MARC
RATING
METHODOLOGY

GROUP RATING METHODOLOGY

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INTRODUCTION

This methodology articulates MARC's approach to conducting analysis of an entity which is a member of a corporate group that consists of more than one legal entity which are linked by common ownership. MARC's group rating methodology recognises that the creditworthiness of a group member entity can be influenced by financial and business-related interdependencies among group members.

A stress event affecting a group member can also be transmitted to other members of the group through the transfer of liquidity or capital from stronger group members to the troubled subsidiary. When a troubled group member fails to fulfil its liabilities, the group as a whole may suffer a loss of reputation and confidence among the group's creditors and lenders. Conversely, it has also been observed on occasion that parent companies may opt not to provide credit support to non-core subsidiaries. To limit contagion or knock-on effects on financially sound entities in the event of a failure within the group, a parent company may choose to rely on legal firewalls (the separate legal personality and limited liability of the subsidiary) rather than to provide support.

The holding company structure of financial and non-financial corporate groups is typically comprised of a single holding company or ultimate holding company which may or may not conduct any business itself and owns a number of majority or wholly-owned subsidiaries. Notwithstanding the structural separation that is facilitated by the corporate structure, the group may still operate on an integrated basis across different legal entities, some of which may be in other jurisdictions. Treasury functions may be centralised to

promote efficient use and fungibility of the group's financial resources across the different legal entities as well as to provide liquidity across the group.

While MARC has long recognised the importance of reflecting the economic reality of parent-subsidiary relationships and implicit intra-group support in the rating of a member of a corporate group, it is now formalising its rating approach to enhance the consistency and transparency of its rating practice. This methodology focuses on an entity-level analysis of a member of a corporate group and entity-specific ratings as opposed to a debt-specific analysis and debt-specific issue ratings, which can vary for a variety of security and ranking considerations.

The greater the degree of integration of a group member into the overall group and the quality and size of its related party transactions, the more the creditworthiness of that individual group company will be interlinked with the creditworthiness of the other group companies. Where cross-default and cross-acceleration provisions, and guarantees exist between the parent or an intermediate holding company and subsidiaries, the effect is to create rating interdependencies among group members. The degree to which a rating reflects the entity's standalone credit profile as opposed to the overall consolidated group depends on a number of factors including the degree of ownership and control, insulation and the strategic importance of, or dependence on, each member of the group.

Intra-group support, in practice, varies considerably from group to group. Formal support mechanisms may be put in place to support entity credit ratings in a group with the aim of improving funding terms and conditions. This could be in the form of legally enforceable commitments for financial assistance made by a financially stronger group entity upon which another group entity with lower creditworthiness can call in the event that the supported entity requires support. Most of the time, corporate groups do not have pre-arranged support mechanisms in place, in which case decisions would be made on an ad-hoc basis on whether and how to support a group entity in times of stress.

The approach for rating members of a corporate group is comprised of the following steps:

The first stage of the analysis is to perform a consolidated credit analysis of the parent company and its subsidiaries. The outcome, the notional group rating (NGR) or consolidated rating, is a theoretical enterprise rating, given without regard to structure or security.

In the next stage of the analysis, MARC focuses on the nature of any legal, financial and operational separation, double leverage and any other factors that warrant a distinction between individual member default risks. MARC will also designate all operating company units that are material to the group in terms of size or risk as either 'core', 'highly strategic', 'strategically important' or 'non-strategic'. Entities with significant non-controlling interests (ownership of

