General Corporate Criteria

Request for Comments

Purpose

Lianhe Rating Global Limited's ("Lianhe Global") general corporate criteria was originally published on 16 July 2018. The current proposed criteria primarily elaborates on the details of the factors and sub-factors that we consider when assigning ratings to general corporates.

Lianhe Global invites market participants to provide comments and feedback on this proposed criteria by 31 March, 2021 by submitting their comments and feedback to info@lhratingsglobal.com.

No changes to our existing ratings are expected to result from the adoption of the proposed criteria, as it primarily relates to further elaboration of the original criteria published on 16 July 2018.

Scope of the Criteria

Lianhe Global applies the criteria to corporate entities that are not in the industry of banking, non-bank finance, regulated monopolies (i.e. utilities), not-for-profit, or those providing public and government services.

The criteria does not represent a comprehensive coverage but only addresses key rating factors to form our credit opinions and will be reviewed periodically. Credit opinions tend to be forward-looking and include our views of issuers' future performance and development.

General Approach

Lianhe Global uses a top-down approach to analyse corporate entities. We examine macro factors like the operating environment and recent market demand first before we drill down to analyse corporate entities. We strive to make a balance between applying qualitative and quantitative approaches when analysing corporate entities. We also use a combination of weighted average, matrix, and notching approaches to capture rating factors. In addition, our analysis encompasses forward-looking estimates and forecasts. First, we apply a scorecard using a weighted average approach to approximate a corporate entity's credit profile by assigning grades in lowercase letters to each key credit factor ranging from the strongest 'aaa' to the weakest 'ccc and below'. Secondly, the weighted average result is then combined with an industry risk analysis using a matrix to derive a Base Score (grade). Thirdly, the resultant Base Score (grade) is further modified by a notching approach concerning critical adjustment factors such as liquidity, corporate governance, etc. We believe each approach has its advantages and disadvantages. By combining all three approaches, we hope to capture most of the rating factors to paint a true credit picture of a rated corporate entity.

Overview

The criteria report comprises three segments: (1) operating environment of the country in which a corporate entity is domiciled, (2) industry analysis in which the corporate entity conducts its business, and (3) corporate entity analysis. We strive to take a holistic view on a corporate entity while balancing all-around political, economic, industrial, operational, and financial factors.

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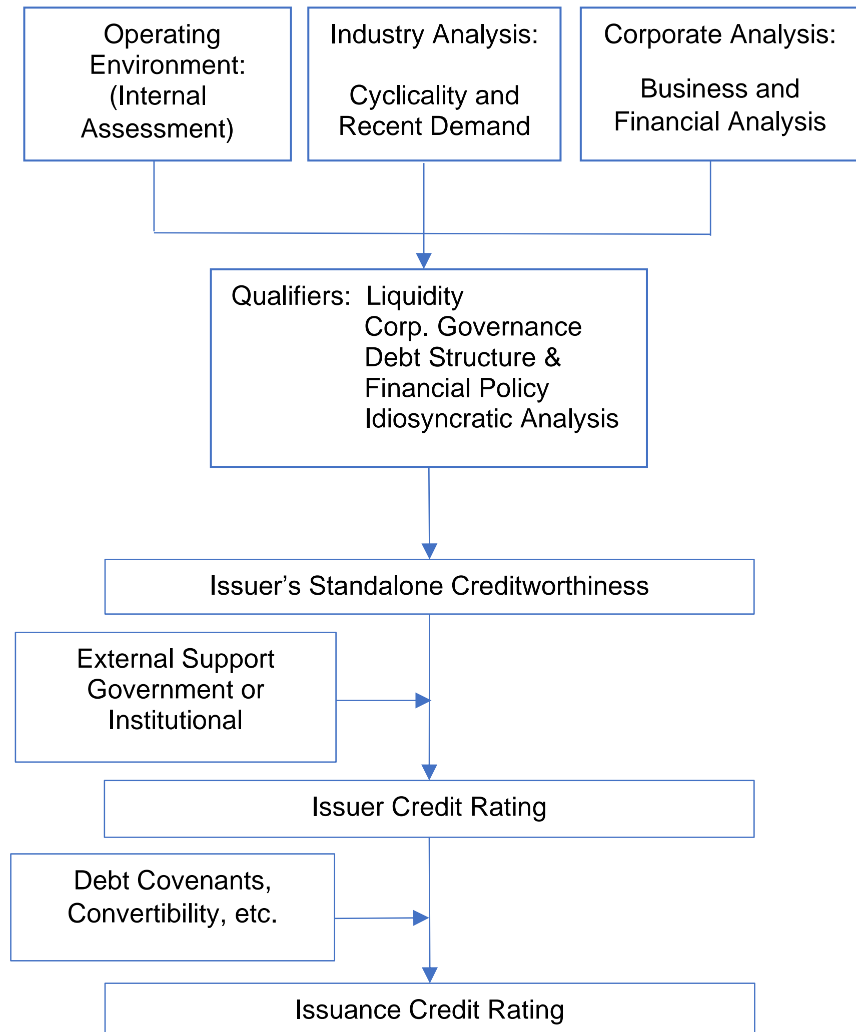
The diagram below illustrates the topology of the criteria:



