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Short-Term Rating

Rating Criteria

Short-term debt instruments consist of bills of exchange, promissory notes, and other financial papers that can be used to claim principal and interest payments according to specified terms and conditions. These debt instruments must mature within one year of the issuing date. Normally short-term debt instruments are issued to fund short-term liquidity needs in order to bridge the gap between revenues and expenses. Some companies issue short-term debt instruments on a continuous basis to rollover maturing short-term paper.

The rating of short-term debt instruments is an opinion of the rating agency regarding the capability and willingness of the issuers to punctually pay its short term debts, as stated in the terms and conditions of that issue. A short-term debt rating can be enhanced through a third party and would be rated based on the third party's creditworthiness if all credit risks transfer to such third party. In case of default, unsecured short-term debt instrument holders will be pari passu with unsecured creditors.

The rating of short-term debt instruments is strongly, but not entirely, related to the issuer's long-term credit fundamentals. An issuer that receives a higher long-term credit rating is more likely to have a better ability to service its short-term debt obligations than an issuer that has been assigned a lower long-term credit rating. In addition, investors in short-term debt instruments are sensitive to the volatility of the money market. Therefore, situations that negatively impact investors' confidence will cause demand for short-term debt instruments to fall, and the issuer will have to find other sources of funds to satisfy its cash needs in the short-term. In such circumstances, highly rated long-term issuers tend to be able to tap other sources of funds faster than lower rated peers.

However, the long-term rating alone does not fully determine a short-term rating. In assigning a rating to short-term debt instruments, TRIS Rating will focus on the issuer's near-term liquidity and will consider all risks that might negatively affect the issuer's ability to pay in the short run (less than one year). TRIS Rating will consider the adequacy of the issuer's backup source of liquidity in case the issuer is unable to rollover its confidence-sensitive short-term borrowing.

Rating Process

Based on the rating criteria described, TRIS Rating divides the rating process for short-term debt instruments into five parts:

Part 1: Assigning a long-term issuer rating

Part 2: Reviewing potential credit event risk

Part 3: Assessing the issuer's liquidity risk

Part 4: Assigning a short-term issuer rating

Part 5: Monitoring the short-term issuer rating

Part 1: Assigning a long-term issuer rating

As mentioned earlier, the issuer's ability to honor short-term obligation is highly linked to its fundamental credit quality. Therefore, before a short-term debt instrument can be rated, the issuer must have received a long-term credit rating from TRIS Rating.

Part 2: Reviewing potential credit event risk

TRIS Rating assesses possible sources of credit event risk that could make the issuer's credit vulnerable. Credit event risk may be caused by internal or external factors. This analysis attempts to identify the most likely sources of credit event risk that, while unlikely, could create a significant negative impact on the issuer.

Part 3: Assessing the issuer's liquidity risk

TRIS Rating analyzes the near term financial effect of the most plausible credit event risk, by assuming a loss of access to confidence-sensitive funding, requiring the issuer to implement its contingency financing plan for backup facilities, which is intended to assure an orderly transition from confidence sensitive sources of funds to more reliable sources. TRIS Rating will evaluate and determines the reliability of the issuer's contingency financing plan for backup sources of liquidity in terms of quality and adequacy.

The backup liquidity that the issuer should maintain includes:

1. Excess cash
2. Marketable securities
3. Contractually committed facilities

4. Other liquid assets that can be immediately converted into cash

In evaluating the quality of committed facilities from financial institutions, TRIS Rating considers:

1. The contractual commitment and the relationship between the banks and the issuer. This will indicate the level of support that the company will be able to receive from the banks during the crisis.
2. The diversification or concentration of banking facilities. Having several banking relationships diversifies the risk that an individual bank will not provide funds during an emergency, which will strongly impact the liquidity of the company as a whole.
3. The credit rating of the banks that provides backup facilities must be at least “BBB”.