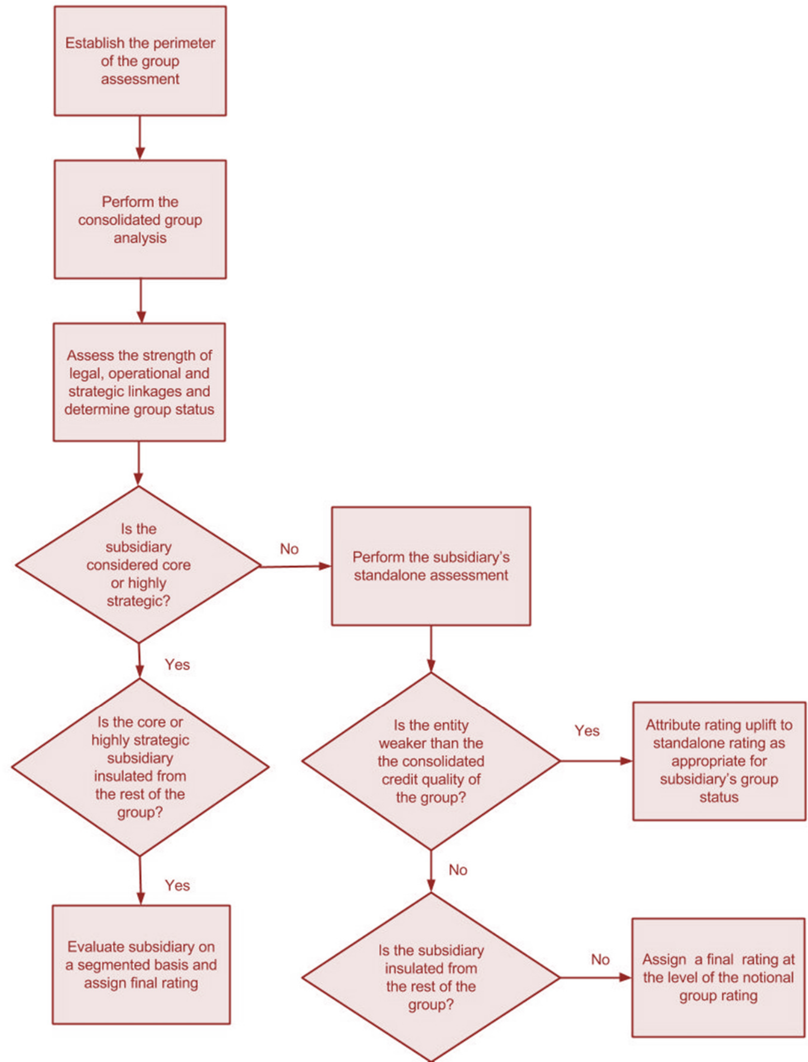
30% or more) and entities which are classified as 'strategically important' or 'non-strategic' will also be analysed separately on an individual basis.

The ratings of ultimate non-operating holding companies will be notched down from the NGR of the wider group while the ratings of intermediate non-operating holding companies will be notched down from the NGR of the sub-group. The rating of the intermediate holding company will not be permitted to exceed the NGR of the wider group.

The rating assessment of a holding company factors in the business risk profile of its own operations where it is a combination of an operating company and a holding company, in addition to the diversification of its investments and cash flow from subsidiaries, company-level liquidity and debt service capacity, as well as the potential for support from an ultimate parent or government, where applicable. This analysis determines any required adjustment to the NGR to arrive at the parent company's rating. Structural subordination of liabilities of the parent company versus the liabilities of operating entities could result in the parent company rating being lower than the NGR. Although parent companies are generally not rated higher than the NGR, they may receive a higher rating on occasion, due to rating factors extrinsic to the NGR.

In the final stage of analysis, MARC will assess the potential for group support in instances where the standalone rating of a group member is found to be lower than the NGR. The support uplift is based on the interaction between the strength of its linkages with its immediate or ultimate parent company and the financial strength of the parent. Where the member's standalone rating is found to be higher than the NGR, MARC assesses the extent of any rating drag arising from its exposure to weaker group members in order to determine its adjusted rating.

Exhibit 1: Summary Flowchart for Analytic Stance on Rating a Member of the Group



Step 1: Assessment of the Group's Overall Creditworthiness

1) The NGR

The NGR, which may or may not be publicly assigned, takes into account the combined business risk profile of a corporate group and its consolidated financial profile. The group assessment should be performed at the sub-group level if it is a component of a larger group and the sub-group is operationally and financially autonomous from the ultimate parent or wider group. The perimeter or scope of the group assessment may extend to the ultimate parent where it is established that the wider group is managed as an integrated corporate group or the strength of the wider group can be drawn upon by a group member facing financial stress. This analysis determines the highest possible rating for any group member that is not insulated or ring-fenced excluding support drawn from outside the group.

Where a conglomerate structure is present and the creditworthiness of the wider group is assessed to be pertinent to the group member's final rating, the group assessment will be approached using a conglomerate analysis. Under this approach, MARC will initially give each line of business an estimated rating using the corresponding industry methodology. Each business line will have its own business profile and rating drivers. The analytical process entails deriving a weighted average of the industry risk assessments for all business lines; the weights are based on the proportionate contribution of the business line to group assets, earnings, cash flow or a blend of these measures. The same approach is taken to assess the group's competitive position. The competitive position assessment would consider factors such as market position, scale, diversity and operating efficiency. The industry and competitive position assessments are then combined to produce a consolidated business profile. The NGR will be premised on an assessment of the group's individual business segments and analysis of its consolidated financial statements. The positive effects of business diversification would usually be reflected in the overall performance of the consolidated group.

