GCR RATINGS

Criteria for Rating Investment Holding Companies

Contents

Scope of the Criteria

1. The 'Criteria for Rating Investment Holding Companies' ('IHC Criteria') applies only where the rated entity is a holding company that owns equity participations in operating companies, which typically operate as standalone ventures, expressly with the intent to generate capital appreciation and/or dividend flows over the medium to long-term by managing and eventually selling the assets and reinvesting returns in new undertakings. Typically, an investment holding company ('IHC') will only have a strategic and not operational management role within its investee companies. Furthermore, unlike asset managers or other regulated investment companies, IHCs do not manage third party funds for fee-based income.

2. The IHC Criteria scope excludes conglomerates, which are rated under the Group Classification & Support Section of the 'Criteria for the GCR Ratings Framework'. GCR defines conglomerates as holding companies that typically have controlling stakes in a diverse range of/disaggregated operating entities, which function across industries, and the ultimate owners have no medium-long term strategic view to sell the assets. The shareholders may have a more operational management role in its subsidiaries, including but not restricted to shared financing and services.

3. The scope also excludes (non)operating holding companies that sit atop homogenous/operationally integrated financial or corporate groups for legal, regulatory, control or tax reasons. These entities are rated under the sector specific (i.e. financial institutions, insurance or corporate) criteria.

Summary of the Criteria Changes

4. The IHC criteria represents a new approach to analysing and rating IHCs. Until now GCR have used a subset of the Corporate Ratings methodology for the analysis of IHCs.

5. GCR has aligned the IHC criteria to the broader GCR ratings framework, including the country risk criteria, group classification and support criteria and management & governance criteria. GCR has also moved to a more ratio-based analysis for the leverage and cash flow assessments. As with other GCR criteria, quantitative assessments are largely interpreted using qualitative factors.

An Overview of the Ratings Framework

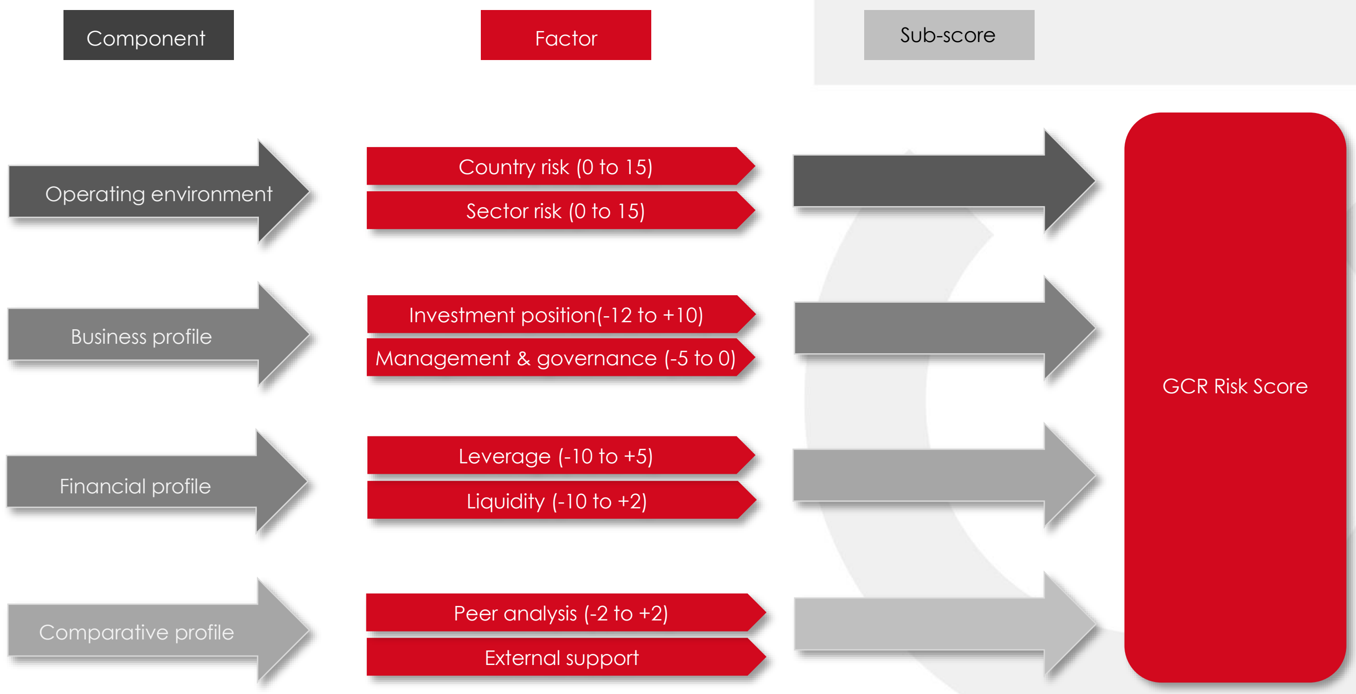
6. In order to improve the comparability and transparency of the ratings, GCR has adopted a framework (see below) with publicly available scoring for the major rating components. The goal is to allow each stakeholder (issuer, investor, regulator, counterparty etc.) to know in detail, each of the major rating drivers and ultimately what factors may change the ratings in the future.

