Standard & Poor’s Ratings Services: An Introduction

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What Are Credit Ratings?
What Is A Credit Rating?

What It Is

• A forward-looking opinion about the ability and willingness of an issuer, such as a corporation or government, to meet its financial obligations in full and on time

• Strives to be globally comparable across sectors

• Incorporates views on relative likelihood of default that are applied to entities (issuers) and securities (issues)

• One of many inputs available to investors as part of their decision-making process

And What It Is Not

• A guarantee of credit quality or default probability

• Investment advice or recommendation (buy, sell or hold)

• A measure of liquidity or price

• A way of defining “good” or “bad” companies

• An audit of the company
How Have Ratings Performed?
The lower the corporate rating, the higher the likelihood of default

The higher the corporate rating, the lower the likelihood of default

- Of all the companies we rated as “investment grade” (BBB- and above) between 1981 and 2014, **just 1% defaulted within 5 years**

- Of all the companies we rated “below investment grade,” (BB+ and below) **nearly 16% defaulted within 5 years**

### Historical Inverse Correlation - Rating Level and Defaults

#### Global Corporate Average Cumulative Default Rates (1981-2014) (%)

<table>
<thead>
<tr>
<th>Rating</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
<th>15</th>
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</thead>
<tbody>
<tr>
<td>AAA</td>
<td>0.00</td>
<td>0.03</td>
<td>0.14</td>
<td>0.24</td>
<td>0.36</td>
<td>0.47</td>
<td>0.53</td>
<td>0.61</td>
<td>0.67</td>
<td>0.74</td>
<td>0.77</td>
<td>0.80</td>
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<td>0.07</td>
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<td>0.24</td>
<td>0.35</td>
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<td>0.73</td>
<td>0.82</td>
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<td>0.97</td>
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<tr>
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<td>0.27</td>
<td>0.41</td>
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<td>0.95</td>
<td>1.13</td>
<td>1.32</td>
<td>1.51</td>
<td>1.69</td>
<td>1.84</td>
<td>2.00</td>
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<td>2.32</td>
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<td>2.84</td>
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<td>3.66</td>
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<td>4.23</td>
<td>6.06</td>
<td>7.71</td>
<td>9.28</td>
<td>10.59</td>
<td>11.75</td>
<td>12.80</td>
<td>13.74</td>
<td>14.52</td>
<td>15.18</td>
<td>15.75</td>
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<td>CCC/C</td>
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<td>35.58</td>
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<td>9.90</td>
<td>10.21</td>
<td>10.49</td>
<td>10.78</td>
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Source: Default, Transition, and Recovery: 2014 Annual Global Corporate Default Study And Rating Transitions, Table 24
30-April-2015
Global Default Risk By Ratings Categories

Global Corporate Average Cumulative Default Rates By Rating (1981-2014)

Ratings Distribution
Ratings Distribution – Global Corporates

Ratings Distribution – U.S. Corporates

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