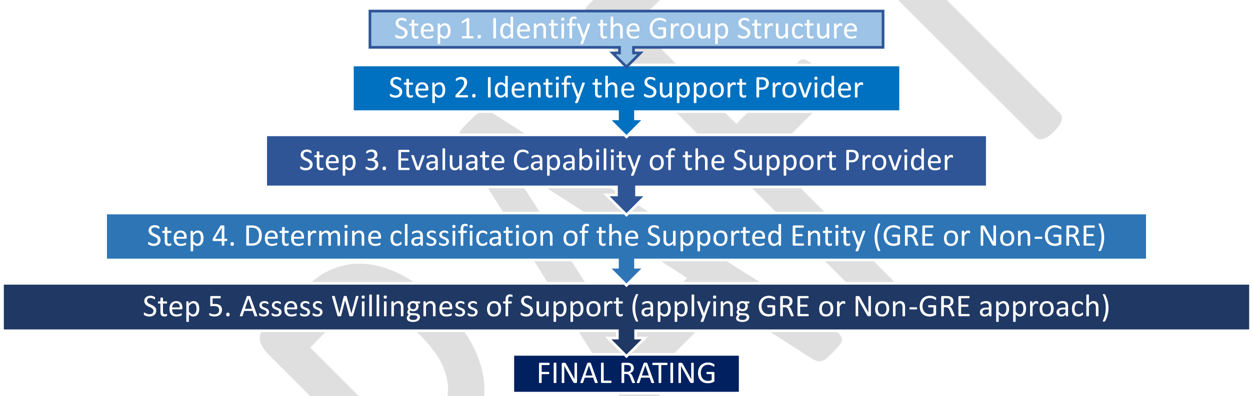
GROUP SUPPORT METHODOLOGY

The analysis of group support methodology evaluates the potential for extraordinary credit support beyond what is already considered in the standalone credit rating of the supported entity. PEFINDO asserts that an entity's final credit rating should cover both its standalone credit strength and any extraordinary credit support that may be extended by its group, especially during financial distress.

Aside from the evaluation of the supported entity's standalone rating, PEFINDO proceeds with the identification of the group structure, including the entity assigned as the support provider. An evaluation of the support provider’s capability then begins, followed by the supported entity’s classification, before concluding with an assessment of the group’s willingness to provide support. The assignment of the extent of support is based on the support provider’s credit strength and the likelihood of the group offering support, while also considering the supported entity's standalone credit strength.

Table 1. Framework for Assessing Group Support



Step 1. Identify the Group Structure

PEFINDO prefers a clear group structure to attain a comprehensive understanding of the relationships among the subsidiaries as well as to the group, which is essential to assess the credit risk associated with a particular entity. In evaluating the group and its entities, the identification process centers on recognizing the highest-level entity within the group exerting substantial influence over the supported entities' management, strategic decisions, and cash flow dispositions.

PEFINDO may apply its methodology to groups with interconnected business relations, even without direct control. Group membership is established based on meeting at least four of the following conditions: name affiliation, shared management policy or strategy, common board composition or control, shared corporate history, similar business partners or captive markets, one-obligor status, shared support functions (such as buildings, factories, or data centers), and cross-ownership holdings.

Step 2. Identify the Support Provider

The support provider is the entity within the group exerting significant control over management, strategic decisions, and cash flow disposition. Identifying the support provider is crucial to assess the likelihood, depth, and scope of support available to enhance the supported entity’s creditworthiness. If PEFINDO determines that the support provider exhibits a stronger credit profile than the supported entity, PEFINDO will assess the supported entity's importance to the group, to determine the likelihood of group support. Conversely, if the support provider does not prove to have a stronger credit strength than the supported entity, the assessment of support likelihood becomes irrelevant.

Step 3. Evaluate the Support Provider's Capacity

The assessment of the support provider's capacity is crucial in obtaining knowledge of the group's credit strength in the face of financial pressures. PEFINDO evaluates the support provider's capacity using any available data and relevant rating methodologies to assess its creditworthiness. Suppose the support provider has not provided PEFINDO with a rating mandate, an analysis is conducted based on publicly available information to determine the company's business and financial performance.

