because of prudent capital policies and earnings growth, while downward revisions were mostly a reflection of similar rating action on the foreign parent group.

Table 2 | [Download Table](#)

	2016†		2015		2014		2013		2011	
	Upward	Downward	Upward	Downward	Upward	Downward	Upward	Downward	Upward	Downward
Corporates	4	4	4	9	9	0	2	5	0	2
Financial institutions	8	3	14	9	9	9	15	3	5	16
Banks*	4	3	6	2	4	2	3	2	3	4
Insurers	1	0	3	3	0	1	7	0	0	6
Securities companies§	1	0	3	2	2	3	2	0	1	2
Financial holding companies	2	0	2	2	2	2	3	1	1	4
Other financial institutions	0	0	0	0	1	1	0	0	0	0
Total	12	7	18	18	18	9	17	8	5	18

*Includes bills finance companies and finance companies. §Includes securities finance companies. †Only includes public ratings since 2016.

Negative rating bias remained at the end of 2016, but the gap was narrower than a year ago. Ratings with a negative outlook or placed on CreditWatch with negative implications increased to 11% in 2016, up from 9.2% in 2015, but ratings with a positive outlook or placed on CreditWatch with positive implications also increased at the same time (see chart 2). Overall, the number of negative rating outlooks on corporate and financial institution ratings continued to outnumber positive outlooks in 2016, but with strengthening growth in positive outlooks and slower growth in negative outlooks, the gap between them has somewhat diminished.

Chart 2 | [Download Chart](#)

The seven negative outlook revisions in 2016 involved three negative revisions in the financial institution sector and four in the corporate sector--much lower than the nine recorded in each sector the previous year. The negative revisions to financial institutions ratings mainly followed similar action by S&P Global Ratings on the entity's foreign parent, while those in the corporate sector mostly resulted from changes in the material price and financial risk profile of related entities.

Positive outlook revisions were far greater in 2016 than in the previous year. Ratings with a positive outlook or placed on CreditWatch with positive implications grew to 8.1% of all ratings at the end of 2016, up from just 2.3% at the previous year-end. Positive outlook revisions and CreditWatch placements in the financial institution sector mostly reflected strengthening capital levels. While in the corporate sector, they mostly reflected improving financial risk profiles.

By comparison, rated structured finance securities held somewhat more stable credit profiles in 2016 (see table 3). In general, the underlying asset performances of rated transactions were in line with our expectations, despite some performance volatility amid a prolonged stagnant economic environment. We assigned new ratings to one asset-back securities (ABS) transaction issued during the year.

Table 3 | [Download Table](#)

Structured Finance New Issue Ratings And Ratings Changes In 2016						
Asset type	New	Withdrawn due to Full Paydown	Upgrade	Downgrade	Watch Pos	Watch Neg
Residential mortgage-backed securities	0	0	0	0	0	0
Asset-backed securities	2	0	0	0	0	0
Collateralized bond obligations	0	0	0	0	0	0
Collateralized loan obligations	0	0	0	0	0	0
Ground lease	0	0	0	0	0	0
Real estate asset trust	0	0	0	0	0	0
Total	2	0	0	0	0	0
Structured Finance New Issue Ratings And Ratings Changes In 2015						
Asset type	New	Withdrawn due to Full Paydown	Upgrade	Downgrade	Watch Pos	Watch Neg
Residential mortgage-backed securities	0	0	0	0	0	0
Asset-backed securities	0	1	1	0	0	0
Collateralized bond obligations	0	0	0	0	0	0
Collateralized loan obligations	0	0	0	0	0	0
Ground lease	0	0	0	0	0	0
Real estate asset trust	0	0	0	0	0	0
Total	0	1	1	0	0	0

Note: Numbers for Watch Pos and Watch Neg refer to the actions taken to place the ratings on CreditWatch with positive or negative implications.

Corporate Ratings

Negative rating actions expanded for corporate sector in 2016

Our rated corporate issuers still faced a negative rating trend during 2016. We took five downgrade actions and four downward outlooks revisions over the past 12 months, with zero upgrades but four upward outlook revisions during the year (see table 4). Although the rating trend remains negative for these credits, the total number of rating actions and outlook revisions in 2016 were fewer than in 2015.

