GCR RATINGS

CRITERIA FOR RATING CORPORATE ENTITIES

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Scope of the Criteria

1. The criteria titled '*Criteria for Rating Corporate Entities*' ('Corporate Criteria'), applies to a wide array of non-financial corporate issuer credit ratings. The criteria is written to encompass the vast differences in capital structure, as well as diverse drivers of income and expenditure that are evident within corporate entities. For instance, both mature, heavy industry companies with substantial fixed asset bases and rapidly growing ICT companies which rely on intangible intellectual property are catered for under the methodology.

2. Real Estate Investment Trusts ('REITs') and most other property companies are out of scope of this criteria although some of the principles outlined will be drawn on when rating REITs. However, property development companies, that predominantly develop for sale, may be included. This criteria will be used to assess utility companies and other government owned entities, albeit with the overlay of a more comprehensive government support assessment (See the related FAQ). Investment holding companies and conglomerates are also out of scope, but the criteria maybe used to analyse group members.

Summary of the Criteria Changes

3. The GCR rating framework evaluates the susceptibility to default on senior unsecured obligations (primarily borrowings). This criterion is aligned to the broader GCR ratings framework (see below). Each corporate factor is scored to accumulate to a final risk score, which is then translated into GCR international and GCR national ratings.

4. GCR has framed the ratings of an institution more thoroughly in its operating environment, by rooting the analysis in the country risk and sectoral factors facing it. While the previous criteria presented sector risk as a combination of three distinct factors, the current criteria encompasses a more holistic approach to the sector risk scoring (Component 1, factor 2), taking cognizance of the relativity between different sectors in different geographies.

5. Economic, Social and Governance ("ESG") factors have been incorporated to a greater extent throughout the Criteria, highlighting how such considerations, both positive and negative, could impact the various component and factor scores used in determining the credit rating.

6. Some additions have been made to the analysis of debt, particularly more clarity in respect to how GCR views lease liabilities under the IFRS16 standard in financial reporting. Nevertheless, GCR retains its ratio-based analysis for the operating environment, leverage, and cash flow assessments. Like previous versions of the criteria, quantitative assessments are largely interpreted using qualitative factors.

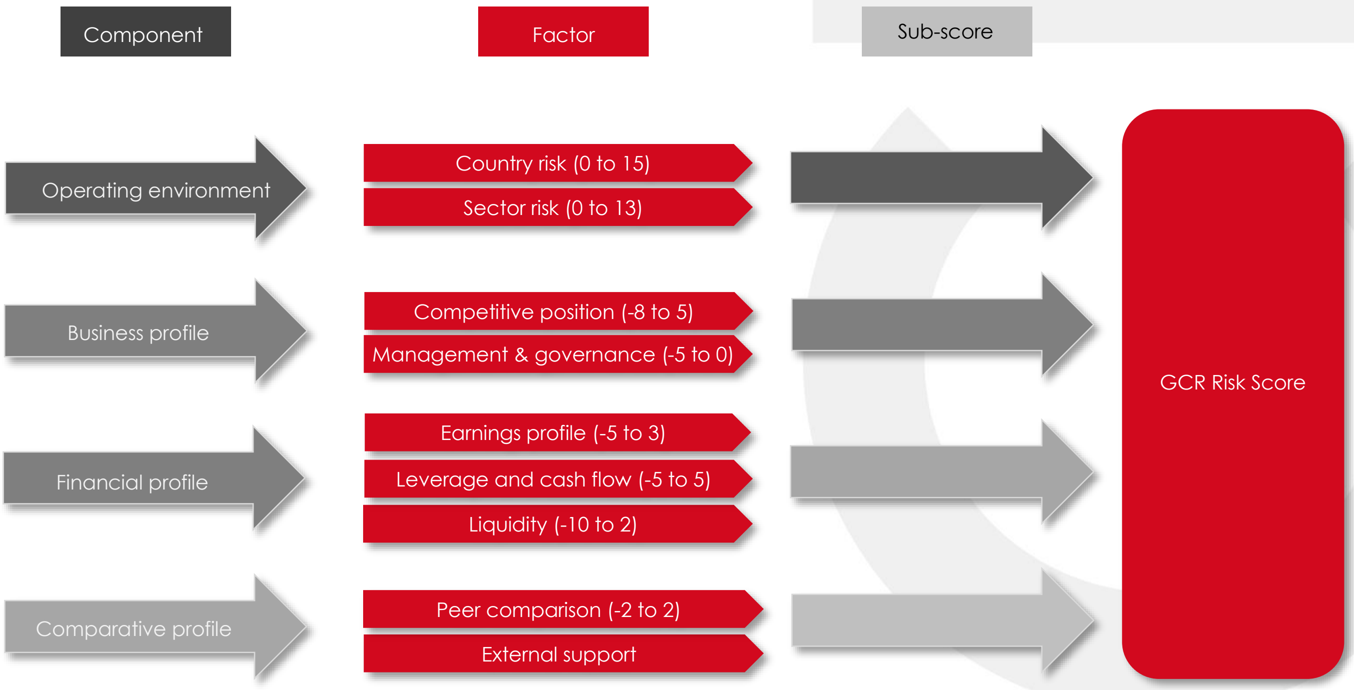
An Overview of the Ratings Framework

7. 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 provide

stakeholders (issuer, investor, regulator, counterparty etc.) with a view of each of the major rating drivers and ultimately what factors may change the ratings in the future.

8. GCR's criteria adopts four major rating factors (operating environment, business profile, financial profile, and comparative profile), which are all broken down into two or three major components, with a positive or negative score assigned to each. The accumulation of the scores determines the GCR Risk Score, which is translated to the national scale and/or international scale issuer credit ratings, using the GCR Anchor Credit Evaluator (ACE) mapping table.

Figure 1: GCR Ratings Framework Diagram for Corporate Entities



Component 1: Operating Environment

(0 TO 28: 28 BEST)

Operating Environment

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

Factor B: Sector Risk (0 to 13)
- Cyclicality
- Country Business environment
- Industry Dynamics

9. The core of the rating framework is based on GCR's opinion that an entity's operating environment frames its creditworthiness. As a result, the operating environment analysis contributes the largest component of the underlying risk score for the GCR rating methodology. Essentially, GCR combines elements of country risk and sectoral analysis, sometimes weighted across countries, to anchor the corporate entity to its current operating conditions.

10. Whilst the direct link to sovereign strengths and macro trends may not be as obvious for corporate entities as it is for financial institutions (for example), GCR is of the view that the wealth of households and the political/business environment are *essential* considerations to consider their creditworthiness. This is because studies demonstrate that the performance of most companies within a country is highly correlated with that country's GDP performance and other financial indicators. Furthermore, corporate

entities will still be exposed to factors such as the domestic credit environment, regulatory pressures, and the funding dynamics within a given geography.