7. To achieve this, GCR has adopted four major rating components (operating environment, business profile, financial profile and comparative profile), which are all broken down into two or three major factors and sub-factors, with a public positive or negative score assigned to each. The summation of the scores determines the GCR Risk Score, which is translated using the GCR Anchor Credit Evaluator into the Anchor Credit Evaluation, and then using final rating adjustment factors into an issue(r) credit ratings. It is important to note that there are no fixed weightings for the components, factors or sub-factors. Furthermore, it is noted that whilst the scales below typically represent whole numbers (0, 1, 2, etc.), GCR can utilise half numbers (e.g. 0.5, 1.5, 2.5) and quarter numbers (e.g. 0.25, 1.75).

8. To understand the following criteria, GCR recommends that it is read in conjunction with the 'GCR Ratings Framework', which provides a detailed view on Country Risk, Group Classification & Support, Management & Governance, and the Anchor Credit Evaluator (which will help translate the GCR Risk Score to the international and national scale ratings), as well as the GCR Rating Scales, Symbols & Definitions.

9. The way in which the key rating concepts interact with each other and result in an issue(r) credit rating is best illustrated in Figure 1 below.

Figure 1: GCR Ratings Framework Diagram for Investment Holding Companies



Component 1: Operating Environment

(0 TO 30: 30 BEST)

Operating Environment (0 to 30)

Factor A: Country Risk (0 to 15)
- GDP Per Capita
- World Bank Governance Indicators
- WEF

Factor B: Sector Risk (0 to 15)
- Blend of investee company sectoral breakdowns

10. The core of the GCR rating framework is based on GCR's opinion that an entity's operating environment frames its creditworthiness. As a result, the operating environment analysis anchors the underlying risk score for the GCR rating methodology. Essentially, GCR combines elements of country and sectoral analysis, weighted across countries when appropriate, to anchor the IHC to its operating conditions.

11. Whilst the direct link to country risk may not be as obvious for investment holding companies as it is for financial institutions (for example), GCR still believes the wealth of households and the political/ business environment are essential considerations to consider the creditworthiness of an IHC.

Component 1, Factor A: Country Risk Score

(0 to 15: 15 BEST)

12. Scored on a 0 (lowest) to 15 (highest) scale. GCR scores the weighted average of the key investee companies' (i.e. material investments) market capitalisation, net asset value, EBITDA, revenues or assets by geography, depending on what GCR considers to be the most appropriate, in line with the 'Country Risk Score' methodology as highlighted in the 'Country Risk Criteria'. See the global country risk criteria published at gcrratings.com/criteria.

Component 1, Factor B: Investment Holding Company Sector Risk Score

(0 to 15: 15 BEST)

13. Scored on a 0 (lowest) to 15 (highest) scale. The IHC Sector risk score reflects the weighted average sector risk score of material investee companies, in line with the sector risk scoring/ methodology present in the sector specific (i.e. financial institutions, insurance or corporate for example) criteria. GCR will typically blend the sector score, as it considers appropriate.

Component 2: Business Profile

(-17 to +10: +10 BEST)

Business Profile

- **Investment Position (-12 to +10)**
  - Size & Diversification (-5 to +4)
  - Investment Portfolio Quality (-5 to +4)
  - Investment track-record (-2 to +2)
- **Management & Governance (-5 to 0)**

14. The business profile examines the investment position, investment track-record, as well as the management & governance of the investment holding company, aligning the IHC criteria to the broader GCR risk framework. The company profile assessment is based on a combination of quantitative and qualitative factors. The maximum score is a plus ten (+10) and the minimum score is a negative seventeen (-17). The exaggerated downside of the scoring reflects the risk that very weak investments can have on the IHC.