Table 4 | [Download Table](#)

Corporate Sector Upgrades			
Issuer	To	From	Date
Nil			
Corporate Sector Downgrades			
Issuer	To	From	Date
Solar Applied Materials Technology Corp.	twBBB / Negative / twA-3	twBBB+ / Negative / twA-2	4/7/2016
Solar Applied Materials Technology Corp.	twB- / Watch Neg / twC	twBBB / Negative / twA-3	5/13/2016
Solar Applied Materials Technology Corp.	twCCC- / Watch Neg / twC	twB- / Watch Neg / twC	5/17/2016
Taiwan Mobile Co. Ltd.	twAA- / Stable / twA-1+	twAA / Negative / twA-1+	6/16/2016
Unimicron Technology Corp.	twA / Negative / twA-2	twA+ / Negative / twA-1	11/22/2016
Corporate Sector Outlook Revisions			
Issuer	To	From	Date
China Airlines Ltd.	twBBB+ / Positive / twA-3	twBBB+ / Stable / twA-3	1/27/2016
China Steel Corp.	twAA- / Negative / twA-1+	twAA- / Stable / twA-1+	2/2/2016
Dragon Steel Corp.	twA+ / Negative / twA-1	twA+ / Stable / twA-1	2/2/2016
Wan Hai Lines Ltd.	twA- / Negative / twA-2	twA- / Stable / twA-2	4/26/2016
Chi Mei Corp.	twA+ / Positive / twA-1	twA+ / Stable / twA-1	5/10/2016
Uni-President Enterprises Corp.	twAA- / Positive / twA-1	twAA- / Stable / twA-1	6/30/2016
Uni-President China Holding Ltd.	twAA- / Positive / twA-1	twAA- / Stable / twA-1	6/30/2016
China Airlines Ltd.	twBBB+ / Stable / twA-3	twBBB+ / Positive / twA-3	7/6/2016
Corporate Sector Ratings On / Off Credit Watch			
Issuer	To	From	Date
Nil			

The corporate sector faced higher credit risks than other sectors in 2016, but the impact varied between industries, given their different business cycles and sensitivities to individual risk factors. The five downgrades resulted from issuer's still-high financial leverage, as was the case for **Taiwan Mobile Co. Ltd.**, which we believe faces challenges to actively manage its debt leverage through the disposal of treasury stock. Other downgrades resulted from our expectation that the issuer's debt leverage will materially increase, such as for **Unimicron Technology Corp.**, which has significantly raised its capital expenditure plan for 2016. More company specific reasons applied in the case of **Solar Applied Materials Technology Corp.** which had governance issues leading to a weakened liquidity position.

Outlook changes were in balance in 2016 with four upward and four downward revisions. The downward outlook revisions were in the transportation cyclical and steel sectors, and were related to our expectation that weakening demand and overcapacity in respective markets could lead to weakening business and financial performance. Meanwhile, upward outlook revisions took place in the airline, chemical, and consumer nondurable industries, which have benefited from a lower oil price or material cost, or improving performance in the nondurable market, which helped to improve business performance.

Two new issuer credit ratings assigned and one rating withdrawn

We assigned two new ratings on a government-related entity and a corporate entity. We withdrew one corporate rating in 2016 (see table 5).

Table 5 | [Download Table](#)

Corporate Sector New Issuer Ratings		
Issuer	Ratings assigned	Date
Taiwan High Speed Rail Corp.	twAA+ / Stable / twA-1+	11/1/2016
LCY Chemical Corp.	twA / Stable / twA-1	11/11/2016
Corporate Sector Ratings Withdrawn		
Issuer	Ratings prior to withdrawal	Date
Solar Applied Materials Technology Corp.	twCCC- / Watch Neg / twC	5/17/2016

Financial Service Ratings

Positive outlook actions grew amid improving capitalization for selective banks

Outlook revisions among Taiwan's financial institutions (including banks, insurers, securities companies, and financial holding companies) were mostly upward in 2016 (see table 6). We still consider Taiwan's financial services sector as a highly competitive and fragmented one. This results in low earning capacity, yet strong system-wide funding and supervision makes the market relatively stable. The positive outlook revisions mainly reflected the strengthening of capital levels for respective individual financial institutions either because of proactive capital raising or stringent controls on credit growth appetites amid the slower macroeconomy. Negative outlook revisions and downgrades, by contrast, mostly followed similar rating action of the entities' foreign parent.

