GCR RATINGS

CRITERIA FOR RATING FINANCIAL SERVICES COMPANIES

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Scope of the Criteria

1. The criteria titled '*Criteria for Rating Financial Services Companies*', ('FSC Criteria') applies to a wide array of financial institutions where asset and capital adequacy risks are not the primary analytical considerations. The structure of FSC balance sheets, particularly on the asset side, can vary significantly. Some may look 'bank-like', but the short term and high margin loan book exposes the entity more to cash flow risks than credit risks. Other FSCs may buy loan books and pursue them as annuity incomes, or financial infrastructure roles and be exposed to other non-financial risks. The common thread is that debt leverage, cash flow management, and operating margins are typically the most important indictors of creditworthiness.

2. For leasing companies, GCR will typically analyse operating lease companies (where the asset is recognised by the lessor) under the FSC criteria, whilst financial leasing (where the asset is transferred to the lessee will be analyzed using the *Criteria for Rating Financial Institutions*. GCR expects (but not exclusively) debt purchasers, the majority of microfinance lenders, payday lenders and financial infrastructure companies to typically be analysed under the FSC criteria. Banks, bank-like financial institutions, and funds are not in scope. We have included the analysis of wealth and asset managers as a separate criteria (see Appendix to Criteria for Rating Financial Services Companies: Asset Management Issuer Credit Ratings).

Summary of the Criteria Changes

3. There are no major changes to the document, since the last criteria published in May 2019, however small editorial changes have been made alongside clarity in the leverage and liquidity sections.

An Overview of the Ratings Framework

4. In order to improve the comparability and transparency of the ratings, GCR have 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.

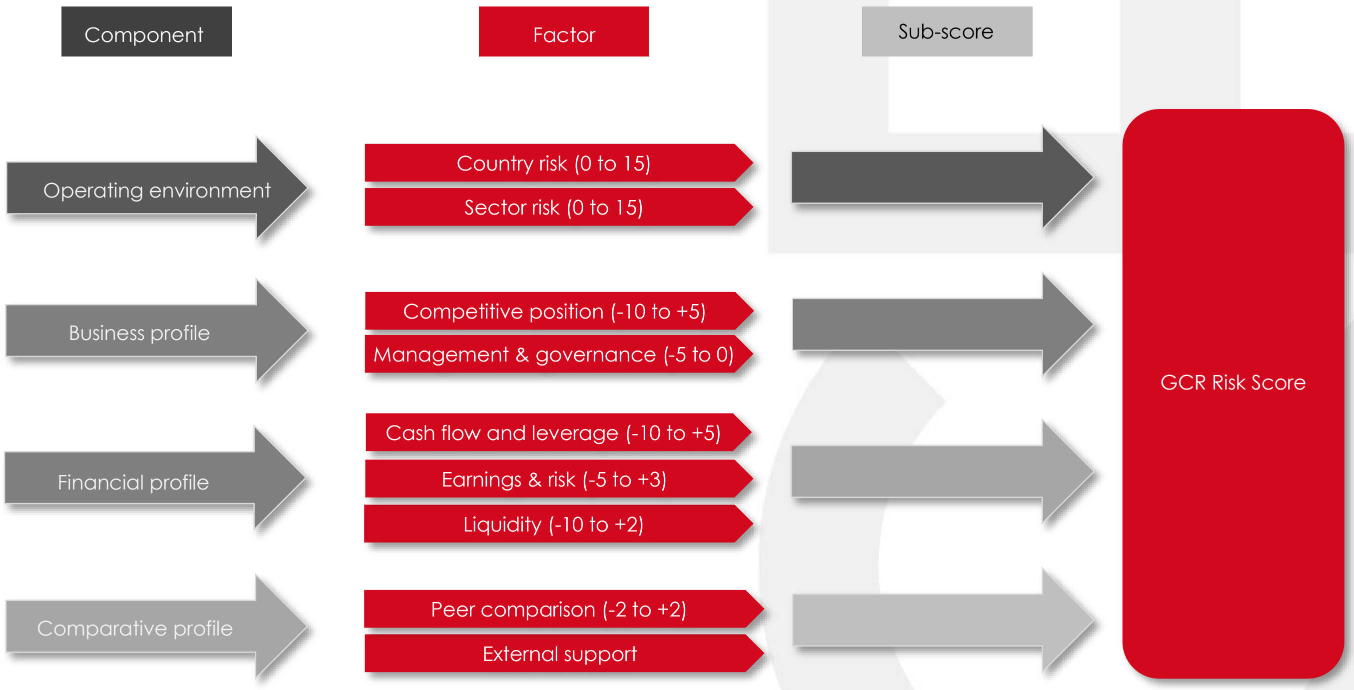
5. To achieve this, GCR has adopted four major rating components (operating environment, business profile, financial profile, and comparative profile), which are all broken down into two or three major factors and sub-factors, with a publicly disclosed positive or negative score assigned to each. The summation of the scores determines the GCR Risk Score, which is translated, using the GCR Anchor Credit Evaluator into the Anchor Credit Evaluation (ACE), and then using final rating adjustment factors into issue(r) credit ratings. It is important to note that there are no fixed weightings for the components, factors, or sub-factors.