Operating Environment

Lianhe Global uses an internal assessment to gauge the operating environment.

Sovereign Rating Ceiling

For a country with a sovereign credit rating above A-, we do not apply any adjustment to a rated entity's credit rating in which it is domiciled. However, for any country with a sovereign credit rating below A category (or A-), we do apply an adjustment factor to the rated entity. In the latter case, we limit the rated corporate entity's credit rating to the same as the sovereign. Nevertheless, there are instances in which a rated corporate entity could receive a rating above the sovereign. The credit committee reviews these instances on a case-by-case basis.

When a corporate entity conducts cross-border businesses, we use a weighted average approach by weighing its EBITDA by country if there is no dominant country. Otherwise, if there is a dominant country, then we use the dominant country's sovereign rating as the determinant. If such EBITDA by country is not available, we then use revenue by country as weights.

Industry Analysis

Lianhe Global believes by applying each industry's historical cyclicality over a long period and blending this with macro and industry demands of recent decades create a balanced approach to address the industry risk.

If a corporate entity operates in more than one industry, we then apply a weighted average approach by weighing its EBITDA by industry if available. If such EBITDA by industry is not available, then we use revenue by the industry as weights.

Cyclicality Analysis

Our cyclicality analysis comprises of (a) historical industry cyclicality and (b) industry-specific study on (1) barriers to entry, (2) industrywide profit, (3) growth potential, and (4) substitution risk.

We then apply a matrix approach by combining our weighted average grade (see detailed discussion below) with our industry risk grade to formulate our Base Score (or grade).

Market Demand Analysis

We use a top-down approach to analyse corporate entities. We start our market demand analysis by studying the aggregate demand of the country in which a corporate entity conducts its businesses. We use the expected GDP growth rate of the country as a benchmark. Furthermore, we measure the recent industry demand by comparing it to the expected GDP growth rate on a relative basis.

The table below illustrates the benchmarks for aggregate demand (i.e. expected GDP growth rate) and industry demand (i.e. expected industry growth rate relative to that of the GDP). We believe only monopolistic entities would fall into the 'aaa' category while only countries with economic issues would fall into the 'ccc' category. In the latter case, we believe the sovereign credit ratings would most likely to have an overwhelming adverse impact on the targeted corporate entities.

Market Demand	aaa	aa	a	bbb	bb	b	ccc
Benchmark Score	1	3	6	9	12	15	18
Macro Demand	n/a	GDP Growth% Btw 6% & 10%	GDP Growth% Btw 3% & 6%	GDP Growth% Btw 1% & 3%	GDP Growth% Btw 0% & 1%	GDP Growth% Less than 0%	n/a
Industry Demand	n/a	Substantially Faster than GDP Growth%	Moderately Faster than GDP Growth%	In-line with GDP Growth%	Moderately Slower than GDP Growth%	Substantially Slower than GDP Growth%	n/a

Business Analysis

Lianhe Global uses a combination of qualitative business and quantitative financial factors to conduct our analysis, respectively. We use a weighted average approach to capture and balance business and financial risks, as well as dominant factors that drive the credit rating of a corporate entity in the marketplace.

Business Analysis

This is the qualitative part of the analysis to gauge the viability of a corporate entity's business performance on a relative basis against that of its peer groups around the globe. While it is qualitative in nature, Lianhe Global uses various benchmarks to guide analysts.