Component 1, Factor A: Country Risk Score

(0 to 15: 15 best)

11. GCR's country risk scores are determined by a country risk panel in line with the *'Country Risk Score'* methodology as highlighted in the *'Country Risk Criteria'* and are published on the GCR website. A corporate that is domiciled and operates in a single country will receive that country's risk score. However, where a corporate is exposed to a number of countries, either through direct investments or through sales, the score will reflect the weighted average of the country risk scores to which it is exposed. The GCR rating committee will determine the most appropriate metric by which to weight country risk, with common metrics being revenue, EBITDA, or the asset base. Typically, another country must contribute materially towards the weighted average operating income or asset base to be included in the blended country risk score. In some cases, GCR may dislocate the operational risks, from demand side risks, to determine a blended risk score. This is typically the case where products are sold into the global market, or pricing is determined by commodity markets, such as for mining and oil and gas companies. See the global Country Risk Criteria published here.

Component 1, Factor B: Corporate Sector Risk Score

(0 to 13: 13 best)

12. It is GCR's opinion that the overall conditions of any particular industry will be one of the key drivers of creditworthiness for each rated entity. However, each sector or industry may have vastly different exposures and correlations to particular economic trends. Some of these trends may be inherent to the particular industry, while others are factors of the economic environment within any given jurisdiction. Finally, the performance of a particular industry in a particular jurisdiction may be subject to distinctive exogenous factors.

13. In an attempt to properly identify the impact of these factors, GCR considers the Corporate Sector Score in terms of 1) industry cyclicality 2) effectiveness of the business environment within a jurisdiction and 3) industry dynamics. The first two factors provide a ranking of risk that is applicable across all industries or countries. All things equal, within the same country a higher overall score will be given to companies in less cyclical industries. Similarly, within the same sector, higher scoring could be applicable to more stable countries (as explained below in greater detail). The scoring is between 0 (weakest) and +13 (strongest). An overall negative score is not applicable because companies would not operate in countries or sectors that are wholly punitive. When a rated entity operates across industries or geographies, GCR may choose to blend the scoring based on an appropriate weighting scale.

Component 1, Factor B1: Cyclicality

14. The cyclicality of an industry refers to the sensitivity of the industry's performance (or lack thereof) to broad economic factors (although cyclicality may also be a factor of sector specific trends). It is considered to be an inherent operating condition and will generally not change, or will only change gradually, over the long term. The cyclicality of an industry is also considered to be relatively consistent

across the world, irrespective of whether the economy is developed or developing, and thus the same cyclicality assessment will be used for a common industry in different jurisdictions.

15. Corporate entities are said to be highly cyclical when financial performance fluctuates significantly because of changes in the economic environment. The greater the positive performance in periods of economic expansion, or declines in periods of economic downturn and contraction, the more cyclical an industry is said to be (an industry can also be countercyclical, showing strength in periods of economic weakness). Conversely, industries are considered to be non-cyclical when financial performance is not impacted to a noticeable extent by changes in the economic environment. In general, primary industries and those dependent on commodity price markets, or where demand is highly discretionary tend to be more cyclical, while industries providing essential goods and services are the least cyclical.

Table 1: Cyclicality

Score description	Examples of industries that tend to fall into this category
Highly cyclical	Mining, Agricultural production, Construction, Steel, Property development; primary manufacturing, Industrial services, oil & gas upstream
Average/Above average cyclicality	Secondary manufacturing, Automotive sales; Discretionary goods manufacturing, Discretionary retail; Hospitality; Logistics
Average/Below average cyclicality	FMCG manufacturing; FMCG retail; Property investment company's and REITS; Transport; ICT equipment; security; oil & gas downstream
Low cyclicality	Education, Healthcare, Electricity, Water, Telecoms

16. GCR considers industries that evidence greater cyclicality to be riskier, this is because financial performance will tend to fluctuate to a greater extent between the peak and trough of the cycle. As a first step to determining a sector risk score, GCR will categorize industries into one of four cyclicality buckets (table 1). More cyclical industries are associated with lower scoring whereas less cyclical (and thus most stable) industries will imply a higher score.

Component 1, Factor B2: Country Business Environment and Effectiveness

17. Whilst similar industries will tend to exhibit similar cyclicality trends across the globe, GCR recognises that the risk related to an industry is highly dependent on the jurisdiction wherein the corporate is headquartered or conducts its operations. Countries or jurisdictions characterised by a stable operating environment, with strong capital markets and a transparent legislative/regulatory environment tend to be supportive of efficient business processes and growth. Thus, corporates domiciled in such countries are typically more creditworthy than those operating in jurisdictions with large bureaucracies, weak financial markets, and unpredictable legal systems, all else being equal. By way of example, a mining company in a well-developed stable economy will reflect lower risk factors than a similar company in an underdeveloped market with an unstable political environment.

18. To rank the effectiveness of a particular country's business environment, GCR considers a host of factors related to the jurisdiction including, *inter alia*; the financial system, the legal environment, quality of

infrastructure, ICT adoption, macro-economic stability, and the labor market. On a practical level this would include common tasks such as registering a business, dealing with construction permits, getting electricity, connecting to high-speed internet, registering property, access to credit, negotiating wages, protecting minority investors, paying taxes and claiming rebates, trading across borders, enforcing contracts and resolving insolvency.

19. Positive scoring will be dependent on a country receiving relatively high rankings for the various factors in GCR's analysis, while countries with poor rankings will be penalised. Scoring considerations may be modified by an assessment of progress/deterioration relative to previous years.

Component 1, Factor B3: Industry dynamics

20. The industry dynamics sub-factor narrows the focus of the credit rating from the broad industry and country factors discussed above to the specific factors impacting each individual industry within each different jurisdiction. It is critical to understand the dynamics of the specific jurisdiction wherein the entity is domiciled/operates as such factors will tend to vary. These dynamics can fluctuate over a fairly short space of time and need to be monitored on an ongoing basis.

21. The dynamics sub-factor is designed to focus on the presence (or absence) of factors that have the potential to support broad industry performance. In GCR's opinion industry dynamics can be condensed into two categories of considerations, as below.

22. Industry specific characteristics relate to factors such as barriers to entry, technology and disruption, and the profitability of the industry. In general, GCR considers an industry to be more stable and thus have a higher risk score where barriers to entry are high, the susceptibility to disruption is fairly low and strong profitability is maintained by all major participants on an ongoing basis. While some of these factors may be applicable to an industry across multiple jurisdictions, in GCR's experience there can also be large differences in impact. Thus, whereas an industry could be experiencing significant technological disruption in a specific developed market, this may not be the case across the globe. To the extent that this trend will likely catch up with entities in the other markets over time, this will be reflected in changes to the industry dynamics score. Similarly, profit margins and overall profitability can vary greatly between different jurisdictions. Taking cognisance that different industries inherently report different earnings' margins, GCR will consider the margin trend as an indicator of shifts in the industry operating environment.