6. To fully understand the following criteria, we recommend that it is read in conjunction with the '*GCR Ratings Framework*', which will provide a more detailed view on Country Risk, Group Classification and Support and Management and Governance. The GCR *Rating Scales, Symbols & Definitions, and the Anchor Credit*

Evaluator, will translate the GCR Risk Score into the international and national scale ratings. All referenced documents are published on the GCR Website.

7. The way 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 Financial Services Companies



*There are no fixed weightings to the components or factors above.

Component 1: Operating Environment

0 to 30: 30 BEST

Operating Environment

Factor A: Country Risk (0 to 15)

- GDP Per Capita
- World Bank Governance Indicators
- WEF

Factor B: Sector Risk (0 to 15)

- Asset Risk & Diversification
- Regulation, Governance & Policy Certainty
- Sector Structure
- Sector Funding

NBFI Adjustment Factors (-3 to 0)

8. The core of the GCR ratings framework is based on our opinion that an entity's operating environment frames its creditworthiness. As a result, the operating environment analysis anchors the underlying risk score in the GCR rating methodology. In essence, GCR combine elements of the country and sectoral analysis, weighted across countries when appropriate for entities operating across multiple jurisdictions, to anchor the FSC to its current operating conditions.

9. Whilst the direct link or exposure to country risk may not be as obvious for financial services companies as it is for banks (for example), GCR still believes household wealth and the political/business environment are *essential* considerations for determining creditworthiness. Even though FSCs often operate within a financial service niche, FSCs are still exposed to the credit environment, regulatory requirements, behavior of local banks and the funding dynamics within any given geography.

Component 1, Factor A: Country Risk Score

0 to 15: 15 BEST

10. Scored on a 0 (weakest) to 15 (best) scale. GCR scores the weighted average of total assets or EBIT(DA) by geography, in line with the '*Country Risk Score*' methodology as highlighted in the '*GCR Ratings Framework*'. See the global country risk criteria published here.

Component 1, Factor B: Financial Services Companies Sector Risk Score

0 to 15: 15 BEST

11. This factor is scored on a 0 (worst risk) to 15 (best risk) scale. The FSC Sector risk score relies heavily upon the Financial Institutions Sector risk score, (see *Criteria for Rating Financial Institutions)* because a bank and an FSC operating in the same country will typically be exposed to similar risks. However, FSCs may operate with specific structural disadvantages or could be exposed to greater risks or competitive pressures than banks operating in the same market.

12. As a result, when scoring FSC sector risk, GCR starts at the same point of a bank operating in the same country and then typically makes negative adjustments (maximum of 3) if any of the following exist:

I. There is less prudential regulatory oversight for the FSC than a commercial bank operating in the same country and/or the FSC has no access to the Central Bank funding mechanisms,
II. The FSC is exposed to higher market conduct scrutiny or potentially more sensitive to regulatory or legislative changes than commercial banks,
III. Domestic capital markets are underdeveloped, which forces FSCs to rely on bank funding,
IV. Barriers to entry are low

13. Conversely, GCR may reduce/negate a negative adjustment if the industry of the FSC is prudentially regulated or it has a protected or critical market infrastructure role or if the bank sector assessment score is already very low.