Carousel of Qualitative Factors

Lianhe Global believes each industry has its unique set of drivers. While these are unique sets, they can be identified and grouped into various categories or primary factors. We list each primary factor in the table below:

Key Primary Factors:	Primary Factors with Weights:
(1) Market Position	15.0%
(2) Competitiveness	10.0%
(3) Diversity	8.0%
(4) Operating Efficiency	6.0%
(5) Profitability	6.0%
Sub-total	45.0%

We believe no single factor (or multiple factors) shall be the determining drivers across all industries while the importance of these factors in aggregate, whatever they may be, are critical. These contributing factors play different levels of importance in various industries. Some are more relevant to one industry than the others. Within an industry, we rank their contributing importance and assign the predetermined weights to them accordingly. As a result, we take the advantages of both parts by setting the weights as static while the factors as dynamic. In other words, given the importance of these predetermined factors in an industry, they would be given the same static weights while the factors themselves would rotate according to their respective industry (and sub-industry) categories.

For the sake of discussion, steel and aluminium producers, as basic material producers, have different drivers. Steel producers often differentiate themselves with the scale of operating and quality of their steel products, while aluminium producers always compete on costs (saving a few speciality high-grade aluminium producers). As a result, the drivers are different for steel and aluminium producers.

Additionally, we may use a different set of rank ordered factors within the same industry (except for the same sub-industry category). Taking the pharmaceutical industry as an example, a well-established multi-national pharmaceutical company has (a) a market position which comprises of brand recognition and deep-seated distribution network, (b) a competitive edge which comprises of a full spectrum of drug products, patents, R&D, and possibly a promising drug pipeline, and (c) diversity which comprises of revenue, product, and geographic diversification. Even for a small pharmaceutical company, these factors may not be relevant with the exception of a promising drug pipeline. A pharmaceutical company that focuses on generic drugs may have higher (d) operating efficiency and lower costs than its larger multi-national pharmaceutical competitors from savings on R&D as its drivers. The point is that we would rank these factors according to their importance. Nevertheless, the predetermined factors (and weights) are identical in each sub-industry such as generic drug manufacturers in this example. Any significant idiosyncratic factor not captured under Business Analysis would be reflected under Qualifiers.

(1) Market Position: Lianhe Global analyses the market position of a corporate entity by considering three key secondary factors: (1) revenue size, (2) market share, and (3) market reach, on a global scale. The former is the dominant factor which is modified by the latter two. We also consider production capacity when a corporate entity's products and/or services exhibit high price gyration. We consider market share in terms of numbers of competitors, as well as market reach, on a secondary basis. When we consider a subject's market position, we take into consideration the subject nation's GDP size relative to the Global leaders such as the U.S., EU, Japan, and China. Additionally, Lianhe Global also takes revenue volatility into consideration when we assign benchmark scores.

Market Position	aaa	aa	a	bbb	bb	b	ccc
Benchmark Score	1	3	6	9	12	15	18
Market Share	Dominant with few competitors	Dominant with many competitors	Leading with few competitors	Leading with many competitors	Mid-sized with many similar competitors	Mid-sized with several larger competitors	Small size with many larger competitors
Market Position	Global	Multi-national	Regional/ Continental	Nationwide	Multi-states/Province	Single State/Province	Local

(2) Competitiveness: Lianhe Global analyses the competitiveness of a corporate entity by considering two key secondary factors: (1) products & services and (2) technological advantages, on a global scale. The former is the dominant factor which is modified by the latter one. However, products & services, especially services often face transferrable issues across jurisdictions which we also take into consideration. We believe pricing power relates closely to the products and services a corporate entity offers. We measure the pricing power of the products & services to determine the competitiveness of a subject corporate entity. The more unique or advanced the products & services are, the stronger the pricing power a corporate entity could command. Conversely, if the products & services are more commodity types like, then the weaker the pricing power a corporate entity could bargain as there are many perfect substitutes in a given market. In terms of technological advantages, we consider pending patents, patents in force, drug pipelines in clinical trials, proven technologies in production, patented processes, etc. We use this ancillary factor to modify the former one if applicable. We believe technological advantages are an important factor. Technological advantages are the impetus for present and future growth, and they prevent products and services offered from becoming obsolete which in turn drive down pricing power. Additionally, we also consider the ability of a corporate entity to venture into new markets, products, and business segments which we regard as a testimony of competitiveness as the third factor. We use this ancillary factor to supplement the dominant factor.