Component 2, Factor A: Investment Position & Track record

15. GCR believes that the competitive strengths and earnings generation ability of an Investment Holding Company can be best exemplified by the size, diversification and quality of its investment portfolio. As a result, GCR assesses these factors and generates an initial score. GCR may also make an adjustment for the investment track-record of the IHC to differentiate those companies who have demonstrated a strong ability to continually help grow or select successful companies.

Component 2, Factor A1: Size and Diversification

(-5 to +4: +4 BEST)

16. GCR uses Table 1 as a guide to rank the size and diversity of the IHC. The maximum score is a plus four (+4) and the minimum score is a negative five (-5). GCR believes that IHCs that have achieved scale by way of strong sector and geographic diversification are less exposed to stress or volatility. As a result, GCR starts by ranking IHCs according to the observable nominal size of their investment portfolios (using market capitalisation for listed entities and haircut in-house valuations for unlisted investments), and making adjustments for sectoral, geographic and single name concentrations. Regardless of size, significant concentrations will reduce the assessment to low/ lowest levels.

Table 1: Size & Diversification

Score description	Score	Typical characteristics*
Highest	3 to 4	Typically, a portfolio above USD5bn. Geographically well diversified, with no single jurisdiction contributing more than 33% of total investments. Well diversified by sector, with no single industry contributing more than 33% of the investment portfolio. Top three investments below 30% of the portfolio.
High	1 to 2	Typically, a portfolio above USD1bn. Geographically diverse, with no single jurisdiction contributing more than 50% of total investments. Well diversified by sector, with no single industry contributing more than 50% of the investment portfolio. Top three investments below 40% of the portfolio.
Intermediate	-1 to +1	Typically, a geographically concentrated or single jurisdiction IHC, which is well diversified by sector, with no single industry contributing more than 50% of the investment portfolio. Top three investments below 50% of the investment portfolio.
Low	-4 to -2	Typically, a geographically concentrated or single jurisdiction IHC, with some sector concentrations but with no single industry contributing more than 75% of the investment portfolio. Top three investments below 75% of the portfolio.
Lowest	-5 or below	Weak franchise (which may include start-ups that are yet to achieve targeted competitive positions/profitability), highly concentrated in failing entities, failed or close to failing.

* The above boxes highlight typical characteristics of the high, intermediate and low (and so on) assessments, and are utilised in conjunction with the operating environment anchor, and relative to the markets of the issuer's operations. It is likely that an entity has one or more characteristic across different boxes. GCR allows analytical decision making to decide what the most pertinent factors for each rated entity are. However, to achieve a stronger score the entity is likely to a number of cumulative strengths. Conversely, any one risk can bring the score down to a weak level.

Component 2, Factor A2: Quality of the Investment Portfolio

(-5 to +4: +4 BEST)

17. GCR measures the quality of an IHC's investment portfolio in order to assess the potential ability of the company to sell down assets or rely on stable divided flows to repay/service debt. The assessment measures the relative qualities between the investments' combined risk score against the combined operating environment risk score (country risk + sector risk) of the portfolio.

18. GCR uses two methods to measure the quality of the investment portfolio. Primarily, GCR will aim to assign a GCR risk score to the underlying investee companies. However, this is typically accomplished only when the entity contributes materially the IHCs investment portfolio, and where GCR has public issuer credit ratings or can rely on public information to create reliable credit assessments of material investee companies.

19. Where the investee entity is too small or there is insufficient information to allow for a credit assessment, GCR will make conservative assumptions on the quality of the investments. Typically, the lower the information quantity and quality, the more conservative the assumptions will be.

20. Overall, we expect to use the guide below when we cannot assign a formal risk score for the investee companies:

21. If the investment entity is a mature company and a regular dividend payer, with no negative news flow and proven minimal leverage, GCR will assume that the entity has the risk score equivalent of up to a national scale 'bb' range rating ACE for its domicile jurisdiction.

22. If the investment is a start-up company with no track-record of earnings creation, or has poor news flow or high leverage, the risk score of the entity will typically be capped at the rating score equivalent of a national scale 'b' range ACE for its host location of the investee company.

23. We may choose the risk score equivalents of the ACE in between the b- and the bb+ national scale ratings, should we have more or less information of the investee company.

24. If the country risk score is over 10 for the host location, or if the jurisdiction is unrated, we can use the international scale risk score equivalent.