Component 2: Business Profile

-15 to +5: +5 BEST

Business Profile
Competitive Position (-10 to +5)
• Competitive Advantage • Business line, product, and geographic diversification • Distribution
Management & Governance (-5 to 0)

14. The business profile assessment is based on a series of qualitative factors meant to assess the robustness of a FSC's business model versus peers. This includes examining the entity's diversity, control of its niche and distribution, alongside the complexity of its operations and the quality of management/governance.

Component 2, Factor A: Competitive Position

-10 to +5: +5 BEST

Competitive position is the first entity specific score. It is based on a scale from 'lowest' (-10) to 'highest' (+5), using the four (4) subfactors below. No single factor below is meant to be more important than the other, rather competitive position is an overall assessment reflecting our opinion of the FSCs expected business stability, versus global and domestic peers, through economic cycles or through periods of increased competition. The score is benchmarked to peers in a similar operating niche and in the same domestic financial system.

15. The four subfactors to competitive position include, but are not restricted to, the following considerations:

I. **Competitive Advantage:** In order to have a tangible positive competitive advantage, GCR believes that FSCs must operate within defendable niches (such as having a defined government or sector role), or in a business line(s) with high barriers to entry, or they must demonstrate a distinct and sustainable technical or technological advantage(s). FSCs that compete directly with banks or other elements of the financial services industry may also have brand, marketing, or cost advantages but GCR typically view these as less sustainable. Limited ability to set and defend prices of its core products may also be viewed negatively. Furthermore, elements of additional regulatory or legislative risks, which are threatening business stability, may be a deciding negative factor. Only entities with a global presence or operate as an arm of the domestic government with a key policy role, will typically be accorded the highest scores.

II. **Business line, customer, and geographic diversification:** This assessment evaluates a FSC's revenue sensitivity to stress from a single business line, customer, or geography. Although GCR generally view diversification as a strength relative to concentration, expansion into new business areas or geographies could bring about additional risk. To achieve a score above 3, regardless of other competitive strengths, the entity should have strong geographic and product diversification, to a point where no one sovereign jurisdiction or business line contributes more than 33% of EBITDA.

III. **Distribution Network:** GCR examines the stability, control and diversification of the entity's distribution channels. Positive elements may include entity owned and controlled systems or networks, which operate at low cost and high efficiency. Negative elements could include (but not exclusively) a reliance on agents or other 3rd parties without very strong controls and long-term stable arrangements, a small or concentrated network, or a high degree of price sensitivity.

IV. GCR may make adjustments for any **Environmental, Social or Governance** risks facing the entity. When analyzing a Microfinance institution which has stated developmental goals that could be important to the stability of the funders, GCR will access the progress made against its pledged mandate.

Table 1: Competitive position		
Assessment	Score	Competitive Profile (typical characteristics*)
Highest	4,5	Alongside the strengths of the 'high' assessment, the entity should also be a globally diverse FSC with an exceptionally strong market position within its business lines. There should typically be no single product or market accounting for more than 33% of EBITDA.
High	2,3	Strong within its given niche, with distinct competitive advantages, often out competing domestic banks within its given product line and with control over its own distribution channels. Typically, a high barrier to entry business. Should also have some business line diversification and geographic diversity or operate as a government arm with a protected role. No key regulatory or legislative risks.
Intermediate	1, 0, -1	Good market share and control within its given niche or some diversification of business line, which protects the company from competition. Control over distribution.
Low	-2, -3, -4	Small niche, often using price as its key competitive advantage. Limited control over or scope of distribution of its key products. No real diversification benefits.
Lowest	-5 to -10	Significantly smaller entity within a fragmented and competitive market. Entity maybe very concentrated in terms of customer, product, or location. The lowest scores will typically be associated with long term weak earnings and/or failed or close to failing.

**The above highlights typical characteristics of a highest, high, intermediate, low, and lowest assessments. It is likely that an entity has one or more characteristics. 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 have a number of cumulative strengths. Conversely, any one risk can bring the score down to the lowest levels.*

Component 2, Factor B: Management and Governance

-5 to 0: 0 BEST

16. The FSC criteria has adopted the universal GCR Management and Governance criteria, for more information on how this score is derived please click here.

