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# Issue Rating Methodology

Most recent Update: February 2023



# Executive Summary

This publication has been developed by FiinRatings and substantially revised by S&P Global Ratings' experts. This publication presents FiinRatings' methodology for assigning issue credit ratings (for Corporates and Non-bank financial institutions) 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 organize the analytical process according to a common framework and articulate the steps in developing the stand-alone credit profile (SACP) and issuer credit rating (ICR) for securities 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 issues involves a comprehensive assessment of several factors. Some core factors are considered to have a high influence on the credit quality of the issuers and issues, while others are considered supplementary parameters. FiinRatings takes a forward-looking view on the issuers and issues on these parameters while evaluating their rating.
- If you have any question or concern, please contact our Analytical Team at [support.fiinratings@fiingroup.vn](mailto:support.fiinratings@fiingroup.vn), or email [fiinratings@fiingroup.vn](mailto:fiinratings@fiingroup.vn).



# Content



## Section 1

### Issue Credit Rating Framework



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# Issue Credit Rating Framework

After obtaining a Corporate's or Financial Institution's Issuer Credit Rating ("ICR"), we can proceed to rate an Issue.

- **Issuer Credit Ratings:** The likelihood of payment--the capacity and willingness of the obligor to meet its financial commitment on a financial obligation in accordance with the terms of the obligation
- **Issue Credit Ratings:** Specific rating for a financial instrument (e.g., corporate bond, secured & unsecured debt instruments)

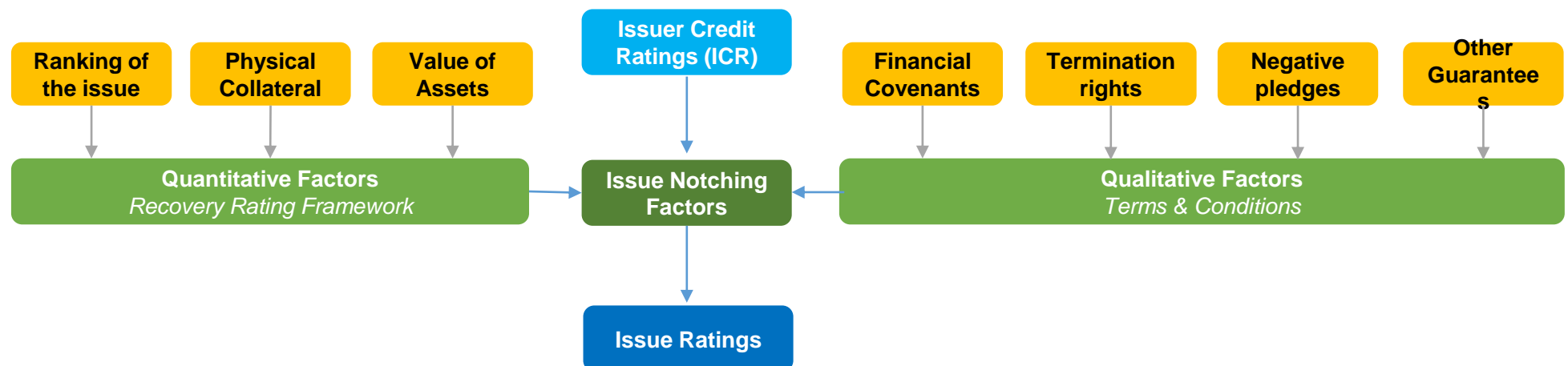
## Issue Credit Ratings Framework

Issue credit ratings are based, in varying degrees, on FiinRatings' analysis of the following considerations:

- The nature and provisions of the financial obligation, and the promise we impute; and
- The protection afforded by, and relative position of, the financial obligation in the event of a bankruptcy, reorganization, or other arrangements under the laws of bankruptcy and other laws affecting creditors' rights.

Issue ratings are an assessment of default risk but may incorporate an assessment of relative seniority and/or ultimate recovery in the event of default. Junior obligations are typically rated lower than senior obligations, to reflect the lower priority in bankruptcy, as noted above. (Such differentiation may apply when an entity has both senior and subordinated obligations, secured and unsecured obligations, or operating company and holding company obligations, and when these matters materially impact on the relative loss likely to be suffered by various classes of debt upon default).

