

Group Rating Methodology

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TRIS Rating updates our Group Rating Methodology published on 7 September 2022, by incorporating the following changes:

- Incorporates the sovereign rating constraints on the group credit profile (GCP), and the issuer credit rating (ICR);
- Explains how the group SACP or GCP may serve to either uplift or cap an entity's ICR;
- Provisions for assigning a GCP to subgroups within complex group structures;
- Describes the characteristics of each member status within the group, including adjustments to additional notching — specifically, increased downward notching from the GCP for highly strategic member status and upward notching from the Stand-alone Credit Profile (SACP) for strategically important member status;
- Explains potential rating gaps between the GCP and insulated entities, and between the GCP and holding companies;
- Provides additional detail on circumstances where group ratings may be applied despite the absence of effective control by shareholders or partners, such as in joint ventures (JV), multiple ownership structures, closely linked business operations, or exclusive supplier/purchaser arrangements;
- Explains the concept of extraordinary support;
- Explains the rationale behind financial institutions (FIs) generally providing more robust support to their subsidiaries compared to non-financial corporations.

OVERVIEW AND SCOPE OF THE CRITERIA

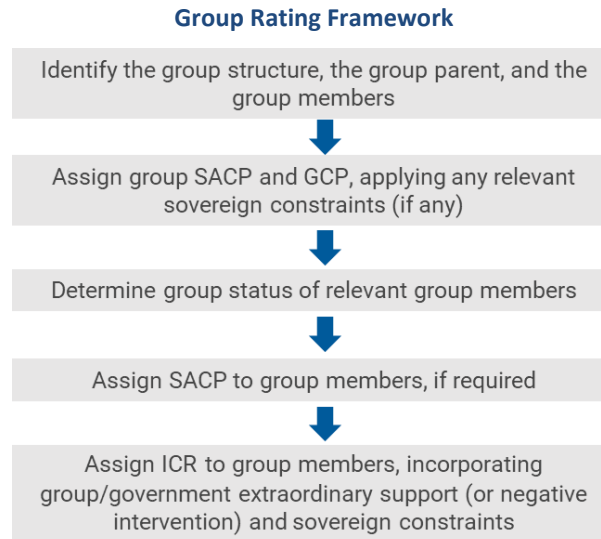
The criteria apply to entities that are part of corporate and FI groups, where we recognize the likelihood of the group or parent company providing extraordinary financial support on a timely basis to mitigate the default risk of the entities or exert influence through negative intervention on the entities due to the importance of the entities to the group. The criteria may also apply in cases where no single shareholder has effective control over the company such as JVs, multiple ownership structures, closely linked business operations, or exclusive supplier-purchaser relationships, if certain conditions are met. The criteria supplement other sector-based rating methodologies announced by TRIS Rating. However, the criteria do not apply to project finance or securitization transactions.

The process starts with an assessment of the group structure and the relations among the relevant group members with the group parent (collectively referred to as the “group”). We then assign a group SACP and GCP to the group. The group SACP represents the group's creditworthiness without considering any extraordinary support (or negative intervention) from external sources, mostly the government, whereas the GCP incorporates the potential effects of such actions (if any). In most cases, the group SACP is aligned with the GCP. However, GCP could be higher (or lower) than the group SACP if such extraordinary support (or negative intervention) is expected.

The next step is to assess the group status of the entity by evaluating its importance to the group. We then assign an SACP to the group member, based on industry-specific rating criteria. Following this, we determine a potential ICR by incorporating an SACP with the extraordinary support/negative intervention from the group, based on the entity's group status. Finally, we apply any relevant sovereign constraints to derive the final ICR. Note that for an entity assessed as having “core” or “highly strategic” group status, an SACP may not be assigned, as its ICR is typically derived from the GCP rather than the SACP.

RATING FRAMEWORK

The process involves the steps shown in the framework below.



Identify the group structure and relations among group members

We define “the group” as the group parent, which includes the immediate parent and/or ultimate parent, and the group members or the entities over which the group parent has direct or indirect control or influence on strategy, operations, cash flows and resources, as well as the group members’ creditworthiness. Such control or support may exist even if the parent owns less than 50% of the group members’ equity. Determinants of control, other than ownership, may include the parent’s representation on the group members’ board of directors or management, ability to direct the flows of capital or cash, funding and liquidity, risk management integration, as well as sharing of brand name or reputation risk. In addition, the parent may provide explicit support via formal channels, such as letters of guarantee or cross-default provisions.

In the case of a complex group, we may assign more than one GCP to the group if subgroup analysis is deemed relevant. We may designate an intermediate holding company as the parent of the subgroup when it holds material assets, liabilities, or business activities. Additionally, the subgroup should be relatively insulated from the broader group, with the entities within the subgroup exhibiting distinct characteristics, such as different operational or reporting structure, that differentiate them from the rest of the group.