Component 3: Financial Profile

-25 to +10: +10 BEST

17. Under the FSC criteria, GCR uses 'corporate like' analytical approaches to assess the financial profile, because the greater risk to such entities is the creation and maintenance of stable cash flows to support liquidity and debt serviceability, rather than the control of key regulatory driven capital and liquidity measures.

Financial Profile

Cash Flow & Leverage (-10 to +5)

- Cash Flow & Leverage
- Capital Structure

Earnings v Risk (-5 to +3)

- Revenue Strength & Stability
- Risks

Liquidity (-10 to +2)

- Funding breakdown & stability
- Liquidity

18. GCR assesses three subfactors, using a mixture of quantitative benchmarks that lead to qualitative assessments. Firstly, GCR looks at cash flow versus leverage, with adjustments made for nuances within the capital structure. Secondly, GCR analyses the quantity and quality of earnings, adjusting for any risks derived from the credit, market, or operational risks. Finally, GCR conducts a liquidity assessment to create the final score.

Component 3, Factor A1: Cash Flow and Leverage

-10 to +5: +5 BEST

19. The preferred indicator for the financial risk of an FSC, that cannot rely on the rapid sale of assets for liquidity, is the analysis of its cash flow generation versus cash obligations. A company's ability to generate cash fundamentally changes its debt sustainability and the ability to reinvest in its operations and growth.

Typically, GCRs cash flow analysis begins with analysing the capability of an FSC is to pay back debt using the cash flow from core operations (table 2). For this measure, GCR principally uses the net debt to EBITDA or funds from operations ("FFO") to net debt ratio. To complement the principal payback ratios, GCR also looks at key debt service coverage ratios, to ascertain the ability of the rated entity to service its debt obligations. This will typically be the EBITDA to net interest ratio.

20. For entities that might be exposed to large working capital changes (if sales intensive or a seasonal business) or reliant on periods of significant capital expenditure (purchasing equipment for lease for example), GCR may choose to substitute the free operating cash flow ("FOCF") to net debt ratio for the FFO to net debt ratio, and the FFO plus interest to cash interest for this EBITDA to net interest ratio.

21. The scoring need not be an exact average of the three elements, but rather focus on the most important element and make adjustments for the other two. The weighting of which is at the discretion of the analyst. GCR may also adjust for discretionary cash flow (cash flows net of discretionary distributions) if there appears to be a steady stream of cash leaving the business through dividends or other payments.

22. If cash flow or leverage are very low or negative, GCR can adjust the starting point down to the bottom of the lowest levels. The score will ultimately be based on GCR's two-year forward expectations.

Table 2: Cash flow and leverage

		GCR Principal Cash Flow & Leverage Ratios			*(Alternative service ratio)*	*(Alternative leverage ratio)*
Assessment	**Score**	**Net Debt/ EBITDA (%)**	**EBITDA/net Interest expense (x)**	**FFO/Debt (%)**	**FFO/ Cash Interest (%)**	**FOCF/Debt (%)**
Highest	4,5	<1x	>15x	>60%	12x	>40%
High	2, 3	1x-2x	10x-15x	45%-60%	9x-12x	30%-40%
Intermediate	1, 0, -1	2x-3x	5x-10x	25%-45%	3x-9x	15% - 30%
Low	-2, -3	3x-5x	2x-5x	15%-25%	1.5x- 3x	7.5%-15%
Lowest	-4 to -10	>5x	<2x	<15%	<1.5x	<7.5%

Component 3, Factor A2: Capital Structure Adjustments to Cash Flow/Leverage

23. GCR may make adjustments (up to +5 or down to -10 level) to the initial Cash Flow/Leverage Assessment score, in the following cases:

I. (**Negative**) Regulatory risk: Although unusual, FSCs can be prudentially regulated and therefore required to comply with minim capital adequacy/leverage standards. Failure to adhere to this regulation may increase the risk of some form of regulatory intervention, significantly reducing its financial flexibility, impairing market confidence in the FSC. As the risk of regulatory intervention increases the score will be typically be lowered.

II. (**Negative**) If there is negative tangible equity (equity minus intangibles) or the nominal size of equity is low, below USD20m, the FSC could be more vulnerable to a single event/stress loss, even if the ratios are relatively strong. GCR may choose to cap the leverage score within the intermediate category or lower the score by up to two. However, this is a qualitative analytical judgement and will consider the diversity of business and quality of management.