The issuer ratings could be notched up or notched down based on following factors to produce the final issue ratings.





# Content



## Section 2

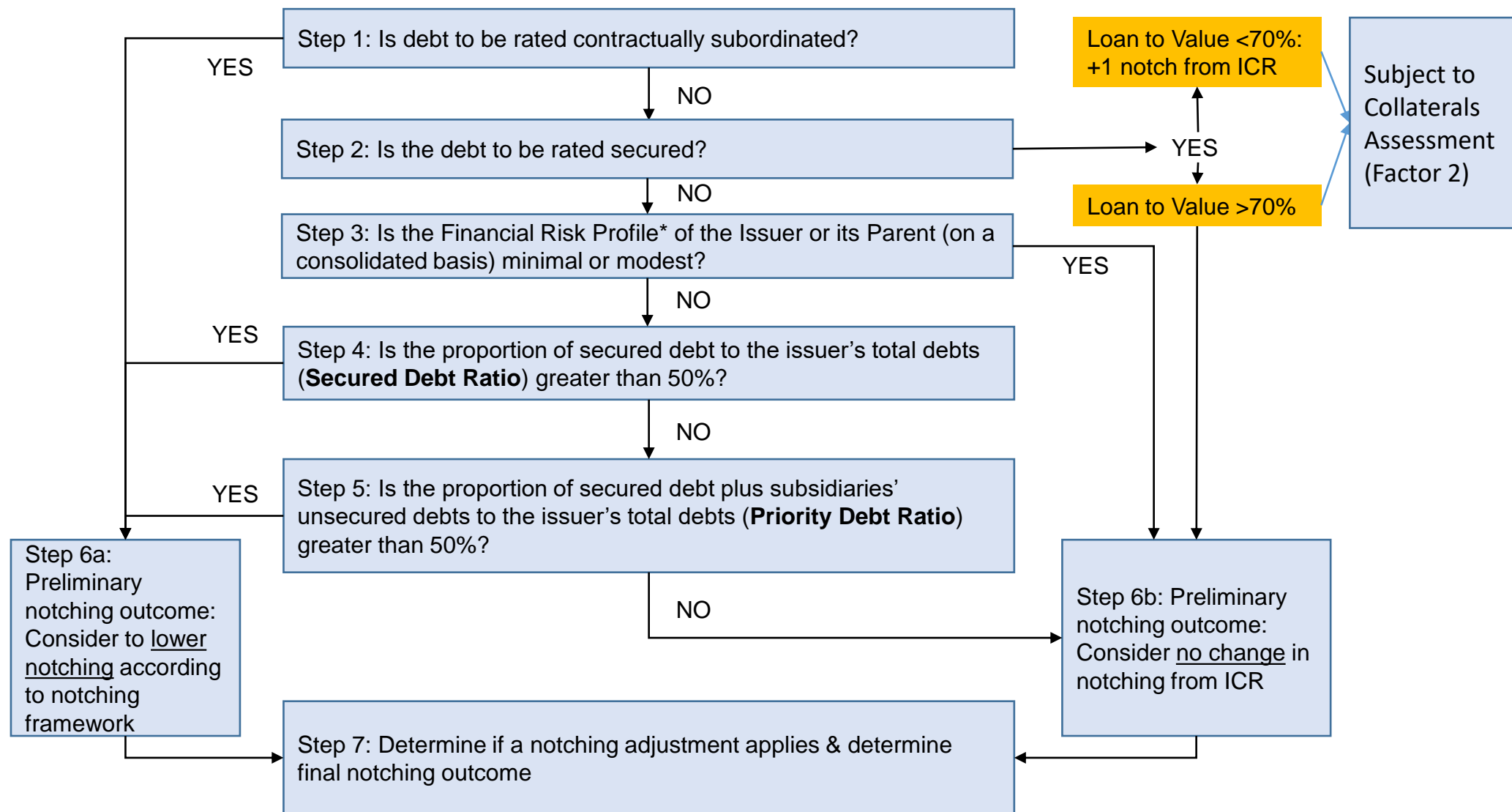
### Issue Credit Rating Factors



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# Subordination Risk Assessment