Step 2: Assessment of Legal, Financial and Operational Separation

In this stage of analysis, MARC focuses on the organisation of the group, the nature of any legal, financial and operational separation and other factors that warrant a distinction between the default risks of group members. The stronger the linkages are between the members of a group, the more likely the default risks of members will be correlated.

Exhibit 2: Analysing the Strength of Legal, Operational and Strategic Linkages

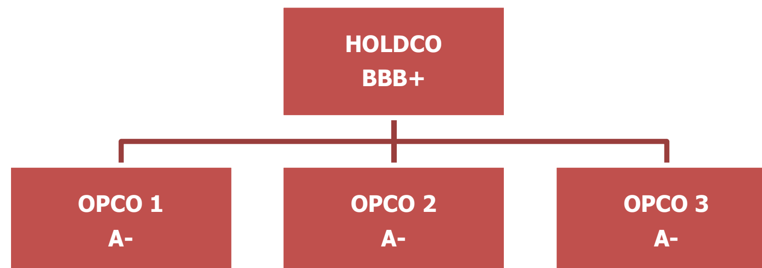
Dimension	Factors contributing to higher correlation of default risks	Factors contributing to lower correlation of default risks
Legal linkages	Upstream guarantees to support holding company obligations and downstream guarantees from parent to support the subsidiary's obligation; cross-default and cross-acceleration provisions in financing agreements of group members; joint and several liability for debts and other forms of formal and tangible credit suppport.	Caps on dividend and intercompany distributions; covenants which limit inter-company indebtedness; strong regulatory ring-fencing e.g. explicit leverage and dividend restrictions that prevent extraordinary capital and liquidity flows from the subsidiaries to the parent; 'golden share' arrangement in the case of entities that have systemic importance in the national economy; restrictions on transferring cash or other assets out of a particular jurisdiction.
Operational and financial linkages	Management control of subsidiaries; key members of management have come from the parent; deep operational integration of subsidiaries within the core business of the parent and group; sharing of infrastructure and staff, integrated treasury and capital management strategy; parent's high dependence on distributions from operating subsidiaries to fund distributions and corporate activity at the parent level.	Operationally autonomous subsidiaries which are not reliant on the parent for key business functions and key members of management; subsidiaries operate in several business lines and/or have their own customers or operate in different countries or macroeconomic environments; financially autonomous subsidiaries; modest investment in the subsidiary or loans extended to the subsidiary relative to amount of debt and scale of the group.
Strategic, ownership and reputational linkages	High strategic fit of the subsidiary within the group which makes divestiture of the subsidiary unlikely; modest or no non-controlling interests in material operating or intermediate holding company units; subsidiaries' shared name and/or branding and customer base and/or domiciled in the same country are more likely to lead to contagion or confidence sensitivity issues as compared to subsidiaries with a different name/branding and market.	Low strategic fit of the subsidiary within the group; subsidiaries have separate boards of directors with independent members; significant minority ownership interests in material operating or intermediate holding company units; different name/branding; domiciled in different country which has low strategic importance for the group's ongoing strategy in the case of foreign subsidiaries.

Consolidated Ratings Approach – Case Illustrations

Case illustrations are used in this section to explain and clarify the rating approach taken for members of a corporate group that is viewed as a single economic unit or corporate family, the concept of subordination-based notching in ratings of group holding companies and additional considerations that should be taken into account when evaluating operating holding companies and members of corporate groups that belong to a wider group. The operating subsidiaries (opcos) in the case illustrations in Exhibits 3 to 6 are implicitly regarded as 'core' in relation to the group's overall strategy.

Consolidated Ratings Approach with Structural Subordination

Exhibit 3: Case 2a – Non-Operating Holdco with Structural Subordination



As a non-operational entity, the creditworthiness of the NOHC is closely tied to the consolidated group's creditworthiness. In view of the structural subordination of the NOHC's creditors and opcos' creditors' first recourse to the assets and cash flow of opcos, the issuer ratings of NOHCs are derived usually by notching down by one to three rating notches from the NGR assigned to opcos that are material to the group. In cases where a principal subsidiary accounts for most of the group's capital, total group revenues and income, the credit profile of a holdco would be mostly influenced by the credit quality of that subsidiary.