III. (**Negative**) Currency risks arise when entities borrow in a currency different to that of its revenues. This mismatched position can materially change the leverage position of the entity (in the event of currency movement) if the company has not put a financial or natural hedge in place or cannot pass the costs through to its customers. Typically, we would view foreign currency debt negatively if it comprised more than 30% of total debt. However, the degree of negative adjustment will depend on the amount of leverage and the foreign currency exposure/volatility.

IV. (**Negative**) If debt is concentrated, GCR can make a negative adjustment(s). Broadly, GCR views funding to be overly concentrated when it predominantly 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. However, this would depend on the sophistication of the local fixed income markets and access to international markets.

V. (**Negative**) GCR may also adjust in maturity profile of the capital structure represents additional risk. For example, GCR may make an adjustment if there are material refinancing risks at any stage or if the weighted-average-maturity of funds is under two years.

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

VII. (**Negative**) If the quality of equity is potentially threatened by options held by the shareholder to force repayment, or if there are any other debt-like characteristics we can adjust the score negatively. 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.

VIII. (**Negative/Positive**) If the group has a subsidiary (consolidated or unconsolidated) that is underperforming and/or over leveraged, is dependent on funding/liquidity from the group, or is close to covenant breach, GCR may make an adjustment. GCR may also bring down the score if a large percentage of cash flow or liquidity are pledged or trapped within a group member and not available for debt service across the group. Conversely, if the entity intends to sell exit-able subsidiaries, which would not harm the core operations of the entity, or other liquid long-term investments, GCR can make a positive adjustment to the leverage score.

IX. (**Positive**) The presence of loss bearing instruments, which take losses long before senior unsecured instruments, could improve the assessment. Typically, such debt instruments will use trigger points that cause permanent write down/conversion fully at management's discretion and GCR views managements 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 provide any credit. GCR will reflect and cap the benefit of such instruments to 25% (a one-notch positive adjustment) and 50% (a two-notch positive adjustment) of total debt, assuming it doesn't reach the highest score (5) already and cash flow is generally supportive.

Component 3, Factor B: Earnings versus Risk

-5 to +3: +3 BEST

24. The second factor, scored between -5 and +3, of the Financial Profile measures the earnings profile versus the risk taken on by the FSC. This allows GCR to reflect the advantages of operating with strong and stable earnings but ensures that the levels of risk taking to achieve these earnings are low or well controlled. It may also allow us to reflect the impact of changing margins or risk.

25. GCR starts by looking at the revenue strength and stability of the FSC. To achieve this, GCR looks at the FSC's historic trend of revenue consistency. Typically, GCR will use a core operating earnings before interest, tax, depreciation, and amortization ("EBITDA") to revenues ratio, as the primary measure. GCR would generally see operating margins above 35% as a good measure of revenue and less than 15% as a weaker level of revenue margin, depending on the nature of the revenues and business conducted. Revenue lines with long term recurring annuity type incomes are considered to be more stable versus those exposed to short term sales like income. GCR discounts all unrealised earnings. Within this factor, GCR will also analyse the FSCs operating efficiency. The cost structure (whether its management expenses or capital expense controls) should be flexible enough to support efficiency and profitability, even when revenues that could be underestimating the long-term leverage and cash flows of the company drop.

26. GCR then analyses the risks undertaken to make an adjustment to the initial earnings assessment. When GCR views credit, market, operational or revaluation risks to be high, GCR may bring down the initial score using one or more of the following adjustments:

I. Estimated Credit losses: If applicable, GCR will estimate a future range of expected credit losses for each rated FSC. If GCR views the credit losses to be a potential restraint to earnings or cash flow (through lower receipting) or if leverage is understated (by the value or assets being overestimated) then we can negatively adjust the initial score. Within this adjustment, we will also examine the underwriting standards, write-off and restructuring policy.

II. Risk asset concentrations can be a significant source of risk, including the risk of large single counterparty default(s), or stress from industry(s), within sectors (households or corporates) or geographic concentrations. GCR explicitly look at the top twenty loans/leases/exposures against capital as the primary measure of concentration risks.

III. Related party activities: More than 10% of total lending or other business to related parties is likely to be a negative for the score.