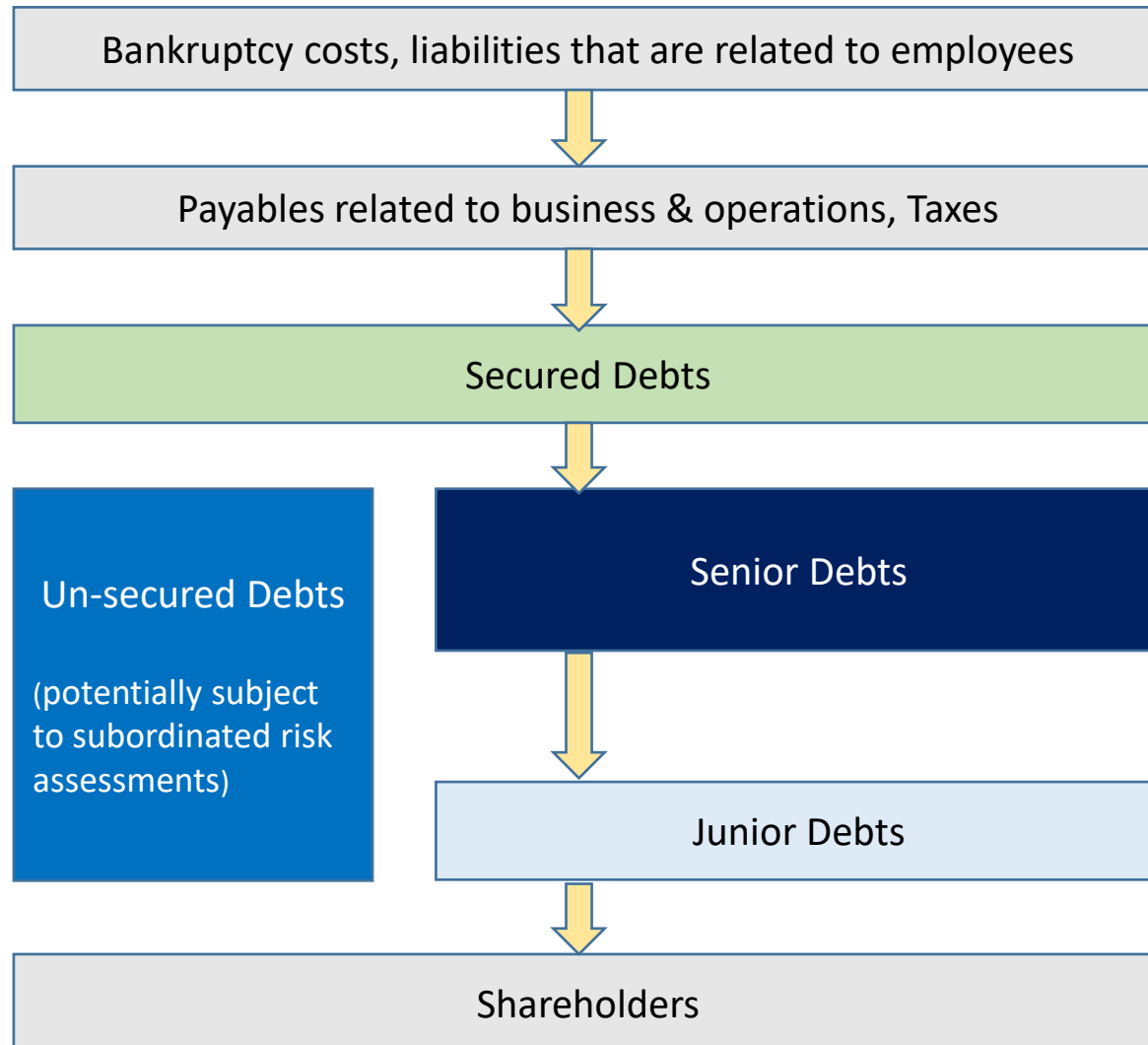
**Reflecting subordination (ranking) risk in Issue Rating:** These criteria outline our methodology for assigning issue credit ratings that signal certain debt instruments could potentially be significantly subordinated relative to other debt in the issuer's consolidated capital structure.



Note: (\*) Financial Risk Profile is assessed quantitatively via key metrics such as: Gearing (Adjusted Debt/Equity), Debt/EBITDA, Interest Coverage, etc.

