

中華信用評等

*Taiwan Ratings*

A Standard & Poor's Ratings Partner

## WHAT ARE CREDIT RATINGS?

- ❖ Credit ratings are opinions about credit risk.
- ❖ Credit ratings are not an absolute measure of default probability.
- ❖ Credit ratings are forward looking.
- ❖ Credit ratings are a matter of opinion and do not indicate investment merit.

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# WHAT ARE CREDIT RATINGS?

## **Credit ratings are opinions about credit risk.**

Taiwan Ratings' credit ratings express our opinion about the ability and willingness of an issuer, such as a corporation or state or city government, to meet its financial obligations in full and on time.

Credit ratings can also speak to the credit quality of an individual debt issue, such as a corporate or municipal bond, and the relative likelihood that the issue may default.

## **Credit ratings are not an absolute measure of default probability.**

Since there are future events and developments that cannot be foreseen, the assignment of credit ratings is not an exact science. For this reason, Taiwan Ratings' ratings opinions are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.

Instead, ratings express relative opinions about the creditworthiness of an issuer or credit quality of an individual debt issue, from strongest to weakest, within a universe of credit risk. For example, a corporate bond that is rated 'twAA' is viewed by the rating agency as having a higher credit quality than a corporate bond with a 'twBBB' rating. But the 'twAA' rating isn't a guarantee that it will not default, only that, in the agency's opinion, it is less likely to default than the 'twBBB' bond.

## **Credit ratings are forward looking.**

As part of its ratings analysis, Taiwan Ratings evaluates available current and historical information and assesses the potential impact of foreseeable future events. For example, in rating a corporation as an issuer of debt, the agency may factor in anticipated ups and downs in the business cycle that may affect the corporation's creditworthiness. While the forward looking opinions of rating agencies can be of use to investors and market participants who are making long- or short-term investment and business decisions, credit ratings are not a guarantee that an investment will pay out or that it will not default.

## **Credit ratings are a matter of opinion and do not indicate investment merit.**

While investors may use credit ratings in making investment decisions, Taiwan Ratings' credit ratings are not indications of investment merit. In other words, the ratings are not buy, sell, or hold recommendations, or a measure of asset value. Nor are they intended to signal the suitability of an investment. They speak to one aspect of an investment decision—credit

quality—and, in some cases, may also address what investors can expect to recover in the event of default. Our ratings opinions are based on analysis by experienced professionals who evaluate and interpret information received from issuers and other available sources to form a considered opinion.

In evaluating an investment, investors should consider, in addition to credit quality, the current make-up of their portfolios, their investment strategy and time horizon, their tolerance for risk, and an estimation of the security's relative value in comparison to other securities they might choose. By way of analogy, while reputation for dependability may be an important consideration in buying a car, it is not the sole criterion on which drivers normally base their purchase decisions.

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