IV. If private equity and/or other Level 3 assets account for more than 15% of capital or GCR has concerns over the valuation or quality of those investments, we may make a negative adjustment.

V. Operational Risk: the risk of direct or indirect losses resulting from inadequate or failed internal processes, people, and systems, or from external events.

VI. Reserve Coverage/Revaluation Risk. If GCR believes that there is a deficiency in the reserving, whether observable in the audited financial statements or through anticipated higher expected losses in the future, occurring due to failure to recognise impaired or non-performing loans, or weak collateral levels, GCR can subtract the shortfall from nominal EBITDA over a two-year period. The same approach will be taken for shortfalls in residual value of leasing assets or other key machinery if it can affect earnings or cash flow in outer years.

Component 3, Factor C: Liquidity

(-10 TO +2: +2 BEST)

27. GCR applies a zero-tolerance approach to weak levels of liquidity. This is because a FSC with a healthy balance sheet and strong competitive position is still susceptible to failure 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 GCR have concerns.

28. 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.

29. GCR first examines the sources of liquidity by netting non-pledged, non-restricted cash or other liquid assets that have not been earmarked for future capital expenditure, off the total debt stock. Secondly, GCR includes anticipated funds from core operations (which GCR may haircut if GCR believes FFO has been

volatile or could reduce from historic levels) and positive working capital changes, if reliable. Thirdly, GCR include 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 lines has a stronger risk score than the borrower and there is no joint default risk between the two parties. With regards to both committed and uncommitted funding lines, GCR will include the entire amount of credit available, up to but not beyond any covenant breach. GCR will exclude all facilities that have ratings triggers. Lastly, GCR may include liquidity from contracted asset or investment sales or from external support should the sources be reliable.

30. When examining uses, GCR first looks at debt maturities and off balance sheet obligations over a one/two year period. Then GCR includes all planned capital expenditures, expected negative changes in working capital, contracted extraordinary purchases and other discretionary elements of cash outflows. GCR will also overlay any other expected group liquidity needs or requirements.

31. 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 reflect the proximity and severity of the risk at hand.

32. Lastly, GCR also takes a negative view of significant levels of asset encumbrance because it can subordinate senior unsecured claims in liquidation and divert cash flows away from the payment of general unsecured debt. Consequently, as asset encumbrance increases, the issuer credit rating will typically be lowered.

33. Where applicable GCR may compliment the uses versus sources analysis using receipting curves, specifically for short-term lenders.

Table 3: Liquidity		
Assessment	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 two-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, 0, -1	If the entity has sources of liquidity that cover between 1.25x 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 are comfortable with the covenant headroom. There are no rating triggers in the debt packages. Funding relationships are strong and stable. Asset encumbrance is less than 30% of total assets.
Low	-2	If the entity has sources of liquidity that cover between 1x-1.25x 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. There are rating triggers in the debt packages but with large headroom. Funding relationships are questionable. Asset encumbrance is less than 50% of total assets.
Lowest	-3 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.

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Component Four: Comparative Profile

(VARIOUS)

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

Comparative Profile
External Support (various)
Group Support
Sovereign Support
Peer Comparison (+2 or -2)

Component 4, Factor A: Group Support

35. For details on group support, please see the universal GCR Ratings Framework Criteria

Component 4, Factor B: Government Support

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

Component 4, Factor C: Peer Comparison

37. GCR allows for a maximum of two positive or negative risk score changes for peer analysis to create greater credit differentiation within a market. Typically, this factor may be used when a financial services company is a generally better or worse performing company than its peer group, across a number of fields but no one component or factor has created ratings differential.

Final Rating Adjustment Factors

38. Once the risk score and the ACE has been established, on either/both the national or international scale, GCR then create the formal ratings on legal entities. In this stage, GCR move off the risk scoring framework and begin adjusting the national/international ratings on a scale basis. This to establish the most applicable credit ratings hierarchy within a consolidated group.

Rating Adjustment Factor 1: FSC Specific Structural Factors

39. As stated above, GCR will typically base its credit scoring on the financial and business characteristics of the immediate group (when there is one) around that legal entity. This is because GCR believes 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.

These are the principles of the first adjustments:

40. There should be no adjustment from the ACE for the **major operating entity**, of the analysed analytical object. An example of this is the major operating entity within a financial group, which usually constitutes above 51% of total group assets or capital. However, it could be smaller and still be operationally critical to the group.