23. External factors include regulations, legislation, politics, and environmental impact. An industry's ability to adapt to both a changing legislative environment and to shifting social norms is an important factor in the risk assessment. By their nature, these factors are specific to a jurisdiction and can greatly influence the operating environment. Moreover, each factor can have a beneficial or detrimental impact on an industry. Thus, corporate entities may benefit from significant regulations where such regulations create barriers to entry or demand a higher quality product. Conversely, complying with the same regulations can create significant red tape that hampers the entity's operational flexibility. Domestic politics may also have a significant impact on an industry's outlook, whether it be through policy certainty, legislation, social activism, or labor groups.

24. Environmental, social and governance concerns can also have a substantial impact on the sector risk score. Those industries exposed to a volatile or uncertain political environment may struggle to find investment or be exposed to higher exogenous risk. Similarly, environmental and sustainability concerns can also have a substantial impact on the sector risk score of a corporate sector. Industries that have high carbon footprints, or are considered to be polluters, are increasingly being excluded from capital markets, as well as facing declining demand, both of which negatively impact their creditworthiness. As a consequence, GCR may penalise the sector's risk score.

25. ***Example****: to demonstrate the above country and sector risk assessment, let us consider two hypothetical companies and how their respective scores would be derived. The country and sector risk scores used in the following example are for illustrative purposes only and may differ from the country risk and sector scores actually accorded by GCR.*

26. *Company A is a construction company domiciled in South Africa, where it conducts the bulk of its operations. For the purposes of this example, the South African country risk score is assumed to be (+7). As GCR considers the construction industry to be highly cyclical, this would imply a score at the lower end. The effectiveness of South Africa's business environment is considered to be ranked somewhere in the middle between developed countries and the developing world; this suggests a neutral position. Current sectoral conditions are estimated through the industry dynamics assessment, which for South African construction can be considered to be poor due to a dearth of new work. Accordingly, the dynamics score would likely be low. High cyclicality together with weak dynamics thus imply a low sector risk score of (+2). The South African construction industry would then have a combined country and sectoral risk score of (+9), being the starting point for determining the risk score for each individual construction company.*

27. *Company B is a UK domiciled education group, whose operations are split between the UK and Rwanda. Since the operations of the company are evenly split, the country risk score will be a combination of the score for the UK (+14) and for Rwanda (+4) equating to a country risk score of (+9). GCR considers the education industry to evidence low cyclicality and therefore a high score will be implied across both the UK and Rwanda. However, the much more supportive business environment will imply a higher score for the UK education sector compared to Rwanda, although given Rwanda's efforts to attract investment, this factor could still be a positive consideration. Nevertheless, the dynamics may not reflect the implied higher score for education in the UK. In the UK the education industry is under pressure due to government regulations and rising input costs, whilst a relatively strong public education system increases competition to private sector players. In Rwanda, however, the industry could be seen as a necessity against weak public education offering, which would support strong demand. This would result in a higher dynamics score in Rwanda, to somewhat offset the lower business environment consideration. Accordingly, the sector risk score for education in the UK would be an (+8) and for Rwanda it would be a (+6). Averaging the various component risk scores, Company B would have a sector risk score of +(7) and a total operating environment score of (+16).*

Table 2: Sector risk example		
Component/Factor score	Company A	Company B
Country risk	+7	+9(avg. UK: 14; Rwanda: 4)
Sector risk	+2	+7 (avg. UK: 8; Rwanda: 6)
Total - Operating environment	**+9**	**+16**

Component 2: Business Profile

(-13 TO 5: 5 BEST)

Business Profile

Factor A: Competitive Position (-8 to 5)

- Competitive advantage
- Franchise strength & Brand value
- Business line, customer, and geographic diversification
- Environmental, Social, Governance
- Other tangible competitive (dis)advantages

Factor B: Management & Governance (-5 to 0)

28. The company profile assessment is based on a series of qualitative factors meant to ascertain the robustness of a corporate entity's business model, diversity, franchise, and competitive advantage against the complexity of operations and quality of management/governance relative to peers operating in the same or similar markets.

Component 2, Factor A: Competitive position

(-8 TO 5: 5 BEST)

29. Competitive position is the first entity specific score based on a scale, from 'very weak' (-8) to 'very strong' (+5) using the four (4) sub factors below as guidance. Each should be benchmarked to peers in a similar industry, both locally and globally. No one of the below factors are meant to be more important than the other and not all factors will be applicable to each industry. Rather the competitive position is an overall assessment reflecting GCR's opinion of those factors (or lack thereof) that would likely contribute to the corporate entity's business stability through economic cycles or through periods of changing industry dynamics and competition.

Competitive advantage

30. To be considered as having a competitive advantage, a corporate entity must demonstrate an ability to outperform its peers, in both local and global markets, on a sustained basis. Factors that could contribute to competitive advantages include the size of the entity, greater diversity of product or services capabilities, pricing power of the entity, demonstrated track record of superior service delivery or product development, expansive and efficient logistics chains, and significant intellectual property (whether in terms of products/services or processes).

31. For entities to be accorded very strong competitive position scores, they must be able to demonstrate competitive advantages on a global basis over several business lines. An entity that has a leading position and other advantages in a particular market can achieve a 'high' competitive position score. On the other hand, negative competitive positioning scores (down to -8) will be assigned to entities that are very small, are largely price takers in an industry, are highly reliant on other corporates (or even competitors) for key inputs and are consistently facing considerable competition and low barriers to entry.

Franchise strength and brand value

32. Corporate entities typically invest substantially in developing strong brand recognition and customer loyalty. Leading brands are generally associated with superior pricing power and more stable earnings through the cycle due to customer loyalty. Brand value is not applicable to all industries (such as mining, or utilities), but it is critical in almost all client facing industries (FMCG, retail, hospitality, consumer products). Corporate entities that are assigned 'very high' competitive position scores will need to have globally dominant brands or franchises that unambiguously translate into robust business volumes and superior pricing power. A 'high' score may also be accorded to entities that demonstrate similar characteristics but in a limited geographic region.

Business line, customer, and geographic diversification

33. In general, GCR views diversification to be a ratings strength as operating conditions in different countries and industries will not be exactly correlated, while diversification will inherently reduce customer/supplier and other concentration risks. In certain cases, however, expansion into business areas or geographies may be considered to be of high risk and thus negate the diversification benefit. Diversification will typically be measured by the division of revenue or profits, but other measures such as asset split may be employed where this is deemed most appropriate. To achieve a 'strong' to 'very strong' score, regardless of other competitive advantages, the entity should have sufficient geographic and product diversification that no one sovereign jurisdiction or business line contributes more than 33% of EBITDA. Similarly, a wider customer base is considered a ratings strength, while negative scoring may be applied to entities with high concentrations.