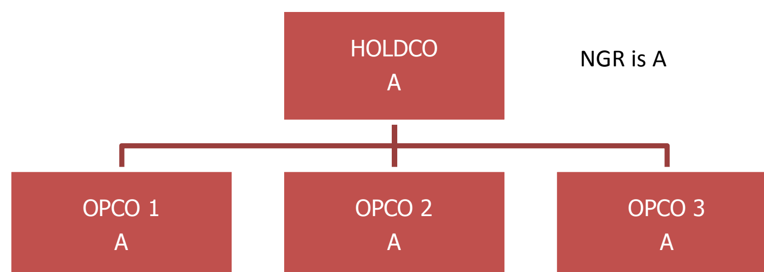
In this case, there is a one-notch gap between the issuer rating on the holding company and the ratings assigned to its wholly-owned and controlled opcos (which correspond to the NGR). Other obligations at the operating entities may also magnify the effects of structural subordination such as trade payables, lease obligations and taxes of subsidiaries in addition to the structural subordination of holding company debt to the direct external debt of subsidiaries.

A NOHC can be rated the same as some of its opcos if its rating is supported by strong and stable cash flows from diversified sources despite structural subordination and double leverage at the parent. Accordingly, the primary considerations in notching are the diversification of earnings available to the holding company, the holding company's capital structure and the level of financial leverage and coverage of interest and dividends at the holding company. It is possible for the holding company's issuer rating to be equal to its NGR under the following circumstances: earnings and assets are well-diversified at the holding company level; principal opcos are deemed able to upstream dividends with limited restrictions and holding company level leverage, debt service capacity and liquidity metrics correspond to expectations for its rating level. MARC reviews the deconsolidated financial statements of the holding company to gain insight into these variables.

Notching relationships are subject to review and change; wider notching from the NGR may be undertaken if MARC perceives increasing stress at the holding company or group level or the regulator of a principal regulated operating subsidiary has announced additional ring-fencing measures which are aimed at preserving the credit quality of a regulated entity. In general, the average level of notching between regulated opcos and their holding companies is greater than that of non-regulated opcos and their holding companies. This reflects the risk of cash lock-ups at the regulated subsidiaries as a result of intervention by regulators aimed at limiting and containing risks from financial or operational problems arising in other constituent parts of the group.

Consolidated Ratings Approach with No Structural Subordination

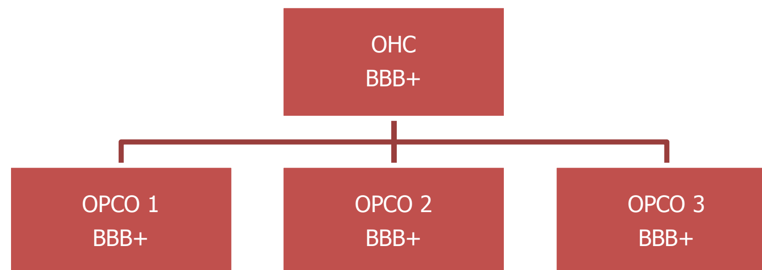
Exhibit 4: Case 2b – Non-Operating Holdco without Structural Subordination



In this case 2b, the parent entity is a non-operating holding company (NOHC) which borrows funds and advances them to wholly-owned opcos. The group operates on a centralised treasury basis and the parent has unfettered access to the cash that the subsidiaries generate to service its debt while the opcos do not borrow or only borrow small amounts and guarantee the debt issued by the holdco. The parent company and main opcos will receive issuer ratings that reflect the NGR.

Consolidated Ratings Approach with an Operating and Holding Company

Exhibit 5: Case 3 – Operating Holdco



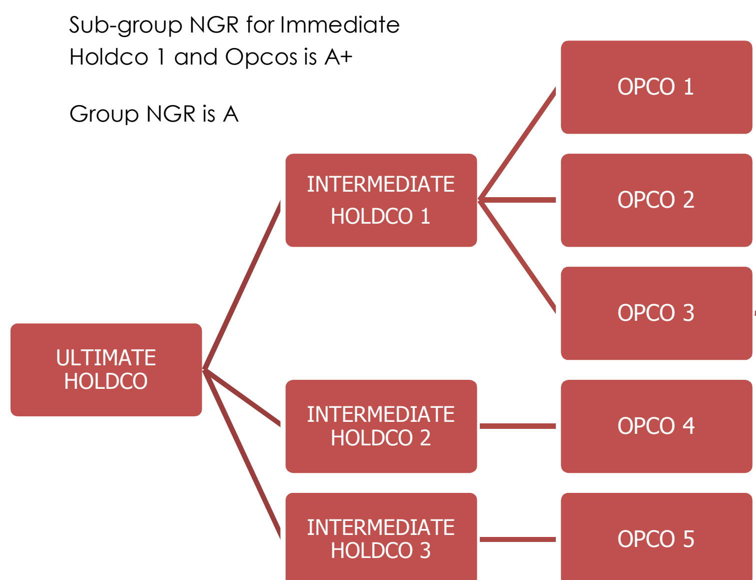
In this case, the holdco has substantive operations of its own and is an operating and holding company (OHC) of the corporate group. As in the previous examples, the subsidiaries are wholly-owned and controlled, and are operationally/financially integrated with the holdco. Analyses are performed both at the consolidated level, and separately at the holding company level and opcos to gain insight into the underlying credit profiles of group members. The OHC's deconsolidated business profile and credit metrics are analysed; the level of its own operating earnings/cash flow and dividends upstreamed to the holdco relative to its direct obligations is assessed.