41. **Minor group Subsidiary/Affiliates** are analysed on a standalone basis and then allocated support uplift, if necessary, in line with the Group Classification and Support Criteria.

42. **Non-operating holding companies (NOHC):** Due to the fact that FSCs are often not regulated in the same manner as Financial Institutions, GCR will not automatically notch down the ratings on NOHC. However, GCR will check to view any structural or legal impediments to cash flow.

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

44. **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 would typically match the group ACE.

Rating Adjustment Factor 2: Issue Rating(s)

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

Table 4:Debt rating types

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 discretionary/mandatory/statutory nonpayment, conversion 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	Contractually subordinated debt, typically non-perpetual and cumulative, but likely to have a discretionary/mandatory/statutory nonpayment, conversion 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 even if callable after 5years, non-cumulative, likely to have a discretionary/mandatory/statutory nonpayment, conversion 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. GCR would typically notch down according to the proximity of the trigger, whilst respecting the credit hierarchy.

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

Accounting	A process of recording, summarising, and allocating all items of income and expense of the company and analysing, verifying and reporting the results.
Agent	An agreement where one party (agent) concludes a juristic act on behalf of the other (principal). The agent undertakes to perform a task or mandate on behalf of the principal.
Annuity	A contract that provides a series of payments for a specified period of time which may or may not be contingent on the survival of the annuitant.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Audited Financial Statements	Financial statements that bear the report of independent auditors (attesting to the financial statements' fairness and compliance with generally accepted accounting principles).
Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Benefits	Financial reimbursement and other services provided to insureds by insurers under the terms of an insurance contract.
Borrower	The party indebted or the person making repayments for its borrowings.
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 Adequacy	A measure of the adequacy of an entity's capital resources in relation to its risks.
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.
Capital	The sum of money that is invested to generate proceeds.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
Claim	1. A request for payment of a loss, which may come under the terms of an insurance contract (insurance). 2. A formal request or demand (corporate finance).
Collateral	Asset provided to a creditor as security for a loan or performance.
Concentrations	A high degree of positive correlation between factors or excessive exposure to a single factor that share similar demographics or financial instrument or specific sector or specific industry or specific markets.
Conditions	Provisions inserted in an insurance contract that qualify or place limitations on the insurer's promise to perform.
Contract	An agreement by which an insurer agrees, for a consideration, to provide benefits, reimburse losses or provide services for an insured. A 'policy' is the written statement of the terms of the contract.
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.
Coupon	The interest paid on a bond expressed as a percentage of the face value. If a bond carries a fixed coupon, the interest is usually paid on an annual or semi-annual basis. The term also refers to the detachable certificate entitling the bearer to the interest payment.
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.
Coverage	The scope of the protection provided under a contract of insurance.
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.

Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
Creditworthiness	An assessment of a debtor's ability to meet debt obligations.
Currency Risk	The potential for losses arising from adverse movements in exchange rates.
Debt Ratio	A ratio that measures a company's debt relative to its equity. Calculated by dividing long term debt by shareholders' equity. GCR typically uses a tangible equity as the denominator, after stripping out goodwill and other intangible assets.
Debt Service Coverage	Measures the ratio of cash available for debt servicing to interest, principal and lease payments.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Default Risk	The probability or likelihood that a borrower or issuer will not meet its debt obligations. Credit Risk can further be separated between current credit risk (immediate) and potential credit risk (deferred).
Default	A default occurs when: 1.) The Borrower is unable to repay its debt obligations in full; 2.) A credit-loss event such as charge-off, specific provision or distressed restructuring involving the forgiveness or postponement of obligations; 3.) The borrower is past due more than X days on any debt obligations as defined in the transaction documents; 4.) The obligor has filed for bankruptcy or similar protection from creditors.
Distribution Channel	The method utilised by the insurance company to sell its products to policyholders.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Expected Loss	Losses that a bank expects to bear over a certain period (generally a year). These losses are a consequence of doing business, namely the bank's role as financial intermediary.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Financial Flexibility	The company's ability to access additional sources of capital funding.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Financial Statements	Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time.
Fix	The setting of a currency or commodity price for trade at a future date.
Going Concern	An accounting convention that assumes a company will continue to exist and trade normally for the foreseeable future. In practice this is likely to mean at least for the next 12 months.
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.
Hybrid	A form of security that has characteristics of various types of transaction or product.
Income	Money received, especially on a regular basis, for work or through investments.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
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.