For unconsolidated business conglomerates, the support provider capacity is determined by aggregating the ratings of group members based on their relative significance, with potential notch adjustments for qualitative factors, like synergy or value chains. Lack of sufficient credit information results in PEFINDO deeming the support provider's capacity insufficient. Furthermore, PEFINDO does not consider entities such as individuals, families, foundations, managed funds, private-equity firms, hedge funds, venture capital firms, and other investment entities capable of providing extraordinary credit support. Individuals, families, and foundations typically do not provide financial reports to verify their financial capacity, while investment entities typically have exit strategies that weaken the support assessment.

Step 4. Determining status of the supported entity: GRE or Non-GRE?

PEFINDO categorizes the status of the supported entity into either Government Related Entity (GRE) or Non-GRE. For GREs, the focus lies on understanding the supported entity's impact on government agendas, while for non-GRE entities, the evaluation of support emphasizes record of credit support from the group. GREs are identified as entities directly owned or legally affiliated with government bodies; if those criteria are not met, then the entity is classified as a non-GRE.

For GRE's subsidiaries, they are evaluated to consider the probability of receiving potential support, whether direct, indirect, or non-existent. If direct support is evident, the GRE rating approach is employed, indicating the supported entity's societal and economic importance to warrant government support. By using the GRE approach, we will assume the Government as the provider of support. If the support probability is indirect, the non-GRE rating approach is applied. In this case, we will use the support provider's final rating as the reference of support. Finally, for subsidiaries with non-existent support, we will employ the non-GRE rating methodology, in which the support provider's standalone rating is used as the reference.

Table 2. Subsidiary of GRE's Reference Point of Support Capability

Subsidiary of GRE status	Directly	Indirectly	Not at all
Rating approach	GRE	Non-GRE	Non-GRE
Reference point of support capability	Government rating	Support provider's final rating	Support provider's standalone rating
Criteria	Vital role for the socio-economic that drives government agenda. Indicated by business or financial ratings uplift due to Government policy or regulation. Subsidiary of GRE's final rating may be higher than its holding GRE.	There is no evidence of rating uplift due to Government policy, typically the supported entity has a moderate to low socio-economic importance.	Government is proven or deemed unlikely to provide extraordinary credit support, typically the entity is operating for profit.

Step 5a. Assessment on likelihood of support from the Government (GRE)

PEFINDO assesses the government's willingness to provide support, a pivotal factor in determining the extent of extraordinary government support during periods of distress. The evaluation of government support likelihood involves two critical rating considerations. Firstly, the perceived motivation of the government to provide support when needed. Secondly, the government's involvement in the GRE's activities and its responsibilities in offering support. In the absence of a demonstrated willingness to support, even if the government possesses the capacity to provide support, PEFINDO views that the likelihood of receiving extraordinary government support diminishes.

PEFINDO evaluates the government's motivation to provide support by evaluating the supported entity's economic and political significance and considering the consequences of a default for both the government and society. A GRE default may impact the government's ability to secure future financing, with implications relative to other GREs and broader market impacts. Social consequences, such as employment disruptions or social unrest, and political implications, are also considered.

PEFINDO assesses the government's involvement in the GRE's activities and its responsibilities in offering support by examining the legal status of the GRE, which may entail the government assuming ultimate liability in case of default or liquidation. The assessment includes scrutinizing evidence of past credit support; its regularity, whether the support met the needs, and the support impact on the GRE's credit profile. Ownership and government involvement further reinforce the government's responsibility for providing support. These factors play a crucial role in gauging the likelihood of future government support, along with any commitments to extending extraordinary credit support.
PEFINDO assigns a higher weight to economic and political significance, as well as for the default consequence for the government and society factor, than the legal status of GRE. We assign twice the weight to the economic-political impact compared to the GRE legal status, emphasizing that in predicting future government support, the need to avoid adverse consequences for the government is more important than the level of involvement or past assistance.

PEFINDO categorizes the government's support perspective into eight levels: Almost Certain, Extremely High, Very High, High, Moderately High, Moderate, and Low.

Almost Certain

- Unique legal status.
- Consistently receive extraordinary credit support such as subsidies or capital injections.
- Future support will be forthcoming in times of need.
- Established legal framework or policy to provide timely credit support.
- Integral role in essential economic, environmental, social, or political objectives.
- Absence of support may jeopardize vital public services and economic activities as well as cause severe political or economic consequences.