Structural subordination of parent-level debt to corporate debt at opcos, if any, and the OHC's unconsolidated debt leverage will be reflected in its rating. If the OHC is also a main operating entity in the group, has capacity to generate significant earnings and cash flow of its own and its financial leverage as measured by its deconsolidated debt-to-equity ratio is 0.40 times or less and double leverage ratio is not higher than 110%, the rating on the OHC is typically equal to the NGR.

As in Case 2a, the primary considerations in notching are the OHC's capital structure, and the level of financial leverage, coverage of interest and dividends and liquidity at the holding company. The stronger the OHC's ability to generate earnings and cash flow from its own activities, the smaller the rating differential between the OHC and the NGR will be.

Consolidated Ratings Approach with an Intermediate Holdco

Exhibit 6: Case 4 – Sub-Group with Intermediate Holdco



In this case, the sub-group for Intermediate Holdco 1 receives a NGR of A+. The sub-group is the strongest among the sub-groups comprising the wider group which obtains a NGR of 'A'. If the sub-group is operationally and financially autonomous from the ultimate parent or wider group, the scope of the group assessment will be restricted to the sub-group and the NGR of 'A+' will be the principal basis of the ratings of the opcos belonging to the corporate family of Holdco 1.

Assuming the opcos are not insulated or ring-fenced, the issuer ratings on these entities will be constrained at the level of the wider group's NGR of 'A'. Conversely, if the relevant sub-group's NGR is lower than the wider group, and if MARC expects the wider group to support a wholly-owned subsidiary of the sub-group directly or contribute to the sub-group's support to that subsidiary, the subsidiary's rating may benefit from some support uplift from the consolidated strength of the wider group.

Step 3: Evaluating a Subsidiary's Group Status

After the notional group rating and individual standalone ratings for subsidiaries are established, the subsidiaries are classified into one of three categories: core, strategically important, or non-strategic to adjust the final public rating accordingly to reflect the appropriate level of group support. A subsidiary's group status is determined based on an analysis of attributes believed to represent its relative importance to the entire group and distance to its parent.

Exhibit 7: Considerations for Evaluating a Member's Group Status

	Core Entity	Strategically Important Entity	Non-strategic Entity
Integrality of operations to group strategy	Operating in businesses integral to current and future group strategy, inconceivable that it will be sold.	Important to the group's strategy but does not belong to a core business segment and is not likely to be sold.	Might be sold without significantly impacting the group's flagship businesses, can be sold opportunistically in the near or intermediate term.
Sharing of name or brand with the main group	Same name or brand with the main group unless the different name has franchise value.	Different name and it is not readily apparent that the different name has franchise value.	Different name.
Degree of operational integration	Operates more like a division; it is separate only for regulatory, legal or tax reasons.	Operates more on a standalone, autonomous basis but may share some attributes of core entities.	Operates unrelated or ancillary business on a standalone, autonomous basis.
Track record of support	Long track record of support exists.	Lacks track record of tangible parent group support.	None, the non-strategic entity typically has a short operating history of five years or less.
Share of group's capital and consolidated group turnover and earnings	Represents significant share of the group's capital (at minimum around 5% to 10%) and an equivalent share of total group revenues and income.	Its capitalisation is not sufficient to meet 'core entity' requirements. Does not contribute materially to group turnover and earnings but is currently performing within group management's expectations or group earnings norms.	Does not represent a significant share of the group's capital. Also does not contribute materially to group turnover and earnings. May even be marginally profitable or unprofitable.
Ownership structure and control of voting power	Generally more than 51% ownership/voting rights, significant degree of overlap in composition of parent's and subsidiary's boards.	Generally more than 51% ownership/voting rights, some degree of overlap in composition of parent's and subsidiary's boards.	Generally more than 51% ownership/voting rights.