Environment, Social, and Governance

34. ESG factors play an increasingly important role in the strength and sustainability of a company. With consumer activism on the rise, ignoring ESG considerations, or being found to be floating best practice can have a significant negative impact on a company's reputation and the willingness of consumers to interact with it. GCR will consider ESG factors in terms of the industry in which a company operates and/or the company's actual performance with respect to ESG factors. For example, GCR may adjust down the competitive position score of a company, if the company operates in an industry niche where there are particularly high ESG concerns. More significantly, GCR expects companies to manage all their ESG risks appropriately and transparently, even when they may operate in industries where there are inherent ESG concerns. A positive adjustment to the risk score may be made where a company has a specific ESG related mandate, such as providing an important social service.

Other tangible competitive (dis)advantages

35. GCR recognises that there are numerous factors that can add to a corporate entity's relative strength and market position. Some of the more common factors include technological or product advantages, vertical/horizontal integration, regulatory preferences, or reputational biases. Key competitive factors for each entity need to be identified and their impact on the relative competitive position assessed and explained in the rating report. In many cases, a factor that is considered a positive for one entity could

become a constraint for a different entity. Advantages may also be exogenous, such as for utilities, which may enjoy the benefit of supportive legislation or restricted government concessions.

36. A company with a key policy role, that is a monopoly or near monopoly, could get a 'high' business profile risk score even if other strengths are not present.

Table 3: Business profile

Score description	Score	Competitive Position (typical descriptors)
Highest	4 to 5	Global industry leader, recognised superior brand and franchise value across the globe that allows for substantial pricing power, best in class technologies and intellectual property, exceptionally high and stable profit and cash generation, control over its supply chains in numerous countries, as well as distribution channels. Material business line diversification with no single product or market accounting for more than 33% of EBITDA. ESG consideration must be managed to the highest international standards, with appropriate independent certifications having been awarded.
High	2 to 3	Industry leader in its key markets but with some global diversification. Recognised superior brand and franchise value in key markets, globally competitive products, best in class technologies and intellectual property. Strong sustained profit and cash generation, control over its supply chains in key countries as well as distribution channels, material business line diversification in key jurisdiction supported by some global diversification. ESG consideration must be managed to the highest internarial standards, with appropriate independent certifications having been awarded.
Intermediate	-1 to 1	Mid-sized to strong position in its key markets/products, some diversification of business line, confirmed proprietary technology, recognised strengths in terms of supply and distribution channels. Fairly stable revenue and cash flows across the cycle. ESG becoming an increasingly important consideration to operations.
Low	-2 to -4	Mid-sized to small industry player with little proprietary technology, often using price as its key advantage. Limited diversification by jurisdiction or product, limited control over supply chains and distribution. May have a history of revenue instability. ESG considerations are moderate to weak.
Lowest	-5 to -8	Small to very small industry player facing significant competition, no real diversification benefits, and/or weak earnings. The lowest scores will typically be associated with long term weak earnings and/or failed or close to failing. ESG considerations are likely to be lacking.

The above boxes highlight typical characteristics of a highest, high, intermediate, low, and lowest assessments. It is likely that an entity has one or more characteristic across different boxes. GCR will use analytical discretion to decide what the most pertinent factors for each rated entity are. However, to achieve a stronger score the entity is likely to reflect a number of cumulative strengths. Conversely, any one risk can bring the score down to a weak level.

37. ***Example**: Returning to our theoretical companies from above, assume Company A was the clear market leader in the South African construction industry, with world class capabilities in three construction sector niches, and a long track record of profitability in line with, or above, the industry average. Moreover, no problems in corporate governance are identified. In such a case, Company A could potentially get a competitive position score of +2. (+3 may be too high as Company A does not have any global diversification, while the above average earnings suggest that +1 may be a bit low).*

38. *Now assume that Company B is a very small education provider, with only four schools, but a very strong reputation for educational excellence. Given its low scale and high ongoing investment requirements,*

earnings may also be weak. The company also has a convoluted holding company structure and incomplete policy documentation. Market share in the UK would be negligible and earnings somewhat unstable, suggesting a very low score (-4), although its strong reputation could perhaps uplift the score to (-3). In Rwanda the company may still be small, but a more significant player due to the underdeveloped nature of the industry. Under such circumstances the company profile score could be (-1), as reputation would likely be a more important competitive advantage. The weighted score would then be (-2). A further negative adjustment would be made for corporate governance of (-1).

Table 4: Business profile example

Component/Factor score	Company A	Company B
Competitive position	2	-2 (UK: -3; Rwanda: -1)
Management & governance	0	-1
Total Business profile	**2**	**-3**

Component 2, Factor B: Management & Governance

(-5 TO 0: 0 BEST)

39. Scored between 0 to -5. Please see the universal management & governance criteria.

Component 3: Financial Profile

(-26 TO 10: 10 BEST)

40. For corporate entities, GCR considers the greater risk to relate to the creation and maintenance of stable cash flows to support debt serviceability and liquidity. This is due to the fact that, while most industries are subject to some regulation, corporate entities do not have to comply with regulatory driven capital and liquidity measures. Similarly, in most cases they would also not receive the same type of financial support if the businesses were to fall into distress. Thus, the resilience of a corporate entity is solely a factor of internal performance and distinct access to funding.

Financial Profile

Factor A: Earnings profile (-8 to 3)
- Income/earnings stability
- Margin analysis
- Operating efficiency

Factor B: Cash Flow, Leverage and Capital Structure (-8 to 5)
- Ratio analysis
- Capital structure assessment

Factor C: Liquidity (-10 to 2)
- Uses versus sources analysis
- Structural adjustments

41. GCR assesses three components, using a mixture of quantitative benchmarks that lead to qualitative assessments. These comprise, 1) earnings profile, 2) cash flow, leverage, and capital structure and 3) liquidity. Each component is assigned a risk score from very weak to very strong. Where the component is comprised of several metrics, the various metrics will be balanced to derive the most appropriate factor score.

Component 3 Factor A: Earnings profile

(-8 TO 3: 3 BEST)

42. In assessing financial performance for a corporate entity, GCR will consider the historic trend of revenue consistency, concentrating on the absolute returns and the stability of sources of revenue. The quality of earnings is assessed by considering the stability of inflows, at both the consolidated and subsidiary/division level, over the review period. Lines of revenue that are underpinned by long term recurring annuity type income are considered to be more stable versus those exposed to short term sales like income. GCR will also consider the presence of any revenue concentrations, whether towards a

specific tenant, product line or a specific project and may make a negative adjustment to the risk score when it considers there to be high revenue concentration, even if the business is currently performing.

43. Typically, GCR will use the ratio of EBITDA (core operating earnings before interest tax, depreciation, and amortisation) to revenue as the primary measure of earnings resilience, but in certain cases utilising the ratio of operating profit (core operating earnings post depreciation and amortisation) to revenue may be more descriptive. Adjustments may be made to profitability for residual value risk/gains or other expected gains and/or losses. Given the substantial variance in earnings margins between different industries within the broad corporate sector, it is necessary to consider the absolute earnings ratio relative to industry peers and to internal historical trends. For a corporate to be accorded a positive assessment, the entity should exhibit an EBITDA margin consistently above the sector norm, and at the same time report a stable or widening trend relative to historical levels.