Assess the group SACP and the GCP

After we identify the group structure and relations among the group members and the parent, we assess the group SACP and GCP by assessing the credit risk of the group on a consolidated basis as though the group were a single entity. The group SACP could be derived using the top-down or bottom-up approach.

The top-down approach is applied when the ratings of all members can be assigned using the same rating framework, i.e., corporates, financial institutions, securities companies, savings cooperatives, and insurance companies. A bottom-up approach is used in hybrid group structures when a single set of criteria is not adequate at the group level. This method could also be applied to subsidiaries that operate in different countries with varying regulatory frameworks, making a top-down approach unviable. Additionally, if the group includes both a bank and a non-bank financial institution with non-fungible funds, a top-down approach may not be suitable due to different risk exposure.

Typically, the group SACP is aligned with the GCP. However, in some cases, the GCP may exceed the group SACP due to external support, often provided by the government. Conversely, the GCP might be lower than the group SACP because it is limited by the sovereign rating we assign to a specific country. This scenario occurs when the group primarily operates in a country where the sovereign rating is lower than the group SACP.

If we expect the government's extraordinary support to extend to a group member, the GCP serves as the reference point for assessing any uplift from group support. In this scenario, the ICR will be capped at the GCP. If government support is not expected to extend to the group member, the ICR will be capped at the lower of the group SACP or the GCP when the SACP is below the group SACP, and at the GCP when the SACP is equal to or higher than the group SACP.

The group SACP and GCP can range from "aaa" to "d" and are on the same rating scale as that of the ICRs, which rank from "AAA" to "D". Like the ICR, the GCP can be modified with "+" or "-".

Determine group status of a group member

We evaluate the status of a group member in relation to the group based on six key aspects:

- (1) the likelihood of the relevant group member being divested by the parent
- (2) the commitment from the group parent to provide support
- (3) the level of integration with the group
- (4) the operating performance of the relevant group member
- (5) the revenue or cash flow contribution from the relevant group member to the group
- (6) the relevant group member's potential impact on the group's reputation

We categorize the group status into "core", "highly strategic", "strategically important", "strategic" and "non-strategic". Our evaluation, based on the six key aspects above, will determine which category of group status is most applicable to the group member. Then, the ICR assigned to each member will be determined based on its status.

"Core" entity

A "core" entity is expected to be strongly integrated with the group in terms of business strategy or functions, such as financing and risk management, and typically serves the same customer base or target markets. Thus, it is highly likely that the entity will remain a long-lasting crucial member of the group. Top management or major shareholders demonstrate a strong, long-term commitment to provide extraordinary support in a timely manner should the core entity encounter financial difficulties. A cross-default provision on the obligations of both the parent and the entity provides a good example. The entity is able to achieve the group's performance targets. It also operates in line with the group's strategy and contributes a significant portion of its revenue or cash flows to the group or its operations are fully integrated with the group. There must be a close association with the group through a shared brand name and reputation risk. For most cases, the entity has been in operation for more than five years or has been set up as a separate legal entity for special functions, e.g., as a treasury center of the group, or for specific purposes, e.g., tax or regulations.

"Highly strategic" entity

A "highly strategic" entity is a crucial member of the group. It shares most characteristics of the "core" entity. There is sufficiently strong, long-term commitment from group management to provide extraordinary support, but this may be to a lesser degree than in the case of a "core" entity. The contribution in terms of revenue or cash flows may still be significant but may not be as high as that of the "core" entity, e.g., at least 20% of the group's total revenue or earnings before interest, taxes, depreciation, and amortization (EBITDA), but could be less in an FI group. In some cases, its revenue contribution may not be meaningful, or financial performance may not be as strong but it still performs its role to meet key strategic objectives of the group. Also, a "highly strategic" entity may or may not share the same brand name, but the linkage is close enough that its reputation has a direct bearing on the group. Lastly, the entity should have been in operation for more than five years or was otherwise set up for special purposes.

"Strategically important" entity

A "strategically important" entity is likely to remain an important member of the group for the foreseeable future. The entity is important to the group's long-term strategy but may be less integral with the group in some respects compared with a "core" entity or "highly strategic" entity. The entity has a commitment from the group management to provide long-term support. The revenue or cash flow contribution to the group is one factor to consider. The revenue or cash flow contribution

may be less than that of a “highly strategic” entity, e.g., representing at least 10% of the group’s total revenue or EBITDA. Sometimes the contribution may not be considered significant if it is a subsidiary of a large conglomerate or a large financial institution. The entity may or may not share the brand with the group.

“Strategic” entity

A “strategic” entity is important to the group for the foreseeable future. While long-term support from the group is anticipated, its certainty is lower than that of higher-status members. Its products or services complement the group’s diversification strategy. Its revenue contribution to the group is considered small relative to other key entities within the group. The entity is less integral with the group than an entity that has higher status. Its overall strategy may be aligned with the group’s, but it is more independent with respect to financing or operations. However, the parent still has control over the entity.