Table 6 | Download Table

Financial Institutions Upgrades			
Issuer	To	From	Date
Hua Nan Financial Holding Co. Ltd.	twAA- / Stable / twA-1+	twA+ / Stable / twA-1	5/12/2016
Hua Nan Commercial Bank Ltd.	twAA+ / Stable / twA-1+	twAA / Stable / twA-1+	5/12/2016
Hua Nan Securities Co. Ltd.	twAA- / Stable / twA-1+	twA+ / Stable / twA-1	5/12/2016
South China Insurance Co. Ltd.	twAA / Stable / --	twAA- / Stable / --	5/12/2016
Ta Chong Bank Ltd.	twAA / Negative / twA-1+	twA / Positive / twA-1	5/31/2016
UBS AG,Taipei Branch	twAAA / Stable / twA-1+	twAA+ / Positive / twA-1+	6/7/2016
Cathay Securities Corp.	twAA- / Stable / twA-1+	twA+ / Stable / twA-1	9/20/2016
Citigroup Global Markets Taiwan Securities Co. Ltd.	twAA+/Stable/twA-1+	twAA/WatchPos/twA-1+	12/20/2016
Financial Institutions Downgrades			
Issuer	To	From	Date
Standard Chartered Bank (Taiwan) Ltd.	twAA / Positive / twA-1+	twAA+ / Watch Neg / twA-1+	3/31/2016
Financial Institutions Outlook Revisions			
Issuer	To	From	Date
Taiwan Business Bank	twA+ / Positive / twA-1	twA+ / Stable / twA-1	1/15/2016
Sunny Bank	twBBB+ / Positive / twA-2	twBBB+ / Stable / twA-2	6/14/2016
E.SUN Financial Holding Co. Ltd.	twA+ / Positive / twA-1	twA+ / Stable / twA-1	6/15/2016
E.SUN Commercial Bank Ltd.	twAA- / Positive / twA-1+	twAA- / Stable / twA-1+	6/15/2016
ANZ Bank (Taiwan) Ltd.	twAAA / Negative / twA-1+	twAAA / Stable / twA-1+	7/7/2016
Barclays Bank PLC Taipei Branch	twAA / Negative / twA-1+	twAA / Stable / twA-1+	7/8/2016
Allianz Taiwan Life Insurance Co. Ltd.	twAA / Positive / --	twAA / Stable / --	7/28/2016
SinoPac Holdings	twA / Positive / twA-1	twA / Stable / twA-1	8/17/2016
SinoPac Securities Corp.	twA+ / Positive / twA-1	twA+ / Stable / twA-1	8/17/2016
Bank SinoPac	twA+ / Positive / twA-1	twA+ / Stable / twA-1	8/17/2016
Standard Chartered Bank (Taiwan) Ltd.	twAA / Stable / twA-1+	twAA / Positive / twA-1+	11/25/2016
Financial Institutions Ratings On / Off CreditWatch			
Issuer	To	From	Date
Standard Chartered Bank (Taiwan) Ltd.	twAA+ / Watch Neg / twA-1+	twAA+ / Stable / twA-1+	3/1/2016

Our rating actions in the financial services sector followed a slightly more positive rating trend in 2016 than in 2015. We made eight upgrades and only one downgrade during the past year, with rating actions mainly based on the changes in capital levels and strategic importance of an entity within its parent group or following similar rating action on its parent. For example, we upgraded **Hua Nan Financial Holding Co. Ltd.** and three related group members because of the group's enhanced capitalization under the group's prudent global expansion strategy.

We also upgraded several financial institutions that we believe have grown in strategic importance to their respective parents group. Such was the case for **Ta Chong Bank Ltd.**, which we upgraded in recognition of its enhanced role as a core subsidiary of the Yuanta Financial Holding Co. Ltd. group. The rating on the bank is now in line with the parent holding company. We also raised our rating on **Cathay Securities Corp.** to reflect our view that the company's group status has risen to that of highly strategic from strategically important, previously. The outlooks on both financial institutions are now in line with their parent groups. For **UBS AG, Taipei Branch** and **Citigroup Global Markets Taiwan Securities**, the upward rating actions solely followed the upgrade of their parent financial units by S&P Global Ratings.

