

# Methodology for notching the standalone ratings of subsidiaries for group support

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**This publication has been developed by FiinRatings and substantially revised by international experts at FiinRatings. This publication presents FiinRatings' methodology for notching standalone rating of subsidiaries for group support in Vietnam and is intended as a general guidance to help companies, investors and other market participants to understand how FiinRatings looks at quantitative and qualitative factors in explaining rating outcomes.**

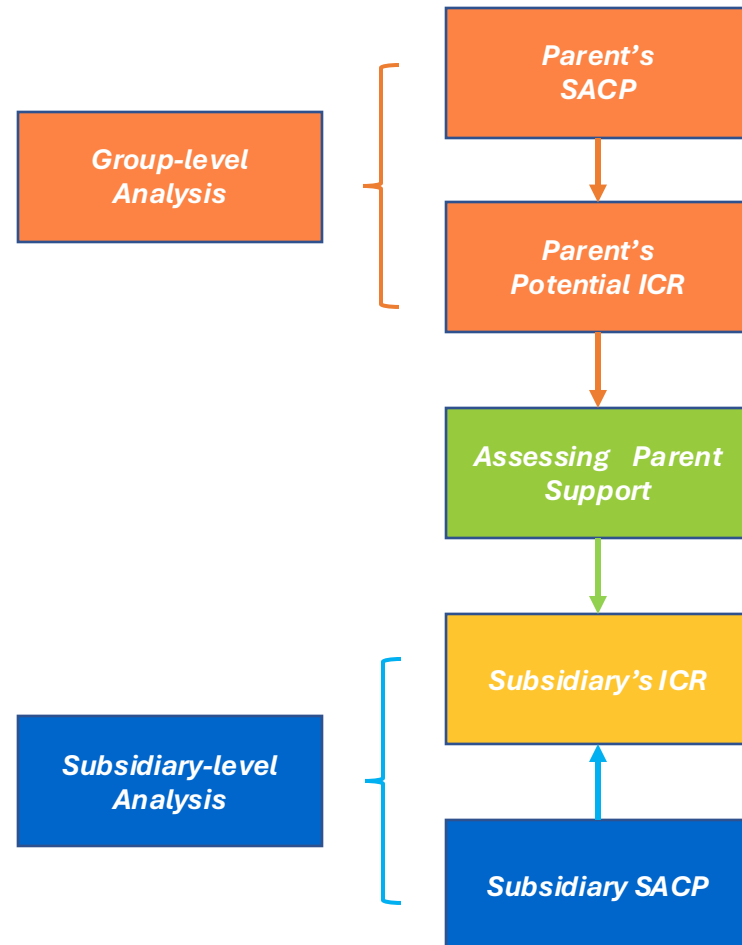
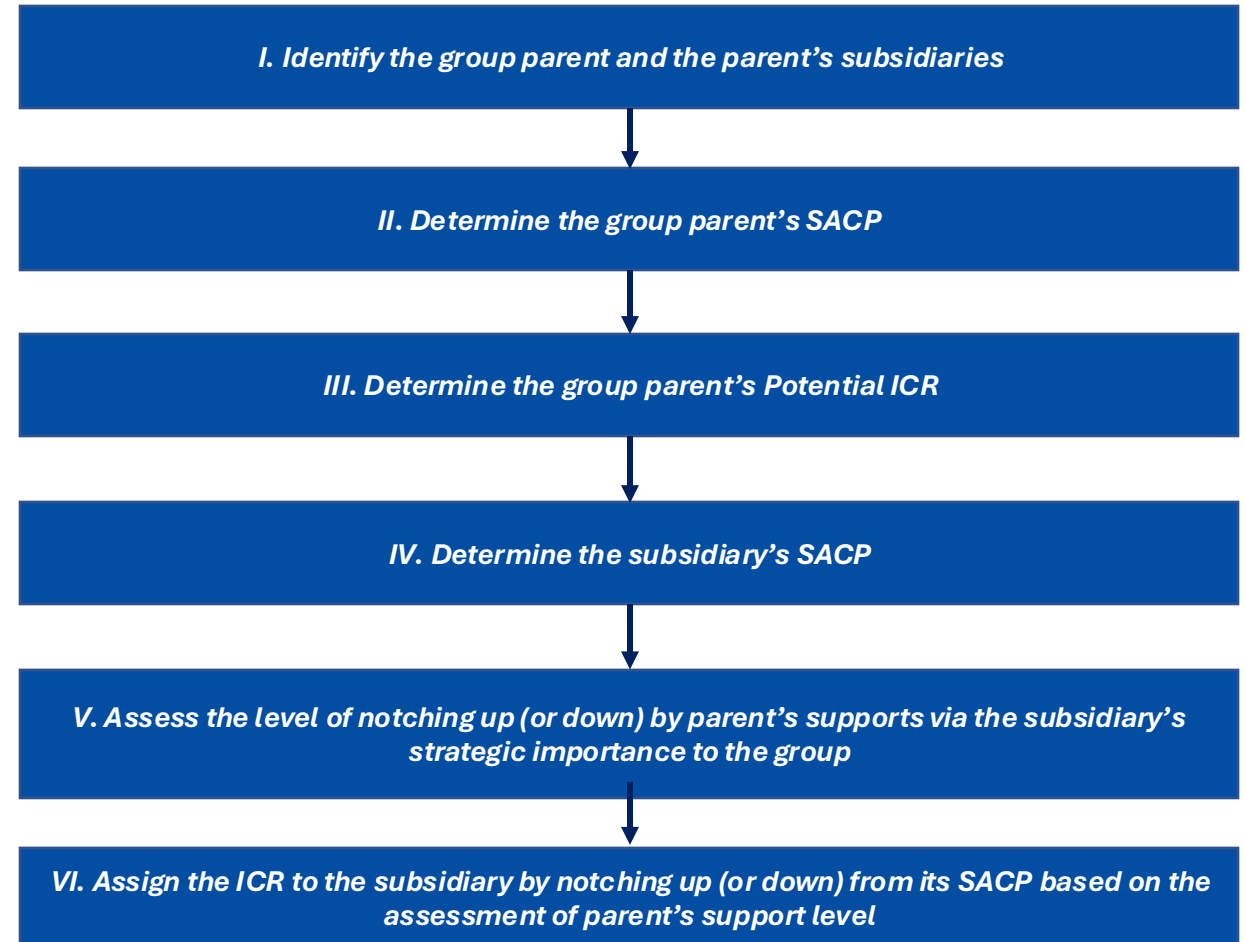
- The criteria highlight the analytical process according to a common framework and articulate the steps in developing the issuer credit rating (ICR) for financial institutions and corporations in accordance with international standards.
- FiinRatings uses a principle-based approach for assigning and monitoring ratings nationally, which is in accordance with international standards. These broad principles apply generally to ratings of all types of corporates and asset classes. However, for certain types of issuers and issues, FiinRatings complements these principles with specific methodologies and assumptions.
- FiinRatings assigns credit ratings to both issuers and issues and strives to maintain comparability of ratings across sectors and over time. That is, FiinRatings intends for each rating symbol to connote the same general level of creditworthiness for issuers and issues in different sectors and at different times nationally.
- FiinRatings' approach to rating financial institutions and corporations involves a comprehensive assessment of several parameters. Some core parameters are considered to have a high influence on the credit quality of these organizations, while others are considered supplementary parameters. FiinRatings takes a forward-looking view on the performance of these organizations on these parameters while evaluating its rating.
- If you have any question or concern, please contact our Analytical Team at <https://fiinratings.vn/ContactUs/en>, or email [support.fiinratings@fiingroup.vn](mailto:support.fiinratings@fiingroup.vn)