“Non-strategic” entity

An entity is considered “non-strategic” if it exhibits none of the characteristics described in other categories of group status.

Assign an SACP to a group member

In cases where the SACP is a key rating component, particularly where the group status of a relevant group member is assessed to be “strategically important” or “strategic” or “non-strategic”, determining the SACP of the relevant group member will be fundamental to the assignment of the entity’s ICR. The SACP is determined in accordance with the sector or industry-specific rating criteria applicable to the relevant group members.

For a “core” entity or “highly strategic” entity, we may not assign a SACP to the entity if we believe that the entity’s creditworthiness is predominantly influenced by the GCP to the extent that any change in the SACP has no bearing on the ICR assigned to the entity.

Assign an ICR to a group member

We generally assign an ICR to a “core” entity at the same level as the GCP. An exception, where the ICR could be higher than the GCP, is when the “core” entity’s SACP, if assigned, is higher than the GCP, and the entity is insulated from the group due to restrictions on the flow of capital, funding or liquidity from the entity to the group parent or other group members. This could be the case for an insurance subsidiary of a financial group, for instance.

The ICR of the “highly strategic” entity is usually one notch below the GCP. However, if the rating gap between “highly strategic” status and “strategically important” status is three notches or more, a downward adjustment of one additional notch may be considered, resulting in the ICR for a “highly strategic” entity being two notches below the GCP. Conversely, if its SACP is equal to or higher than the GCP, the ICR will be at the same level as the GCP.

The ICR of the “strategically important” entity is typically uplifted by three notches above the SACP but capped at one notch below GCP. However, if the gap between the ICRs of “highly strategic” status and “strategically important” status is at least three notches, we may apply a positive one-notch adjustment, so that the ICR could be uplifted by four notches higher than its SACP. Conversely, if its SACP is equal to or higher than the GCP, the ICR will be at the same level as the GCP.

For a “strategic” entity, the ICR is generally uplifted by only one-notch above the SACP. However, the rating enhancement will be capped such that the ICR or final rating will not be higher than one notch below the GCP (GCP-1). On the contrary, when an entity’s SACP exceeds the GCP, the ICR is limited to the level of the GCP.

For a “non-strategic” entity, the ICR equals the SACP and is subject to the GCP cap.

Lastly, relevant sovereign constraints typically apply to the ICRs of all group members.

Summary of the key characteristics of group members

Group Status	Key Characteristics	Potential ICR
Core	<ul style="list-style-type: none"> - Highly unlikely to be sold - Significant contributor to group's revenue/cash flow or fully integrated to group's strategy, risk management, and operations - Strong, long-term support commitment from management/shareholders - Shared brand name/reputation risk - Long operating history or set up for special functions (e.g., tax, treasury) 	= GCP
Highly strategic	<ul style="list-style-type: none"> - Similar to "core" with slightly lower importance - Long-term support commitment from management/shareholders - Typically has lower financial contribution than "core," but usually more than 20% of group revenue/EBITDA (or less for FI groups) or fulfills an important strategic role - May or may not share brand name - Long operating history or set up for special purpose 	GCP - 1 or GCP - 2 notches, or = GCP if SACP ≥ GCP*
Strategically important	<ul style="list-style-type: none"> - Important to long-term strategy, but less integrated - Support expected over the long term - Revenue/cash flow contribution typically at least 10% (or less for FI groups) - May or may not share brand name 	SACP + 3 or SACP + 4 notches (capped at GCP - 1 notch), or = GCP if SACP ≥ GCP*
Strategic	<ul style="list-style-type: none"> - Supports group diversification strategy - Some alignment in strategy or risk management - More independence in operations or financing - Revenue contribution relatively small 	SACP + 1 notch (capped at GCP - 1 notch), or = GCP if SACP ≥ GCP*
Non-strategic	<ul style="list-style-type: none"> - Lacks characteristics of the above-mentioned categories - Limited or no operational/strategic/financial relevance to the group - No expectation of group support 	= SACP, subject to GCP cap*

* Does not apply to insulated entities.

Insulated entity

In certain cases, a subsidiary may be considered insulated, segmented, or ring-fenced from its group, allowing its ICR to be higher than the GCP. This typically applies when the subsidiary operates with a high degree of financial and operational independence from the rest of the group. Its financial performance and funding sources are not reliant on the group, meaning that significant challenges faced by other group members would not materially weaken the subsidiary's credit strength. Additional indicators of insulation include the presence of significant minority shareholders and strong incentives for the group to preserve the subsidiary's credit rating. However, insulation is generally not applied if upstream entities, including the parent, have outstanding debt but lack significant assets, making the subsidiary's resources the only viable means of repayment.