In general, the interaction of dimensions is important to the classification decision, as is the context. For instance, a subsidiary which is guaranteed by its parent company or a core operating member of the parent group will be rated at the same level as core group members but this does not in itself make the guaranteed subsidiary 'core'. MARC may view a newly acquired company that exhibits the necessary size and/or capitalisation required for core status as a strategically important entity in the first one to two years after acquisition and only classify the subsidiary as 'core' after it has been fully assimilated into the group. Also, a subsidiary's economic importance could diminish over time, stemming from significant and sustained deterioration of its operating performance. This could warrant a reclassification of a subsidiary previously perceived as 'core' to 'strategically important' or even to 'non-strategic'.

A 'strategically important' subsidiary' may evolve toward 'core' status over time as its economic importance to the group increases. A subsidiary may still be classified as 'strategically important' even after it has been described by its management as 'core' and in spite of group support rhetoric from group management. This is likely to occur when no amount of discussion or analysis proves able to dispel the rating committee's residual doubts concerning a subsidiary's eligibility as a 'core' subsidiary. A troubled subsidiary which shares its parent's brand name but is involved in a business that is a non-core segment for the group is generally viewed to be more susceptible to distancing from the main parent group.

A standalone risk profile that appears to be out of line with the norms established by other clearly 'core' operations with the parent group may suggest that 'strategically important' rather than 'core' is the more appropriate classification. For a subsidiary to be classified as 'core', the risk of its economic importance being marginalised by a change in group strategy within the next three to five years should be considered remote. Its overall ability to maintain the attributes of a 'core' entity in the medium term should be assessed as high. A subsidiary which possesses a combination of 'core' and 'strategically important' attributes may be classified as 'highly strategic'. An example of how such a classification could be made would be when the subsidiary is not yet a material contributor to total group revenues and income and has yet to represent a significant share of the group's capital at the time of the group status assessment but has realistic prospects of reaching this level within three to five years.

The regional or international expansion of a corporate group may see its entry into new markets through greenfield or acquired foreign subsidiaries which might be considered strategic but are usually not regarded as core until the rating agency is confident that the operations of such subsidiaries are an important part of the group's ongoing strategy. In the absence of a full guarantee, support motivation is likely to be higher when the state of the host country's economic growth is high and the foreign subsidiary is relatively profitable. Still, support may be forthcoming from a parent group which has a propensity to support and believes it has little choice but to support a weak, underperforming foreign subsidiary through its difficulties after taking into account regulatory, reputational, market, customer and moral considerations. On a related note, it is MARC's experience that when the financial troubles of a subsidiary threaten the viability of the entire group, group management will most likely abandon a strategy of support in favour of a damage limitation strategy.

Step 4: Assigning standalone ratings to group members

Group members with one or more of the following characteristics will be assigned standalone ratings although they are consolidated with the group for the purpose of determining the NGR:

a) they are operationally and financially autonomous;
b) they are operating in a different jurisdiction from the parent, the exception being if the corporate group is internationally diversified;
c) significant non-controlling interests (ownership of 30% or more) exist in these members;
d) they are ring-fenced, either through limited purpose entity structures, covenants or regulatory restrictions.

Operational and financial interdependencies between individual group members or sub-groups will be low in case (a) as is typical of groups with a diversified business profile, necessitating separate ratings to be assigned to individual legal entities that constitute the group. The ability of the parent to access cash and cash flow successfully from operating entities in other jurisdictions may be limited in case (b), restricting the potential for ongoing cash upstreaming to the parent as well as the movement of cash between members. Also, the parent may have less incentive to support a weaker foreign subsidiary in the event of a crisis in the host country of that subsidiary if doing so threatens the viability of the entire group.

In cases (c) and (d), the parent would not have full control of and/or full access to the financial resources of certain members. There could also be substantial group cash leakage through dividend outflows to minorities in case (c) as a result of the significant non-controlling interests in material operating and intermediate holding company units.

Standalone ratings are not usually assigned to subsidiaries classified as 'core' or 'highly strategic' unless the following conditions are met: the parent's ownership of the subsidiary is less than 70% and its strategy and all key transactions are reviewed and approved with the involvement of independent directors; it is able to demonstrate that it can stand on its own; an independent dividend policy and/or reasonable ring-fencing of cash flows is in place to protect the interests of the subsidiary's creditors; and the subsidiary is assessed to be stronger than the NGR on a standalone basis based on a review of its business, operating and capital characteristics.