44. Within this factor GCR will also analyse operating efficiency. The cost structure should be flexible enough to support efficiency and profitability, even when revenues drop. Accordingly, entities with high fixed costs or large labor forces are considered to be riskier, as they will be unable to reduce expenditure timeously during economic downturns. Other factors that may (generally) negatively affect the earnings quality assessment include:

i. large exposure to fluctuations in exchange rates;
ii. persistence of exceptional items and restatements
iii. presence of non-cash items such as fair value movements and impairments.

Table 5: Earnings performance

Score description	Score	Earnings generation (typical descriptors)
Highest	2 to 3	High EBITDA margins and/or consistent earnings growth, comparing better than peers operating in the same or similar markets. Earnings are of a high quality, underpinned by annuity like income. Proven earnings stability through the cycle. Flexible cost structure with strong ability to manage costs through the cycle. No material risk related to currency, residual value, and other non-cash items.
Intermediate	-1 to 1	EBITDA margins and/or earnings growth broadly in line with peers operating in the same or similar markets. Proven ability to remain profitable through the cycle, albeit with some margin variability. Earnings quality broadly in line with the market. Good flexibility in cost structure with some ability to manage costs through the cycle. Limited risk related to currency, residual value, and other non-cash items.
Low	-2 to -4	EBITDA margin below peers operating in the same or similar markets. Inconsistent earnings trajectory with periodic declines. Unproven or volatile earnings through the cycle. Some concerns regarding earnings quality. Little flexibility in the cost structure, with variable margins through the cycle. High earnings fluctuations due to currency, residual value, and other non-cash items
Lowest	-5 to -8	Strong concerns regarding the ability to operate profitably.

The above boxes highlight typical characteristics of a highest, high, intermediate, low, and lowest assessments. It is likely that an entity has one or more characteristic across different boxes. GCR will use analytical discretion to decide what the most pertinent factors for each rated entity are. However, to achieve a stronger score the entity is likely to reflect a number of cumulative strengths. Conversely, any one risk can bring the score down to a weak level.

45. ***Example:*** *Although Company A has been profitable in all years under review, earnings have come under pressure due to the weakness in the environment. Similarly, margins have narrowed due to an increased staff cost base. Based on these sub-factors, the risk score related to earnings would likely be neutral (0).*

46. *Company B is still building scale and therefore earnings are minimal, albeit with the expectation that EBITDA and margins will expand significantly over the medium term. These projections could offset the current position to arrive at the lower end of the 'moderate' band at (-1).*

Component 3, Factor B: Cash Flow, Leverage and Capital Structure (-8 TO: 5 BEST)

Ratio Analysis

47. GCR's assessment of cash flow, leverage and capital structure utilises a mix of quantitative debt service and cash flow metrics, combined with a more subjective assessment of the appropriateness of the capital structure. No single leverage metric (or band) can be said to be appropriate for all corporate entities. Corporate entities tend to exhibit substantial differences in gearing levels depending on the industries in which they operate. Corporates operating in less cyclical and more mature industries can absorb higher gearing levels without much increase in the risk profile. Conversely, corporates in more cyclical industries are subject to volatile earnings and cash flows and thus should exhibit lower gearing for the same level of risk tolerance. To account for these differences, GCR has assigned different gearing/leverage brackets based on the cyclicality of the industry in which a corporate operates (as determined in the operating environment assessment).

48. GCR may consider all instruments that can broadly be defined as having debt like features in calculating the debt balance. These may include instruments such as convertible debt, subordinated debt, redeemable and perpetual preference shares, off balance sheet funding structures, as well as contingent or unfunded liabilities (where there is a good chance some of these may materialise) and operating lease obligations (equipment or property rentals). Where the debt has features that may mitigate the risk of default an adjustment to the leverage score may be made (see capital adjustment).

49. Financial reporting standards in most jurisdictions now require that rental agreements and other operating leases be accounted for as long-term debt, with a corresponding right of use asset included in long term assets. As a corollary, the income statement no longer considers rentals to be an operating expense, but the payment is rather reflected as a combination of amortization and interest. This has had the impact raising the level of debt, increasing the interest charge, whilst at the same time strengthening EBITDA and earnings margins. While GCR views this as the more conservative gearing position, and thus utilises the new standard for our primary gearing calculations, it does distort historical comparatives and is often in opposition to how debt funding covenants are calculated (which only consider interest bearing debt and leases). Where applicable, GCR will thus consider debt levels and gearing metrics under both standards (see capital adjustment).

50. GCR's quantitative assessment of gearing focusses mainly on debt and debt service coverage metrics. Traditional equity based gearing ratios are considered to be less relevant due to the subjectivity involved in determining the equity valuation, albeit that the debt to equity metric may be useful for certain entities. Historical debt coverage and service trends are extrapolated, along with expected cash flows, to determine two-year forecasted ratios (where possible). In general, GCR will utilise net debt (gross debt plus lease liabilities minus cash and unpledged liquid assets) to calculate gearing metrics, but in cases where the cash is earmarked for investment or there are concerns as to the accessibility of cash, gross gearing metrics may be more appropriate.

51. There are three main metrics that are utilised when assessing debt, with the typical scoring bands (from a minimum of -5 to a maximum score of +5) detailed in Table 6. Entities are only able to achieve the higher scores of +4 and +5 if they can demonstrate the ability to raise diverse sources of funding on international markets, from a wide range of counterparties, on an ongoing basis. Such sources of funding include any number of direct bank loans, syndicated facilities, debt capital market instruments, guarantees and derivative instruments. Demonstrated ability to raise equity funding from diverse investor groupings, across international markets in a timely and ongoing fashion would also support an uplift to the rating score.

52. ***Net debt to EBITDA*** is a measure of the extent to which ongoing operations could meet principal obligations. The key benefit of this metric is that it incorporates all core profits that are legally obligated to the company, providing a clearer picture of operating performance. GCR may make some adjustments to the reported EBITDA for items that are deemed to be non-core, non-cash, or non-recurring, as well as differences in accounting treatment.

53. ***Operating cash flow ("OCF") coverage of gross debt*** measures the entity's ability to repay its debt using the cash flow from core operations. The advantage of this measure is that it measures the real cash available for debt servicing, but it could be temporarily skewed by working capital movements. For entities that might be exposed to significant capital expenditure (for example purchasing equipment for leasing) we would more likely use discretionary cash flow coverage of total debt as it would take into account ongoing asset replacement costs. GCR may also look at additional adjustments to discretionary cash flows if there appears to be a steady stream of cash leaving the business through dividends or investments.