TRIS Rating considers an operating insurance subsidiary of a financial group in Thailand as an insulated entity due to regulatory restrictions that limit the entity's ability to provide financial support to the group. This allows the insurer's financial strength rating (FSR) and ICR to be rated above the GCP in cases where its SACP is higher than the GCP. We would typically assign the FSR and ICR higher than the GCP by up to two notches, provided that the insurer's SACP is also higher than the GCP by at least two notches. When the SACP is equal to the GCP or only one notch above the GCP, the FSR and ICR will be assigned at the same level as the SACP. When the SACP is below the GCP, but we expect the insurer to receive extraordinary support from the group, we may equate its FSR and ICR to that of the GCP.

The ICR of an insulated entity could be de-linked from the GCP if we believe that the parent company does not exert control due to substantial creditor protections and the entity benefits from governance constraints that severely limit the influence of the parent. These may arise mostly due to statutory powers or contractual constraints. Otherwise, there should be sufficient evidence to show that significant group credit stress has had minimal impact on the entity's credit profile.

Holding company

For holding companies of corporate groups and nonbank financial institutions (NBFIs), the ICR is typically assigned at the same level as the GCP. In the case of intermediate holding companies within such groups, the ICR is generally equalized to the rating of their core operating entities, reflecting their close dependence on and integration with the creditworthiness of those core businesses.

For prudentially regulated financial service groups, the ICR of the holding company is typically notched below the GCP to reflect structural subordination and regulatory constraints. In banking groups, the holding company's ICR is usually one notch below the GCP (GCP-1), due to limitations on upstreaming resources and potential differences in treatment during a default scenario.

For insurance groups, the holding company's ICR is generally two notches below the GCP (GCP-2), reflecting more stringent regulatory restrictions on dividend payments from operating insurance subsidiaries to the holding company.

However, for the notching of a holding company within a prudentially regulated financial services group to be narrower, control of dividend payments by the regulator should be substantially weaker compared to other prudentially regulated entities. Also, we would expect the holding company to be able to service its own obligations by: 1) having control over several diversified and independent major operating entities, and each entity should generate substantial earnings or cash flows so that any disruptions at a single entity would not materially impact the GCP or the holding company; 2) generating sufficient cash flows from its own operations or from other operating subsidiaries; or 3) maintaining significant amounts of unrestricted cash or a high-grade fixed-income investment portfolio to meet its debt obligations.

On the contrary, the notching could be wider than the standard notching if we have concerns over: 1) risks relating to liquidity or balance sheet position or there is a high degree of double leverage (holding company's investments in subsidiaries compared with its own equity); 2) risk of tighter regulation on dividend payments from an operating insurance subsidiary; or 3) there exists external support outside of the group that we believe may not be extended to the holding company, in which case the GCP could be higher than the group SACP, and therefore the notching would be from the group SACP instead of the GCP.

OTHER CONSIDERATIONS

- We may apply the group rating methodology to an entity even in cases where no single shareholder has effective control or if there is no control present. This approach is relevant for entities such as JVs, multiple ownership structures, exclusive supplier-purchaser relationships, or companies with interconnected business operations.
 - JVs or multiple ownerships – the GCP will be based on the ICR of the JV partner most likely to support the JV, regardless of other owners' actions.
 - Exclusive supplier/purchaser relationships – a supplier may provide sufficient support for the purchaser to be considered strategic if the purchaser represents a significant portion of the supplier's revenues, cash flow, sales volume, or other metrics. Typically, the purchaser is closely associated with the supplier's reputation, name, or brand.
 - Entities with interconnected business operations – for example, those sharing corporate history, board members, business or financing activities, or cross-ownership.

In these situations, while the entity may receive some degree of support from the group, the absence of clear control limits the influence that can be incorporated into the rating. Consequently, the group status of such entities typically does not exceed the "strategically important" category unless a strong support agreement is in place.

- We assess group support primarily in the context of extraordinary support, which we define as entity-specific and nonrecurring actions, typically in response to financial stress at the entity. Such support may take the form of recapitalization with common equity or hybrid instruments, liquidity provision to the group member, and/or similar measures.
- FIs often provide stronger support to their subsidiaries than non-financial corporations, driven primarily by reputational risk and regulatory pressure. When a parent institution shares customers, branding, or operations with its subsidiaries, abandoning a struggling unit can be costly, as it risks damaging the parent's reputation and eroding market confidence. This close interconnectedness creates strong economic incentives to extend support, even to weak subsidiaries. Moreover, the prudential regulation of FIs adds further motivation, as parents may act to prevent regulatory repercussions that could harm their own operations and standing. As a result, subsidiaries of FIs often benefit from greater rating uplift compared with those of non-financial companies. However, parental support may be limited for foreign subsidiaries due to regulatory restrictions.

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