Step 5: Determining Support Uplift or Drag for Ratings of Group Members

The analysis is completed by adjusting the rating of the group member to reflect the appropriate level of implicit support or drag on its rating arising from the interaction between the strength of its linkages with its immediate or ultimate parent company and the financial strength of the parent, as summarised in the rating grid below:

Exhibit 8: Parent Financial Strength/Linkages Rating Outcomes Grid

	Strong Linkage	**Weak Linkage**
Stronger Parent	Equalise with the NGR or notch down from the rating of the parent	Notch up from the standalone rating of the subsidiary
Weaker Parent	Lower subsidiary's rating to bring it closer to the NGR	Assign standalone rating

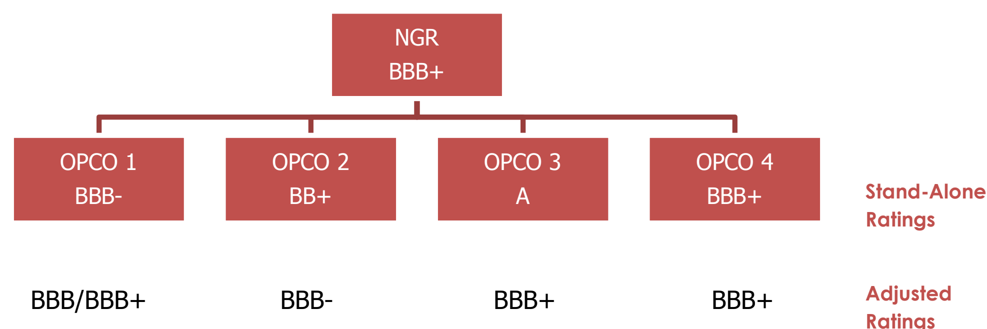
The strongest entity in the group and 'core' group members are generally assigned the NGR unless there are valid and compelling grounds for the entity to be rated above the NGR as an insulated or ring-fenced subsidiary. MARC's analytic stance would be to take into account the projected income flows from the insulated subsidiary but to consider resources held at the subsidiary to be unavailable to the rest of the group. This could result in a lower NGR, as shown in a subsequent case illustration.

Consolidated Ratings Approach with an Operating and Holding Company

A weaker subsidiary which is neither classified as 'core' or 'strategic' may be rated lower than the NGR. In general, MARC will not bring the rating of a strategically important member up to that on core group members. To date, MARC has employed both the 'top-down' and 'bottom up' approaches to assign credit ratings to highly strategic and strategically important group members respectively. The 'top-down' approach entails an evaluation of the creditworthiness of the subsidiary based on the parent or the group's overall creditworthiness whereas the 'bottom-up' approach necessitates an assessment of the subsidiary's standalone financial strength and adjustment of the rating to reflect appropriate rating uplift from parental/group support.

It is also possible that MARC may decide not to use the 'top-down' approach in the course of rating a 'highly strategic' subsidiary based on its assessment of the strength of parent-subsidiary linkages.

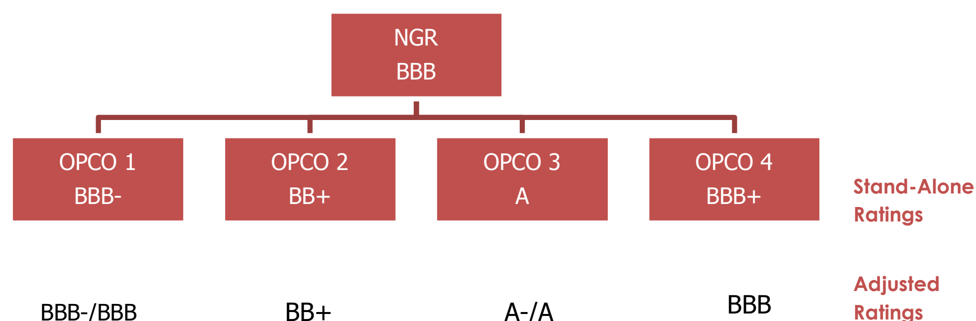
Exhibit 9: Case 5 – Reflecting Support Uplift and Rating Drag in Group Members' Adjusted Ratings



Assume that the group consists of four wholly-owned subsidiaries and a parent company which has no operations. With the exception of Opco 2, a non-strategic investment, the other subsidiaries are either 'core' or 'strategically important'. Although not a 'strategically important' subsidiary, Opco 2 is expected to receive some support, albeit modest, from the parent. The NGR is 'BBB+'.