Competitiveness	aaa	aa	a	bbb	bb	b	ccc
Benchmark Score	1	3	6	9	12	15	18
Products & Services (Pricing Power)	Unique products & services without peers; with near monopolistic pricing power	Dominant products & services with few peers; with strong pricing power	Differentiated products & services with many peers; with strong pricing power	Differentiated products & services with many peers; competitive pricing power	Commodity like products & services with marginal pricing power	Commodity like products & services with minimal pricing power	Price takers without any pricing power
Technological Advantages	Highly advanced without peers	Highly advanced	Advanced	Competitive	Lagger	Inferior	Non-existence

(3) Diversification: Lianhe Global analyses the diversification of a corporate entity by considering two key secondary factors: (1) revenue and (2) geographic concentration. The former is the dominant factor which is supplemented by the latter one. We consider revenue concentration in terms of products & services. The more diverse the products & services are, the lesser the concentration risk is in an event of any plausible market downturn or threats from competing products & services. A corporate entity with an uncorrelated portfolio of products & services is more likely to weather an economic downturn better than a corporate entity with a correlated one. We also take customers, suppliers, and production concentrations into consideration on a secondary basis as supplemental factors. We believe any over-reliance on any of the aforementioned three factors would be a cause for concern.

For instance, a large and well-diversified nationwide pharmaceutical distributor should have received a score of 9, but as it relies on a single wholesaler for its products, and thus we would rightfully adjust its benchmark score to 15. We argue that any business interruption from the single wholesaler (i.e. supplier) would be detrimental to the distributor, even though it has a nationwide client base. However, if the same pharmaceutical distributor were to diversify and reduce its supplier concentration, then it could receive a score of 9. For the avoidance of doubt, this should not be considered as a minor adjustment from the pre-set benchmark score, but instead it is a full category adjustment.

Diversity	aaa	aa	a	bbb	bb	b	ccc
Benchmark Score	1	3	6	9	12	15	18
Revenue/Product Concentration	≤ 10%	10% - 15%	15% - 25%	25% - 40%	40% - 60%	60% - 80%	> 80%
Geographic Diversification	Global	Multi-national	Regional/ Continental	Nationwide	Multi-states/Provinces	Single State/Province	Local

(4) Operating Efficiency: Lianhe Global analyses the operating efficiency of a corporate entity by considering two key secondary factors: (1) utilization rate and (2) cost control. These are two mutually exclusive factors. We apply only one of the two factors. These two factors measure effectively the same efficiency but just from the opposing ends. A corporate entity with high fixed operating costs must achieve high utilization rate to break even, otherwise it would likely to suffer losses. Conversely, the same corporate entity must also keep its operating costs low to stay competitive. Thus, we believe these two factors are effectively measuring the same efficiency but just from the opposing ends. We measure operating efficiency on a relative basis depending on the industry. Given the wide range of metrics fall under this category, we may use other yardsticks to gauge operating efficiency such as the lowest cost producers for the aluminium producing industry, a high load factor for airliners, a high turnover rate and low inventory for retailers, a high occupancy rate for hotels (and REITs), etc.

Operating Efficiency	aaa	aa	a	bbb	bb	b	ccc
Benchmark Score	1	3	6	9	12	15	18
Utilization Rate	Highest within industry	Leaders within industry	Above Average	Industry Average	Below Average	Laggers within industry	Lowest within industry
Cost Control	Lowest cost producers within industry	Leaders in cost control within industry	Above Average	Industry average	Below Average	Laggers in cost control within industry	Highest cost producers within industry

(4) Profitability: Lianhe Global analyses the profitability of a corporate entity by considering two key secondary factors: (1) EBITDA margin or (2) gross margin. However, different industries may use different yardsticks to measure profitability. And we use the commonly recognized or industry preferred metrics, either EBITDA margin or gross margin. In general, we believe these two yardsticks are closely related. In any event, if an EBITDA margin differs substantially from its corresponding gross margin, then we would likely adjust the score. Another noteworthy scenario is that we consider the quality of profitability in the context of revenue recognition. We crosscheck recognized revenue against the cash flow statement to ensure they had indeed been received. In any event, if such recognized revenue had been posted under account receivables with long-dated ageing accounts, we would likely adjust this factor as we deem appropriate.