54. ***EBITDA to net interest coverage*** examines the ability of the corporate entity to honor its main recurring debt service obligations being interest payments. Typically, GCR will offset interest income against the interest charge, but non-cash interest income and other interest risk mitigants such as hedging instruments and capitalised interest on development funding may be excluded from the calculation. An alternative calculation is free cash flow coverage of interest, which is calculated by dividing cash flow from operations (calculated before the net interest payment) by net interest, and may be considered where appropriate, such as for companies that accrue fair value gains but have little cash flow.

Table 6: Leverage, Cash Flow Coverage												
Cyclicality bucket	Net Debt/EBITDA (x)				OCF to Gross Debt (%)				EBITDA/Interest (x)			
	High	Average/ Above ave.	Average/ Below ave.	Low	High	Average/ Above ave.	Average/ Below ave.	Low	High	Average/ Above ave.	Average/ Below ave.	Low
4 to 5	Corporate entities that demonstrate ongoing access to diverse international equity and debt capital markets may receive an uplift to the score implied by the credit protection ratio of up to two notches. Accordingly, entities that achieve the highest leverage and cash flow coverage scores may receive further uplift to a credit risk of 4 or 5.											
2 to 3	<1.5x	<1.75x	<2x	2.5x	>60%	>55%	>50%	>40%	>15x	>14.5x	>14x	>13x
-1 to 1	1.5x to 3x	1.75x to 3.3x	2x to 3.5x	2.5x to 4x	30% - 60%	28% - 55%	25% - 50%	20-40%	5x-15x	4.7.x-14.5x	4.5x – 14x	4x - 13x
-2 to -3	3x to 5x	3.3x to 5.3x	3.5x to 5.5x	4x to 6x	17.5% -30%	15% - 28%	12.5% - 25%	10% - 20%	2.25x-5x	2x-4.7x	1.75x – 4.5x	1.5x - 4x
-4 to -5	>5x	>5.3x	>5.5x	>6x	<17.5%	<15%	<12.5%	<10%	<2.25x	<2x	<1.75x	<1.5x
-6 to -8	The lowest risk scores are applicable in instances where an entity has high gearing, but does not have clear refinancing arrangements in place, or where GCR is of the opinion that lines of credit will not be made available.											

Capital structure assessment

55. Capital structure considerations may be used to adjust the quantitative leverage score by one or more notches. Typically, these will be negative adjustments although there are instances where additional credit could be given. More often, particularly strong characteristics will enhance a corporate entity's access to capital and thus be positively considered as part of the liquidity assessment. Situations where adjustments could be made include:

i. (**Negative**) If there is negative tangible equity (reported equity less intangible assets) or the nominal size of equity is small, or a corporate entity could be more vulnerable to event losses even if the ratios appear adequate. Typically, GCR caps the capital score at the maximum within the average category. However, this is a qualitative judgement call and needs to consider the size and diversity of business as well as the quality of treasury and overall balance sheet management.

ii. (**Negative**) Currency risk arises when entities borrow in a currency other than its revenue of operations. This position can materially change the leverage position of the entity (in the event of currency movements) if the company has not put a financial or natural hedge in place or cannot pass the costs through to its customers reliably. If foreign currency debt is greater than 30% of total debt and is not covered by foreign income or currency hedges, GCR may make a negative adjustment to the score. The level of adjustment will depend on the amount of leverage and the foreign currency exposure/volatility.

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

iv. (**Negative**) Strong emphasis is placed 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 is under two years.

v. (**Negative**) If debt is growing very quickly, possibly due to the rapid capital expenditure needs, we can also bring down the initial leverage score depending on the nature of the growth.

vi. (**Negative**) Adverse shareholder rights/actions. If the quality of capital is potentially threatened by options held by a shareholder to force repayment, or if there are any other debt-like characteristics. If GCR expects significant dividend payouts, or share buybacks, either from over leveraged and/or aggressive shareholders, we may make a negative adjustment to the initial score.

vii. **(Negative/Positive)** Weak or strong operating subsidiaries/investments. If the group has a subsidiary (consolidated of unconsolidated) that is underperforming or is over leveraged, is dependent on funding/liquidity from the group, or is close to covenant breach, we could deduct the shortfall from group capital even if there are no explicit guarantees from the parent. Conversely, if the entity has exit-able and strong investments or subsidiaries which would not harm the core operations of the entity, we can make a positive adjustment to the leverage score. We may also bring down the score if a large percentage of cash flow or liquidity is pledged or trapped within a group member and not available for debt service across the group.

viii. **(Negative/Positive)** In the current environment, ESG factors can have a major influence on access to capital. Increasingly banks and funding institutions, particularly development finance institutions, are shunning companies or projects that have high carbon footprints or are considered to major polluters. Conversely, companies that undertake green/sustainable projects have access to diverse funding sources, including pools of capital that are earmarked for environmentally friendly initiatives, and often carry favorable terms. In general, GCR will only provide uplift if there are tangible ESG funding advantages, or conversely penalize the rating if access to capital is seen to be constrained.

ix. **(Positive)** GCR views reported debt that is not subject to an event of default or other time bound risks typically associated with commercial debt (such as interest payments) more leniently. Such debt includes rental and lease liabilities, or similar ongoing contractual liabilities. While this category debt will still be considered when calculating financial ratios, GCR will typically utilise the more favorable risk score within a category, or where the ratio is on the border between categories.

x. **(Positive)** The presence of loss bearing instruments, which take losses long before senior unsecured instruments, could improve the score. Typically, such instruments use trigger points that cause mandatory and permanent write downs/conversions or they are fully at management's discretion and GCR views the incentive to use them as strong. Additionally, from time to time, GCR may include permanent group, concessionary or government funding, which could be converted to capital should there be stress, although management control and incentive to use would be necessary to support the more positive view. GCR will reflect and cap the benefit of such instruments to 25% (one notch adjustment) and 50% (two notch adjustment) of total debt, presuming the entity does not reach the top level (5) already and cash flow is generally supportive.

Component 3, Factor C: Liquidity

(-10 TO 2: 2 BEST)

56. GCR applies a zero-tolerance approach to a lack of liquidity. This is because a company with the healthiest balance sheet and strongest competitive position can still fail if it doesn't have appropriate levels of, and control over, its liquidity. As a result, our assessment of weak liquidity can bring the ratings down to the lowest levels should there be concerns.

