

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

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Executive Summary



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Executive Summary

This publication has been developed by FiinRatings and substantially revised by international experts at FiinRatings. This publication presents FiinRatings' methodology for notching up 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://fiingroup.vn/ContactUs>, or email fiinratings@fiingroup.vn.

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Section 1

Framework for Notching up the Standalone
Ratings of subsidiaries for Group Support



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Framework for Notching up Standalone Ratings of subsidiaries

Exhibit 1: Group Rating Methodology Framework

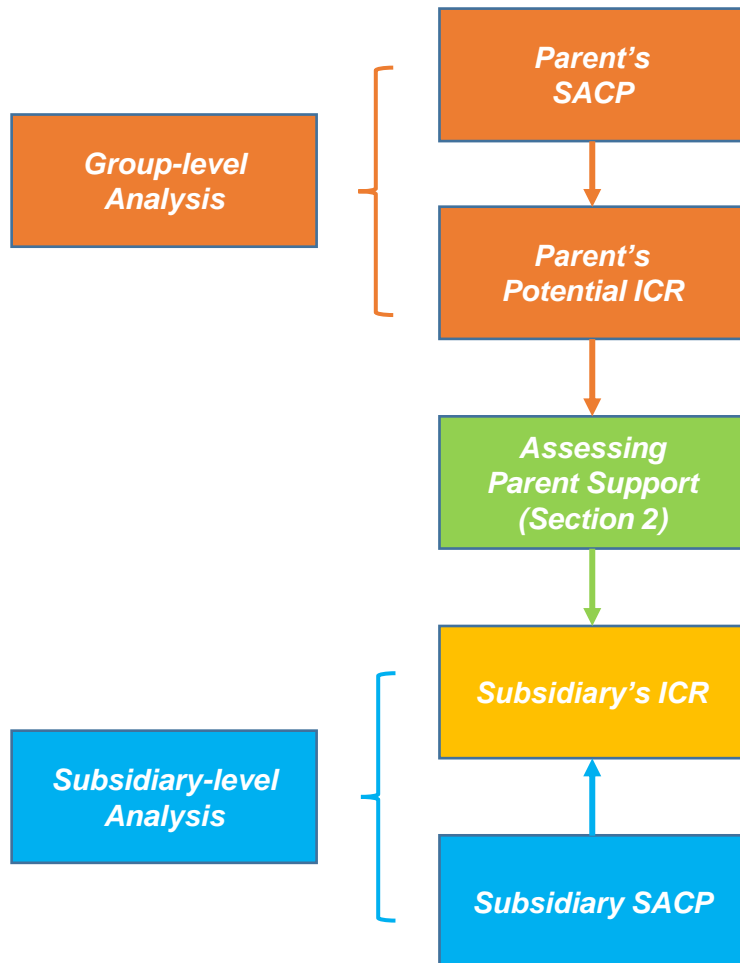
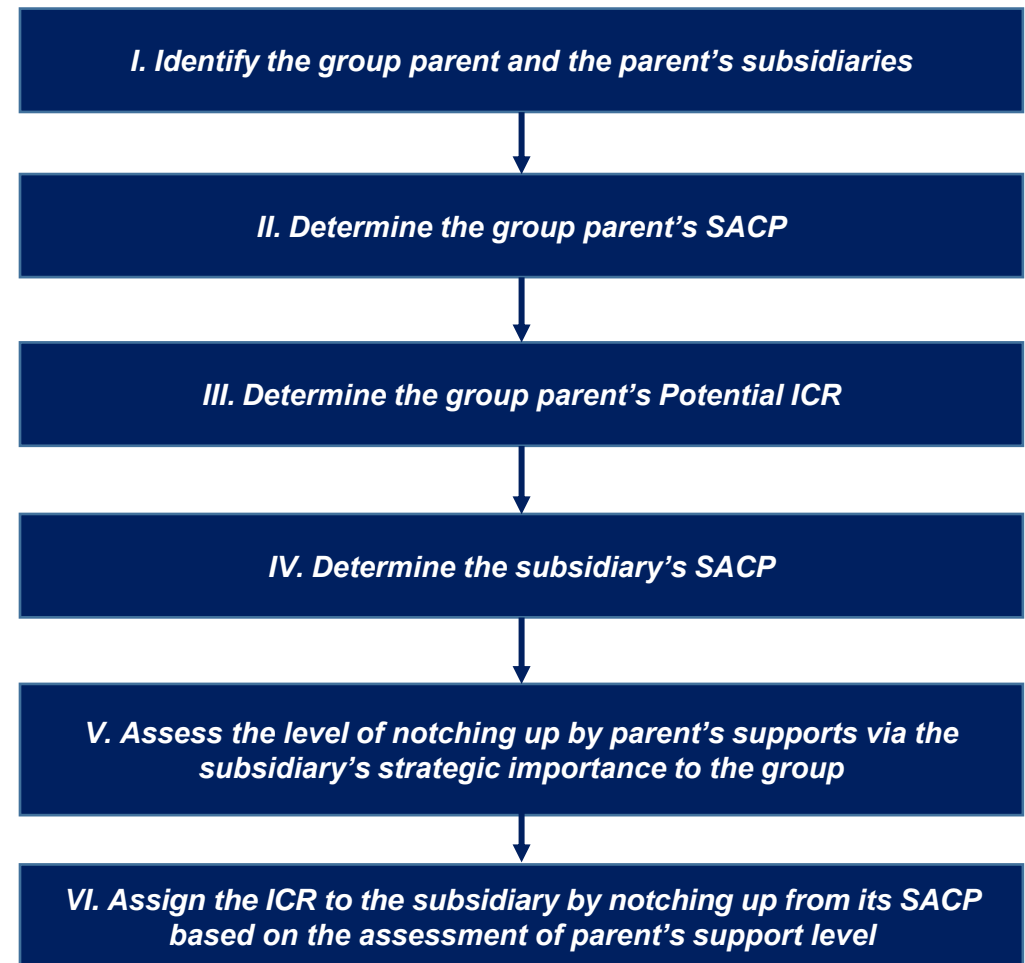


Exhibit 2: Determining Issuer Credit Rating on Group's subsidiary



Source: FiinRatings

Note:

- The Stand-Alone Credit Profile ("SACP"): an issuer's creditworthiness in the absence of intervention
- The Issuer Credit Rating ("ICR"): an issuer's overall creditworthiness given the consideration of any relevant information

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Section 2

Notching up criteria for group support



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Group support: *Notching up criteria*

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 + 3 notches or; (ii) Parent's Potential ICR – 1 notch	Lower of: (i) Issuer's SACP + 1 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 (Must include criteria 7)	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			
	6. Existence of a common treasury			
Stated posture of management	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 1,5)	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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Hanoi Head Office

10th Floor, Peakview Tower, 36 Hoang Cau, O Cho
Dua, Dong Da, Hanoi, Vietnam
Tel: (84-24) 3562 6962
Email: info@fiingroup.vn

Ho Chi Minh City Branch

3rd Floor, Profomilk Plaza Building, 51-53 Vo Van
Tan, Ward 6, District 3, Ho Chi Minh, Vietnam
Tel: (84-28) 3933 3586
Email: info@fiingroup.vn