Extremely High

- Fully government-owned or closely aligned with government control.
- Consistently receive extraordinary credit support such as subsidies or capital injections
- Future support will be forthcoming in times of need.
- Established administrative capacity or mechanisms to promptly respond to credit distress, with minimal legal, regulatory, or policy restrictions.
- Typically plays a vital role in achieving government objectives.
- Absence of support may jeopardize vital public services as well as cause severe political or economic consequences.

Very High

- Fully government-owned or closely aligned with government control.
- Support record may have been less consistent in the past since there has been no need for it due to its strong financial profile.
- Established administrative capacity or mechanisms to promptly respond to credit distress, with minimal legal, regulatory, or policy restrictions.

- Typically operating independently as a not-for-profit entity
- Challenging to be substituted in the short to medium term, and a transition process may lead to severe service disruption.
- Deterioration in creditworthiness may temporarily endanger essential public services, economic activity, or key government functions, impacting the government's reputation.

High

- Fully government-owned or closely aligned with government control.
- Support record may be less consistent, resulting in a temporary weakening of the supported entity's financial profile, but support will be extended in times of need.
- There are limited regulatory policy restrictions on the government's ability to provide support.
- The entity contributes to essential public policy objectives.
- Deterioration in creditworthiness may impact on the government's reputation due to strong political involvement or control.

Moderately High

- Ordinary commercial law status, with
- The government is usually the largest single shareholder but may own less than 50%
- Despite some legal, regulatory, or policy restrictions, the government is likely to intervene promptly, especially in exceptional cases.
- The entity contributes to essential public policy objectives.
- The entity’s default could disrupt activities with a notable impact on a specific sector of the economy, despite can be somewhat mitigated.

Moderate

- Ordinary commercial law status.
- The government is usually the largest single shareholder but may own less than 50%
- Despite the record of credit support, the financial profile may remain weak.
- Some legal, regulatory, or policy restrictions exist but are unlikely to prevent the government’s timely intervention.
- The entity contributes to public policy objectives, which is of moderate economic importance.
- The entity’s default could disrupt activities but substitutes from other entities can mitigate the disruption.

Low

- Government control over the supported entity may be uncertain, with denationalization contemplated.
- Limited history of credit support.
- Legal, regulatory, or policy restrictions may limit the timeliness of government intervention.
- The supported entity operates for profit with moderate importance to the government.
- Substitutes are readily available.
- Any financial default would have only limited or no impact on government operations.

Step 5b. Assessment on likelihood of support from the Group (Non-GRE).

PEFINDO evaluates the willingness of support offered by the support provider to determine the potential extraordinary support during periods of distress. The absence of a demonstrated willingness to support, even if the support provider possesses the capacity to do so, diminishes the likelihood of receiving extraordinary support. PEFINDO considers three critical aspects, such as the commitment and mechanism of credit support, strategic reputation risks, and operational relevance of a supported entity to the group.

The commitment and mechanism of extraordinary credit support are pivotal factors in appraising a group's willingness to support. The commitment level signifies the group's dedication to providing timely and

substantial support during challenging periods. A strong commitment, whether legally binding or incentive-based, indicates a higher probability of sustained extraordinary credit support. The mechanism through which support is provided, encompassing legal commitments and flexible financial resources, adds an additional layer of assurance. A well-defined mechanism ensures clarity and reliability, reducing uncertainties and enhancing the group's capacity to support effectively. Conversely, a lack of commitment or an unproven mechanism raises doubts about the group's willingness and ability to support in challenging situations.

PEFINDO acknowledges that a strategic reputation and close management alignment between a group and its supported entity cultivate a sense of shared responsibility and indicate a greater likelihood of group support during challenging circumstances. A powerful reputation is an asset for any organization, and the risk of reputational damage is heightened if a supported entity defaults. Conversely, if the supported entity operates independently with limited shared management or branding, the reputational risk for the group is lower, potentially reducing the group’s willingness to provide extraordinary credit support.

The overall operational relevance and integration of a supported entity within the group significantly influences the group's commitment to support. The more substantial the role and contribution of the supported entity to the group's future profile, the greater the likelihood that the group will be willing to provide support, especially in challenging circumstances. Conversely, if the supported entity has limited importance, playing a marginal role in the group's activities, or lacking clear alignment with the group's core business, there may be reduced willingness to support, particularly if the supported entity has a low financial or asset value contribution and limited long-term prospects.