25. A defaulted or liquidated investment would have a score no higher than 1.

26. Once GCR has estimated the risk score for each investment, GCR will compare each investment to their operating environment (country risk plus sector risk) and net the result. For example, if the investment is 1 below the operating environment score, it would attract a -1 score. If the investment is 2 above the operating score, it would attract a +2 and so on. Accordingly, the scores are weighted by the contribution to the aggregated portfolio, and the final score is accumulated.

Component 2, Factor A3: Investment Track Record

(-2 to +2: +2 BEST)

27. GCR may overlay positive or negative risk score adjustments for an IHC's investment track-record, in comparison to the local market. For a positive adjustment, GCR would require a sustained history of investing/company building and realisations across sectors. However, GCR may also consider the historic trend of revenue/income consistency for the investee companies, concentrating on the absolute returns and the stability of revenues, if there is a limited realisation

track-record. The quality of earnings is assessed by considering the stability of inflows upstreamed to the IHC. GCR may make a negative adjustment if the track-record of earnings and realisation of values accrued is weak or unestablished.

Component 2, Factor B: Management & Governance

(-5 to 0: 0 BEST)

28. The IHC criteria has adopted the universal GCR Management & Governance criteria, for more information on how this score is derived please see gcrratings.com/criteria.

Component 3: Financial Profile

-20 to +7: 7 BEST

29. The financial profile assessment focuses on the leverage, cash flow and liquidity of an IHC. GCR has adopted an investment leverage ratio as the main quantitative premise for its assessment, with adjustments for cash flow metrics utilised where applicable. This is because IHCs are typically reliant on the disposal of investments or the upstreaming cash flows from their investments to support debt serviceability and reduce leverage.

Financial Profile (-20 to +7)

- Leverage & Cash Flow (-10 to +5)
- Liquidity (-10 to +2)

30. The financial profile assessment is based on a combination of quantitative and qualitative factors. The maximum score is a plus seven (+7) and the minimum score is a negative twenty (-20), regardless of the outcome of the scores in the components detailed below. The exaggerated downside of the scoring reflects the disproportionately high risk that very weak liquidity and leverage can have on the IHC.

Component 3, Factor A: Leverage & Cash Flow

(-10 to +5: +5 BEST)

31. GCR's primary measure of leverage is the investment value ratio of IHCs. The leverage ratio is a simple net debt (gross debt (including guarantees of investee company debt, funds in related funding vehicles, and any other contingent liabilities) minus cash and other liquid assets (excluding the liquid assets of investee companies and the IHC's encumbered assets)) to the value of investments. The maximum score is a plus five (+5), and the minimum score a negative ten (-10).

32. When calculating the value of the IHC's investments, GCR will use the market observed pricing for listed entities or the net asset value of unlisted entities, minus a haircut which changes depending on the equity market location of the investee company. GCR has characterised the equity market locations and haircuts in Table 2. GCR may, however, choose to override these haircuts if the entity has a strong history of realisations, and/or if there are recent independent valuations for unlisted investments and/ or evidence of a similar sale price realised in a recent period.

Table 2: Haircuts applied to investee companies

Economy	Countries	Listed Haircut	Unlisted Haircut
Developed	Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Republic of Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, United Kingdom, United States of America.	15%	25%-50%*
Emerging	Brazil, Chile, Columbia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and UAE.	20%	30%-60%*
Frontier	Any country not in the above buckets.	25%	35%-70%*

** The range used for the unlisted haircut will depend on the veracity and independence of the assumptions made on market value.*

Table 3: Leverage & Cash Flow

Assessment	Score	Primary Measure: Investment Leverage (loan to value)
Highest	4 to 5	To achieve the highest score the IHC would typically have the strongest investment leverage ratio, and a strongly diversified pool of dividend sources, or marketable, liquid investee companies.
High	2 to 3	Less than 25%
Intermediate	-1 to 1	25% to 50%
Low	-3 to -2	50% to 75%
Lowest	-4 to -10	>75%

33. GCR may also make adjustments for other risks that affect the capital structure, which include:

34. **(Negative)** To compliment the investment leverage ratio, GCR will also analyse the cash flow coverage of interest payments of the IHC to see if cash flows generated from operations are sufficient to support the ongoing debt service needs of IHC. Cash flow coverage may incorporate cash flow coverage analysis as per GCR's Criteria for Rating Corporate Entities, May 2019, published at gcrratings.com/criteria. If cash flows or earnings are not suitably covering the interest and short-term principal repayments of the IHC, GCR may choose to bring down the initial staring point.