## Factor 1: Ranking of the Issue

Order of payment according to Bankruptcy's Law: We would apply this order in accordance with Bankruptcy Law and combined with our notching framework to define the seniority of financial obligations and perform further assessment to assign the issue rating



The factor addresses a key area of Issue Rating in Framework. One of the main rating considerations is the Ranking of the Issue.

An issue with higher ranking will result in being more prioritized to receive payment in the Event of Default. Therefore, issues with very higher ranking or being secured by collaterals will be considered for notching up in their rating, depends on ranking of other obligations of issuers or quality of collaterals.

On the other hand, issues with very lower ranking will be considered for notching down.

We then perform assessment by applying our Notching Framework for Subordinated debts to better reflect the inherent risk of instruments which are significantly higher risk of loss on investments.

## Notching down of unsecured debt from the issuer credit rating

**We assess the financial risk employed by the Issuer in a consolidated basis in combination with the assessment of portion of secured debts/priority debts in its capital structure to come up with our proposed number of notching (if applicable)**

We typically notch the issue credit rating of contractually/structurally subordinated debt down from the ICR to signal the higher risk that this class of debt carries relative to more senior debts. Subordinated debt ranks below other debt regarding claims against the issuer's assets, due to provisions in the debt instrument's documentation or inherently in its capital structure. When creditors explicitly agree to rank junior to other creditors, they have accepted a relatively higher risk of loss on their investment.

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*Financial Risk Level of Non-financial Corporates is the Corporates' Financial Risk Profile (FRP). For Financial Institutions, Financial Risk Level is assessed via Funding and Liquidity Modifier.*

*Secured Debts Ratio = Secured Debts / Total consolidated Debt;*

*Priority Debts Ratio = [Secured Debts + Unsecured Debts outstanding at subsidiaries] / Total consolidated Debt*



## Upstream guarantees and cross guarantees

**Guarantees extended by subsidiaries to parent level debt (i.e., upstream guarantees) or cross guarantees may overcome structural subordination by putting the claims of parent company creditors pari passu with those of operating company creditors.**

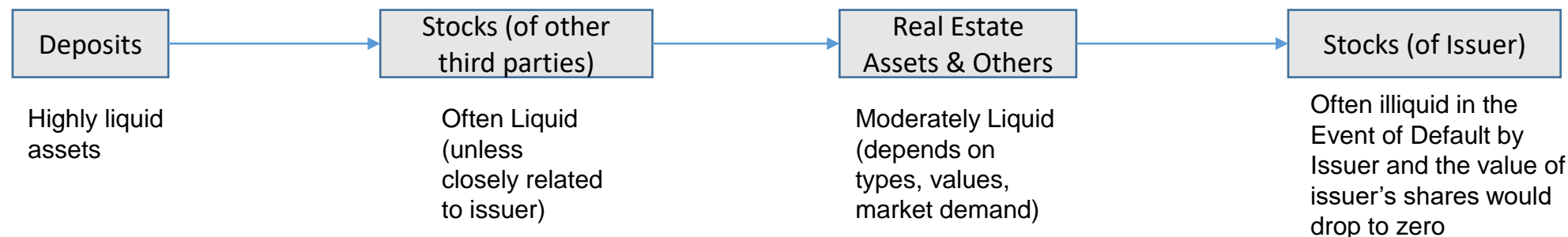
For us to consider an upstream guarantee to be sufficiently able to mitigate notching down of parent level debt vis-à-vis operating level debt, we generally require that the guarantee be unconditional, irrevocable, and that it meets at least one of the following conditions:

- The guarantee must be irrevocable and unconditional, including under the bankruptcy of the obligor
- The guarantee must provide timely payment

## Factor 2: Notching up for security: Collateral Assessment.

On a case by case basis, we will examine pledged securities. Generally, we will use the approach indicated below:

1. Firstly, we examine the **Liquidity** of an Issue's collateral. Collaterals usually take the forms of: deposits, stocks (of issuer or of other third party), and real estates in some cases. Collaterals with high liquidity are easier to be liquidated in the Event of Default, giving bondholders higher chances of recovery in such event.



2. Secondly, we examine the **Value** of the collaterals, including Loan-to-Value ratio. With each type of collateral, we will determine a realistic market value of the collaterals, which best reflects the value that the collaterals will be sold for with ease in order to recover for the creditors. From there, we will calculate the LTV ratio and perform assessment on whether the collaterals can actually cover fully, only partial, or none of the loans.