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**Exhibit 1: Group Rating Methodology Framework**

**Exhibit 2: Determining Issuer Credit Rating on Group's subsidiary**


Source: FiinRatings

Note:

- The Stand-Alone Credit Profile ("SACP"): an issuer's creditworthiness in the absence of external influence, which can be positive or negative
- The Issuer Credit Rating ("ICR"): an issuer's overall creditworthiness given the assessment of external influence

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GROUP SUPPORT NOTCHING UP LEVEL based on the subsidiary's strategic importance to the group				
Core	Highly strategic	Strategically important	Moderately strategic	Nonstrategic
Equate to Parent's Potential ICR	Parent's Potential ICR – 1 notch	Lower of: (i) Issuer's SACP + 2 to 3 notches or; (ii) Parent's Potential ICR – 1 notch	Lower of: (i) Issuer's SACP + 1 to 2 notches or; (ii) Parent's Potential ICR – 1 notch	Issuer's SACP

Matrix to determine the subsidiary's strategic importance to the group				
MORAL OBLIGATION	ECONOMIC LINKAGE			
	High (H)	Moderately High (MH)	Medium (M)	Low (L)
High (H)	Core	Highly strategic	Strategically important	Moderately strategic
Medium (M)	Highly strategic	Strategically important	Moderately strategic	Nonstrategic
Low (L)	Strategically important	Moderately strategic	Nonstrategic	Nonstrategic