57. Our analytical approach is based on a simple view of the entities ability to meet its liquidity requirements over a rolling one to two-year period. GCR will include the following in sources where applicable:

i. GCR calculates non-pledged, non-restricted cash that hasn't been earmarked for future capex. Transfer and convertibility risk will also be considered with regard to foreign currency cash holdings.
ii. GCR includes all of anticipated funds from core operations (which may be haircut if GCR believes it could reduce from the historic observations or if there is high residual value risk or low reserve coverage) and positive working capital changes, if reliable.
iii. GCR will include the undrawn and available portion of committed facilities, both short term and those maturing after 12 months. GCR may also include a percentage of non-committed facilities if the provider of lines has a stronger risk score than the borrower and there is no joint default risk between the two parties. In regards to both committed and uncommitted lines, GCR will limit the amount of credit available, up to any covenant breach (but not beyond). Lastly, GCR may include liquidity from contracted asset or investment sales or from external support should the sources be reliable.
iv. GCR may also include liquidity from contracted asset or investment sales or from external support should the sources be reliable. Listed equity may also be included for liquidity purposes, with an appropriate haircut applied. The extent of the haircut will depend on the liquidity of the equity counter and the size of the shareholding, with less liquidity and greater percentage shareholding requiring a larger haircut.
v. GCR may include a portion of inventories (typically haircut by 40% or more), where the inventory comprises readily tradeable commodity type products or fast moving consumer goods, and the cash conversion cycle if no longer than 90 days. However, inventory will generally only be considered to mitigate an increase in related short-term debt, such as when trade facilities rise to fund greater raw material inventories during times of supply disruptions.

58. When examining uses GCR considers the following sources of liquidity pressure:

i. GCR will first look at debt maturities over a one-year and two-year period, presuming they will not have access to refinancing those funds.
ii. GCR includes all committed capital expenditure and investment requirements over the two-year period. GCR generally expects there to be definite funding plans in place for all major capex projects before they begin.
iii. Expected negative changes in working capital, any contracted extraordinary purchases and other discretionary elements of cash outflows. GCR will also consider any other expected group liquidity needs or requirements.

59. A number of other liquidity considerations are overlaid onto the uses versus sources analysis.

60. **Covenants**: The presence and proximity to covenants is an important factor when assessing the uses of liquidity. Typically, corporate debt facilities are granted subject to various financial and non-financial covenants. Where these covenants can lead to an acceleration of debt repayment or event of default,

this will significantly increase risk for the corporate entity and constrain financial flexibility. The risk becomes more acute the closer an entity's metrics come to the covenant levels and the liquidity score should be penalised. GCR also views rating-based triggers highly negatively. For all covenants, the extent of the negative adjustment would be dependent on the severity of the breach and the resolutions that are contractually available to both debtors and creditors. Most punitive would be an automatic acceleration of debt, whilst in many cases there is a ratcheting up of the interest rate, which would likely result in a less severe penalization.

61. Where a covenant breach can be foreseen, GCR would expect the entity to receive written waivers from funders ahead of the breach. In such instances GCR will consider the reasons for the breach, whether they are due to internal or exogenous factors, or reflect short term or more sustained disruptions, in considering the severity of the necessary rating action. GCR will also consider any timeframe that is contractually provided to remedy the covenant breach, and the perceived ability of the entity to comply with such remedies.

62. For a fuller discussion of how GCR views the relationship between covenant breaches and events of default, please see the FAQ available on our website.

63. **Refinancing:** GCR expects corporate entities to maintain sufficient unutilised committed funding facilities to cover all outstanding commercial paper and maturing term facilities of six months or less, as well as having clear plans to redeem or refinance all debt maturities of less than twelve months.

64. **Encumbrances:** GCR takes a negative view of significant levels of asset encumbrance. This is because unencumbered assets can more easily be used to obtain additional facilities in times of need. In addition, encumbrances can divert cash flows away from the servicing of general unsecured debt and can subordinate senior unsecured claims in liquidation. Consequently, as asset encumbrance increases, the issuer credit rating comes down.

Table 7: Liquidity		
Score description	Score	Description
Highest	2	If 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 above acceleration of its longer-term funding or event of defaults. Funding relationships with banks of good creditworthiness are strong and stable. There is no asset encumbrance.
Intermediate	1, 0, -1	If 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. GCR is comfortable with the covenant headroom. Funding relationships are strong and stable. Asset encumbrance is less than 30% of total assets.
Low	-2 to -4	If the entity has sources of liquidity that cover between 1x-1.25 x its uses over a one-year period. Or there is limited covenant headroom, which could cause a material acceleration or event of default should the performance of the company deteriorate. Funding relationships may be questionable, particularly in times of stress. Asset encumbrance is less than 50% of total assets.
Lowest	-5 to -10	If the entity has sources of liquidity that are insufficient to cover one years' use. If covenant breach is material, significant and plausible. If 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 a highest, high, intermediate, low, and lowest assessments. It is likely that an entity has one or more characteristic across different boxes. GCR will use analytical discretion to decide what the most pertinent factors for each rated entity are. However, to achieve a stronger score the entity is likely to reflect a number of cumulative strengths. Conversely, any one risk can bring the score down to a weak level.

65. ***Example:*** *Returning to our two companies, Company A is debt averse and has maintained strong cash balances over the past few years, with the expectation to remain the same. This would be reflected in a net ungeared financial position, which would equate to a gearing score of (+2). Assuming there were no large maturities or onerous debt covenants, no adjustment to the score is necessary.*

66. *Looking further, Company A only has small debt maturities over the next 18 months, but it does face a fairly large cost to completion on ongoing projects. Some of this will be covered by cash on hand, but the company will likely need to secure additional facilities. Furthermore, most fixed assets are encumbered to various leasing arrangements. Using the uses versus sources method, GCR determined that sources are around 1.25x uses, which would equate to a risk score of (-1).*

67. *Being in a growth phase, Company B does have a relatively high debt burden. As EBITDA is still low, it is likely that leverage and coverage metrics would be in the (-2; -3) band. Given the expectation for higher EBITDA going forward, and thus an improvement in metrics, GCR would, perhaps assign the better risk score of (-2). However, GCR's assessment of the capital structure has revealed that all funding has been raised in British Pounds, giving rise to substantial currency mismatch as half of income is derived in Rwandan shillings, whilst there are some fairly tight financial covenants. The two factors could see the risk score adjusted by a further (-1). Offsetting the funding concerns is a large portion of subordinated shareholder debt (around 25% of total debt). As the debt would automatically be converted into equity ahead of any breach in covenants, it would present an important loss absorbing protection for senior unsecured creditor. Accordingly, the financial risk score could be adjusted upward by (+1).*

68. *As Company B's debt is long term, there are no near-term maturities. Funding is required for expansion, but sufficient facilities have been secured to cover capex over the next 18 months. Moreover, shareholders (with demonstrated deep pockets) have signed a commitment letter to provide additional capital should current funding not be sufficient. Over the medium term it is expected that operating cash flows will be able to meet debt redemptions as they occur. In such a circumstance, sources may equate to nearly 2x uses and a liquidity risk score of (+1).*

Table 8: Liquidity example

Component/Factor score	Company A	Company B
Earnings	0	-1
Gearing	2	-2
- adjustments	0	0 (=+1-1)
Liquidity	-1	1
- adjustment	0	0
Total financial profile	**+1**	**-2**

Component 4: Comparative profile

(VARIOUS)

Comparative Profile

Factor A: External support
- Group support
- Sovereign support

Factor B: Peer comparison (-2 to 2)

69. The last risk score factor allows GCR to make a series of qualitative changes based on external or idiosyncratic factors, the most common one being ongoing group or extraordinary sovereign support.