Commitment and the mechanism of extraordinary credit support are key considerations as they may constitute specific and concrete ties. The presence of these legal connections could outweigh a lack of strategic reputation and operational relevance towards the group, resulting in an intricately linked credit profile. Conversely, the absence of formal agreements would not necessarily supersede the presence of strategic reputation and operational relevance. When evaluating the willingness of the support provider to assist the supported entity, PEFINDO classifies the supported entity's status from the support provider's perspective into six categories: Core, Highly Strategic, Strategically Important, Strategic, Moderately Strategic, or Nonstrategic entities.

Core Entities

- Tightly integrated with the group’s business and future strategy.
- Have the highest probability of receiving support, particularly in financial distress.
- Failure of the core entities significantly impacts the group’s overall creditworthiness.
- Consistent and timely credit support.
- High flexibility in providing financial resources.
- Permanent and certain legal commitments.
- Substantial reputational risk for the overall group in case of default.
- Full or almost full ownership.
- Complete integration in terms of management decisions and branding of products or services.

Highly Strategic Entities

- Have strong incentives in place to encourage credit support.
- Robust mechanism and a long-term commitment from the group, with legal commitments such as guarantee of sizable portion of debt, although their permanence is less certain than core entities.
- Significant level of integration in terms of management decisions and branding.

- Demonstrate strong synergies with the group, contributing to a crucial market for the group.
- Substantial financial or asset value contributions to the group's future credit profile.

Strategically Important Entities
- Significant to the group's overall business strategy, although slightly lesser extent than highly strategic entities.
- The group demonstrates a commitment to providing credit support, though incentives may not be as explicitly stated or as extensive compared to highly strategic entities.
- Have documentation or agreements to support the entities, even though not legally binding.
- Potential reputational risk to the subgroup or sub holding level in the event of default.
- Significant level of shared management or branding with the group, despite maintaining reasonable management independence.
- Majority ownership, with limited impact from minority shareholders.
- Complementary role to the group's products or services in a vital market.

Strategic Entities
- Will likely receive extraordinary and timely support from the group, though with certain reservations preventing it from attaining a higher support category.
- Evident commitment to provide credit support.
- Mechanisms for support may encompass soft support factors, such as a letter of comfort, without debt acceleration trigger.
- Manageable reputational risk for the subgroup or sub holding in the case of default.
- Reasonable alignment of shared management and branding between the supported entity and the group.
- Majority owned with a moderate impact from minority shareholders.
- Role in fostering a synergistic relationship, contributing to a competitive advantage for the group.

Moderately Strategic Entities
- Do not display characteristics for a higher level of group support but are expected to receive extraordinary support in certain foreseeable circumstances.
- Important to the group's long-term strategy or carry the expectation to become reasonably successful in their endeavors.
- Credit support is provided at a moderate volume or occasional delays.
- Reputational risk is low in the case of default.
- Reasonable alignment of shared management or branding between the supported entity and the group.
- Other shareholders may partially limit the linkage or support.
- The supported entity provides some diversification to the group, operating outside its core markets.
- Contribution to the future profile of the group in terms of business or financials is low.

Nonstrategic Entities
- Absence of credit support or uncertainty regarding its timeliness.
- Operate independently, enjoying significant management freedom,
- Other shareholders significantly limit the linkage or support.
- Reputational risk in the event of default is considered non-existent.
- Do not play a meaningful part in the shareholder's activities.
- Uncertain or unproven role within the group
- Exhibit little or no alignment with the group, may not operate in target markets, and possess a limited record of successful operations.

Impact of a group with lower ratings on the Company's final rating
In situations where PEFINDO assesses the credit profile of the group to be lower than that of the supported entities, reflected in the lower group rating compared to the standalone rating of the supported entities. PEFINDO will examine the probability of supported entities being forced to aid their group and to what extent the resources of the supported entities are diverted to the group. If PEFINDO finds convincing evidence of such a situation, such as excessive withdrawal of cash flow from the supported entities, excessive dividend payments, abnormal transfer pricing arrangements, management commissions exceeding normal limits, or unreasonable related-party transactions; then it is possible for PEFINDO to downgrade the rating of the supported entities close to the group rating.

PEFINDO may also downgrade the final rating of the supported entities if there is strong indication, supported by past records, that the group could intervene in the subsidiary's policies, including regarding financial obligations. However, if PEFINDO believes that the likelihood of such actions is very low, then there may be no downgrade given to the supported entities, as we believe that the financial failure of the group may not significantly affect the credit profile of the supported entities.