The strongest members are generally assigned the NGR. In this case, Opco 3 and Opco 4 would be assigned adjusted ratings of 'BBB+'. Non-regulated wholly-owned subsidiaries can only be assigned final ratings that are higher than the NGR if there is significant outside ownership interest in the subsidiary (30% or more) or the subsidiary is adequately ring-fenced. If Opco 1 is a core subsidiary, it will receive a final rating of 'BBB+'. If it is a 'strategically important' subsidiary, its adjusted rating will be one notch above its standalone rating, at 'BBB'. Opco 2's final rating of 'BBB-' includes an additional notch of support but still reflects a higher default risk relative to other group members.

Exhibit 10: Case 6 – Ring-fenced Subsidiary's Impact on Remaining Members' Adjusted Ratings



Case 6 is similar to Case 5, the only exception being that Opco 3 is now insulated. A downward adjustment is made to the NGR to reflect the diminished credit support from the strongest member of the group to its group members. Opco 3 is now rated higher than the NGR. Depending on the effectiveness of the ring-fencing, Opco 3's assigned adjusted rating could be identical to its standalone rating or a notch lower at 'A-' .

If Opco 1 is a core subsidiary, its final rating will be 'BBB', the same level as the adjusted NGR. If it is a 'strategically important' subsidiary, its final rating will be lower than the adjusted NGR at 'BBB-', the same level as its standalone rating. In general, the strategically important subsidiary's rating will not be brought up to that on 'core' group members. However, in some limited circumstances, 'strategically important' subsidiaries to which the group is strongly committed could have the same ratings as those on core group members. Opco 2 would be rated on a purely standalone basis. The second strongest subsidiary Opco 4, whose resources are accessible to the rest of the group, is assigned an adjusted rating that is identical to the adjusted NGR. This is now one notch lower at 'BBB' than the 'BBB+' assigned in Case 5.

It is important to note that the adjusted ratings in the above case illustrations exclude rating uplift for external support outside the group. In some instances, MARC may incorporate the potential for systemic support in the issuer rating of a subsidiary if the rating agency believes that such support is available for the subsidiary's obligations, as is sometimes factored in the ratings of financial institutions that are perceived to be systemically important.

Explicit Support and Issue-Specific Ratings

Explicit support may be used to raise the issue ratings of strategically important and non-strategic members of a group. This might take several forms, the most commonly observed forms being guarantees, net worth maintenance agreements, unconditional and irrevocable undertakings provided by parent companies to pay a subsidiary's debt service shortfalls amounts in the event that there are insufficient funds sitting in dedicated debt service prefunding accounts secured for the benefit of creditors of the subsidiary. When guarantees or credit support mechanisms extend only to specific obligations of a group member, the support uplift will be given to the issue-specific rating as opposed to the issuer rating.

Country Risk Considerations and Group/Parental Support

MARC believes that for many corporate groups, it is appropriate to evaluate the subsidiaries located in countries or regions different from the home country or region of domicile of the parent, both on an individual basis and in the context of the group's credit profile. Subsidiaries located in host countries that are lowly-rated or non-investment grade are usually not regarded as 'core' members of a group, likewise subsidiaries with an operating history of five years or less. Chief among the considerations MARC believes will influence the long-term strategic commitment of parent entities to their foreign subsidiaries are: the operating environment of the subsidiary (particularly the state of the host country's economic growth), its regulatory environment and competition within its core business area, its integration with its parent company and intrinsic credit strength. These considerations underpin MARC's parental support assumptions in foreign subsidiary ratings. The multinational or regional corporate group may trade off growth opportunities across countries and scale down the amount of resources and funding provided to a subsidiary in response to a broad trend of decline in profitability in its market.

If a specific obligation of a Malaysia-incorporated subsidiary benefits from a direct, irrevocable and unconditional guarantee provided by its foreign domiciled parent company which ranks pari passu to all other senior obligations of the parent company, MARC will rate the obligation at the same level as the guarantor. Any rating constraint posed by the rating agency's country ceiling assessment (of the country in which the foreign parent is domiciled) will be factored into MARC's evaluation of the guarantor. MARC's country ceiling assessment captures the parent's foreign currency transfer and convertibility (T&C) risks and acts as a rating cap for entities domiciled in that country. In general, the ratings of foreign parents from countries that have the same or higher foreign currency ratings than Malaysia will not be constrained by sovereign risk related to their domicile.

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