35. **(Negative)** Currency risk arises when entities borrow in a currency other than the one in which its revenues or earnings are realised. This position can materially change the leverage position of the entity (in the event of adverse currency movements) if the company has/cannot not put a financial hedge. The level of adjustment will depend on the amount of leverage and the foreign currency exposure/volatility.

36. **(Negative)** If the debt structure is concentrated, GCR can make a negative adjustment(s). Broadly, GCR would view funding to be concentrated when it comes from one source, i.e. if it is near entirely funded by the banking sector, or if one counterparty contributes more than 33% of funds.

37. **(Negative)** GCR place strong emphasis on the maturity profile of the capital structure. GCR could make an adjustment if there are material refinancing risks at any stage or if the weighted-average-maturity of funds are under two years.

38. **(Negative)** GCR views the regular use of shareholder loans or guarantees to investee companies as a negative factor, as it lowers the potential liquidity of the investments and may demonstrate a lack of market access from the investee companies.

39. **(Negative)** If debt is growing very quickly, possibly due to an aggressive investment strategy and the associated commitments, GCR can also bring down the initial leverage score, depending on the nature of the growth.

40. **(Negative/Positive)** Weak or strong operating subsidiaries/investments. If the group owns an investee company that is materially underperforming and/or over leveraged, is dependent on funding/liquidity from the IHC/other shareholders, or is close to covenant breach, GCR could make a negative adjustment.

41. **(Positive)** The presence of loss-bearing instruments at the IHC, which take losses long before senior unsecured instruments, could improve the risk score of the IHC. Typically, such instruments use trigger points that cause mandatory and permanent write down or they are fully at management's discretion and GCR view the incentive to use them as strong. Additionally, from time to time, GCR views elements of permanent investor, concessionary or government funding which could be converted to capital (at management's option) should there be a stress as positive, although management control and intent is also an important factor for this element. If GCR assesses such instruments to be akin to equity, GCR may improve the score if the contractual, statutory or combined management/ investor intent supports this case.

42. **(Positive)** Cash flow coverage may be positively adjusted for potential for asset sales. GCR will make adjustments to asset values and timing expectations, based on asset characteristics and underlying market dynamics.

Component 3, Factor B: Liquidity

(-10 to +2: +2 BEST)

43. GCR applies a zero-tolerance approach to a lack of liquidity. This is because a company with a healthy balance sheet and strong competitive position can still fail if it does not have appropriate levels of, and control over, its liquidity. As a result, weak liquidity can bring the ratings down to the lowest levels, should GCR have concerns. The maximum score is a plus two (+2) and the minimum score is a negative ten (-10), with the exaggerated downside in the scoring emphasising the high risk that weak liquidity or an ineffectual treasury function can have on the credit risk profile of an IHC.

44. Our analytical approach is based on a simple view of the entity's ability to meet its liquidity requirements over a rolling one to two-year period. GCR first examines the sources of liquidity by netting non-pledged, non-restricted cash or other liquid assets that are not been earmarked for future investments off the total debt stock. Within liquid assets, GCR includes all listed investments of the IHC, typically with the haircuts in Table 2 (above), however adding additional haircuts after taking cognisance of any market, organisational, legal, contractual or regulatory limitations on the company's ability to sell the assets. GCR may also choose to allow elements of unlisted investments, only if there is strong proof of a future sale and value.

45. Secondly, GCR includes all anticipated funds from investments (which GCR may haircut if dividends and other income streams have been volatile, or is of the view that such cash flows could decline from the historic observations). Thirdly, GCR includes the undrawn and available portion of committed facilities maturing after 12 months. GCR may also include a percentage of non-committed facilities if the provider of such credit lines has a stronger risk score than the

borrower, and there is no joint default risk between the two parties. Regarding both committed and uncommitted lines, GCR will include the entire amount of credit available, up to but not beyond any covenant breach. GCR will typically also exclude all facilities that have rating trigger-based access and events of default.

46. When examining uses, GCR first looks at debt maturities over a year one period, presuming the-IHC will not have access to refinancing those funds. GCR then includes all planned capital expenditures and other discretionary elements of cash outflows. GCR will also overlay any other expected group liquidity needs or requirements.

47. The presence and proximity to covenants is an important factor when assessing the uses of liquidity. Covenants that trigger funding accelerations, events of default or cross default clauses are of particular importance and the score may be notched down to low/the lowest ranges to the reflect the proximity and severity of the risk at hand.