Profitability	aaa	aa	a	bbb	bb	b	ccc
Benchmark Score	1	3	6	9	12	15	18

EBITDA Margin	≥ 40%	40%- 30%	30% - 20%	20% - 10%	10% - 5%	5% - 0%	< 0%
Gross Margin	≥ 50%	50% - 40%	40% - 30%	30% - 20%	20% - 10%	10% - 5%	0% - 5%

Financial Analysis

This is the quantitative part of the analysis to gauge primarily the future financial performance of a corporate entity on an absolute basis. While it is quantitative in nature, Lianhe Global allows marginal adjustments to account for forward-looking nature of forecasts, as well as the quality of the balance sheet of a corporate entity.

We analyse over a period of 5 fiscal years, and we put more emphasis on the current fiscal year and the two succeeding years' forecasts but less on the two preceding fiscal years. We believe risks lie in the future but not in the past. And history is only a guide. Thus, we distribute the weights in favour of the two succeeding years which accounts for 50.0%. We assign a 35% weight to the current fiscal year while the two preceding fiscal years account for only 15% altogether.

The table below illustrates the weight distribution of the financial metrics over a period of 5 fiscal years:

Fiscal Year	Current Fiscal Year minus 2	Current Fiscal Year minus 1	Current Fiscal Year	Current Fiscal Year plus 1	Current Fiscal Year plus 2	Total
Weight	5.0%	10.0%	35.0%	30.0%	20.0%	100.0%

Static Quantitative Factors

Lianhe Global uses a set of static metrics to measure the financial strength of a corporate entity. We list the key financial factors in the table below:

Key Financial Factors:	Description of Key Financial Factors	Static Weight
(a) Debt over EBITDA	Adj. Gross Debt over EBITDA	15.0%
(b) EBITDA over Interest	Adj. EBITDA over Interest	12.0%
(d) Debt over Capitalization	Adj. Gross Debt over (Adj. Gross Debt + Adj. Equity + Deferred Tax Credit)	8.0%
(c) Liquidity Ratios	Quick Ratio, Current Ratio, and Cash Ratio	5.0%
Sub-total		40.0%

Lianhe Global uses a set of financial metrics and definitions. We believe (a) Gross Debt over EBITDA and (b) EBITDA over Interest are the two most important determinants of financial strength of a corporate entity. We may use Net Debt (i.e. Gross Debt minus cash & cash equivalent) if we deem a corporate entity has demonstrated a strict cash policy with proven track records.

We believe Debt over EBITDA is a good yardstick to measure debt coverage across the industry. This ratio excludes implications from (1) interest costs due to different level of capital structure, (2) tax rates due to both capital structure (i.e. tax savings on debt if applicable) and income tax brackets, and (3) various rates on depreciation, depletion, and amortization schedules, across the industry. This ratio measures the number of years it will take a corporate entity to repay its debt given its current and expected earning power (EBITDA). The lower the number is, the higher the coverage on Debt over EBITDA is. While we believe EBITDA is a good indicator given its compatibility, there are a few shortcomings. Thus, we employ cash flow metrics to supplement the shortcomings associated with EBITDA. We use cash flow from operating activities before working capital changes and free cash flow as supplementary metrics and as checks and balances.

Meanwhile, EBITDA over interest measures the margin of safety of a corporate entity to cover its interest obligation given its current and expected earning power (EBITDA). The higher the number is, the stronger the coverage for EBITDA over interest is. We believe these are the two most important financial ratios and thus we assign a weight of 15% and 12% to each, respectively.

Debt over capitalization measures the capital structure, in terms of debt leverage, of a corporate entity. The higher the leverage is, the higher the expected return favoring equity investors over bondholders. Different industries have different capital structures, and often time it is challenging to compare and contrast. Thus, we assign a lesser of weight (i.e. 8.0%) to this factor.