Component 4, Factor A: External Support for a Corporate Entity

(VARIOUS)

70. Support comes from shareholders/affiliates and/or governments. However, if both elements of support apply, GCR only takes the higher of the two support options to avoid double counting.

Group Support

71. For details on group support please see the universal group support criteria.

Sovereign Support

72. This factor is generally not applicable to corporate entities, albeit that it can play an important role in the consideration of utility companies or other highly regulated industries. Where applicable, details on government support are outlined in the country risk criteria.

Component 4, Factor B: Peer Analysis

(-2 TO 2: 2 BEST)

73. GCR allows two positive or negative risk score changes to create greater credit differentiation. Typically, these notches should be used when an entity is a generally better or worse performing company than its peer group across a number of fields, but no one factor has created ratings differential.

Final Rating Adjustment Factors

74. Once the risk score and the ACE has been established, on either/both the national or international scale we can then create the formal ratings on different legal entities. For most property funds the ACE will be

equivalent to the rated entity, being the group. Where this is not the case, we move off the risk scoring framework and start adjusting the national/international ratings because we are trying to establish the most applicable credit ratings hierarchy within a consolidated group.

Rating Adjustment Factor 1: Corporate Specific Structural Factors

75. As stated above, GCR will typically base the credit scoring on the financial and business characteristics of the immediate group (when there is one) around that legal entity. This is because there is tangible likelihood of risk transfer either up from subsidiaries, across from sister companies or down from a holding company/parent. It is in this section that GCR addresses these risks, to hone in on the correct rating for that legal entity.

76. The Group Classification and Support Criteria in the GCR Ratings Framework is the predominant guide for this decision-making process. These are the principles of the first adjustments:

    i. There should be no adjustment from the risk score for the **major operating entity or parent**, of the analysed analytical object. An example of this is the major operating entity within a group, which usually has above 50% of total group assets or capital. However, it could be smaller and still be material to the group.

    ii. **Minor group Subsidiary/Affiliates** are analysed on a standalone basis and then allocated support uplift, if necessary, in line with the methodology.

    iii. **Non-operating holding companies (NOHC):** Due to the fact that corporate entities are not regulated in the same manner as financial institutions, GCR does automatically notch down the ratings on NOHC, although an assessment will be made to establish if there are any structural or legal impediments to cash flow.

    iv. **Operating holding companies** typically will be treated like NOHC.

    v. **Intermediate non-operating holding companies** typically will be treated like NOHC. However, if the group benefits from parent or government support and that support has to flow through the INOHC, then the ratings don't need to notched down.

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

Table 9: Instruments		
Debt Rating Types	Notching	Typical Characteristics
Secured Liabilities	+1 or more notches	See Structurally Enhanced Corporate Bonds Rating Criteria.
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, without any discretionary/mandatory/statutory nonpayment or write down clauses and cannot delay coupon. Typically, would take losses at the same time but at a deep haircut than senior unsecured debt.
Junior Subordinated	-2, -3	Contractually subordinated debt, typically non-perpetual and cumulative, but likely to have a discretionary/mandatory/statutory nonpayment or write down clauses. Should be able to take losses before senior unsecured and senior subordinated debt.
Hybrids (a)	-4	Contractually subordinated debt, typically perpetual , non-cumulative, likely to have a discretionary/mandatory/statutory nonpayment 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 that would default the instrument as the entity remains firmly a going concern entity, i.e., before senior unsecured losses or other types of default. Notch down according to the proximity of the trigger, whilst respecting the credit hierarchy.

78. ***Example:*** *In the example, no further adjustments to either Company A or Company B are considered.*

Table 10: Example using rating adjustment factors		
Component/Factor score	Company A	Company B
Component 1: Operating environment	+9	+16
Component 2: Company profile	+2	-3
Component 3: Financial Profile	+1	-2
Component 4: Comparative Profile	0	0
Adjustments	0	0
Total risk score	**12**	**11**

79. *Based on the GCR Anchor Credit Evaluator table, (assuming South Africa falls into the 7.0 to 7.5 vertical), Company A's risk score of 12 would translate into a South African National Scale rating of A-$_{(ZA)}$.*

80. *Company B's risk score equates to 13.5, with both and international and national scale rating required. Company B's risk score of 13.5 would map to an international scale rating of B+, while (assuming the 4-4.5 vertical), the Rwandan National Scale Rating would map to AAA$_{(RW)}$.*

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S GLOSSARY

Bond	A long term debt instrument issued by either a company, institution or the government to raise funds.
Callable	A provision that allows an Issuer the right, not the obligation, to repurchase a security before its maturity at an agreed price. The seller has the obligation to sell the security if the call option holder exercises the option.
Capital Expenditure	Expenditure on long-term assets such as plant, equipment or land, which will form the productive assets of a company.
Capital Markets	The part of a financial system concerned with raising capital by dealing in shares, bonds, and other long-term debt securities.
Commercial Paper	Commercial paper is a negotiable instrument with a maturity of less than one year.
Commodity	Raw materials used in manufacturing industries or in the production of foodstuffs. These include metals, oil, grains and cereals, soft commodities such as sugar, cocoa, coffee and tea, as well as vegetable oils.
Country Risk	The range of risks emerging from the political, legal, economic and social conditions of a country that have adverse consequences affecting investors and creditors with exposure to the country, and may also include negative effects on financial institutions and borrowers in the country.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
Guarantee	An undertaking in writing by one person (the guarantor) given to another, usually a bank (the creditor) to be answerable for the debt of a third person (the debtor) to the creditor, upon default of the debtor.
Haircut	The percentage by which the market value of an asset is reduced. The size of the haircut reflects the expected ease of selling the asset and the likely reduction necessary to realised value relative to the fair value.
Hedge	A form of risk management aimed at mitigating financial loss or other adverse circumstances. May include taking an offsetting position in addition to an existing position. The correlation between the existing and offsetting position is negative.
International Scale Rating.	An opinion of creditworthiness relative to a global pool of issuers and issues.
Issuer	The party indebted or the person making repayments for its borrowings.
Long-Term Rating	A long term rating reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
National Scale Rating	National scale ratings measure creditworthiness relative to issuers and issues within one country.
Notching	A movement in ratings.
Ranking	A priority applied to obligations in order of seniority.
Real Estate Investment Trust	A REIT is a company that owns or finances income-producing real estate. REITs are subject to special tax considerations and generally pay out all of their taxable income as distributions to shareholders.
Senior	A security that has a higher repayment priority than junior securities.
Subordinated Debt	Debt that in the event of a default is repaid only after senior obligations have been repaid. It is higher risk than senior debt.
Unsecured Claim	Debt securities that have no collateral.