- Issues with LTV of below 70% will be considered for a **notch up** from Issuer Credit Rating.

However, if there is any material events which affect the value of collaterals (e.g. the collateral is also a collateral for other issue(s)), FiinRatings will perform further assessment to adjust the final rating of the issues.

Types of collateral	Methods of determine market value	Notching up consideration (Y/N)
Deposits	Deposit balance	Usually yes (Case-by-case analysis)
Stocks/Shares of Equity of other third parties	Average market price in last 30 days	Yes (Case-by-case analysis)
Real Estate Assets & Other Assets	Market price/m2 times areas Market price adjusted to best reflect sale value of other assets	Yes (Case-by-case analysis, notch up when LTV is < 70%)
Stocks/Shares of Equity of Issuers	Average market price in last 30 days	Mostly no

## Factor 3: Guarantees

### Guarantors can be Parents, Subsidiaries, or have no such relationship with Issuers.

FiinRatings views that guarantee given to a debt instrument may enhance its credit profile, resulting in higher rating given to the guaranteed debt instrument compared to the issuer's rating. The existence of guarantee may not significantly affect the instrument's probability of default, however it may increase the recovery prospect under the event of default, through the execution of claim mechanism to the guarantor.

In order to be eligible by FiinRatings to provide a credit enhancement of a debt instrument, a guarantee must fulfill the following conditions:

- The guarantor has superior financial capability as required to be an eligible guarantor
- The guarantee must be irrevocable and unconditional, including under the bankruptcy of the issuer
- Value of guarantee should be clearly stated in the contract, which covers the principal and coupon payment

After FiinRatings assigns the rating of the issuer, then FiinRatings will conduct the analysis of the guarantor's creditworthiness, the guarantee's characteristics, such as payment priority and subordination:

- Where the obligations under the guarantee rank pari passu with the guarantor's senior unsecured obligations, the rating assigned to the obligation will be the higher of (1) the issuer's rating and (2) the guarantor's rating
- The rating assigned to an obligation that benefits from a subordinated guarantee will correspond to the rating of an equivalent subordinated obligation of the guarantor.

## Definition

- **Debt:** These criteria only consider debt that we include in our assessment of the financial risk profile of the issuer, with the exception of **hybrid debt**, which we take at full face value, regardless of any equity content we may assign, and with the exception of non-recourse debt. We also do not include adjustments for nondebt claims, such as unfunded pension liabilities, all lease obligations, and other nondebt liabilities. In addition, we do not include the undrawn portion of credit facilities, in our definition of debt.
- **Contractually subordinated debt:** Debt that, as detailed in the loan agreement or indenture, is subordinated to other debt instruments.
- **Issuer:** The entity that is issuing the debt to be rated.
- **Secured debt:** Generally includes debt to which the issuer (or borrower) pledges, on a first-priority basis, asset(s) as collateral for the obligation.
- **Unsecured debt:** Debt that is not defined as secured debt and includes hybrid debt instruments at full face value.
- **Subsidiary:** Any company owned (either wholly or partly) by the issuer, whose debt (either wholly or partly) is part of the scope of consolidation.
- **Total consolidated debt:** Unsecured debt and secured debt issued by the issuer and its subsidiaries.
- **Secured debt ratio:** Total secured debt in an issuer's consolidated capital structure / total consolidated debt
- **Priority debt ratio:** (Total secured debt in the issuer's consolidated capital structure + total unsecured debts issued by an issuer's subsidiaries) / total consolidated debt





**Hanoi Head Office**

10th Floor, Peakview Tower, 36 Hoang Cau, O Cho  
Dua, Dong Da, Hanoi, Vietnam  
Tel: (84-24) 3562 6962 | Fax: (84-24) 35625055  
Email: [support.fiinratings@fiingroup.vn](mailto:support.fiinratings@fiingroup.vn)

**Ho Chi Minh City Branch**

Level 16, Bitexco Financial Tower, 2 Hai Trieu Street,  
Ben Nghe Ward, District 1, Ho Chi Minh City, Vietnam  
Tel: (84-28) 3933 3586  
Email: [support.fiinratings@fiingroup.vn](mailto:support.fiinratings@fiingroup.vn)