Last but not least, we measure the internally generated liquidity of a corporate entity by examining its quick ratio. We also take into account of cash ratio and current ratio as supplemental factors. We do not have a predetermined absolute scale for these two ratios as they vary from industry to industry. For instance, Walmart, a giant global retailer, uses its market position to take advantages of its suppliers. It frequently has a current ratio of less than 1. It is not an indication of poor liquidity, but rather its shows Walmart's bargaining power. The table below illustrates the key financial metrics and their respective benchmarks that Lianhe Global applies.

As aforementioned, analysts could use their analytical judgments to assign scores based on the reliability of forecasts and industry outlooks. For instance, if a ratio falls closer to the upper bound of the benchmark, then an analyst could assign a score one point higher than the pre-set score and vice versa.

Financial Metrics	aaa	aa	a	bbb	bb	b	ccc
Benchmark Score	1	3	6	9	12	15	18
*Debt/EBITDA	≤ 1.5	1.5 < x ≤ 2.5	2.5 < x ≤ 3.5	3.5 < x ≤ 4.5	4.5 < x ≤ 5.5	5.5 < x ≤ 6.5	> 6.5
*EBITDA/Interest	≥ 20	12 ≤ x < 20	8 ≤ x < 12	5 ≤ x < 8	3 ≤ x < 5	1 ≤ x < 3	< 1
*Debt/Capitalization	≤ 20%	20% < x ≤ 30%	30% < x ≤ 40%	40% < x ≤ 50%	50% < x ≤ 60%	60% < x ≤ 70%	> 70%
Liquidity Ratios:							
Quick Ratio	≥ 2	1.5 ≤ x < 2	1.2 ≤ x < 1.5	1 ≤ x < 1.2	0.8 ≤ x < 1	0.5 ≤ x < 0.8	< 0.5

*Note: Adjusted by Lianhe Global

In general, we take a conservative approach by only accounting for interest expense (including capitalized interest) but not interest income, unless a corporate entity is able to demonstrate the recurrence nature of its interest income associated with its normal course of business. We may make adjustments to financial ratios if we have concerns over their quality and stability. Take shareholders' equity as an example, we may adjust "Debt over Capitalization" if there is a high percentage of goodwill and/or valuation reserves on the balance sheet. Additionally, we may make adjustments to these financial ratios if we deem they have demonstrated volatility in the past or we expect them to deteriorate in the future.

Weighted Average Score

The weighted average score is the summation of benchmark scores in (1) Market Demand, (2) Business Analysis, and (3) Financial Analysis. We then translate the numeric value of the weighted average score into a letter grade according to the table below.

Credit Rating Scale (Base Score)	Wtd. Avg. Score Min. Thresholds	Wtd. Avg. Score Max. Thresholds
aaa	0.5	1.5
aa+	1.5	2.5
aa	2.5	3.5
aa-	3.5	4.5
a+	4.5	5.5
a	5.5	6.5

a-	6.5	7.5
bbb+	7.5	8.5
bbb	8.5	9.5
bbb-	9.5	10.5
bb+	10.5	11.5
bb	11.5	12.5
bb-	12.5	13.5
b+	13.5	14.5
b	14.5	15.5
b-	15.5	16.5
ccc	16.5	17.5
cc	17.5	18.5
c	18.5	19.5

I. Industry Risk and Base Score

We apply a matrix approach by combining the weighted average score (grade) with the industry risk to derive a Base Score. The table below illustrates the relationship between the weighted average score (grade) and the industry risk (grade), as well as the resulting Base Score.

II. Qualifiers

Lianhe Global also believes there are prevalent factors that are so critical that they deserve a category of their own and are worthy of applying notching rather than a weighted average approach.

The Base Score (grade) is further modified by 4 additional qualifiers, namely (1) Liquidity Test, (2) Corporate Governance, (3) Debt Maturity Profile and Financial Policy, and (4) Idiosyncratic Analysis, by a way of notching.