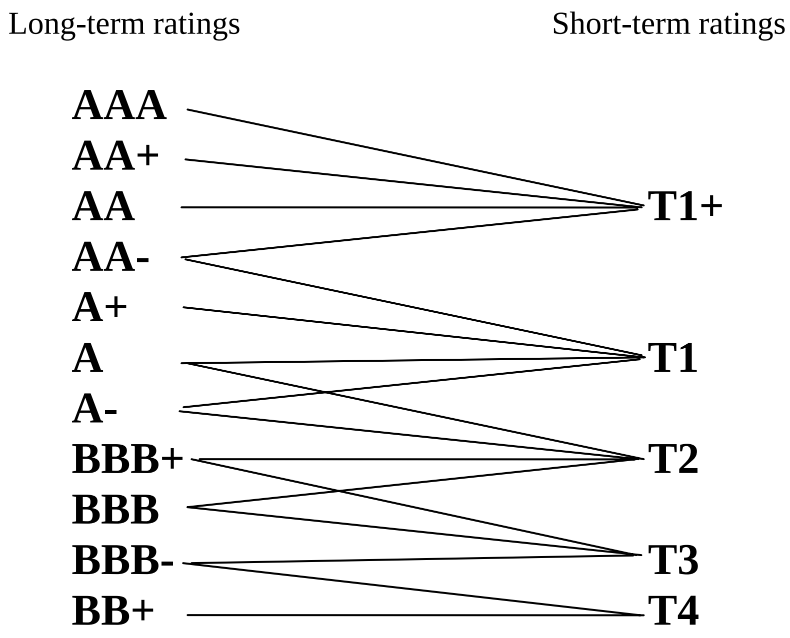
In general, a contingency funding plan for a lower long-term rated issuer should be stronger than for a higher long-term rated issuer. However, appropriate liquidity protection should be in place for issuers in all rating categories. Though high quality and adequate backup liquidity facilities do not lead to a higher short-term credit rating than the issuer’s own credit profile, TRIS Rating may not rate short-term debt instruments of an issuer that has inadequate backup liquidity.

Part 4: Assigning a short-term rating

Short-term debt rating reflects an issuer’s ability to make timely payments on debt obligations with an original maturity of one year or less. Short-term ratings are assigned based on long-term credit quality of the issuers and their liquidity profile. Fundamental long-term credit strengths are a major component of short term credit analysis. An issuer’s long-term credit strength can cushion credit event risk and improve market access in the event of market turbulence. Strong form of backup liquidity facilities will not enhance short term rating of the issuer from its own creditworthiness because these facilities do not improve underlying credit risk of the issuer. This liquidity facility is different from guarantee where the credit risk unconditionally and irrevocably transfers to the guarantor.

According to the following diagram, to achieve a “T1+” short-term rating, the company’s long-term credit quality is at least “AA-”. For short-term debt instruments rated “T1”, the long-term corporate credit rating would be rated between “AA-” and “A-”. Therefore, a company with a long-term credit rating of “AA-” could receive either “T1+” or “T1” for its short-term rating. The determination of whether a “T1+” or “T1” short-term rating will be assigned to an “AA-” rated company will depend on the analysis of the near-term financial impact of the most plausible credit event risk.

Correlation of short-term ratings with long-term ratings



Part 5: Monitoring the short-term rating

TRIS Rating requests a quarterly borrowing report from the issuer. TRIS Rating monitors the issuer's liquidity position, backup facilities adequacy and the ratings of liquidity providers to ensure the issuer's rating continues to reflect its capacity for meeting short-term obligations.

Short-Term Rating Symbols and Definitions

Short-term ratings focus entirely on the likelihood of default and do not focus on recovery in the event of default.

Symbols and definitions of short-term ratings are as follows:

T1 Issuers rated "T1" have strong market positions, wide margins of financial protection, appropriate liquidity and other measures of superior investor protection. Issuers designated with a "+" have higher degrees of these protections.

T2 Issuers rated "T2" have secure market positions, sound financial fundamentals and satisfactory ability to repay short-term obligations.

T3 Issuers rated "T3" have acceptable capacity for meeting their short-term obligations.

T4 Issuers rated "T4" have weak capacity for meeting their short-term obligations.

D The rating for an issuer for which payment is in default