Junior	A security that has a lower repayment priority than senior securities.
LC	An LC is a guarantee by a bank on behalf of a corporate customer that payment will be made if that entity cannot to meet its obligations.
Lease	Conveyance of land, buildings, equipment or other assets from one person (lessor) to another (lessee) for a specific period of time for monetary or other consideration, usually in the form of rent.
Lender	A credit provider that is owed debt obligations by a debtor.
Lessee	The party that enjoys temporary use of a corporeal thing.
Lessor	The owner or agent that acts on behalf of the owner of property that grants the temporary use of a corporeal thing.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
Liquidation	Liquidation is the process by which a company is wound up and its assets distributed. It can be either compulsory or voluntary. It can also refer to the selling of securities or the closing out of a long or short market position.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
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.
Long-Term	Not current; ordinarily more than one year.
Loss	1. A tangible or intangible, financial or non-financial loss of economic value. 2. The happening of the event for which insurance pays (insurance).
Mandate	Authorisation or instruction to proceed with an undertaking or to take a course of action. A borrower, for example, might instruct the lead manager of a bond issue to proceed on the terms agreed.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
National Scale Rating	National scale ratings measure creditworthiness relative to issuers and issues within one country.
Notching	A movement in ratings.
Obligation	The title given to the legal relationship that exists between parties to an agreement when they acquire personal rights against each other for entitlement to perform.
Off Balance Sheet	Off balance sheet items are assets or liabilities that are not shown on a company's balance sheet. They are usually referred to in the notes to a company's accounts.
Operating Cash Flow	A company's net cash position over a given period, i.e. money received from customers minus payments to suppliers and staff, administration expenses, interest payments and taxes.
Operating Lease	A lease where the risk and reward is not transferred.
Operating Margin	Operating margin is operating profit expressed as a percentage of a company's sales over a given period.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This includes legal risk, but excludes strategic risk and reputational risk.
Option	An option gives the buyer or holder the right, but not the obligation, to buy or sell an underlying financial asset at a pre-determined price.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.

Performing	An obligation that performs according to its contractual obligations.
Pledge	An asset or right delivered as security for the payment of a debt or fulfillment of a promise, and subject to forfeiture on failure to pay or fulfill the promise.
Policy	The legal document issued by the company to the policyholder, which outlines the conditions and terms of the insurance.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Private	An issuance of securities without market participation, however, with a select few investors. Placed on a private basis and not in the open market.
Refinancing	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
Repayment	Payment made to honour obligations in regards to a credit agreement in the following credited order: 3.) Satisfy the due or unpaid interest charges; 4.) Satisfy the due or unpaid fees or charges; and 5.) To reduce the amount of the principal debt.
Reserve	(1) An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders. (2) An amount allocated for a special purpose. Note that a reserve is usually a liability and not an extra fund. On occasion a reserve may be an asset, such as a reserve for taxes not yet due.
Revaluation	Formal upward or downward adjustment to assets such as property or plant and equipment.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Senior Unsecured Debt	Securities that have priority ahead of all other unsecured or subordinated debt for payment in the event of default.
Senior	A security that has a higher repayment priority than junior securities.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Short Term	Current; ordinarily less than one year.
Statutory	Required by or having to do with law or statute.
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.
Underwriting	The process of selecting risks and classifying them according to their degrees of insurability so that the appropriate rates may be assigned. The process also includes rejection of those risks that do not qualify.
Unsecured Claim	Debt securities that have no collateral.
Valuation	An assessment of the property value, with the value being compared to similar properties in the area.
Weighted Average	An average resulting from the multiplication of each component by a factor reflecting its importance or, relative size to a pool of assets or liabilities.
Weighted	The weight that a single obligation has in relation to the aggregated pool of obligations. For example, a single mortgage principal balance divided by the aggregated mortgage pool principal balance.
Working Capital	Working capital usually refers to the resources that a company uses to finance day-to-day operations. Changes in working capital are assessed to explain movements in debt and cash balances.