(1) Liquidity Test: We modify our Base Score (grade) by examining the liquidity position of a rated corporate entity. Liquidity is the first and foremost important determinant for any corporate entity. Usually, any sign of distress starts with a liquidity crunch. We measure liquidity by examining a corporate entity's (but not limited to) cash position, short-term liquid assets, committed bank credit lines, forecasted earnings, and projected proceeds from capital market financing activities against its maturing debt obligations, capital expenditures, and committed lease payments, over the next 12 months for non-investment grade category, and over the next 24 months for investment grade category. This is different from the liquidity ratios we examined under financial metrics which focus on internally generated liquidity. Under the liquidity test, we also take external liquidity such as bank credit facilities and qualitative factors such as access to capital market and relationship with banks into consideration. We test the liquidity strength of a corporate entity and determine if it could withstand the corresponding thresholds associated with the Base Score (grade). If it does pass the corresponding thresholds, then no notching will be applied. Otherwise, we apply notching by subtracting the necessary notches until it passes the corresponding thresholds. For instance, if a corporate entity has a Base Score of 'bbb', then it must pass the liquidity test thresholds for 'bbb'. If it fails to pass, then we would lower the thresholds until it passes. The difference between the Base Score (grade) and the liquidity test thresholds it passes is the number of notch(es) we would subtract. However, our credit committee has the final say on the outcome of the liquidity test. Based on our analysis, on average we take one notch deduction for most lowly rated entities to address their poor liquidity while there is no notch deduction for most highly rated corporate entities.

(2) Corporate Governance plays the second fiddle in this case. We believe any corporate governance related issue would likely to be first reflected in the liquidity of a corporate entity. We take a holistic view of corporate governance. Family owned businesses are

not necessarily calling for concern, in our view. In general, we examine features (including but not limited to) such as the ownership and organizational structure, reporting hierarchy, independent non-executive directors on the board of directors, board committees, related-party transactions, material litigations, prior regulatory sanctions, etc. In general, we believe listed companies have timely disclosure and a higher level of transparency, as well as the efficient corporate board management as dictated by various listing rules. We focus primarily on a few key areas such as related-party transactions, key man risk, the tenure of senior management, relationship with the external auditor, and regulatory compliance. Based on our analysis, we are unlikely to consider notching for listed companies unless they have exhibited blatant disregard for rules. We would deduct at a maximum of 2 notches under this qualifier.

(3) Debt Maturity Profile and Financial Policy

Debt Structure and Financial Policy refers to debt maturity profile and management's attitude towards financing. In general, we favour long-term over short-term debt in which the former allows a corporate entity more time to generate and accumulate cash to repay its debt. Meanwhile, short-term debt obligations put pressure on a corporate entity to either refinance or repay its debt over a short period of time.

Other considerations:

If a corporate entity's revenue streams are from one currency while its debts are in another currency, we would take foreign exchange rate risk into consideration. Likewise, we also take interest rate term structure into consideration. Additionally, we take any hedge position into our analysis. While we do not include any off-balance sheet securitization transactions as debt, we do include any non-cancellable operating lease and third-party guarantees as debt.

(4) Idiosyncratic Analysis

Idiosyncratic Analysis is designed to be a "catch-it-all" factor. While we believe our analysis has captured most of the risk elements of a corporate entity, we admit that there are special circumstances in which our analysis may not have considered given the complexity of today's business world. Take airliners as an example. In China, most LOC airliners fly short-haul routes and face competitions from expanding high-speed railway and highway systems. But LOC airliners in provinces with treacherous terrains do not face these challenges due to higher railway and highway construction costs associated with these terrains. Hence, we may use this factor to account for the competitive advantage offered to the few selected ones.

III. <u>Standalone Credit</u>

The resultant outcome from the qualifier notching adjustment analysis leads to the Standalone Credit, which reflects the creditworthiness of the subject corporate entity on a standalone basis.

IV. <u>External Support</u>

As a part of our analysis, we also examine if a corporate entity receives any external support from its parent or affiliated companies or government entities.

For a corporate entity to receive support either from its parent and/or affiliated companies, the supporting entity must demonstrate (a) the ability and willingness to support, (b) the resulting support would not adversely affect either the supporting entity or the combined

entities. In general, we categorize two forms of support: (1) Top-down and (2) Bottom-up. To qualify for Top-down support, the subject corporate entity must demonstrate that it is an integral part of a larger corporate family and without its survival would cause irreversible damage to the larger corporate family in term of earnings, distribution network, products & services, market position and/or reputation. We expect this scenario to be few and far between. Therefore, we expect many types of supports to be in the form of Bottom-up.

V. Final Credit Rating

The resultant outcome from the external support analysis leads to the Final Credit Rating of the subject corporate entity. It is also commonly known as an issuer credit rating.

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