Our outlook revisions on financial institution ratings showed a positive trend in 2016 with eight upward and three downward revisions. These mainly reflected our view on the entities' strengthening capital level because of prudent capital policies and earnings growth, as well as following the similar rating action on its overseas parent by S&P Global Ratings.

Four new issuer ratings assigned with one rating withdrawn

We assigned Four new ratings and withdrew one existing rating on financial institutions in 2016 (see table 7).

Table 7 | [Download Table](#)

Financial Institutions New Issuer Ratings		
Issuer	Ratings assigned	Date
Yuanta Life Insurance Co. Ltd.	twA+ / Stable	1/20/2016
Farglory Life Insurance Co. Ltd.	twA+ / Stable	8/5/2016
Taiwan Financial Holding Co. Ltd.	twAAA / Stable / twA-1+	12/9/2016
Nan Shan General Insurance Co. Ltd.	twAA+ / Stable	12/14/2016
Financial Institutions Ratings Withdrawn		
Issuer	Ratings prior to withdrawal	Date
Barclays Bank PLC Taipei Branch	twAA / Negative / twA-1+	10/26/2016

Structured Finance Ratings

Stable rating performances amid the prolonged period of stagnant domestic economic growth

Taiwan structured finance transactions maintained stable ratings in 2016, thanks to stable counterparty support, largely stable underlying asset performance, and conservative payment structure arrangements. The performance of underlying assets supporting most securitization transactions was in line with our expectations, with a minority demonstrating volatility as a result of the prolonged stagnant macroeconomy. In spite of this, the ability of the servicer to manage asset performance as well as transaction's sufficient credit enhancements somewhat offset the risk of asset performance volatility (see table 8).

Table 8 | [Download Table](#)

Structured Finance Upgrades				
Class of certificate	Transaction	To	From	Date
Nil				
Structured Finance Downgrades				
Class of certificate	Transaction	To	From	Date
Nil				
Structured Finance On / Off Credit Watch				
Class of certificate	Transaction	To	From	Date
Nil				

Ratings assigned to one new structured finance transaction and zero rating withdrawals

We assigned new ratings to an ABS transaction issued in August 2016. The new transaction highlights market acceptance for Taiwan securitization offerings and the slow recovery in the domestic securitization market. There were no rating withdrawals on structured finance transactions under our surveillance in 2016 (see table 9).

Table 9 | [Download Table](#)

Structured Finance New Issue Ratings			
Class of certificate	Transaction	Ratings assigned	Date
Class A	Chailease 2016 Securitization Special Purpose Trust	twAAA (sf)	8/24/2016
Class B	Chailease 2016 Securitization Special Purpose Trust	twA (sf)	8/24/2016
Structured Finance Ratings Withdrawn			
Class of certificate	Transaction	Ratings prior to withdrawal	Date
Nil			

Fixed-Income Fund Ratings

Stable creditworthiness on financial-institutions-supported fund ratings

The stable asset quality of invested portfolios (a reflection of the mostly stable credit quality of financial institution ratings in Taiwan) supported the steady rating performance of fixed-income funds in 2016. This was despite continued yield competition and fund size fluctuations maintaining a challenging environment for fund managers throughout the year. We assigned one new fixed-income fund rating in 2016 (see table 10).

Table 10 | [Download Table](#)

Fixed-Income Fund New Ratings		
Fund	Ratings assigned	Date
TCB Money Market Fund	twAAf/--	4/8/2016

Corporate, Financial Institutions, And Structured Finance Sector Default Experience

There were no defaults in our rated pool of Taiwanese corporates, financial institutions, and structured finance securitizations in 2016.

For corporate and financial institutions, the absence of defaults was due to the effect of our small issuer pool size and the higher credit quality of the majority of our issuer pool (more than 80% are rated 'twA-' or above) in our issuer pool. The zero default also continues to reflect the adequate access of non-financial corporations to liquidity, the relatively prudent financial policy of corporate issuers, and a generally stable domestic financial market despite relatively sluggish economic growth.

The stable performance of underlying assets and related transaction parties supported the zero default of rated structured finance transactions in 2016.

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