48. Lastly, GCR also takes a negative view of significant levels of asset encumbrance. This is because encumbrances can subordinate senior unsecured claims in liquidation and divert cash flows away from the payment of general unsecured debt. Consequently, as asset encumbrances increase, the issuer credit rating comes down.

Table 4: Liquidity

Assessment	Score	Description*
High	2	The entity has sources of liquidity that cover more than 2x its uses over a one-year period and 1.5x over a 2-year period. Furthermore, there is significant headroom in its debt covenants. There are no rating triggers in the debt packages. Funding relationships with banks of good creditworthiness are strong and stable. There is no asset encumbrance.
Intermediate	-1 to 1	The entity has sources of liquidity that cover between 1.25 x and 2x its uses over a one-year period. For a positive score, the coverage should be over 1x for 18 months at least. GCR is comfortable with the covenant headroom. There are rating triggers in the debt packages but with large substantial headroom. Funding relationships are strong and stable. Asset encumbrance is less than 30% of total assets.
Low	-4 to -2	The entity has sources of liquidity that cover between 1x-1.25 x its uses over a one-year period. There is limited covenant headroom, which could cause a material acceleration or event of default should the performance of the company deteriorate. There are rating triggers in the debt packages but with reasonable headroom. Funding relationships are questionable. Asset encumbrance is less than 50% of total assets.
Lowest	-10 to -5	The entity's sources of liquidity are insufficient to cover one years' uses. Covenant breaches are material, significant and plausible. Funding partners are refusing to provide access to funds. Asset encumbrance is more than 50% of total assets.

* The above boxes highlight typical characteristics of the high, intermediate and low (and so on) assessments. It is likely that an entity has one or more characteristic across different boxes. GCR allows analytical decision making to decide what the most pertinent factors for each rated entity are. However, to achieve a stronger score the entity is likely to a number of cumulative strengths. Conversely, any one risk can bring the score down to a much weaker level.

Component 4: External Support & Peer Comparison

49. The last risk score component allows GCR to make a series of qualitative changes based on external support or peer comparisons. The most common form of support being ongoing group or extraordinary sovereign support. Support comes from shareholders/affiliates and/or governments. However, if both elements of support apply, GCR will only take the higher of the two support options to avoid double counting.

Component 4, Factor A: Group Support

50. For details on group support please see the Criteria for the GCR Ratings Framework.

Component 4, Factor B: Government Support

51. For details on government support, please see the Criteria for the GCR Ratings Framework.

Component 4, Factor C: Peer Comparison

52. GCR allows two positive or negative risk score adjustments to create greater credit differentiation. Typically, these adjustments should be used when an investment holding company is a generally better or worse performing company than its peer group, across a number of fields but no single factor has created/captures the ratings differential.

Final Rating Adjustment Factors

53. Once the risk score and the ACE has been established, on either/both the national or international scale we can then establish the issuer credit ratings on legal entities. At this stage we move off the risk scoring framework and start adjusting on the national/international rating scale basis because we are trying to establish the most applicable credit ratings hierarchy within a financial group and most appropriate hierarchy within a market.

Rating Adjustment Factor 1: Issue Rating(s)

54. The notching from the legal entity rating will depend on the nature of the instrument, whilst always respecting the credit hierarchy.

Table 5: Instruments

Debt Rating Types	Notching	Typical Characteristics
Senior Unsecured	0	Reflects the relevant legal entity rating on the company issuing the debt, including the government support uplift (if applicable).
Senior Subordinated	-1	Contractually subordinated non-perpetual and cumulative debt, with no any discretionary/ mandatory/ statutory non-payment, conversion or write down clauses and cannot delay coupon. Typically, would take losses at the same time as, but at a deep haircut than, senior unsecured debt.
Junior Subordinated	-2 to -3	Contractually subordinated debt, typically non-perpetual and cumulative, but likely to have a discretionary/mandatory/statutory non-payment, conversion or write down clauses. Will typically take losses before senior unsecured and senior subordinated debt.
Hybrids (a)	-3 to -4	Contractually subordinated debt, typically perpetual even if callable after 5 years, non-cumulative, likely to have a discretionary/ mandatory/ statutory non-payment or write down clauses with trigger points as the entity remains a going concern.
Hybrids (b)	-5 or more	All of Hybrids (a) but also with the presence of capital/liquidity or rating triggers. We would notch down according to the proximity of the trigger, whilst respecting the credit hierarchy.

Note; Proximity to trigger points could increase the notching described above, as we see appropriate.