MORAL OBLIGATION				
Key Criteria (*)		H	M	L
Name sharing	1. Sharing of name and/ or logos	Meet at least 7/10 Criteria (Must include criteria 7)	Meet between 4-6/10 Criteria	Meet below 4/10 criteria
	2. Public awareness of parentage			
Extent of management control	3. Dominating BOD representation			
	4. Close monitor and supervision by the parent			
	5. Regular technical inputs by parent			
Stated posture of management	6. Effective treasury function control			
	7. Demonstrated track record of support (previous bail-out, equity infusion, extension of unsecured loans, etc.)			
	8. Assurances from the parent			
	9. Legally enforceable provisions			
	10. Domiciliary status of parent			

ECONOMIC LINKAGE					
Key Criteria		H	MH	M	L
Strategic importance to the parent	1. Size of operations in respect to the parent, criticality to the parent’s current and future business plans, commonality of industry	Meet at least 5/6 Criteria (Must include criteria 1,4,5)	Meet 4/6 Criteria (Must include criteria 1,5)	Meet 3/6 Criteria (Must include criteria 5)	Meet below 3/6 criteria
	2. Existence of synergy between parent and subsidiary				
Extent of parent holding	3. Extent of current and prospective ownership (>50% is high) so as to have controlling power				
Economic incentive to the parent	4. Extent of revenue and profit contribution (current and prospective) to the group, return on cap employed				
	5. Parent's ability to bail out the subsidiary in distress situation				
	6. Longevity higher than industry’s average or closest peers				

(\*) Other considerations: Corporate Status of the Parent company

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Building on our assessment of the subsidiary's strategic importance and operational linkages within the group, this page delves into the critical factor of insulation. When a subsidiary demonstrates a Standalone Credit Profile (SACP) stronger than its parent's Group Credit Profile (GCP), the final Issuer Credit Rating (ICR) is determined by the robustness of the "ring-fence" protecting it from potential negative intervention.

Our approach combines two complementary perspectives:

- **Top-Down (SACP Notching):** Assessing the subsidiary's inherent strength and adjusting downwards based on its dependence.
- **Bottom-Up (GCP Uplift):** Determining how many notches above the parent's rating the subsidiary can reach, based on its level of insulation.

The final ICR will be the lower of the ratings derived from these two approaches, unless no insulation is assessed.

Limited Insulation Conditions	Rating Derivation
The entity's independent financials, funding arrangements, and records from the group.	If SACP is at least two notches higher than GCP, we take the lower value of: <ul style="list-style-type: none"> <li>• SACP - 2 notches</li> <li>• GCP + 1 notch</li> </ul> If SACP is only one notch higher than GCP, we would typically cap the rating at GCP.
Strong economic incentive for the parent to preserve the subsidiary's credit strength.	
Group entities' defaults do not lead to the insulated entity's default.	
Moderate Insulation Conditions	Rating Derivation
All conditions for Limited Insulation must be met.	If SACP is at least two notches higher than GCP, we take the lower value of: <ul style="list-style-type: none"> <li>• SACP - 1 notch</li> <li>• GCP + 2 notches</li> </ul> If SACP is only one notch higher than GCP, we would typically take the value of SACP or GCP + 1 notch.
Limited group control: (i) significant minority shareholders, (ii) independent directors, (iii) explicit restrictions or protective covenants within financing agreements. Or proactive cash flow & operational ring-fencing: (i) independent cash flow & operations, (ii) no cross-default linkages, (iii) independent funding access, (iv) economic interest of third parties.	
Significant Insulation Conditions	Rating Derivation
All conditions for Moderate Insulation must be met.	If SACP is higher than GCP, we take the lower value of: <ul style="list-style-type: none"> <li>• SACP - 0 notches</li> <li>• GCP + 3 notches</li> </ul>
Material structural safeguards: robust legal and regulatory protections shielding the subsidiary from the group influence, extending beyond contractual covenants to formal, enforceable structures including: (i) regulatory oversight, (ii) protective governance, (iii) legal separation, (iv) no material related-party financial transactions, (v) fully autonomous project development.	
No Insulation Conditions	Rating Derivation
If the assessment concludes that no meaningful insulation exists, equivalent to significant linkage/no insulation, the insulation notching does not apply.	Subsidiary ICR is based on the group status relative to the parent's GCP. Generally, for a subsidiary deeply integrated with a weaker parent, its ICR is capped at the group's GCP.



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